



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 14, 2017

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of March 31, 2017

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of March 31, 2017. At its meeting on April 25, 2017, 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 March 31, 2017 (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (April 25, 2017) (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

April 25, 2017

The Honorable City Council
Palo Alto, California

Auditor's Office Quarterly Report as of March 31, 2017

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 March 31, 2017.

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 third quarter for FY 2017.

Respectfully submitted,

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

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of March 31, 2017 (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF
**PALO
ALTO**

Quarterly Report as of March 31, 2017



Office of the City Auditor

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

Fiscal Year (FY) 2017 Third Quarter Update (January – March 2017)

Overview

The audit function is essential to the City of Palo Alto's public accountability. The mission of the Office of the City Auditor, as mandated by the City Charter and Municipal Code, 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 how effectively and efficiently resources are used; the adequacy of internal control systems; and compliance with policies, procedures, and regulatory requirements. Taking appropriate action on our audit recommendations helps the City reduce risks and protect its good reputation.

Activity Highlights

- We published and presented to Council the 2016 Performance Report, National Citizen Survey™, and Citizen Centric Report.
- We presented the Community Services Department: Fee Schedule Audit to the Policy and Services Committee on February 14, 2017.
- Presented proposed changes to the Fraud, Waste, and Abuse Hotline protocols to the Policy and Services Committee on February 14, 2017.

Audit and Project Work

Below is a summary of our audit and project work for the third quarter of FY 2017:

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Citywide Analytic Development and Continuous Monitoring: Procure-to-Pay	Determine if data analytics and continuous monitoring can help the City detect duplicate vendor or vendor payment records.	06/15	04/17	In Process	The audit is in the reporting phase. The scheduled date to present this audit to the Policy and Services Committee is April 2017.
Fee Schedules Audit	Evaluate City processes for establishing fees to determine if the fees cover the cost of services provided when expected. The audit focused on Community Services fees.	06/15	12/16	Completed	The audit was presented to the Policy and Services Committee on February 14, 2017.
Utilities: Water Billing Accuracy Audit	Evaluate whether the Utilities Department accurately billed customers for water services.	06/15	05/17	In Process	The audit is in the reporting phase. The estimated date for presenting the audit to the Policy and Services Committee is June 2017.
Citywide Analytic Development and Continuous Monitoring: Overtime	Determine if implementing a continuous monitoring process for overtime could improve the City's oversight and management of overtime.	06/15	05/17	In Process	The audit is in the reporting phase. The scheduled date of presentation to the Policy and Services Committee is June 2017.
Sustainable Purchases	Assess purchasing practices to determine if the City complies with applicable green purchasing requirements in purchases.	03/16	04/17	In Process	The audit is in the reporting phase. The estimated date for presenting the audit to the Policy and Services Committee is April 2017.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Hydromax Crossbore Contract	Evaluate the work performed under this contract to determine if the City is taking an appropriate approach to this work, including whether it received appropriate sewer line inspection data from this effort and allocated an appropriate level of contractor oversight.	09/16	06/17	In Process	The audit is in the reporting phase. The estimated date of presentation to Policy and Services Committee is June 2017.
ERP Nonaudit Service	Provide advisory services to the Department of Information Technology regarding its planning of a new enterprise resource planning (ERP) system.	09/16		Ongoing	During the third quarter of FY 2017, we attended 27 ERP system requirement validation sessions and three strategic and tactical team meetings, providing verbal and written advice based on our technical expertise and best practice information readily available to us. We also issued a memo to the IT Director that discusses what is going well with the project and challenges we identified.
National Citizen Survey™	Obtain resident opinions about the community and services provided by the City of Palo Alto and benchmark our results against other jurisdictions.	07/16	01/17	Completed	We presented the National Citizen Survey™ to the Council at the annual retreat on January 28, 2017.
Annual Performance Report	Provide citywide information for key areas, including spending, staffing, workload, and performance.	10/16	01/17	Completed	We presented the Annual Performance Report to the Council at the annual retreat on January 28, 2017.

