



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 1, 2005

The Honorable City Council
Attn: Finance Committee
Palo Alto, California

Auditor's Office Quarterly Report as of September 30, 2005

RECOMMENDATION

The City Auditor's Office recommends the Finance Committee review and recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of September 30, 2005.

SUMMARY OF RESULTS

In accordance with the Municipal Code, the City Auditor prepares an annual work plan for approval by the City Council, 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 activities of the Office as of September 30, 2005.

We issued the following reports to the City Council since our last status report in July 2005:

- Informational report on Palo Alto sales tax (Aug-2005)
- Report on the status of audit recommendations (Sep-2005)
- City Auditor's Fiscal Year 2005-06 Work Plan (Sep-2005)

Our revenue audits continue to yield benefits to the General Fund. The City received **\$145,435** during the fiscal year to date as a result of our in-house and contracted audits (our goal is \$235,000 in audit recoveries). This only includes cash received to date, and does not include audit findings that were assessed but have not yet been collected.

The following projects are in process (with target completion dates):

- Audit of parks maintenance (Nov/Dec-2005)
- Audit of street maintenance (Dec-2005)
- Police department survey (Nov/Dec-2005)
- Review of police building proposal (Nov-2005)
- Audits of sales, property, documentary transfer tax, and utility users tax revenues (on-going)

Information on the status of each assigned project is attached (pages A-1 through A-5). On behalf of the Auditor's Office, I would like to express my appreciation to City staff for their cooperation and assistance during our reviews.

Respectfully submitted,

Sharon W. Erickson
City Auditor

Attachments: City Auditor Project Status as of September 30, 2005

City Auditor Project Status as of September 30, 2005

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
AUDIT ADMINISTRATION, FOLLOW-UP, AND OTHER RESPONSIBILITIES			
1. Annual Work Plan and Quarterly Status Reports – The City Auditor submits quarterly reports to the City Council outlining project status and progress towards completing the assignments on the annual work plan.	On-going	In Sep-2005, the Finance Committee recommended approval of the FY 2005-06 work plan. The City Council is scheduled to review the plan on October 24, 2005.	Next quarterly status report: Jan-2006
2. Audit Recommendation Status Report – The City Auditor issues an annual report on the status of recommendations from recently completed audits.	On-going	Report issued Sep-2005 summarizing the status of 134 recommendations. The next annual status report will be completed in Sep-2006.	
3. Auditor’s Office Triennial Peer Review – Government Auditing Standards require audit organizations to have an external peer review once every three years. The National Association of Local Government Auditors coordinates a peer review program to help member organizations meet these standards.	In process	We have scheduled our review for October 17-20, 2005. In Jun-2005, Sr. Auditor Edwin Young participated in a peer review of Jackson County, Oregon; and in Jul-2005, Sr. Auditor Renata Falk participated in a peer review of Portland, Oregon.	Target completion date: Oct-2005
4. Meeting attendance – To facilitate communication and coordination of efforts, the City Auditor attends the City Council meetings, Finance Committee meetings, and the City Manager’s weekly executive staff meetings.	On-going		
5. Utility Risk Oversight Committee (ROC) – Since issuance of our Assessment of Utility Risk Management Procedures in Jul-2002, the City Auditor has acted as an advisor to the ROC.	On-going		
6. Independent Police Review Panel – The City Auditor will participate in an independent panel to review internal investigations and citizen complaints. The panel will make recommendations to the Police chief and the City Manager, who will retain final authority on disposition.	Not started	This project pending City Council approval (target date Nov-2005).	

