



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

April 6, 2015

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of December 31, 2014

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of December 31, 2014. At its meeting on February 10, 2015, the Policy and Services Committee approved and unanimously recommended the City Council accept the report. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of December 31, 2014 (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (February 10, 2015) (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

February 10, 2015

The Honorable City Council
Attention: Policy & Services Committee
Palo Alto, California

Auditor's Office Quarterly Report as of December 31, 2014

RECOMMENDATION

The City Auditor's Office recommends the Policy and Services Committee review and recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of December 31, 2014.

SUMMARY OF RESULTS

In accordance with the Municipal Code, the City Auditor prepares an annual work plan and issues quarterly reports to the City Council describing the status and progress towards completion of the work plan. This report provides the City Council with an update on the second quarter for FY 2015.

Respectfully submitted,

A handwritten signature in cursive script that reads "Harriet Richardson".

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Quarterly Report as of December 31, 2014 (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF
**PALO
ALTO**

Quarterly Report as of December 31, 2014



Office of the City Auditor

"Promoting honest, efficient, effective, economical, and fully accountable and transparent city government."

Fiscal Year (FY) 2015 Second Quarter Update (September – December 2014)

Overview

The audit function is essential to the City of Palo Alto's public accountability. As mandated by the City Charter and Municipal Code, the mission of the Office of the City Auditor (OCA) is to promote honest, efficient, effective, economical, and fully accountable and transparent city government. We conduct performance audits and reviews to provide the City Council and City management with information and evaluations regarding the effectiveness and efficiency with which resources are employed, the adequacy of the system of internal controls, and compliance with policies and procedures and regulatory requirements. Taking appropriate action on our audit recommendations helps the City reduce risks and protect its good reputation.

Highlights of Activities During the Quarter

- The Office of the City Auditor underwent an external quality control review (peer review) of work completed between July 2011 and April 2014, which was coordinated through the Association of Local Government Auditors (ALGA). The peer review found that our office fully complied with Government Auditing Standards.
- City Auditor Harriet Richardson participated in a peer review of the Seattle City Auditor's Office to help fulfill our reciprocity requirement for participating in the ALGA peer review program.
- Senior Auditor Mimi Nguyen conducted a webinar on the Office of the City Auditor's inventory management audit for ALGA members.

Audits

Below is a summary of our audit work for the second quarter of FY 2015 (as of December 31, 2014):

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Franchise Fee Audit	To determine if 1) the City accurately accounted for and oversaw the Media Center's use of public, education, and government (PEG) fees, 2) the City established and defined roles and responsibilities to administer its cable communications program and state franchises awarded to Comcast and AT&T, and 3) Comcast and AT&T collected and promptly remitted the appropriate amount of franchise and PEG fees.	02/14	03/15	In Process	Planning and field work are complete; the report is drafted for the second and third objectives; consultant is in the process of conducting field work on the third objective. Considering issuing two reports – one on the use of the fees and roles and responsibilities, and one on the collection and remission of fees. The draft report for the first two objectives is currently under review by relevant City departments.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Audit of Utility Meters: Procurement, Inventory, and Retirement	To determine if proper procedures were followed with the procurement, inventory, and retirement of utility meters.	03/14	03/15	In Process	Planning and field work are complete and the report has been drafted. We are awaiting the City Manager's updated response to the report. The report is scheduled to be presented to the Policy and Services Committee on March 10, 2015.
Parking Funds Audit	To determine if the City's parking funds are properly calculated, collected, accounted for, and used in compliance with applicable laws, regulations, policies, and governing documents. The audit will focus on the University and California Avenues and Residential Parking Permit Funds, and the Parking In-Lieu Fund.	05/14	04/15	In Process	Planning complete; field work is about 75 percent complete.
National Citizen Survey	To obtain resident opinions about the community and services provided by the City of Palo Alto and benchmark our results against other jurisdictions that participate in the survey.	07/14	01/15	Complete	We published the results of the survey on the Office of the City Auditor website on January 26, 2015. We will present the results of the survey at a Council study session in conjunction with the Annual Performance Report, which is currently underway.
Annual Performance Report	To provide summary information on spending and staffing, workload, and performance results, including historical trends and selected comparisons to other cities, for the fiscal year ending June 30, 2014.	11/14	05/15	In Progress	Requests for data have been sent to the departments and some responses have been received. We are exploring ways to realign the data in the report to tell a better story about the City's performance on a citywide basis.