Other Monitoring and Administrative Assignments

Below is a summary of other assignments as of March 31, 2017:

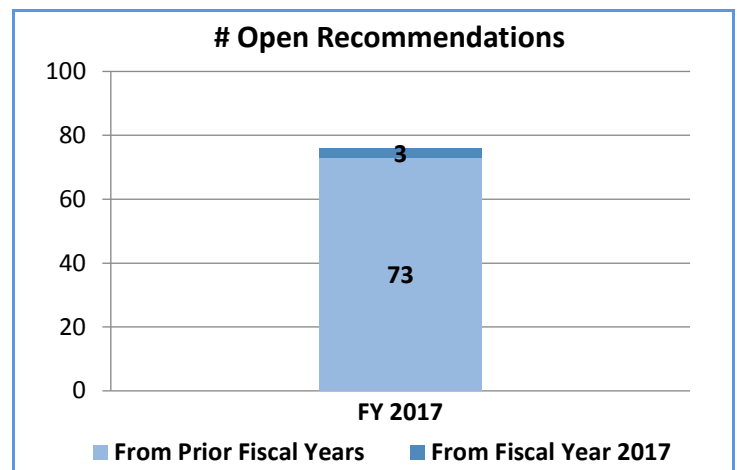
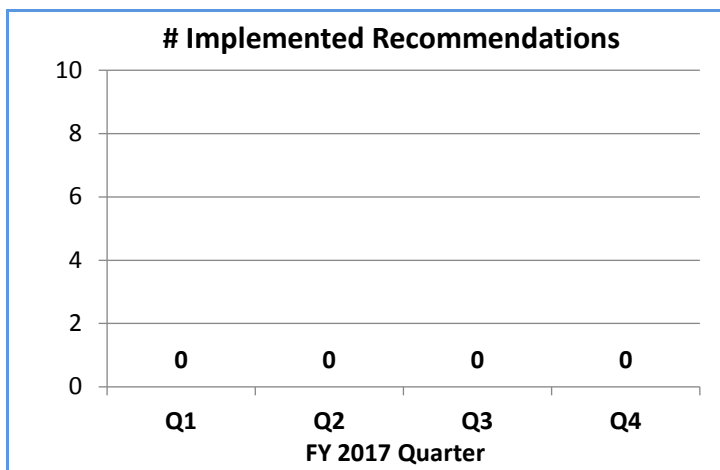
Title	Objective(s)	Status	Results/Comments
Sales and Use Tax Allocation Reviews	<p>1) Identify businesses that do business in Palo Alto that may have underreported or misallocated their sales and use tax and submit inquiries to the state for review and tax reallocation.</p> <p>2) Monitor sales taxes received from the Stanford University Medical Center Project and notify Stanford of any differences between their reported taxes and state sales tax information, in accordance with the development agreement.</p> <p>3) Provide Quarterly Status Updates and Sales Tax Digest Summaries for Council review.</p>	Ongoing	<p>1) Total sales and use tax recoveries for the third quarter were \$2,978 from our inquiries and \$852 from the vendor inquiries, for a total of \$277,365 year-to-date. Due to processing delays at the State Board of Equalization, there are 69 potential misallocations waiting to be researched and processed: 26 from our office and 43 from the vendor.</p> <p>2) We receive calendar-year sales tax information for the Stanford project about six months after the end of the calendar year. We will report the sales tax information for this project in our June 2017 quarterly report.</p> <p>3) Quarterly sales tax reports are published on the Office of the City Auditor website at www.cityofpaloalto.org/gov/depts/aud/reports/default.asp.</p>
City Auditor Advisory Roles	Provide guidance and advice to key governance committees within the City.	Ongoing	The City Auditor serves as an advisor to the Utilities Risk Oversight Committee, Information Security Steering Committee, and Information Technology Governance Review Board. We are also serving as an advisor for the strategic and technical planning groups for planning the new Enterprise Resource Planning (ERP) system (see comment in the Audit and Project Work section above).

Status of Audit Recommendations

Seventy-three recommendations were open at the beginning of the third quarter of FY 2017, and none were closed. We did not add any additional recommendations during the third quarter of FY 2017. However, we sent notifications to each of the departments with open audit recommendations, and the updated responses have started coming in. We have started reviewing those and expect to report in our next quarterly report that many of the open recommendations have been closed. Below is a summary of open audit recommendations, by audit, as of March 31, 2017:

