



**CITY OF PALO ALTO
OFFICE OF THE CITY AUDITOR**

06

October 29, 2007

**The Honorable City Council
Palo Alto, California**

**Finance Committee Recommendation to Accept the Auditor's Office
Quarterly Report as of September 30, 2007**

At its meeting on October 16, 2007, the Finance Committee unanimously recommended to the City Council acceptance of the Auditor's Office Quarterly Report as of September 30, 2007. Minutes of the meeting are attached.

Respectfully submitted,

Sharon W. Erickson

Sharon W. Erickson
City Auditor

Attachments



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 16, 2007

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

Auditor's Office Quarterly Report as of September 30, 2007

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, 2007.

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, 2007.

We issued the following reports to the City Council since our last status report in July 2007:

- Informational report on Q1-2007 Palo Alto sales tax (Sep-2007)
- Audit of SAP payroll controls (July-2007)
- Annual audit recommendation status report (Oct-2007)
- Annual audit work plan (Oct-2007)

Also this quarter:

- The Auditor's Office provided comments about the financial statements and investor documents from an ultra-high speed broadband system proposer, 180 Connect.
- The City Auditor provided background on the functions of the City Auditor's Office to the Santa Clara County Civil Grand Jury.

Our revenue audits continue to yield benefits to the General Fund. The City has received \$18,118 during the fiscal year to date as a result of our in-house and contracted sales tax audits (our goal is \$235,000 in audit recoveries). This does not include audit findings that were assessed, but have not yet been collected.

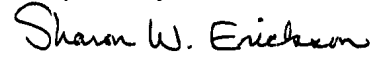
In addition to our on-going assignments, the following projects are in process (with target completion dates):

- Review of ethics policies (TBD)
- Annual service efforts and accomplishments report (Dec-2007)
- Infrastructure report card (TBD)
- Audit of vehicle maintenance and replacement (TBD)

- Audit of ambulance transport service billing and revenue collection (TBD)

Information on the status of each assigned project is attached (pages A-1 through A-4). 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:

- Status of Audit Projects as of September 30, 2007

Status of Audit Projects as of September 30, 2007

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 audit work plan and quarterly status reports – The Auditor’s Office submits quarterly reports to the City Council outlining project status and progress towards completing the assignments on this annual work plan.	On-going	The Finance Committee will consider the FY 2007-08 work plan and first quarterly report on October 16, 2007.	Next quarterly status report: Jan-2008.
2. Annual audit recommendation status report – The Municipal Code requires the City Auditor to issue an annual report on the implementation status of recommendations from recently completed audits. We also meet with the departments involved during the year to discuss progress towards implementing open audit recommendations.	On-going	The Finance Committee will consider the annual recommendation status report as of June 30, 2007 on October 16, 2007. The report summarizes the status of 91 recommendations including 5 completed, 70 partly implemented, and 16 not started.	
3. Meeting attendance – To facilitate internal communication and coordination of efforts, the City Auditor attends: <ul style="list-style-type: none"> a. <i>City Manager’s weekly executive staff meetings.</i> b. <i>Utility Risk Oversight and Coordinating Committee (UROCC)</i> – Since issuance of our <i>Assessment of Utility Risk Management Procedures</i> in Jul-2002, the City Auditor has acted as an advisor to the UROCC. c. <i>Refuse hauling contract request for proposals committee</i> – As recommended in our Audit of the Palo Alto Sanitation Company Contract, the City Auditor is acting as an advisor to the City Manager’s interdepartmental committee to assist in the request for proposal process. Target completion date: Jun-2008. 	On-going		
REVENUE AUDITS¹			
4. Sales tax allocation reviews (on-going) – Sales tax represents about 15 percent, or \$22 million, of projected General Fund revenue for 2007-08. We contract with MuniServices (MMC) for quarterly sales tax audit and information services, and we also conduct sales	On-going	MuniServices provides quarterly sales tax information reports including the reports summarizing Q1-2007 sales (distributed in Sep-2007).	Next quarterly sales tax information report: Dec-2007

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. In accordance with state law, confidential information about specific businesses is not included in these reports.

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
<p>tax audits in-house. The purpose of these audits is to identify misallocations of local sales tax. In addition, MuniServices prepares the quarterly sales tax information reports that are provided to the City Council as information items. The MuniServices contract expires in Mar-2008, and we will be conducting a request for proposals for sales tax audit and information services.</p>		<p>In the first quarter of FY 2007-08, the City received \$18,118 in sales tax recoveries related to misallocation of tax from 4 Palo Alto companies. This amount is the result of audits conducted earlier by MMC and the City Auditor's Office. In addition, potential misallocations from 35 companies are pending resolution by the State Board of Equalization.</p> <p>Sales tax recoveries year-to-date: \$18,118</p>	
<p>5. <NEW PROPOSED> Property tax allocation review – Property tax represents about 15% of General Fund revenues, or about \$22 million per year. Our review will assess the adequacy of controls to ensure that regular and supplemental property tax allocations are accurate.</p>	Not started		Target completion date: TBD
FINANCIAL AUDITS AND PROCEDURAL REVIEWS			
<p>6. 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. This is the second year of a three-year contract with Maze & Associates.</p>	In process	<p>In Mar-2007, Maze began interim audit work in preparation for the audit of the June 30, 2007 financial statements, and expects to complete fieldwork by September 20, 2007.</p>	Target completion date for issuance of audited financial statements: Dec-2007
<p>7. Review of ethics policies – The purpose of this project is to review procedures for ascertaining and handling potential conflicts of interest among city employees, and assess the need for an ethics policy.</p>	In process	<p>We are completing the fieldwork phase of this review – determining what policies are currently in place and where additions might be needed – and drafting the audit report.</p>	Target completion date: TBD
<p>8. <NEW PROPOSED> Controls review of SAP upgrade and Utilities module implementation – The implementation of SAP upgrades over the next 15 months will affect the City's business operations. As we did with the original SAP implementation, the Auditor's Office will monitor the implementation, review proposed new workflows, and provide advice on the adequacy of controls in the new system.</p>	Not started		Target completion date: TBD

