



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

# 22

The Honorable City Council  
Palo Alto, California

August 5, 2002

### City Auditor's 2002-03 Work Plan

#### Recommendation

The Auditor's Office recommends that the City Council review and approve the City Auditor's 2002-03 Work Plan.

#### Background

The mission of the City Auditor's Office is to promote honest, efficient, effective and fully accountable City government. To fulfill this mission, the Auditor's 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 Palo Alto Municipal Code requires the City Auditor to submit an annual plan to the City Council for review and approval. This report presents the City Auditor's Work Plan for 2002-03. The proposal incorporates input from the ad hoc audit committee, City Manager, City Attorney, other City Council Members, and staff.

#### Discussion of Assignments

The list of assignments for fiscal year 2002-03 includes a mix of audits and special projects that address a wide range of concerns and are consistent with the City Auditor's areas of responsibility. We tried to limit the number of audits to what we can realistically accomplish. We included assignments that support the City Council's Top 5 priorities of Long Term Financing, Infrastructure, and Land Use Planning.

Acknowledging that there is a natural tension between being the independent City Auditor and being a cooperative member of the City team, we have again this year included several projects that emphasize collaboration between the Auditor's Office and other City staff. These projects are designed to use the independent, analytical skills of the Auditor's Office to support staff initiatives without impairing the Auditor's organizational independence.

The work plan includes four assignments in process, five on-going assignments and responsibilities, and six new assignments (two of which are possible contracted services). We selected the six new assignments from a list of nearly 60 proposed audit topics. A brief description of the preliminary objectives of each assignment follows.

## ASSIGNMENTS IN PROCESS:

1. **Analysis of the Long Range Financial Plan** – The objective of our review is to provide an independent assessment of the feasibility and completeness of the plan. We have provided comments on the Fall-2001 plan to ASD staff, and will prepare an analysis of the Fall-2002 plan for the planned City Council Study Session in October 2002.
2. **Service Efforts and Accomplishments (SEA) Report** – The purpose of SEA reporting is to provide consistent, reliable information on the performance of City services that is viewed as credible and objective. We are developing a prototype for an annual report that summarizes workload and results information for the City's major public service areas, and provides benchmark comparisons to comparable jurisdictions.
3. **Performance Audit of Code Enforcement** – The objective of this audit is to assess the Code Enforcement Program's timeliness, responsiveness, and consistency of enforcement. This program was last audited in 1997.
4. **Controls Review of the Enterprise Resource Planning (ERP) System** – The implementation of the ERP over the next 18 months will have dramatic impacts on day-to-day City operations. The City Auditor has been asked to review proposed new work-flows and the accompanying new policies and procedures up-front, rather than after implementation is complete.

## ON-GOING ASSIGNMENTS AND RESPONSIBILITIES:

5. **Annual External Audit** – The City Charter requires that the City Council engage an independent certified public accounting firm to conduct an annual external audit. The City Auditor coordinates the annual external audit. Maze & Associates has conducted the audit for the past five years.
6. **Contracted Revenue Audit Services** – During 2001-02, the Office contracted with outside vendors to provide the following audit services:
  - *Sales Tax* – Sales tax represents about 20 percent or \$21 million of General Fund revenue. We are contracting with HdL Companies for quarterly sales tax audit and information services. Audits focus on verifying that Palo Alto is getting its appropriate share of sales tax allocations.
  - *Property Tax* – Property tax represents about 12 percent or \$13 million of General Fund revenue. We are contracting with HdL Property Tax Services for property tax auditing and information services. Audit services are designed to ensure that County assessment data for properties in Palo Alto is current and accurate.
  - *Documentary Transfer Tax* – The documentary transfer tax (approximately \$3 million annually) is a one-time tax that is levied when residential and commercial properties are sold. We are contracting with HdL Coren & Cone to test County data to ensure that transfer taxes are being properly applied and remitted timely.
  - *Transient Occupancy Taxes (TOT)* – Hotels collect and remit about \$7 million per year in TOT revenue to the General Fund. Tax Compliance Services has completed fieldwork on all 29 hotels, finding a high degree of compliance. Audit results will be available shortly.
  - *Utility Users Tax (UUT)* – UUT is calculated at 5 percent of electricity, gas, water, and

telephone service (generating about \$7million annually). We have contracted with Tax Compliance Services to audit telecommunications companies' UUT remittances.

