



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

April 30, 2018

The Honorable City Council  
Palo Alto, California

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

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of December 31, 2017. At its meeting on February 13, 2018, the Policy and Services Committee approved and unanimously recommended that the City Council accept the report. [The City Auditor's report to the Policy and Services Committee](#) and the [transcript minutes](#) are available on the City's [Policy and Services Committee website](#).

Respectfully submitted,

Harriet Richardson  
City Auditor

#### **ATTACHMENTS:**

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

Department Head: Harriet Richardson, City Auditor





CITY OF  
**PALO  
ALTO**

## Quarterly Report as of December 31, 2017



### Office of the City Auditor

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

## Fiscal Year (FY) 2018 Second Quarter Update (October – December 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

- Coordinated with the external financial auditor to release and present the City's financial statement audits.
- Coordinated with the Department of Human Resources to develop a flyer and business card to begin advertising the Fraud, Waste, and Abuse Hotline and the Employee Advice Line, and the difference between them (copies attached).
- Received our triennial external peer review with a fully pass rating.

### Audit and Project Work

Below is a summary of our audit and project work for the second quarter of FY 2018:

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Enterprise resource planning (ERP) Planning Audit: Data and System Governance and Security	Evaluate the adequacy of data and system governance and security in the current SAP system and make recommendations to ensure that identified deficiencies are corrected for the new ERP system.	05/17	04/18	In Process	The audit is in the report writing phase, and we expect to complete the audit in early 2018.
ERP Planning Audit: Data Reliability and Integrity	Evaluate the integrity and reliability of data in the current SAP system and make recommendations to ensure that identified deficiencies are corrected prior to transferring data to the new ERP system.	05/17	06/18	In Process	This will be a series of reports that focus on different aspects of data reliability or specific data sets. Our first two audits will be on data standardization and a specific data set. These audits are currently in the field work phase, and we expect to complete them in early 2018, with more audits to follow.
ERP Planning Audit: Separation of Duties	Evaluate the adequacy of separation of duties for various activities in the current SAP system and make recommendations to ensure that identified deficiencies are corrected for the new ERP system.	05/17	06/18	In Process	The audit is in the field work phase, and we expect to complete it early 2018.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Code Enforcement Audit	Evaluate code enforcement policies and practices for responsiveness, consistency, and follow-up. Resident opinions to help inform our audit will be gathered through a custom citizen survey, as described below.	05/17	06/18	In Process	The audit is in the field work phase. We expect to complete the audit in early 2018.
ERP Nonaudit Service	Provide advisory services to the Department of Information Technology regarding its planning of a new ERP system.	09/16		Ongoing	We attended 17 strategic and tactical team meetings during the second quarter of FY 2018 and provided verbal and written advice based on our technical expertise and best practice information readily available to us. We met with IT staff biweekly to discuss specific issues requiring immediate attention. We also issued a memo to the IT Director that summarizes our advice and enhancement opportunities.
Custom Citizen Survey	Conduct a citizen survey, separate from the annual National Citizen Survey™, to obtain resident opinions about code enforcement activities and the built environment.	06/17	01/18	In process	The National Research Center mailed the survey to 3,000 residents. We have received the raw data from the National Research Center and are currently compiling it into a report and analyzing the results.
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.	06/17	01/18	In process	The National Research Center has mailed the survey to 3,000 residents and is currently in the data collection phase. We expect to receive the results in mid-December and to analyze them by early January.
Annual Performance Report	Provides citywide information for key areas, including spending, staffing, workload, and performance	08/17	01/18	In process	Departments provided data, which we are compiling into the annual report. We will present the report to the Council at its annual retreat on February 3, 2018.
Citizen Centric Report	Provides City and community information, performance results, and summary revenue and expenditure data in an easy-to-read four-page format.	12/17	01/18	In process	Staff collected data and are compiling it into the report, which will be presented at the annual Council retreat.