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
PERFORMANCE AUDITS AND SPECIAL PROJECTS			
<p>9. Infrastructure report card – The purpose of this project is to assess the impact of increased capital spending on the City’s infrastructure, including utilities.</p>	In process	We are in the fieldwork phase of this project – reviewing available information about Palo Alto’s level of spending, and summarizing the condition and value of Palo Alto’s infrastructure assets.	Target completion date: TBD
<p>10. Service Efforts and Accomplishments (SEA) Report – This is the 6th 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).</p>	In process	Survey questionnaires are being mailed to 1200 randomly selected residents in Sept/Oct 2007.	Target completion date: Dec-2007
<p>11. Audit of vehicle replacement and maintenance fund – The purpose of this review is to evaluate economy, efficiency and effectiveness of fleet and equipment replacement and maintenance operations.</p>	In process	We are in the fieldwork phase of the audit.	Target completion date: TBD
<p>12. Audit of ambulance billing and revenue collection – The Palo Alto Fire Department responds to about 3,000 to 4,000 medical/rescue calls and transports from 2,000 to 3,000 individuals annually. The purpose of this review would be to assess the overall efficiency and cost effectiveness of ambulance billing and collections.</p>	In process	We are in the preliminary survey phase of the audit.	Target date: TBD
<p>13. Police community survey – The Auditor’s Office will conduct a second survey of drivers of vehicles that are stopped to determine how they feel they were treated during the stop, and a comparison survey of persons requesting service.</p>	Not started		Target date: TBD
<p>14. Wastewater Treatment Fund – The Regional Water Quality Control Plant provides services to Mountain View, Los Altos, Los Altos Hills, Stanford, and East Palo Alto. With proposed revenues of \$20 million, proposed expenditures of \$21 million, a \$45 million five-year capital plan, and 70 full-time equivalent employees, this is one of the areas consistently targeted by our annual citywide risk assessment model. The purpose of our audit is to review the cost-sharing agreements and allocation of charges to partner agencies.</p>	Not started		Target date: TBD.

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
15. <NEW PROPOSED> Audit of purchasing card transactions – The purpose of this audit is to determine the adequacy of controls over purchasing card transactions, and to assess compliance with existing guidelines and procedures.	Not started		Target date: TBD.

FINANCE COMMITTEE MINUTES

Regular Meeting
October 16, 2007

1.	Oral Communications.....	2
2.	Discussion of Council's Top 4 Priority "Sustainable Budget" (CMR:387:07).....	2
3.	Adoption of a Resolution to Authorize the City Manager to Purchase Electricity Capacity Products from Members of the Northern California Power Agency in an Amount Not to Exceed \$4 Million (CMR:381:07)....	2
4.	Report on the Status of Audit Recommendations	2
5.	City Auditor's Fiscal Year 2007-08 Work Plan	2
6.	Auditor's Office Quarterly Report as of September 30, 2007	3
7.	Discussion for Future Meeting Schedules and Agendas	3
	ADJOURNMENT.....	3

Chairperson Morton called the meeting to order at 7:03 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Beecham, Klein, Morton (chair), Mossar

Absent: None

1. Oral Communications

None.

2. Discussion of Council's Top 4 Priority "Sustainable Budget" (CMR:387:07)

MOTION: Council Member Morton moved, seconded by Beecham, that the Finance Committee recommend to the City Council the Sustainable and Long Term Budget return as a Study Session in Early 2008.

MOTION PASSED 4-0.

3. Adoption of a Resolution to Authorize the City Manager to Purchase Electricity Capacity Products from Members of the Northern California Power Agency in an Amount Not to Exceed \$4 Million (CMR:381:07)

MOTION: Council Member Mossar moved, seconded by Morton, that the Finance Committee recommends the City Council adopt a Resolution to authorize the City Manager to purchase electricity capacity products from members of the Northern California Power Agency (NCPA) to meet the CAISO tariff requirements in an amount not to exceed \$4 million annually.

MOTION PASSED 4-0.

4. Report on the Status of Audit Recommendations

MOTION: Council Member Beecham moved, seconded by Mossar to continue audit report to the December 5, 2007 meeting and request the City Manager's office to attend for explanation.

MOTION PASSED 4-0.

5. City Auditor's Fiscal Year 2007-08 Work Plan

MOTION: Council Member Mossar moved, seconded by Beecham, that the Finance Committee recommend to the City Council approval of the City Auditor's Fiscal Year 2007-08 Work Plan.

MOTION PASSED 4-0.

6. Auditor's Office Quarterly Report as of September 30, 2007

MOTION: Council Member Mossar moved, seconded by Morton, that the Finance Committee recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of September 30, 2007.

MOTION PASSED 4-0.

7. Discussion for Future Meeting Schedules and Agendas

December 5, 2007
December 11, 2007

ADJOURNMENT: The meeting adjourned at 9:10 p.m.