



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

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The Honorable City Council
Palo Alto, California

August 6, 2001

Auditor's Office Status Report

Introduction

The mission of the City Auditor's Office (Office) is to promote honest, efficient, effective and fully accountable City government. To fulfill this mission, the Office conducts audits and examinations of City departments, programs, and services. The purpose of these audits and examinations is to provide the City Council and City management with information and evaluations regarding the effectiveness and efficiency with which City resources are employed, the adequacy of the system of internal controls, and compliance with City policies and procedures and regulatory requirements.

The purpose of this report is to provide the City Council with information regarding the current status of the City Auditor's Office and next steps.

Summary of Results

During fiscal year 2000-01, the Office was in transition. The Office was staffed by our full-time Senior Auditor and part-time Administrative Assistant, with an interim City Auditor on contract from February through June 2001. The interim City Auditor also made himself available to provide advice to the City Council, the Utilities Director, and other City staff as needed. The Office issued two reports:

- **Quarterly Sales Tax Review (April 2001)**
The Office completed its review of the State Board of Equalization's allocations of sale tax remittances for the 4th quarter 1999 and the 1st quarter 2000. The purpose of the review is to ensure that the City is receiving the proper allocation of sales tax. Recoveries result from underpayments, misallocations, late payments, and delayed processing. Total recoveries were \$45,173.
- **Audit of Payroll (June/July 2001)**
The objective of this audit was to evaluate the internal controls, operating procedures and practices related to the City's payroll process. Based on testwork, observations, and analysis, the report concluded that the Payroll Unit processed employee biweekly earnings and payments with a substantial degree of accuracy. The report included several recommendations to further improve payroll processing, security, and recordkeeping.

The Office fulfilled its Charter responsibility to monitor the contract with the independent certified public accounting firm of Maze & Associates for the audit of the June 30, 2000 financial statements (issued December 2000). The Office also coordinated the contract renewal with Maze & Associates for the audit of the City's June 30, 2001 financial statements.

The Municipal Code requires the City Auditor to submit an Annual Audit Plan to the City Council for approval. The most recent Audit Plan was approved by the City Council in July 1999 for fiscal year 1999-00. It included nine audit assignments. The Office has issued audit reports for two of these assignments. One other assignment (Vehicle Maintenance) was started, but only limited fieldwork was completed before the audit was suspended so that staff could focus on the completing the above reports. The other six assignments were never started. The status of all nine assignments follows:

- Quarterly Sales Tax Review – most recent report issued April 2001 (see above)
- Payroll – report issued June/July 2001 (see above)
- Vehicle Maintenance Program – assignment suspended (see above)
- Capital Improvement Program Management – not started
- Property Tax – not started
- City Hiring Practices – not started
- Public Access to City Services – not started
- Information Technology Services: General Controls Review – not started
- Analysis of City Landscape and Field Maintenance Costs – not started

Next Steps

Since starting work on July 16, 2001, I have met with Executive Staff and begun a series of tours and orientations to City programs and facilities. I have also met with the City's external auditor and interim City Auditor, reviewed the status of audit assignments, and engaged my staff in a reassessment of our Office. As part of that reassessment, we will be documenting the status of prior audit recommendations to determine whether recommendations have been implemented. In addition, we are proceeding with plans to fill the vacant auditor position in the Office, and we are continuing our quarterly sales tax reviews. We have just completed the Quarterly Sales Tax Review for 2nd and 3rd Quarters 2000. A copy is included in today's Council packet as an informational item.

In September, I will present a proposed Auditor's Office Annual Plan to the City Council. This plan will outline the major tasks that my Office proposes to undertake for the remainder of the fiscal year. During the next few weeks, I will be soliciting input from the City Council and Council Appointees in preparing the new plan.

I appreciate the personal support that you have expressed for the City Auditor's Office and look forward to working with you as we initiate plans for the coming year.

Respectfully submitted,

Sharon W. Erickson

Sharon W. Erickson
City Auditor

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