## Other Monitoring and Administrative Assignments

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

Title	Objective(s)	Status	Results/Comments
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 and Information Security Steering Committee. We are also serving as an advisor for the strategic and technical planning groups for planning the new ERP system (see comment in the Audit and Project Work section above).
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 second quarter of FY 2018 were \$232,280 from our inquiries and \$21,135 from the vendor's inquiries, for a total of \$253,415 for the quarter and \$271,528 fiscal year-to-date. Due to processing delays at the State Board of Equalization, 34 potential misallocations are waiting to be researched and processed: 11 from our office and 23 from the vendor.</p> <p>2) We receive calendar-year sales tax information for the Stanford Medicine development project about six months after the end of the calendar year. We will report the 2017 sales tax information for this project in our June 2018 quarterly report. The City has received \$2,896,941 for calendar years 2011 through 2016 as a result of this agreement.</p> <p>3) Quarterly sales tax reports are published on the Office of the City Auditor website at <a href="http://www.cityofpaloalto.org/gov/depts/aud/reports/default.asp">www.cityofpaloalto.org/gov/depts/aud/reports/default.asp</a>.</p>

## Status of Audit Recommendations

Sixty recommendations were open at the beginning of the second quarter of FY 2018, and none were closed. One status report was past due as of December 31, 2017, but is scheduled to be presented to the Policy and Services Committee in February 2018. Four status reports that were past due at the end of the first quarter of FY 2018 were presented in the second quarter of FY 2018. Below is a summary of the open audit recommendations as of September 30, 2017:

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Citywide Cash Handling and Travel Expense Issued 09/15/10	Due – 02/18 08/22/17 11/10/15 09/23/14 09/10/13 10/22/12 04/19/11	Recommendations: 11 Open: 1 Implemented during quarter: 0	Review practice of reimbursing employee meals when not in a travel status and report the amounts as income to employees to conform to Internal Revenue Service requirements.

