



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 17, 2015

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the City Auditor's Office Fiscal Year 2016 Proposed Work Plan

At its meeting on May 12, 2015, the Policy and Services Committee unanimously recommended the City Council accept the City Auditor's Office Fiscal Year 2016 Proposed Work Plan. The Auditor's Office will be issuing quarterly reports describing the status and progress of the work plan. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: City Auditor's Office Fiscal Year 2016 Proposed Work Plan (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (May 12, 2015) (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

May 12, 2015

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

City Auditor's Office Fiscal Year 2016 Proposed Work Plan

RECOMMENDATION

The Office of the City Auditor recommends that the Policy and Services Committee review and recommend to the City Council approval of the Fiscal Year (FY) 2016 Proposed Audit Work Plan.

BACKGROUND

The mission of the Office of the City Auditor is to promote honest, efficient, effective, economical, and fully accountable and transparent City government. To fulfill this mission, the Office of the City Auditor shall conduct performance audits and perform nonaudit services of any City department, program, service, or activity as approved by the City Council. The purpose of these audits is to provide the City Council, City management, the residents of Palo Alto, and other stakeholders with independent and objective analysis as to whether management is using its financial, physical, and informational resources effectively, efficiently, economically, ethically and equitably, and in compliance with laws, regulations, contract and grant requirements, and City policies and procedures.

The Palo Alto Municipal Code requires the City Auditor to submit an annual work plan to the City Council for review and approval. The proposed FY 16 audit work plan is based upon Council priorities, risk, and the City Auditor's professional judgment. The attached report presents the proposed audit work plan for FY 2016.

NEXT STEPS

As audit work proceeds, we will issue quarterly reports summarizing the status and progress of each of the approved assignments. The quarterly reports will be issued to the City Council and discussed with the Policy and Services Committee as defined in the Palo Alto Municipal Code.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: City Auditor's Office Fiscal Year 2016 Proposed Work Plan (PDF)

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CITY OF
**PALO
ALTO**

Fiscal Year 2016 Audit Work Plan



Office of the City Auditor

“Promoting honest, efficient, effective, economical, and fully accountable and transparent city government”

Overview

The Palo Alto Municipal Code requires the City Auditor to submit an annual audit work plan to the City Council for approval. This proposed audit work plan represents ongoing administrative responsibilities of the Office of the City Auditor, as well as required audit responsibilities. It estimates approximately 8,800 hours of direct time¹ for six full-time staff. It accounts for reclassifying the Administrative Assistant to a Performance Auditor I to more effectively use the employee's time, and for continuing to increase our efficiency in conducting performance audits.

The proposed audit work plan considers risk factors that, if addressed, will provide opportunities to mitigate those risks and improve operations:

- Financial – Is there an opportunity to improve how the City manages, invests, spends, and accounts for its financial resources?
- Operational – Are City programs/activities performed and City services delivered in the most efficient, effective, and economical manner possible, and do they represent sound business decisions, including appropriate responses to changes in the business environment?
- Regulatory – Do City programs and activities comply with applicable laws and regulations?
- Health and Safety – Are City services delivered in a manner that protects our residents and employees from injury or unnecessary exposure to factors that can affect an individual's health?
- Information Security – Is City, resident, and employee information (electronic or physical) protected against unauthorized access, use, disclosure, disruption, modification, inspection, recording, or destruction?

In addition, the proposed audit work plan considers several factors:

- Relevance – Does the audit have the potential to affect Council or City management decision-making or impact City residents?
- Best Practices – Does the audit provide the opportunity to compare current performance to best practices?
- Return on Investment – Does the audit have the potential for cost savings, cost avoidance, or revenue generation?
- Improvement – Does the audit have the potential to result in meaningful improvement in how the City does its business?
- Actionable – Is it likely that the audit will produce actionable recommendations that are feasible and practical?
- Manageable – Is the audit scope narrow enough to ensure it is completed in a timely manner?

The audit work plan also considers risks related to major functions within the Utilities Department, as identified through a 2011 Utilities Risk Assessment and a 2013 Utilities Organizational Assessment conducted by external consultants.

¹ The estimated hours consider available time after accounting for holidays, vacation, required training, and administrative time.

