CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 26, 2018

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommends the City Council Accept the Auditor's Office Quarterly Report as of June 30, 2018

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of June 30, 2018. At its meeting on September 11, 2018, the Policy and Services Committee 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

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of June 30, 2018 (PDF)

Department Head: Harriet Richardson, City Auditor

Quarterly Report as of June 30, 2018

Office of the City Auditor

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

Fiscal Year (FY) 2018 Fourth Quarter Update (April – June 2018)

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

- Senior Performance Auditor Mimi Nguyen presented a brown bag session to Utilities staff on the annual performance report and key performance indicators.
- City Auditor Harriet Richardson was nominated for and received the David M. Walker award for Excellence in Government Performance and Accountability at the Biennial Intergovernmental Audit Forum in May 2018.
- City Auditor Harriet Richardson, at the request of the Government Accounting Standards Board (GASB), attended a GASB Board meeting to present the Association of Local Government's position on the GASB's invitation to comment on major issues related to revenue and expense recognition.
- City Auditor Harriet Richardson accepted an invitation and went to Keys School, along with other City staff, to discuss activities and responsibilities and respond to students' questions about how City government works.

Audit and Project Work

Below is a summary of our audit and project work for the fourth 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	06/18	Complete	This audit is complete and was presented at the June 2018 Policy and Services Committee meeting.
ERP Planning Audit: Data Reliability and Integrity – Data Standardization	This is the first in a series of audits that focus on evaluating the integrity and reliability of data in SAP and making recommendations to ensure that identified deficiencies are corrected prior to transferring data to the new ERP system. This audit focuses on identifying where standardizing data would be beneficial when implementing the new ERP system	05/17	08/18	In Process	This audit is in the report writing phase, and we expect to complete it in August 2018.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Code Enforcement Audit	Evaluate the timeliness and effectiveness of code enforcement actions, the effectiveness of communication with the public, and the accuracy and completeness of code enforcement case tracking for decision making purposes. We conducted a resident survey to help inform our audit recommendations, as described below.	05/17	08/18	In Process	The audit is in the report writing phase, and we expect to complete it in August 2018.
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	08/18	In Process	This audit is in the report writing phase, and we expect to complete it in August 2018.
ERP Planning Audit: Data Reliability and Integrity – Data Standardization-Human Resources/ Payroll Data	This is the second in a series of audits that focus on evaluating the integrity and reliability of data in SAP and making recommendations to ensure that identified deficiencies are corrected prior to transferring data to the new ERP system. This audit focuses on assessing the accuracy of employee master data, such as name, address, birthdate, and social security number.	09/17	08/18	In Process	This audit is in the report writing phase, and we expect to complete it in August 2018.
Business Registry	Evaluate the rules and processes used to establish the business registry and make recommendations to help clean up the data and ensure accuracy in the future.	02/18	08/18	In Process	This audit is in the report writing phase, and we expect to complete it in August 2018.
Mobile Device Inventory and Security	Determine if the City accurately inventories and securely manages city-owned mobile devices, including laptops, tablets, cell/smart phones, and radios.	03/18	10/18	In Process	This audit is in the planning phase. We expect to complete the audit in late 2018.
Transferable Development Rights	Determine if the City maintains an accurate and complete record of the transferable development rights (both City-owned and non-City-owned) that have been certified, transferred, and used to date.	06/18	02/19	In Process	This audit is in the planning phase. We expect to complete the audit in early 2019.
Nonprofit Organizations Audit	Evaluate whether nonprofit organizations that receive City funding are achieving the outcomes we expect from the funding we provide.	06/18	02/19	In Process	This audit is in the planning phase. We expect to complete the audit in early 2019.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Contract Oversight	Select a sample of contracts to evaluate the contract oversight process by determining if the City has adequate processes to ensure that the City receives the goods and services it paid for, that contracts did not result in unnecessary overlaps in services, and that contract extensions and change orders were appropriate.	06/18	02/19	In Process	This audit is in the planning phase. We expect to complete the audit in early 2019.
ERP Nonaudit Service	Provide advisory services to the Department of Information Technology regarding its planning of a new ERP system.	09/16	N/A	Ongoing	We attended 10 tactical team meetings during the fourth quarter of FY 2018 and provided verbal advice based on our technical expertise and best practice information readily available to us. Our interaction with the tactical team was limited because the team was focused on evaluating the responses received to the Request for Proposals for the new ERP system. Once the City has made a decision regarding how to move forward with a new ERP system, we will resume our involvement in this nonaudit service, with a focus on assisting the City with addressing the issues we identified during the ERP planning phase and prior audits.
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.	06/18	01/19	In Process	Surveyed City departments and Councilmembers to identify questions that could be eliminated to reduce the length of the survey and potentially increase the response rate. Coordinated the changes with the National Research Center to finalize the survey document. Survey is expected to be distributed to 4,500 residents, an increase of 1,500 residents over previous years, in early August 2018.