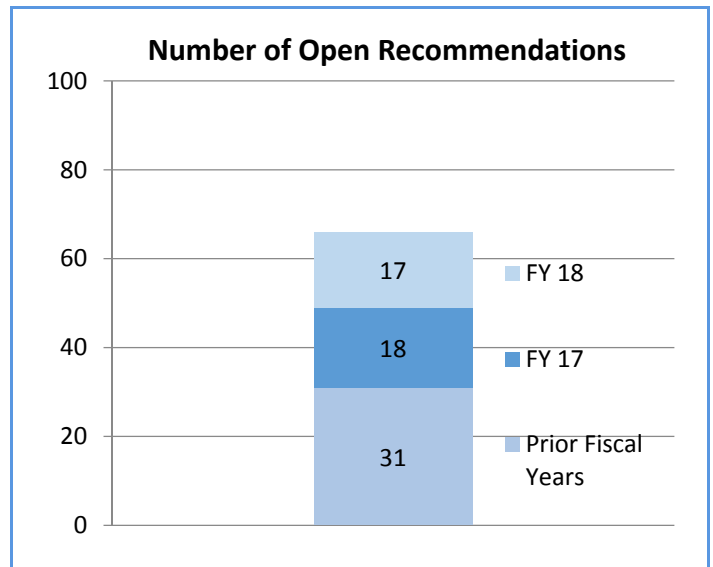
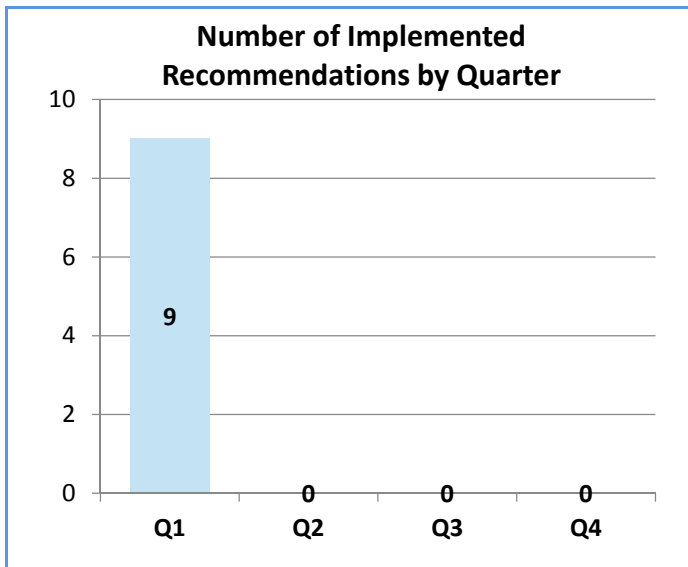
Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Inventory Management Issued 02/18/14	Due – 05/18 11/02/17 09/23/14	Recommendations: 14 Open: 4	<ul style="list-style-type: none"> <li>• Implement City’s inventory management policies and procedures</li> <li>• Update and enforce inventory count policies and procedures to ensure consistent and accurate inventory records</li> <li>• Identify, formalize, and communicate inventory management goals and objectives to City departments</li> <li>• Ensure staff identify and use key SAP inventory management reports and appropriately configure and update SAP parameters that affect inventory levels</li> </ul>
Utility Meters: Procurement, Inventory, and Retirement Issued 03/10/15	Due – 05/18 11/02/17	Recommendations: 15 Open: 1	<ul style="list-style-type: none"> <li>• Correct purchase order documents to accurately reflect engineering specifications</li> </ul> <p>NOTE: Two recommendations are closed because they are deemed to be no longer relevant.</p>
Parking Funds Issued 12/15/15	Due – 05/18 11/02/17	Recommendations: 8 Open: 3 Implemented during quarter: 0	<ul style="list-style-type: none"> <li>• Develop policies and procedures to clarify roles and responsibilities and ensure accurate calculation and reporting of parking-in-lieu fees</li> <li>• Establish policies and procedures to clarify roles and responsibilities for parking programs and parking permit funds</li> <li>• Identify financial and performance data required for effective evaluation of parking program</li> </ul>
Disability Rates and Workers’ Compensation Issued 05/10/16	Past Due – Scheduled for 2/13/18 None	Recommendations: 15 Open: 15 Implemented during quarter: 0	<ul style="list-style-type: none"> <li>• Allocate sufficient resources to implement and maintain and monitor compliance with the City’s Injury and Illness Prevention Program</li> <li>• Update the safety manual/supplemental tools</li> <li>• Review departmental procedures and safety requirements to ensure they align with citywide policies and procedures</li> <li>• Identify useful safety statistics, their recipients, and reporting frequency, and develop an automated process for providing the statistics</li> <li>• Identify and provide industry-specific ergonomics and general wellness training opportunities</li> <li>• Address the disability leave benefits incorrectly reported as compensation to CalPERS</li> <li>• Review claims that had differences in additional city benefits and correct any errors identified</li> <li>• Determine optimal structure, update tools and procedures, and allocate sufficient and skilled resources to ensure accuracy of benefit eligibility and work status of injured employees</li> <li>• Ensure that data for managing disability leave is accurately captured through SAP time reporting</li> </ul>

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
			<ul style="list-style-type: none"> <li>• Provide online access to claims data and establish procedures for granting, monitoring, and removing access and safeguarding data</li> <li>• Streamline workers' compensation reporting process and improve accuracy/completeness of claim forms</li> <li>• Monitor and follow-up on third-party administrator's performance against key contract terms</li> <li>• Streamline third-party administrator's reporting processes</li> <li>• Clarify workers' compensation in City budget</li> <li>• Identify useful performance measures and establish procedures to ensure reliable reporting</li> </ul>
<p>Cable Franchise and Public, Education, and Government (PEG) Fees Issued 06/14/16</p>	<p>Due – 02/18 08/22/17</p>	<p>Recommendations: 9 Open: 7 Implemented during quarter: 0</p>	<ul style="list-style-type: none"> <li>• Assess ongoing need for PEG fees; place fees in restricted account until decisions are made about use of fees</li> <li>• Determine whether to allocate unrestricted funds, instead of PEG fees, to subsidize the Media Center's operations.</li> <li>• Send letters to cable companies to demand payment of underpaid franchise and PEG fees</li> <li>• Work with cable companies to ensure accuracy of address databases and assign separate billing codes for each Cable Joint Powers service area</li> <li>• Develop criteria for assessing the accuracy of future cable franchise and PEG fee payments and require more detail with payment remittances</li> <li>• Assign responsibility for the cable communications program and provide effective oversight of the program</li> <li>• Draft an ordinance to update the Palo Alto Municipal Code based on clarified assignment of responsibility</li> </ul>
<p>Community Services Department (CSD): Fee Schedule Audit Issued 02/14/17</p>	<p>Due – 05/18 11/14/17</p>	<p>Recommendations: 3 Open: 3 Implemented during quarter: 0</p>	<ul style="list-style-type: none"> <li>• Revise City's cost recovery policy to align with relevant laws and reconfigure the Questica budget system to support fees that recover more than 100 percent of costs</li> <li>• Establish procedures in CSD to align with the City's updated cost recovery policy</li> <li>• Configure SAP or the new ERP system to align cost centers with CSD programs</li> </ul>