7. **Streamlining Initiatives** – As time allows, the Auditor's Office makes itself available to (1) independently assess the cost/benefit of streamlining projects, and (2) provide advice on the adequacy of streamlined controls and procedures. Projects this year include:
  - Infrastructure Contract Streamlining Committee – The Office issued a report on contract processing times in April 2002. The City Auditor will provide advice to the Committee as needed regarding proposed changes to contracting procedures.
  - Reviewing the City's write-off policy for NSF (not sufficient funds) checks less than \$25 (carryover project from 2001-02).
8. **Reviews of Financial Procedures and Controls** – The Municipal Code outlines the City Auditor's role in reviewing the financial and accounting procedures of the City. As time allows, we will provide requested assistance in these areas and, where possible, help departments develop their own control self-assessment programs. Projects this year include:
  - Verifying that the Golf Pro's procedures for handling golf course receipts conform to City procedures (carryover project from 2001-02).
9. **Other Responsibilities:**
  - *Audit Recommendation Status* – The City Auditor issues an annual report on the status of recommendations from recently completed audits.
  - *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 this annual work plan.
  - *Executive Staff* – To facilitate communication and coordination of efforts, the City Auditor attends the City Manager's weekly executive staff meetings.
  - *Utility Risk Oversight Committee (ROC)* – As a consequence of our recent Assessment of Utility Risk Management Procedures (report issued July 2002), the City Auditor will act as an advisor to the ROC. This will facilitate implementation of the recommendations in our July 2002 report.

#### **NEW ASSIGNMENTS:**

10. **Performance Audit of the Planning Division** – The objective of this audit is to evaluate the efficiency and effectiveness of the Planning Division's handling of proposed development projects.
11. **Review of the Workers' Compensation Program** – The City has been self-insured for Workers' Compensation since 1979. The City paid about \$370,000 in claim costs in 2000-01, and had an estimated liability of about \$6.2 million for Workers' Compensation claims as of June 30, 2001. The estimated costs per \$100 of payroll have grown from \$1.70 in 1990-91 to \$3.35 in 2001-02. The purpose of this review is to identify additional opportunities to control claim costs in the face of rising medical costs.
12. **Audit of Contract Contingency Fees** – The objective of this audit is to evaluate the appropriateness of contingency fee levels, the approval process for using contingency fees, and

actual contingency fee usage.

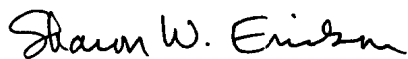
13. **Audit of Overtime Usage** – The purpose of this audit is to review actual overtime usage and identify opportunities to better control overtime expenditures. Citywide overtime expenditures in 2001-02 were nearly \$4.5 million. General Fund overtime expenditures of \$3.1 million were \$600,000 more than budget.
14. **Audit of Cable Franchise Customer Service Provisions** (contracted audit service to be funded by the JPA) – This audit would provide independent verification of customer service reporting to ensure compliance with provisions in the Municipal Code and franchise agreement standards.
15. **Customer Satisfaction Survey** – The service efforts and accomplishments report that we plan to issue this fall will summarize workload and results information for major City services, and provide benchmark comparisons to comparable jurisdictions. Customer satisfaction is another key measure of success. The purpose of the survey is to provide baseline information about customer satisfaction on core City services. In the future this information could be included in the service efforts report.

### **Next Steps**

Over the next several months, I will meet periodically with the ad hoc audit committee to ensure that audit progress is communicated to Council. The Council liaison to the Storm Drain Committee has asked that the City Auditor be on-call to respond to information requests if they arise. Additional requests for assistance, if any, will be referred through the ad hoc audit committee. As described above, I will also provide the City Council with a quarterly report describing the status and progress towards completing these assignments.

I would like to take this opportunity to thank the City Council's ad hoc audit committee, City Manager and his staff, and City Attorney for their advice and assistance in preparing this audit work plan. We look forward to a productive year.

Respectfully submitted,



Sharon W. Erickson  
City Auditor