Special and Ongoing Projects

The following table lists special and ongoing projects for the FY 2016 audit work plan:

Project	Scope	Planned Hours
Annual Performance Report (Service Efforts and Accomplishments)	Annual. We prepare the annual performance report to provide the City Council, City staff, Palo Alto residents, and other stakeholders with relevant information and data regarding the performance of City programs, functions, and activities. The reduced hours for FY 2016 represent our transition to a more streamlined process for collecting information and preparing the report.	800
National Citizen Survey	Annual. We contract with the National Research Center (NRC) to conduct The National Citizen Survey™. The survey contains a series of standardized questions that the NRC uses to benchmark Palo Alto residents' opinions of City services against other jurisdictions. In addition to the NRC's report, we will tabulate the results in Tableau software to allow users of the Palo Alto Open Data website to perform an interactive analysis of the results (e.g., how people within different demographic categories answered a question).	250
Annual Citizen Centric Report	Annual. We prepare a four-page summary of highlights from the annual Performance Report, financial data, and an overview of our City's economic outlook. The Citizen Centric Report follows the Association of Government Accountants' recommended report format, which is designed to provide information to the public about Palo Alto's financial condition and performance in an easy-to-understand and visually appealing format.	40
Sales Tax Allocation Reviews	Ongoing. We identify misallocations and underreporting of local sales and use tax through in-house monitoring and a contract with an outside vendor (currently MuniServices, LLC). We also look for opportunities to receive direct allocation of sales and use tax on large commercial construction projects. We report sales and use tax recoveries in quarterly reports to Council, and also provide a quarterly sales and use tax information report which includes information from MuniServices, LLC.	250
Administration of the Fraud, Waste, and Abuse Hotline	Ongoing. We receive notification of complaints filed through the hotline, reply to the complainant, route and monitor cases for investigation, and convene the Hotline Review Committee (City Manager, City Attorney, and City Auditor) to determine the routing of cases and their closing upon completion of an investigation. The hours include time to review and update the procedures for administering the hotline and investigating complaints received.	80
Annual External Financial Audit	Annual. The Palo Alto Municipal Code requires the Office of the City Auditor to contract with an independent certified public accounting firm (currently Macias, Gini, & O'Connell, LLP) to conduct the annual external audit of the City's financial statements. The firm also conducts the federally required Single Audit. The hours include time to issue a request for proposal and award a new contract because the current contract expires at the end of FY 2015.	120
Review and Monitor the Implementation Status of Prior Audit Recommendations	Ongoing. We review and provide feedback to departments on their reports of the implementation status of prior audit recommendations. We include a summary of the status in our Quarterly Reports.	120

Project	Scope	Planned Hours
Office of the City Auditor Quarterly Reports	Quarterly. We prepare and issue quarterly reports to the City Council describing the status and progress toward completion of our annual work plan, as required by the Palo Alto Municipal Code.	80
Advisory Roles	Ongoing. The City Auditor is a nonvoting, advisory member of the Utilities Risk Oversight Committee, the Library Bond Oversight Committee, the Information Technology Governance Review Board, and the Information Security Steering Committee.	20
Performance Measurement and Management Training	One-time. Provide training to key staff on developing performance goals that are specific, measurable, achievable, relevant, and time-bound; evaluate the results; and use the results to improve policies, programs, and outcomes.	80
Internal Control Training	One-time. Coordinate with the Department of Administrative Services to conduct internal control training, with a focus on the recently revised publications, “ <i>Standards for Internal Control in the Federal Government</i> ” and “ <i>Internal Control: Integrated Framework.</i> ” Federal grant regulations now require recipients and subrecipients of federal grant dollars to comply with a recognized internal control framework. The regulations specifically identify these two frameworks. This project is a carryover project from our FY 2015 because we are awaiting the U.S. Government Accountability Office’s update of the “ <i>Internal Control Management and Evaluation Tool,</i> ” a companion document to the “ <i>Standards for Internal Control in the Federal Government</i> ” that provides a systematic, organized, and structured approach to assessing the internal control structure.	60
Total Hours for Special and Ongoing Projects		1,900

Performance Audits

The following audits are proposed for the FY 2016 audit work plan:

Audit	Department	Preliminary Scope ²	Planned Hours
Parking Funds	Planning and Community Environment and Administrative Services Departments	In progress. Determine if the City’s parking funds are properly collected, accounted for, and used in compliance with applicable laws, regulations, policies, and government documents. The audit is focusing on the University Avenue and California Avenue Parking Permit Funds, the Residential Parking Permit Fund, and the Parking in-Lieu Fund.	180
Utilities Customer Service – Rate and Billing Accuracy	Utilities Department	Carryover from FY 2014. Evaluate whether the Utilities Department properly implements rates and accurately bills customers.	800
Disability Rates and Workers’ Compensation	People, Strategies, and Operations Department	From the FY 2014 Work Plan, Audit Horizon. Assess the effectiveness of activities to manage and minimize disability retirements and workers’ compensation claims. Review of processes to ensure employee safety, tracking and reporting activities, contract administration, and efficiency of claim processing.	700

² The preliminary scope and planned hours may change after completing the planning phase of the audit.