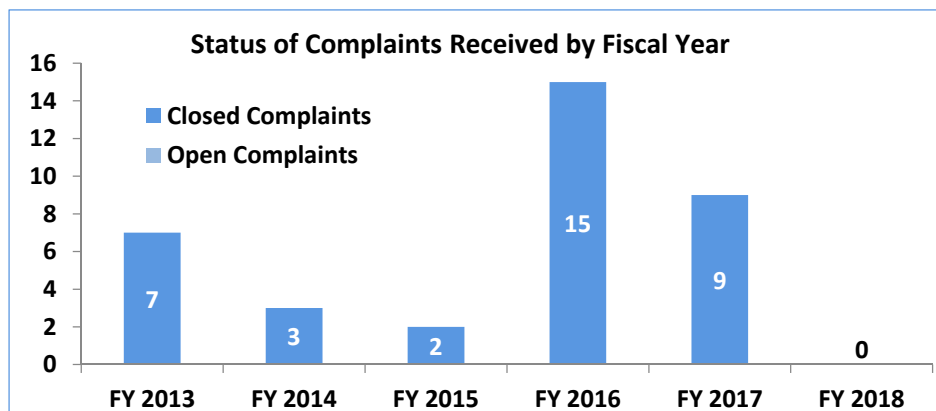
Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Continuous Monitoring: Payments Issued 04/13/17	Due – 02/18 None	Recommendations: 7 Open: 7 Implemented during quarter: 0	<ul style="list-style-type: none"> <li>• Build a continuous monitoring process into the new ERP system to identify potential duplicate invoices and seek recovery of duplicate payments</li> <li>• Update invoice processing policies and procedures to facilitate identification of duplicate payments</li> <li>• Review unconfirmed potential duplicate payments and prioritize recovery of confirmed duplicate payments</li> <li>• Update policies and procedures to clarify guidance for creation of vendor master records and develop standardized coding vendor records</li> <li>• Build a continuous monitoring process into the new ERP system to identify duplicate, incomplete, or unused vendor records</li> <li>• Develop a requirement for the proposed ERP system to support entry of multiple vendor addresses when needed</li> <li>• Clean vendor master file before merging data into new ERP system</li> </ul>
Green Purchasing Practices Issued 04/13/17	Due – 02/18 None	Recommendations: 8 Open: 8 Implemented during quarter: 0	<ul style="list-style-type: none"> <li>• Clearly define department(s) responsible for implementing green purchasing policies and determine if additional staffing and funding are needed to implement the policies</li> <li>• Align Municipal Code with green purchasing policies</li> <li>• Develop consolidated procedures to implement green purchasing policies</li> <li>• Educate City staff on green purchasing policies</li> <li>• Evaluate quality of 40 percent postconsumer fiber paper towels, monitor janitorial contractor's use of cleaning and paper products, and evaluate feasibility of including additional green products in janitorial contract</li> <li>• Evaluate if new e-procurement system or other technology solution can help with tracking and reporting green purchases and establish appropriate green purchasing performance measures</li> <li>• Require vendors to provide data on amounts of green products and services that City purchases from them</li> <li>• Develop and implement a process to formally document the assessment of battery-electric and plug-in hybrid vehicles</li> </ul>