Other Monitoring and Administrative Assignments

Below is a summary of other assignments as of June 30, 2018:

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	1) Identify businesses that do business in Palo Alto that may have underreported or misallo- cated their sales and use tax and submit inquiries to the state for review and tax reallocation. 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. 3) Provide Quarterly Status Updates and Sales Tax Digest Summaries for Council review.	Ongoing	1) Total sales and use tax recoveries for the fourth quarter of FY 2018 were $56,810 from our inquiries and $100,333 from the vendor's inquiries, for a total of $157,143 for the quarter and $470,263 for the fiscal year-to-date. Due to processing delays at the State Board of Equalization, 36 potential misallocations are waiting to be researched and processed: 15 from our office and 21 from the vendor. 2) The City of Palo Alto received $784,802 as a result of the Stanford Medicine development project for calendar year 2017. The amount included $785,687 for calendar year 2017 and reduction of $885 for prior year adjustments. The City has received $3,681,743 for calendar years 2011 through 2017 as a result of the development agreement for this project. 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.

Status of Audit Recommendations

Fifty-three recommendations were open at the beginning of the fourth quarter of FY 2018, and six were closed. We added four recommendations during the quarter, which resulted in 51 recommendations open at the end of the quarter. Five status reports were presented during the quarter, and two are past due. Those two, plus four others will be scheduled for updates during the first quarter of FY 2019. Below is a summary of the open audit recommendations as of June 30, 2018:
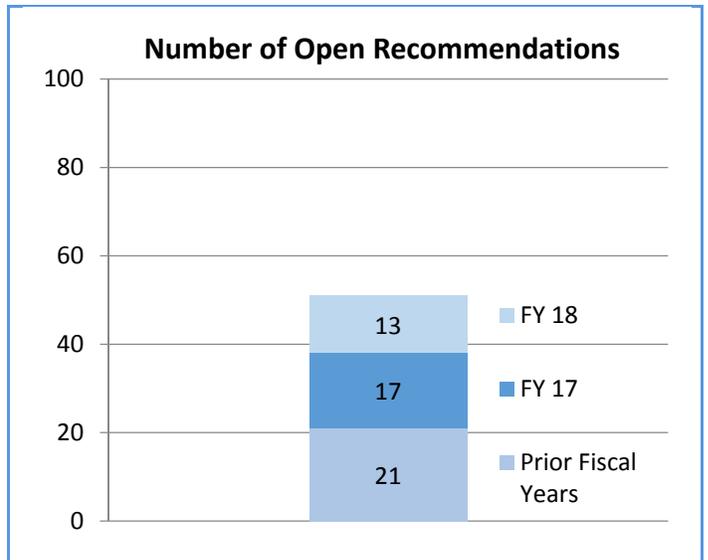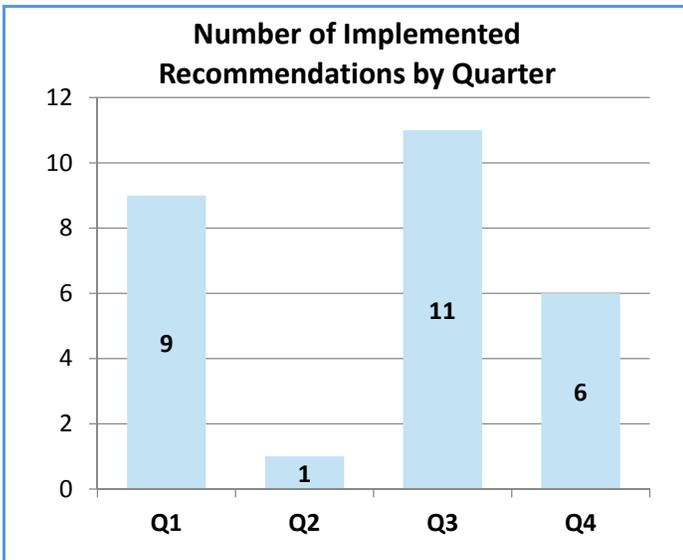
Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Citywide Cash Handling and Travel Expense Issued 09/15/10	Due – 09/18 03/21/18 08/22/17 11/10/15 09/23/14 09/10/13 10/22/12 04/19/11	Recommendations: 11 Open: 1 Implemented 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 (ASD)