Audit	Department	Preliminary Scope ²	Planned Hours
Fee Schedules	Citywide	Carryover from FY 2014. Evaluate City processes for establishing fees to determine if the fees cover the cost of services provided when expected. The specific fees to be reviewed will be narrowed down during the planning phase of the audit.	800
Meter Routes	Utilities Department	Carryover from FY 2014. Evaluate the process for establishing routes and assigning them to meter readers to determine if the process optimizes the efficient use of staff.	600
Public Benefits	Planning and Community Environment Department	From the FY 2014 Work Plan, Audit Horizon. Evaluate whether benefits and funds are properly accounted for; if funds are used in accordance with relevant regulations, policies, and governing documents; and if the funds generated the anticipated benefits.	800
Procurement Processes	Administrative Services Department	From the FY 2014 Work Plan, Audit Horizon; City Manager requested. Assess the efficiency and effectiveness of the procurement process. The audit will focus on efficiency, consistency in application of processes, compliance with City regulations and policies, and use of best practices.	800
Contract Risk and Oversight	Administrative Services Department	From the FY 2014 Work Plan, Audit Horizon. Develop a systematic, data-driven process to identify high-risk expenditures and revenues that should occur under formal contracts. Audit selected high-risk contracts to determine if the City has received the goods and/or services it paid for and/or the revenues to which it is entitled and that the contracts are needed and do not result in unnecessary overlaps in services.	600
Citywide Analytic Development and Continuous Monitoring	Citywide	New. Develop and implement a continuous monitoring system to increase audit efficiency and coverage through the use of read-only access to City data. The project will involve developing data analytics to identify high-risk areas and improvement opportunities in the City's core processes, such as procure-to-pay and time and expense.	350
*Utilities Asset Management	Utilities Department	From the FY 2014 Work Plan, Audit Horizon. Evaluate the effectiveness of the Utilities Department's asset management practices, including whether the department effectively implements best practices in infrastructure asset management and whether its practices allow efficient identification of the location and condition of its physical assets.	800
*Mobile Device Utilization and Security	Information Technology Department	From the FY 2014 Work Plan, Audit Horizon. Identify the existence and effectiveness of security controls over selected mobile devices used to access City data, and to assess the adequacy of the City's mobile computing security policies and procedures, governance, and the City's risk assessment of these devices.	700

Audit	Department	Preliminary Scope ²	Planned Hours
*Impact Fees	Planning and Community Environment and Development Services Departments	From the FY 2014 Work Plan, Audit Horizon. Evaluate the processes for determining the amount of each type of fee and who should be assessed the fee. Evaluate the processes for assessing and collecting established impact fees to determine if they are collected as required, are assessed fairly among those required to pay, and if they achieve the intended benefits.	800
Total Hours for Performance Audits			7,930

*These audits are expected to be initiated in FY 2016, but are unlikely to be completed during the year.

On the Horizon

The following list of audits topics are expected to be on the Fiscal Year 2017 audit work plan or to be moved into Fiscal Year 2016 if circumstances warrant eliminating or delaying an approved audit on the Fiscal Year 2016 audit work plan:

Audit	Department	Preliminary Scope ³	Planned Hours ³
Payroll Processes	Administrative Services Department	Evaluate the effectiveness of payroll processes to ensure that payroll calculations and deductions are accurate and in compliance with federal and state laws and relevant labor agreements, and that appropriate security controls are in place to prevent unauthorized access to the payroll system and employee data.	600
Sustainable Purchasing Practices	Citywide	Assess the City's purchasing practices to determine if environmental sustainability is adequately considered in all purchases as appropriate.	600
Application Controls for Critical City Applications	Information Technology Department	Evaluate the effectiveness of controls in critical applications relative to authorization, data integrity, data availability, data privacy, and segregation of duties.	500
Allocated Charges	Administrative Services Department	Evaluate the accuracy and use of allocated charges within the budgeting process to ensure charges are allocated equitably based on the benefit each department receives for centralized City services.	700
Utilities Staffing	Utilities Department	Assess the effectiveness of staffing decisions as they relate to specific projects and ongoing work to determine if work can be performed more efficiently and effectively with different staffing levels. Assessment will include an evaluation of the ratio of supervisors and managers to staff (i.e., span of control).	800
Data Reliability	Citywide	Assess data obtained from critical systems to ensure it is complete, accurate, and relevant to the Council's and management's decision-making processes.	800
Total Hours for Future Performance Audits			4,000

³ The preliminary scope and planned hours may change after completing the planning phase of the audit.