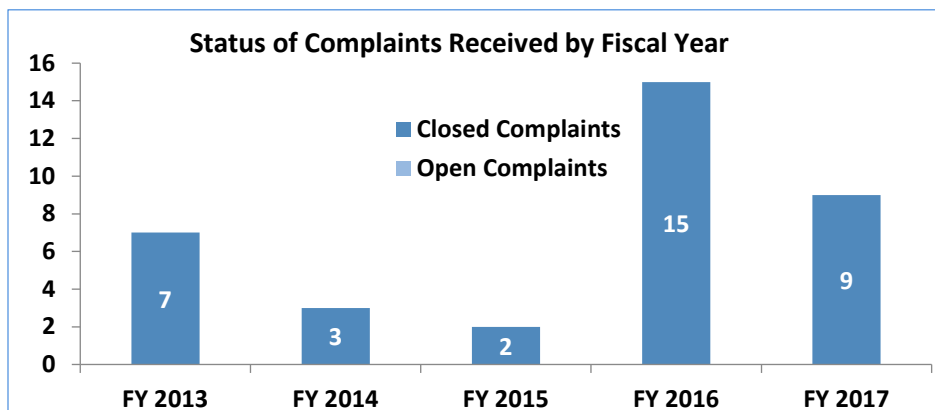
Audit Title	Report Date	Status Report Dates	Due Date of Next Status Report	Total Recommendations	Implemented During Quarter	Open
Citywide Cash Handling and Travel Expense	09/15/10	11/10/15 09/23/14 09/10/13 10/22/12 04/19/11	Past Due	11	0	2
Contract Oversight: Trenching and Installation of Electrical Substructure	11/05/13	12/15/15 09/23/14	Past Due	6	0	2

Audit Title	Report Date	Status Report Dates	Due Date of Next Status Report	Total Recommendations	Implemented During Quarter	Open
Inventory Management	02/18/14	09/23/14	Past Due	14	0	14
Utility Meters: Procurement, Inventory, and Retirement	03/10/15	None	Past Due	15	0	15
Police Department: Palo Alto Animal Services	04/22/15	03/22/16	Past Due	8	0	8
Parking Funds	12/15/15	None	Past Due	8	0	8
Disability Rates and Workers' Compensation	05/10/16	None	02/14/17	15	0	15
Cable Franchise and Public, Education, and Government (PEG) Fees	06/14/16	None	03/08/17	9	0	9
Community Services Department: Fee Schedule Audit	02/14/17	None		3	0	3



Fraud, Waste, and Abuse Hotline Administration

The hotline review committee, composed of the City Auditor, the City Attorney, and the City Manager, or their designees, meets as needed to review hotline-related activities. We received and closed two hotline complaints during the third quarter of FY 2017, one of which was related to a previous case. The chart below summarizes the status of complaints received in each fiscal year since the hotline was implemented.



Source: City of Palo Alto hotline case management system as of March 31, 2017

We sent a survey to about 60 local government audit offices that manage a hotline to seek input about how they manage their hotlines to ensure they receive calls when fraud, waste, or abuse are suspected and how they triage and investigate valid complaints. We received about 25 responses and compiled the results. We presented a discussion item on this topic at the Policy & Services Committee meeting on March 28, 2017.



POLICY AND SERVICES COMMITTEE TRANSCRIPT EXCERPT

Special Meeting
Tuesday, April 25, 2017

Chairperson Wolbach called the meeting to order at 7:00 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present: DuBois, Kou, Wolbach (Chair)

Absent: Kniss

Agenda Items

3. Auditor's Office Quarterly Report as of March 31, 2017.

Chair Wolbach: For Item Three, again, Harriet, convenient that we have you here. Item three on tonight's agenda is auditor's office quarterly report as of March 31st, 2017 and Harriet, once more.

Harriet Richardson, City Auditor: Then you, yes and I don't have a PowerPoint on this one. This is our quarterly report on the third quarter of Fiscal Year '17 ending in March. Some - so, three activity highlights for the quarter. We published the 2016 performance report, National Citizen Survey and citizen center report and presented those to the Council at their annual retreat on January 28th. We also presented the Community Services Department fee schedule audit to the Policy and Services Committee and that was on February 14th. On February 14th, we also discussed at Policy and Services the proposed changes to the fraud, waste and abuse hotline protocols. During this quarter, we completed two additional audits to -that we presented tonight that where the continuous monitoring of payments and the green purchasing audit and as I mentioned, the fees schedule audit. We have several other audits in progress. One is the utilities water billing and accuracy audit - water billing accuracy audit. That one is in - the report is being drafted at this point. That says that - in this report, I say that we expect to present that at the June Policy and Services Committee meeting. As of today, it looks like we'll publish it before the end of June but it will probably be presented at the August meeting. There's some juggling going on with some things right now. The continuous monitoring and other continuous monitoring audit, this one is of overtime to look at whether or not a continuous monitoring process for overtime could improve the City's oversight and management of