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Utilities Department: Cross Bore Inspection Contract Issued 06/01/17	Due – 02/18 None	Recommendations: 4 Open: 4 Implemented during quarter: 0	<ul style="list-style-type: none"> <li>• Prioritize uninspected sewer pipelines for inspection and disclose potential inspection challenges in future contract solicitations</li> <li>• Identify and update missing data in laterals database</li> <li>• Incorporate relevant provisions from National Association of Sewer Service Companies’ contract template in future sewer inspection contracts</li> <li>• Identify gaps in staff expertise and develop a training and certification plan for field staff who will monitor field inspections</li> </ul>
Accuracy of Water Meter Billing Issued 08/16/17	Due – 05/18 None	Recommendations: 11 Open: 11 Implemented during quarter: 0	<ul style="list-style-type: none"> <li>• Correct billing errors identified</li> <li>• Investigate 123 other meter records with discrepancies and correct as necessary</li> <li>• Review and correct meter records for meters larger than 2 inches</li> <li>• Explore options for addressing equity in meter size rates</li> <li>• Until new ERP system is implemented, implement a temporary monitoring or reporting system to identify and correct discrepancies that may result in billing errors and ensure new ERP system has controls to prevent and identify such discrepancies</li> <li>• Develop a policy and procedures to report significant, systemic infrastructure changes to Council and update City of Palo Alto Utilities’ (CPAU) Rules and Regulations as needed</li> <li>• Seek direction from Council before proceeding with installing additional electronic meters</li> <li>• Determine if installed eMeters should be replaced and if billing adjustments are required</li> </ul>
Continuous Monitoring: Overtime Issued 09/06/17	Due – 05/18 None	Recommendations: 2 Open: 2 Implemented during quarter: 0	<ul style="list-style-type: none"> <li>• Explore potential of developing a continuous monitoring process for overtime</li> <li>• Form a work group to design standardized overtime management processes in the new ERP environment</li> </ul>



### 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 did not receive or close any hotline complaints during the second quarter of FY 2018, and no prior complaints remain open. 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 December 31, 2017

## HR ADVICE LINE OR FRAUD, WASTE AND ABUSE LINE



# Who You Gonna Call???

The City of Palo Alto now offers more ways than ever to get answers, make suggestions, nominate employees for recognition, or report perceived fraud, waste or abuse of City funds. It is important to know which line to call and in which situations. Below are some of the common reasons for calling either of these important lines.

Auditor's Fraud, Waste, and Abuse Hotline	Human Resources Advice Line
<ul style="list-style-type: none"> <li>✓ Misuse or mismanagement of our organization's resources</li> <li>✓ Knowledge of a City employee or contractor committing fraud</li> <li>✓ Theft of City property or time</li> <li>✓ Misuse of City equipment or vehicles</li> <li>✓ Giving or receiving of gifts for favorable or preferred treatment</li> </ul> <p>☎ 855-257-4112</p>	<ul style="list-style-type: none"> <li>✓ Questions about your Union contract</li> <li>✓ Questions regarding harassment, discrimination, or bullying</li> <li>✓ Job Descriptions related inquiries</li> <li>✓ Nominate a fellow City employee for special recognition</li> <li>✓ Suggest workplace improvement or make a general suggestions</li> </ul> <p>☎ 650-617-3547</p>



 CITY OF **PALO ALTO** Who You Gonna Call???

### Auditor's Fraud, Waste, and Abuse Hotline

- Misuse or mismanagement of our organization's resources
- Knowledge of a City employee or contractor committing fraud
- Theft of City property or time
- Misuse of City equipment or vehicles
- Giving or receiving of gifts for favorable or preferred treatment

 855-257-4112

 CITY OF **PALO ALTO** Who You Gonna Call???

### Human Resources Advice Line

- Questions about your Union contract
- Questions regarding harassment, discrimination, or bullying
- Job Descriptions related inquiries
- Nominate a fellow City employee for special recognition
- Suggest workplace improvements or make general suggestions

 650-617-3547