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
REVENUE AUDITS¹			
<p>7. Sales tax audits (on-going) – Sales tax represents about 16 percent, or \$19 million, of projected General Fund revenue for 2005-06. We contract with MBIA MuniServices (MMC) for quarterly sales tax audit and information services. We also conduct audits in-house. Both types of audits focus on verifying that Palo Alto is getting the appropriate allocation of local sales tax. We report the results of audits in the Auditor’s Office Quarterly Report. Sales tax information reports (provided by MMC) are separately transmitted to the City Council on a quarterly basis.</p>	On-going	<p>MBIA MuniServices Company prepared the quarterly sales tax information report summarizing Q1-2005 sales (Jan-Mar 2005) that was distributed Aug-2005.</p> <p>In the first quarter FY 2005-06, the City received \$27,299 in sales tax recoveries related to misallocation of tax from one Palo Alto company. This amount is the result of audits conducted earlier by Hinderliter de Llamas & Associates (our previous sales tax consultant). In addition, MMC (our current sales tax consultant) identified potential misallocations from 2 other companies, and the City Auditor’s Office is following up with the State Board of Equalization (SBOE) on the potential misallocation of tax from 5 companies.</p> <p>Sales tax recoveries year-to-date: \$27,299</p>	<p>Audits are on-going</p> <p>Target date for next informational report: Nov-2005</p>
<p>8. Property tax audits (on-going) – Property tax represents about 14 percent, or \$17 million, of projected General Fund revenue for 2005-06. We contract with MMC for property tax auditing and information services. Audit services are designed to help ensure that County assessment data for properties in Palo Alto is current and accurate.</p>	On-going		
<p>9. Documentary transfer tax audits – We contract with MMC to ensure that the City’s documentary transfer tax (about \$3 million annually) is levied when residential and commercial properties are sold, properly applied, and remitted in a timely manner.</p>	On-going		
<p>10. Utility users tax audits (follow-up) – In 2002, we contracted with Tax Compliance Services to audit telephone company UUT remittances. Audit work is completed, but the Auditor’s Office will continue to provide assistance as needed to achieve compliance.</p>	In process	<p>Project started in Jul-2002. During FY 2003-04 and FY 2004-05, the City collected \$155,410 as a result of the audits.</p>	<p>Target completion date: TBD</p>

¹ We conduct our revenue audits in accordance with applicable government auditing standards, and report the results of our revenue audits in the Auditor’s Office Quarterly Report.

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
		<p>During the first quarter of the fiscal year, the City received \$71,686 as a result of our audits, and several items are still pending. An additional \$24,177 has been assessed but not collected, one appeal is still pending (AT&T Wireless), and although Verizon has started collecting and remitting UUT, the city's \$2.4 million lawsuit against Verizon for failure to pay UUT is still pending.</p> <p>UUT recoveries year-to-date: \$71,686</p>	
<p>11. Audit of cable franchise and PEG Fees – Our audit of Comcast franchise and PEG fees is complete, and a final response from Comcast is pending.</p>	In process	<p>On 9/30/05, the City (on behalf of the Cable JPA) received a check for \$92,899 from Comcast in payment of audit findings related to underpayment of franchise and PEG fees. Palo Alto's share of this amount is approximately \$46,450. In accordance with the franchise agreement, Comcast has also agreed to pay audit costs.</p> <p>Audit recoveries year-to-date: \$46,450</p>	
<p>12. Audit of transient occupancy tax (contracted audit service) – Transient occupancy tax represents about 5 percent of General Fund revenues, or about \$6 million per year. We previously audited revenues through Jun-2002.</p>	Not started		Target completion date: Jun-2006
FINANCIAL AUDITS AND PROCEDURAL REVIEWS			
<p>13. Annual external financial audit (contracted audit service) – The City Charter requires that the City Council engage an independent certified public accounting firm to conduct an annual external audit. We have contracted with Maze & Associates to conduct the audit.</p>	In process	Maze has completed most of their fieldwork.	Target completion date: Dec-2005.
<p>14. Controls reviews of SAP (on-going) – The implementation of the SAP system is having dramatic impacts on the City's business operations and financial records. The Auditor's Office will continue to monitor the implementation and provide advice to ASD on the</p>	On-going		Target completion date: TBD.