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	Past Due 11/02/17 09/23/14	Recommendations: 14 Open: 4 Implemented during quarter: 0	• Implement City's inventory management policies and procedures (ASD/UTL/PWD/IT) • Update and enforce inventory count policies and procedures to ensure consistent and accurate inventory records (ASD) • Identify, formalize, and communicate inventory management goals and objectives to City departments (ASD) • Ensure staff identify and use key SAP inventory management reports and appropriately configure and update SAP parameters that affect inventory levels (ASD/IT)
Utility Meters: Procurement, Inventory, and Retirement Issued 03/10/15	Past Due 11/02/17	Recommendations: 15 Open: 1 Implemented during quarter: 0	• Correct purchase order documents to accurately reflect engineering specifications (ASD) NOTE: Two recommendations were closed because they were deemed to be no longer relevant.
Parking Funds Issued 12/15/15	Due – 12/18 06/21/18 11/14/17	Recommendations: 8 Open: 1 Implemented during quarter: 2	• Develop policies and procedures to clarify roles and responsibilities and ensure accurate calculation and reporting of parking-in-lieu fees (PCE, ASD, PWD, CLK)
Disability Rates and Workers' Compensation Issued 05/10/16	Due – 08/18 02/13/18	Recommendations: 15 Open: 8 Implemented during quarter: 0	• Update the safety manual/supplemental tools (HR) • Review departmental procedures and safety requirements to ensure they align with citywide policies and procedures (HR) • Identify and provide industry-specific ergonomics and general wellness training opportunities (HR) • Address the disability leave benefits incorrectly reported as compensation to CalPERS (HR) • Review claims that had differences in additional city benefits and correct any errors identified (HR) • 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 (HR) • Ensure that data for managing disability leave is accurately captured through SAP time reporting (HR) • Identify useful performance measures and establish procedures to ensure reliable reporting (HR)

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Cable Franchise and Public, Education, and Government (PEG) Fees Issued 06/14/16	Due – 09/18 03/21/18 08/22/17	Recommendations: 9 Open: 6 Implemented during quarter: 0	• Assess ongoing need for PEG fees; place fees in restricted account until decisions are made about use of fees (CMO/ATTY/ASD/IT) • Determine whether to allocate unrestricted funds, instead of PEG fees, to subsidize the Media Center's operations. (CMO/ATTY/ASD/IT) • Send letters to cable companies to demand payment of underpaid franchise and PEG fees (CMO/ATTY/ASD/IT) • Develop criteria for assessing the accuracy of future cable franchise and PEG fee payments and require more detail with payment remittances (ASD) • Assign responsibility for the cable communications program and provide effective oversight of the program (CMO/CLK) • Draft an ordinance to update the Palo Alto Municipal Code based on clarified assignment of responsibility (CMO/ASD/ATTY/CLK)
Community Services Department (CSD): Fee Schedule Audit Issued 02/14/17	Due – 12/18 06/21/18 11/14/17	Recommendations: 3 Open: 2 Implemented during quarter: 0	• 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 (ASD) • Configure SAP or the new ERP system to align cost centers with CSD programs (CSD)
Continuous Monitoring: Payments Issued 04/13/17	Due – 09/18 03/21/18	Recommendations: 7 Open: 5 Implemented during quarter: 0	• Build a continuous monitoring process into the new ERP system to identify potential duplicate invoices and seek recovery of duplicate payments (ASD) • Update invoice processing policies and procedures to facilitate identification of duplicate payments (ASD) • Update policies and procedures to clarify guidance for creation of vendor master records and develop standardized coding vendor records (ASD) • Build a continuous monitoring process into the new ERP system to identify duplicate, incomplete, or unused vendor records (ASD) • Clean vendor master file before merging data into new ERP system (ASD)