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overtime. That one is also being drafted right now and it is scheduled to be presented at the June Policy and Services Committee meeting. We're also doing an audit of the Hydromax cross bore contract. That was to evaluate the work performed under a contract to see if the City took an appropriate approach to the work including whether it received appropriate inspection data from the effort and allocated an appropriate level of oversight over that contractor. That audit is also being drafted right now. It's almost completed and it's scheduled for the June Policy and Services Committee meeting. We also have been doing what we call a non-audit service, an Enterprise Resource Planning project and this is really an advisory service that we're doing where we're attending meetings, looking at what they're finding as far as the requirements, their approach to planning the RFP, then providing technical advice to them based on what we see. The main purpose of this is to identify issues up front so that we wouldn't - don't come back 3-years later and say oh, you should have done this instead of being more proactive and preventing things. During this quarter, one of my auditors attended twenty-seven system requirement validation sessions so those were meetings with individual departments where the consultant went over what they identified as the requirements for that specific department. Then she also attended three strategic and tactical team meetings and provided verbal advice during those meetings. We also issued a memo to the IT director that discusses what's going well with the project and some of the challenges we identified. I'm in the process of scheduling a meeting with him now so that we can discuss that memo in more detail. Each quarter, we're planning to issue a memo letting him know what we're seeing and what we're finding so as he goes to that, he can make some changes along the way and not end up with a failed project, which is common with government ERP systems. I already mentioned that we completed the National Citizen Survey and national performance - annual performance report. Throughout the year, we monitor the City's sale tax revenues and we identify - we look for businesses that - we have access to a database that allows us to see where there's changes in what a business has reported as their sale tax to the City or if there's a new business and we aren't seeing sales tax reported. We can report to the State Board of Equalization and they can look at that and say, did they under report or did they misallocate their sale tax to another jurisdiction, which is sometimes common when they do business in more than one jurisdiction. During the third quarter, our office recovered about \$23 - well, just about \$3,000 in sale tax from our increase and we also contract with a consultant who recovered \$852. Year to date, we're recovered a total of \$277,000. There are quite a few requests out to the State Board of Equalization. Right now, 69 are waiting to be researched and processed. 26 of those are from our office and 43 are from the

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vendor. At the end of June, we receive sales tax information for the Stanford Hospital project and we'll report that information about what the City recovered under the special agreement we have for the City to get the sale tax on that project. We published the quarterly reports on our City website - on the City auditor website and I have a link there to that. We also participate in several advisory roles. We serve as an advisory on the Utility Risk Oversight Committee, the Information Security Steering Committee and the Information Technology Governance Review Board and as I already mentioned, we're also doing advisory - providing an advisory service on the ERP system. That completes the main part of the work that we've done this past quarter. We are getting ready because we have several audits wrapping up. We are getting ready to start some new audits on our - that are on our audit plan and so those will be listed on the next quarterly report. The status of audit recommendations, in 2014, the Council changed the way we do that so it used to be that our office would ask the departments to provide us the status of their recommendations and we would report to the Council on that. In 2014, the Council decided that they wanted the departments to report directly and more often than once a year, which is what we were doing. We still track what's outstanding and we have nine audits on this list. The last one, the community services fee schedule audit, is not past due. The others are all past due and as you can see, the oldest one from 2010, has two open recommendations. Some of those others have not been reported on at all. The worker disability rates and worker's compensation and the cable franchise and peg fee audits have not had any reports. The other ones are all past due. In mid-March, we sent an email to all of the departments that are affected by these audits, saying that we need to get - start getting these going again. So, we're starting to get the responses to those and my Staff is validating the responses so that we can say to the Council when the departments present them that yes, we agree with the status that they reported. In some cases, we're going back for more information but you should start seeing those coming to Policy and Services probably August/September on those agendas. I think - from what I'm hearing from my Staff, we're probably going to be able to clear out quite a few of these in the next few months. Then, the hotline is the last thing on our report. We received and closed two hotline complaints during the third quarter. One of which was related to a previous case. So, at this point, we have no open hotline cases. They have all been closed. The two that came in this - during this quarter, both were unsubstantiated and I mentioned in here about the survey that we sent to other jurisdictions and that I had presented that as a discussion item at the March Policy and Services Committee meeting. That's all I have on that and I'm open for questions.

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Chair Wolbach: Any questions? Tom.