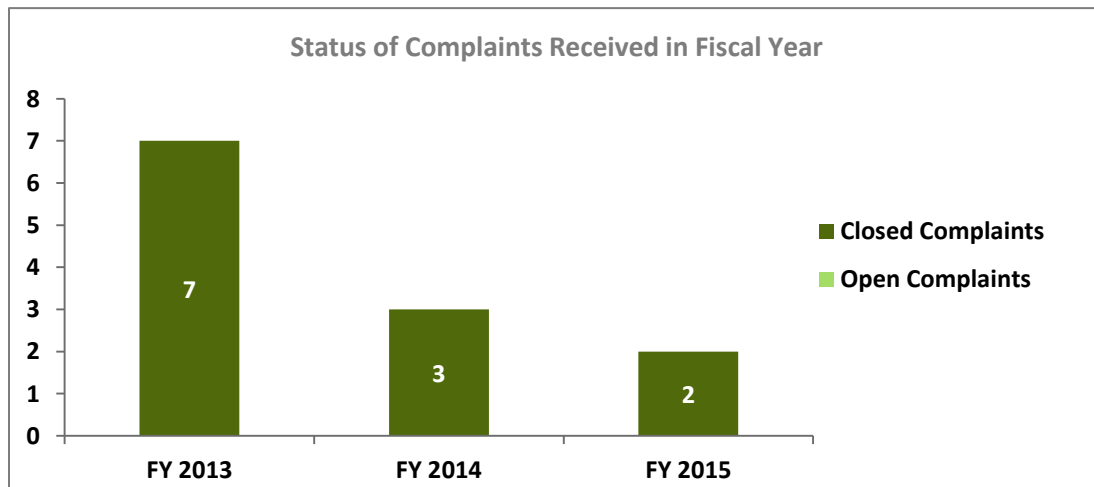
Other Monitoring and Administrative Assignments

Below is a summary of other assignments as of the second quarter of FY 2015 (as of December 31, 2014):

Title	Objective(s)	Status	Results/Comments
Sales and Use Tax Allocation Reviews	The OCA conducts sales and use tax monitoring in-house and also contracts with an outside vendor.	Ongoing	The OCA continues to submit inquiries to the State Board of Equalization. As of the end of the second quarter, the City received \$43,385 in total sales and use tax recoveries, which includes \$22,022 from OCA inquiries and \$21,363 from vendor inquiries. Due to processing lags at the State Board of Equalization, there are 35 potential misallocations waiting to be researched and processed: 11 from OCA and 24 from the vendor.
Quarterly Reporting	Each quarter, the OCA provides Quarterly Status Updates and Sales Tax Digest Summaries for Council review.	Ongoing	Quarterly reports are published on the OCA website at www.cityofpaloalto.org/gov/depts/aud/reports/default.asp .
City Auditor Advisory Roles	Provide guidance and advice to key governance committees within the City.	Ongoing	The City Auditor is an advisor to the following: Utilities Risk Oversight Committee, the Library Bond Oversight Committee, the Information Technology Governance Review Board, and the Information Security Steering Committee.

Fraud, Waste, and Abuse Hotline Administration

On August 16, 2012, we launched the City's Fraud, Waste, and Abuse Hotline. We did not receive any complaints during the second quarter of FY 2015. The chart below summarizes the status of complaints received in each fiscal year.



Source: City of Palo Alto hotline case management system as of December 31, 2014

The hotline review committee, composed of the City Auditor, the City Attorney, and the City Manager, or their designees, meets as needed to review all activity related to the hotline.



Policy and Services Committee EXCERPT MINUTES

Regular Meeting
Tuesday, February 10, 2015

Chairperson Burt called the meeting to order at 7:02 P.M. in the Council Chambers, 250 Hamilton Avenue, Palo Alto, California.