Policy and Services Committee Draft Minutes

Special Meeting
Tuesday, May 12, 2015

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

Present: Berman, Burt (Chair) DuBois, Wolbach

Absent:

Oral Communications

None.

Agenda Items

3. City Auditor's Office Fiscal Year 2016 Proposed Work Plan.

Harriet Richardson, City Auditor: Good evening, Mr. Chair and Members of the Committee. Harriet Richardson, City Auditor. I'm here tonight to present our Fiscal Year 2016 Audit Work Plan. Our Audit Work Plan considers several risks that we identify before we put topics on here. We want to make sure that we're focusing on ways to improve how the City manages its finances, operations, regulatory risks, health and safety, and information and security. We also consider other factors such as relevance; whether best practices can be used; return on investment; meaningful improvements in how the City can do its business; the potential for actionable recommendations; and whether the audit scope is narrow enough that it can be completed in a timely manner. Our Audit Plan also considers risks related to major functions in the Utilities Department that were identified in a 2011 Risk Assessment conducted by a consultant. We have some routine, non-audit work that we'll continue to do. That includes the Annual Performance Report, National Citizens Survey, the Citizen Centric Report, as well as ongoing monitoring and recovery of misallocated sales tax; administering the Fraud, Waste and Abuse Hotline; monitoring and reviewing the status of prior audit recommendations; and preparing our quarterly reports. As part of our responsibility to administer the contract with the external financial audit firm, we will be issuing a new RFP this year and awarding a new contract as the current contract will be expiring. We will conduct performance management training as part of our effort to continue improving and streamlining the Annual Performance Report. We

will also conduct some internal control training in an effort to increase awareness of management's responsibilities regarding internal controls. Our Audit Plan includes broad topic scopes. We refine these as we conduct the audit. We start our audit with a broad scope and then we do a project-based risk assessment and refine our audit objectives to get more focus. We continue to finish our Parking Funds Audit which is in progress right now. Then we have eight audits on here that I anticipate completing this year, and three that I anticipate we will start but not complete. This is an aggressive Audit Plan, but it reflects my vision. Council has expressed a desire for my office to do more focused audits that can be completed in less time; trying to narrow the scope and reduce the number of hours that we spend on each audit as well as the amount of time lapse. We have three audits on here for Utilities. As you know, we have one Auditor who is dedicated to Utilities. The first audit, Rate and Billing Accuracy, we expected to start it in March, but the Utilities Auditor had an unexpected two-month medical leave and just came back to work. We'll get going on that one pretty quickly. We'll also do a Meter Routes Audit and a Utilities Asset Management Audit. We will be doing an audit in People Strategies and Operations of disability rates and workers' compensation. We have two audits scheduled for Citywide. Those include looking at fee schedules and the process used to set fees; and developing some analytics for continuous monitoring which would allow us to do things on a routine basis, such as making sure we're not making duplicate payments or things like that. We have two audits scheduled for the Administrative Services Department. One is procurement processes, and one is contract oversight. On the Contract Oversight Audit, that is one that we expect to do more Citywide. It's focused on processes in Administrative Services, but we'll look at contracts on a Citywide basis. We have two audits planned for Planning and Community Environment. One of them will evaluate if expected public benefits for projects were achieved. The other is looking at the process for calculating, assessing and collecting Impact Fees. That audit will also cover Development Services. We also have six projects on the horizon. These are audits that would be substituted for others if, for some reason, we can't do one or if someone asks us to rearrange and put things in a different order. Those are payroll processes, whether the City uses purchasing practices to maximize environmental sustainability; application controls for critical City applications; how the City allocates charges to departments; then Utilities staffing; and data reliability. The data reliability one would feed into how City departments collect the data that they use and that they report in the Annual Performance Report, so we can ensure that the data represents what we think it does and that it's collected in a consistent and reliable manner. Those are the audits that I have planned for this next year. I'm open to questions on any of these.

Chair Burt: Colleagues, any questions?

Council Member DuBois: I have two.

Chair Burt: Tom.

Council Member DuBois: Looking at the list for 2016, most of these make a lot of sense to me. The one that seems to jump out at me is the disability rates and workers' comp. Why is that a priority and why is that on the list?

Ms. Richardson: That is one that has been on the list for two years. It was on the list prior to me coming here. I have talked to Kathy Shen, the Director of People Strategies and Operations. She is interested in us doing that. One of the things we will look at is making sure that the claims are legitimate, that people are not getting paid for something that they shouldn't be, and looking at if the City is maximizing ways to get people back to work when they've been injured.

Council Member DuBois: Do we have a lot of claims?