Council Member DuBois: You don't have any audits right now in kind of the design or all the collections fees?

Ms. Richardson: We are just getting ready. We - I'm going to send down audit notice on the code enforcement audit this week so we are doing a little bit of work to get that one ready to start. Then these ones that are wrapping up, I'm going to have three auditors ready to start new audits in the next couple of weeks so we are going to start on those ERP audits that we have planned.

Council Member DuBois: What are the new ones?

Ms. Richardson: Code enforcement is definitely - that one - she's already doing a little bit of work but we haven't set out - sent out the audit start letter yet. Then we have three ERP planning audits so one is data reliability, which kind of goes back to the issue, for example, of the vendor master file. That's one example but what we're going to do is look at a variety of data sets that are in the SAP system and see where cleanup needs to be done before data gets transferred over to - into the new system. We've got one that we're calling segregation of duties. That's audit jargon for when two people shouldn't do the same - have the ability - one person shouldn't have the ability to do too many tasks that could allow them to do bad things like commit fraud. So, looking at how the system is set up to make sure that they have the right separation of duties so that we can make sure that the City's protected. The third one is governance - IT governance and that's really looking at - as an example, right now, when we do an audit and we want a data set and we go to a department and we ask for information about the data that they use, for example, say in utilities, what data goes into making a utility bill and they will say oh, I don't know. Go ask IT and IT will say no, go check with the department. The department is the data owner but a lot of times they have not had the training or they don't have the knowledge to know what is - goes on behind the screen that they see and so really looking at what that structure should be and what kind of training those people should get so that they know what their responsibilities are and that they - it reduces the chance for error when people know how the system works and how their reports are developed so really focusing a lot on that kind of thing.

Council Member DuBois: I think in past years, you've sent around a list of potential audits for prioritization. I mean, are we kind of at that

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time? It sounds like...

Ms. Richardson: We're getting close to that time. I will probably be bringing a list at the first Policy and Services Committee meeting after - so, I'll be sending an email out in the near future.

Council Member DuBois: Ok.

Ms. Richardson: I can probably do that - I can probably send that out next week and get that going.

Council Member DuBois: Let's send it to the whole Council.

Ms. Richardson: I do, I do.

Council Member DuBois: Ok. On National Citizen Survey, you did present at the retreat. We didn't really have a lot of time to talk about it. Did you feel like you covered everything that you wanted to cover?

Ms. Richardson: I think so. I think - one thing that really came out pretty clearly on that from the question that was asked was that there are certain areas that continuously rate low, like the built environment but that question is fairly broad. This year, what we're going to do - I've already talked to the Planning Director and the Community Services Director and we're going to sit down and develop some custom questions that will try and dig down deeper into what it is that causes people to think that the built environment is low. We're going to try and focus on just a couple of areas. Most of them tie directly to the Council priorities and develop our custom questions around those areas this year.

Council Member DuBois: I don't know what you guys think. I mean we might want to have a study session to actually talk about the survey a little bit deeper. I didn't really feel like we had a chance.

Chair Wolbach: Are you thinking something for Policy and Services or for the Council?

Council Member DuBois: No, I meant for the Council. Like a short study session at Council.

Chair Wolbach: Well, maybe that something that we can bring up with Jim and I'm not sure (inaudible) agenda item right now but I think we can definitely, as individuals, ask Jim and I'm sure Staff here will mention it. Let's- I'd be comfortable with that.

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Council Member DuBois: Just going onto sale tax, so we had the vendor collect \$800. I'm just curious how much we paid the vendor to do that?

Ms. Richardson: We pay a percentage of what they collect so we pay twenty percent but you - I think it's also important to remember that although that was a small amount, they have quite a number of requests out to the State. They have 43 requests out to the State waiting to be processed and when you look at that large \$277,000 number that we've collected year-to-date. Most of that was from the vendor.

Council Member DuBois: Right, so I think the last couple of times it's been very low and we keep hearing it's delayed at the State. Is there anything we can do to unjam that?

Ms. Richardson: I don't think so. It's based on their Staffing and I do - I'm looking at, right now, -- so we have 69 outstanding - right, inquiries outstanding right now. A year ago, we had 56 at this time. The year before that we had 43 so that log seems to be growing.

Council Member DuBois: Two hundred and seventy-seven thousand sounds like a large number but my recollection is that it's usually over a million. It's quite large.

Ms. Richardson: Not the part that we actually recover on the misallocations.