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Green Purchasing Practices Issued 04/13/17	Due – 12/18 06/21/18	Recommendations: 8 Open: 6 Implemented during quarter: 0	• Clearly define department(s) responsible for implementing green purchasing policies and determine if additional staffing and funding are needed to implement the policies (ASD/CMO) • Develop consolidated procedures to implement green purchasing policies (CMO/ASD/PWD) • Educate City staff on green purchasing policies (ASD) • Evaluate potential for use of 40 percent post-consumer fiber paper towels/other green janitorial products and monitor janitorial contractor's compliance with green purchasing requirements (PWD) • 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 (ASD/PWD) • Require vendors to provide data on amounts of green products and services that City purchases from them (ASD/PWD)
Utilities Department: Cross Bore Inspection Contract Issued 06/01/17	Due – 12/18 06/21/18	Recommendations: 4 Open: 4 Implemented during quarter: 0	• Prioritize uninspected sewer pipelines for inspection and disclose potential inspection challenges in future contract solicitations (UTL) • Identify and update missing data in laterals database (UTL) • Incorporate relevant provisions from National Association of Sewer Service Companies' contract template in future sewer inspection contracts (UTL) • Identify gaps in staff expertise and develop a training and certification plan for field staff who will monitor field inspections (UTL)
Accuracy of Water Meter Billing Issued 08/16/17	Due – 12/18 06/21/18	Recommendations: 11 Open: 7 Implemented during quarter: 4	• Review and correct meter records for meters larger than 2 inches (UTL) • Explore options for addressing equity in meter size rates (UTL) • 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 (UTL) • Seek direction from Council before proceeding with installing additional electronic meters (UTL) • Determine if installed eMeters should be replaced and if billing adjustments are required (UTL) • Clarify purchasing policy and procedures for product standardization and sole source (ASD) • Retrain staff on purchasing policies and procedures and completion of required forms (ASD)

Audit Title and Report Date	Due Date and Prior Status Report Dates	Total Recommendations/ Number Open	Summary of Open Recommendations
Continuous Monitoring: Overtime Issued 09/06/17	Due – 10/18 None	Recommendations: 2 Open: 2 Implemented during quarter: 0	• Explore potential of developing a continuous monitoring process for overtime (ASD) • Form a work group to design standardized overtime management processes in the new ERP environment (ASD)
Information Technology and Data Governance	Due – 2/19 None	Recommendations: 4 Open: 4 Implemented during quarter: 0	• Assign roles and responsibilities for IT governance to ensure that governance coveralls all key aspects of the City's information systems (IT) • Adopt an industry standard IT governance framework and create a plan to achieve a process capability model of "established" or higher (IT) • Assign roles and responsibilities for data governance to ensure that governance coveralls all key aspects of the City's information systems (IT) • Adopt an industry standard data governance framework and create a plan to achieve a process capability model of "established" or higher (IT)

Number of Implemented Recommendations by Quarter

Quarter	Value
Q1	9
Q2	1
Q3	11
Q4	6

Number of Open Recommendations

Category	Value
FY 18	13
FY 17	17
Prior Fiscal Years	21

Open Recommendations by Audit Issuance Date

Fiscal Year	Audit Title	Number of Open Recommendations
2011	Citywide Cash Handling and Travel Expense	1 of 11
2014	Inventory Management	4 of 14
2015	Utility Meters: Procurement, Inventory, and Retirement	1 of 15
2016	Parking Funds	1 of 8
	Cable Franchise and Public, Education, and Government (PEG) Fees	6 of 9
	Disability Rates and Workers' Compensation	8 of 15
2017	Community Services Department: Fee Schedule	2 of 3
	Continuous Monitoring: Payments	5 of 7
	Green Purchasing Practices	6 of 8
	Utilities Department: Cross Bore Inspection Contract	4 of 4
2018	Accuracy of Water Meter Billing	7 of 11
	Continuous Monitoring: Overtime	2 of 2
	Information Technology and Data Governance	4 of 4

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. No complaints were received during the fourth quarter of FY 2018. All prior-year complaints have been closed. The chart below summarizes the status of complaints received in each fiscal year since the hotline was implemented.

Status of Complaints Received by Fiscal Year

- Closed Complaints
- Open Complaints

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Closed Complaints	7	3	2	13	9	0