Ms. Richardson: Most of the claims are in Public Safety.

Chair Burt: Millions of dollars.

Council Member DuBois: For some reason I thought there was a TDR Audit on the horizon. Has that ever been discussed, looking at sender and receiver sites and what our TDR inventory is?

Ms. Richardson: No.

Council Member DuBois: I'd be interested in adding that, if my colleagues support it. Either on the horizon ...

Chair Burt: Can you repeat that again? I'm sorry.

Council Member DuBois: An audit of TDRs (Transfer Development Rights), sender sites, receiver sites, what's the outstanding inventory. Are we accounting for them properly? When people show up and say they have this many TDRs, can we track them back and see where they came from? Maybe it's in the parking lot, but I'd like to see it get on the list.

Chair Burt: Colleagues? I had said that the disability and workers' comp is millions. Let me correct myself and say it's a very high number.

Ms. Richardson: It's a high number, and I don't have the exact number.

Chair Burt: That leaves Tom's question, whether transfer should be the subject of a future audit.

Council Member Berman: A question I'd have is—it might not be possible to answer—but how many hours would something like that take.

Council Member DuBois: I'm just suggesting we look at it, and it'd be on the future work list. Looks like 2017 at this point.

Council Member Berman: This is something they're going to analyze the possibility of.

Council Member Wolbach: I want to make sure that we assign that task to the right department to perform. I'm sure others have thoughts on it.

Chair Burt: Is your question whether that is something that would be more appropriate to be performed by the Planning Department or by the Auditor's Office? Is that your question?

Council Member Wolbach: Or some third ...

Chair Burt: I don't think there is a third.

Council Member Wolbach: You're probably right.

Ms. Richardson: It seems like an auditable topic. What I'm trying to do is scope most of them in the 600-800 hour range, so that we're not going into the 1,500-hour range like the audits typically have been doing.

Council Member Berman: Again, I'm not opposed to it. Is there a real concern that there's gaming of the system? How big of a problem is this?

Council Member DuBois: I don't know. At some point, I'm suggesting we put it on the work list. It seems like it's not tracked very precisely. It feels like something that could be auditable.

Chair Burt: Everything's auditable. That doesn't mean there's a high value to it. We have seen some recent examples where we've had that concern raised. The question would be do we have enough information to put that request in or do we have some means to get additional information that ...

Council Member DuBois: I'm asking Harriet to evaluate the scope.

Mr. Richardson: We can do that. Usually during the first month of starting an audit, we can tell if we have something that ...

Chair Burt: Scope is different ...

Council Member DuBois: I'm saying scope out the work.

Ms. Richardson: Right.

Chair Burt: That's different from whether there is a need for it.

Council Member DuBois: We are seeing pretty high rates. The value of these things is there, so there's potential for abuse.

Chair Burt: What I'm asking is, is there a way for us to have any additional input on establishing the need separate from how big of a project it would be to do it.

Ms. Richardson: I can look at that and get back to you.

Chair Burt: I'm not opposed to it. I think that's proper procedure.

Council Member Berman: The threshold question would be how many are outstanding.

Council Member DuBois: I don't know if we know.

Chair Burt: Our Planning and Urban Environment Staff should have some parameters on that readily available.

Council Member DuBois: They should. The list they had didn't have some of the ones that came up recently.

Chair Burt: I'm not saying that they have a list that is all inclusive. Part of the question was how many do we have. They have a good sense of it, maybe not a perfect sense.

Council Member Wolbach: My question is do we want the Planning Department to take a stab at improving their own records before assigning it to the City Auditor. I'm open (crosstalk).

Chair Burt: That's why we're not making that determination. I would recommend that we don't make that determination to add it to the list tonight. We ask the City Auditor to return with a preliminary evaluation of whether it appears to be an item ...

Council Member Wolbach: That is worthy of further work.

Chair Burt: May be worthy of an audit and the approximate scope of work that would be involved in such an audit.

Council Member Berman: That makes sense.

Council Member Wolbach: I'm comfortable with that.

Chair Burt: We can add that to our Motion. Are we otherwise ready to have a Motion?

MOTION: Council Member Berman moved, seconded by Council Member DuBois that the Policy and Services Committee recommend the City Council approve the Fiscal Year (FY) 2016 Proposed Audit Work Plan and that the Auditor come back to the Policy and Services Committee after conducting a preliminary review to determine whether an audit of the TDR sites would be warranted and, if so, the preliminary scope and time required to conduct the audit.

Chair Burt: Any other discussion? No.

MOTION PASSED: 4-0

Adjournment: Meeting was adjourned at 11:07 P.M.