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
adequacy of controls in the new system.			
15. Audit of the police investigative fund – Pursuant to Police Department procedures, the Auditor’s Office conducts a surprise review on an annual basis.	Not started		Target date: TBD.
16. Ethics policies – We will review procedures for ascertaining and handling potential conflicts of interest among city employees, and assess the need for an ethics policy.	Not started		Target date: TBD.
PERFORMANCE AUDITS AND SPECIAL PROJECTS			
17. Service Efforts and Accomplishments (SEA) Report – This will be the 4 th annual SEA report. The purpose of SEA reporting is to strengthen public accountability and help improve government efficiency and effectiveness. Palo Alto’s SEA report provides data about the costs, quality, quantity, and timeliness of City services. It includes a variety of comparisons to other cities, and the results of an annual citizen survey (the National Citizen Survey).	In process	The National Citizen Survey is underway (surveys have been mailed to a random sample of 1,200 residents).	Target issuance date: Jan-2006.
18. Audit of parks maintenance (in process) –The purpose of our audit is to assess the cost-effectiveness of parks maintenance services. The Community Services Department (CSD) is one of the areas targeted by our citywide risk assessment model.	In process	Fieldwork is complete, and we are drafting the audit report.	Target completion date: Nov/Dec-2005.
19. Audit of street maintenance (in process) – Review of the street maintenance program including criteria for prioritizing street repairs, and coordination of subsurface work.	In process	Fieldwork is nearly complete.	Target completion date: Dec-2005.
20. Police department survey (in process) – The Auditor’s Office is conducting a random survey of drivers of vehicles that are stopped to determine how they feel they were treated during the stop. The Office is also conducting a comparison survey of persons requesting service. Target completion date: Fall-2005.	In process	Surveys are underway (surveys were mailed to a random sample of 550 persons who were cited or warned, and to 450 persons requesting service).	Target completion date: Nov/Dec-2005.
21. Review of police building proposal – In response to a colleagues’ memo regarding a developer’s proposal to build a new police building downtown, the City Council directed the City Auditor to review the project and provide her comments and assessment to the City Council.	In process	In Aug-2005, we issued a memorandum to the City Council supporting the recommendation to issue a Request for Statements of Interest (SOI). In our opinion, this was an important step to ensuring a fair and open process. On October 4 th , the City received four responses to the SOI.	Target completion date: Nov-2005.

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
<p>22. Audit of CSD class program revenue/cost recovery (carryover project from 2004-05) – The purpose of this audit is to determine the income/subsidy of class programs net of direct and indirect costs. CSD was one of the areas targeted by our citywide risk assessment model.</p>	Not started		Target start date: Fall-2005.
<p>23. Audit of entrepreneurial programs (carryover project from 2004-05) – The City has a number of “entrepreneurial programs” including IT services, animal control, BLS ambulance service, dark fiber services (the Electric Fund was one of the areas targeted by our citywide risk assessment model), and training programs. The purpose of this review is to analyze the net revenue and cost/benefit of <i>one</i> of these programs.</p>	Not started		Target start date: Spring-2006.
<p>24. Audit of vehicle replacement and maintenance fund – This internal service fund has 16 full-time equivalent employees and projected 2005-06 expenditures of \$5.8 million. The vehicle replacement and maintenance fund was one of the areas targeted by our citywide risk assessment model. The purpose of this review is to evaluate economy, efficiency and effectiveness of fleet and equipment replacement and maintenance operations.</p>	Not started		Target start date: TBD.
<p>25. Audit of the Waste Management/PASCO contract – The estimated payment to PASCO for refuse collection, hauling, and disposal in 2005-06 is \$8.5 million. The Refuse Fund was one of the areas targeted by our citywide risk assessment model.</p>	Not started		Target start date: TBD
<p>26. Infrastructure report card – The purpose of this project is to assess the impact of increased capital spending on the City’s infrastructure, including utilities. The Capital Improvement Program was one of the areas targeted by our citywide risk assessment model.</p>	Not started		Target state date: TBD