Present: Berman, Burt (Chair) DuBois, Wolbach

Absent:

Oral Communications

None

Agenda Items

1. Auditor's Office Quarterly Report as of December 31, 2014.

Harriet Richardson, City Auditor, presented the quarterly report for the second quarter of Fiscal Year 2015. There were three audits close to completion; the Franchise Fee Audit, the audit of Utility Meters Procurement Inventory and Retirement, and the Parking Funds Audit. The Franchise Fee Audit and the audit of Utility Meters Procurement Inventory and Retirement have been sent out for the initial review where edits and updates were accepted. Once the information was returned they would be sent out for final review and comments. Staff was anticipating returning to the Policy & Services Committee (Committee) with those audits by March, April at the latest. The Parking Funds Audit was reviewing the parking in lieu fees for University Avenue, California Avenue and residential parking permit funds. The Parking Funds Audit, as of December 2014 was 75 percent complete. Staff was anticipating an April return date for Committee review. Staff was considering issuing two reports for the Franchise Fee Audit because the work was split into two areas. Staff performed some of the audit and an outside consultant performed other areas of the audit. Staff released the results to the National Citizens Survey on January 26, 2015. The results would be presented to Council with the annual performance report. In 2014 Staff was requested to streamline the annual reporting process for the Services Efforts and Accomplishments Report (SEA). One change will be moving the data

tables to the end of the entire report by department. There would be themes throughout the report to provide more of a citywide picture on performance such as stewardship and community services, financial, environment and sustainability. The three themes would be community, stewardship and public service. The Sales and Use Tax allocation reviews were performed by Staff and an outside consultant. By the end of the second quarter the City had received \$3,000 in refunded misallocated Sales and Use Tax revenues. The consultant prepared quarterly reports on sales tax updates which provided an economic view of the happenings of the City. The Auditor's Office administered the Fraud, Waste and Abuse Hotline. There was little activity in recent months and no complaints were logged during the last quarter.

Council Member DuBois confirmed the National Citizens Survey would not be released to Council until May 2015.

Ms. Richardson stated that was correct. The results were published although generally there was a Study Session regarding the results and the annual report because they were both based on performance types of issues.

Council Member DuBois asked when the data was collected.

Ms. Richardson stated with the National Citizens Survey, the data was collected during the fall. The National Research Center conducted the survey for the City; they compiled the data and produced the report.

Council Member DuBois asked if Staff was going to alter the report with customized fields for the 2014 report.

Ms. Richardson stated no, the National Research Center completed the report. Staff compiled a summary of the information because the full report was lengthy. The summary was pulling the relevant issues to the forefront in an executive summary.

Council Member DuBois was under the impression Council had asked for more data so they could decipher it themselves.

Ms. Richardson explained Staff had the raw data and using a new software program; Tableau, they were able to interact with the data.

Council Member Berman asked about the external quality control review (Peer Review). He recalled the City had fallen behind on it, although best practices it should occur every few years. He believed upon Ms. Richardson's

employment it was a focus of hers. He asked for information on how and if the Peer Review was helpful to Staff.

Ms. Richardson stated the Auditor's Office had passed the Peer Review. She wanted to express the City had not fallen behind on having the Peer Review performed, but had fallen behind on the reciprocity requirement and updating the office policy and procedures. Staff performed two Peer Reviews in 2014 which caught the City up to date on their requirements.

Council Member Berman asked if it was helpful to have outside Auditors' review the department.

Ms. Richardson stated the Peer Reviews were conducted through the Association of Local Government of Auditors. They have training programs for auditor's in various jurisdictions throughout the country and those auditors were assigned different areas to complete a Peer Review. Since it was a reciprocal process Palo Alto did not pay for the service but they did cover the travel costs. The benefit to Staff was receiving different ways in which to complete processes for more efficiency.

Chair Burt asked if the end dates scheduled were current.

Ms. Richardson stated the Franchise Fee Audit may move out 30-days. She was working with the City Attorney's Office for clarification. She clarified once completed it would only be part one of the two reports. She was confident the Utility Meter Audit would remain in March. The Parking Fund Audit remained good for April.

MOTION: Council Member Berman moved, seconded by Council Member DuBois that the Policy & Services Committee recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of December 31, 2014.

MOTION PASSED: 4-0