Council Member DuBois: Ok, there had been years where we recovered quite a bit.

Ms. Richardson: Not - never - no, actually I have a chart here that I've started looking-trying to track. Going back to 2007 and the highest year - actually, this \$277,000 puts us at the highest year and that was due to one really large recovery effort. Prior to that, the largest amount was \$169,000 and that was in 2014.

Council Member DuBois: Ok, alright. I stand corrected.

Ms. Richardson: Yeah, we've had it as low as \$24,000 and that was 2011.

Council Member DuBois: Ok. I think I brought this up last time but it looks like the sale tax reports on the website are still like -- the most current one is June of 2016.

Ms. Richardson: There should be two more since then. I'll have to look.

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I know we have one pending that needs to go to - on the website and that should be going out - it's done, it just needs to be posted.

Council Member DuBois: If you could just check on that. It looks really out of date. Then, you know, we do this every quarter I guess and it comes back and we haven't had any implemented recommendations for a long time. You're saying next time we're going to be seeing a bunch.

Ms. Richardson: I think you'll - yeah, you'll start seeing some because we do have those emails out and we have started receiving responses to them.

Council Member DuBois: I'd like to make a request that next time this comes back, could you provide more detail on these 76 items.

Ms. Richardson: What they recommend...

Council Member DuBois: Maybe even - yeah, maybe even just attach a table of what they are.

Ms. Richardson: Ok.

Council Member DuBois: If there's a status of either fixed or decided that we're never going to fix it or it's still outstanding, I think that would be really useful. Some of these are quite old, right?

Ms. Richardson: Right.

Council Member DuBois: (Inaudible)

Ms. Richardson: I think most of the ones that are here are ones that will be implemented. I have worked primarily with ASD on some of these where the recommendations - we looked - we went back and looked at them and said that they aren't really feasible at this point or they don't make sense anymore due to other operational changes.

Council Member DuBois: It would be really nice just to see that clearly and we could clear some of these out that are so old.

Ms. Richardson: I'm also trying to work closely with departments to make sure that when we make the recommendations up front, that they make sense.

Council Member DuBois: Great, ok, thank you.

Chair Wolbach: Any other questions? Lydia, quick question? Go for it.

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Council Member Kou: Harriet, do you know - the food trucks, how the sale tax collected from those? They move all around.

Ms. Richardson: That's a good question. I don't know. I would have to check on that.

Council Member Kou: Ok. Alright. I always wondered so I thought...

Chair Wolbach: Ok, I'll move the Staff recommendation that we recommend to the City Council the acceptance of the auditor's office quarterly report as of March 31st, 2017.

Council Member DuBois: I'd like to propose that we make a very soft - we suggest that there's a study session on the National Citizen Survey as part of the acceptance.

Chair Wolbach: I'm not sure it's really apropos for this particular motion but I'm happy to have us discuss it and...

Council Member DuBois: Yeah, I'm not saying that we do it. I'm saying we ask Staff to consider doing it basically.

Chair Wolbach: Right. What I am saying is I think that (crosstalk) (inaudible)

Council Member DuBois: I think that we are accepting the National Citizen Survey and so it's up to you to say if we accept it or if we want to discuss it.

Chair Wolbach: Actually, let me look to the Staff for any thoughts on that.

Ms. Richardson: I'm not certain how that works. I would probably have to differ to the Clerk or the City Attorney.

Chair Wolbach: And City attorney, you are thinking that there's anything wrong with adding that to this motion from a legal standpoint?

Terence Howzell, Principal Attorney: (Inaudible) It would be a soft recommendation that we (inaudible) to put in on the Council's calendar for (inaudible)

Council Member DuBois: Yeah, exactly.

Chair Wolbach: I'd be fine with that Amendment. It will be to recommend that the City Council accept the auditor's office quarterly

TRANSCRIPT EXCERPT

report as of March 31st, 2017 and also recommend scheduling a full Council study session regarding the National Citizen Survey.

Council Member DuBois: Great, thanks.

Chair Wolbach: Any other discussion? Alright, all in favor? Aye. Alright, passes unanimously with Council Member Kniss absent. Alright, thank you very much, Harriet.

MOTION: Chair Wolbach moved, seconded by Council Member DuBois to recommend the City Council accept the Auditor's Office Quarterly Report as of March 31, 2017, and to recommend the National Citizen Survey be discussed at a future City Council Study Session.

MOTION PASSED: 3-0 Kniss absent