



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 20, 2014

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the City Auditor's Office Fiscal Year 2015 Proposed Work Plan

At its meeting on September 9, 2014, the Policy and Services Committee unanimously recommended the City Council accept the City Auditor's Office Fiscal Year 2015 Proposed Work Plan. The Auditor's Office will be issuing quarterly reports describing the status and progress of the work plan. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: City Auditor's Office Fiscal Year 2015 Proposed Work Plan (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (September 9, 2014) (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

September 9, 2014

The Honorable City Council
Attention: Policy & Services Committee
Palo Alto, California

City Auditor's Office Fiscal Year 2015 Proposed Work Plan

Recommendation

The Office of the City Auditor recommends that the Policy and Services Committee review and recommend to the City Council approval of the Fiscal Year (FY) 2015 Proposed Audit Work Plan.

Background

The mission of the Office of the City Auditor is to promote honest, efficient, effective and fully accountable City government. To fulfill this mission, the Office of the City Auditor conducts performance audits of City departments, programs, and services. The purpose of these audits is to provide the City Council, City management, the residents of Palo Alto, and other stakeholders with independent and objective analysis as to whether management is using its financial, physical, and informational resources effectively, efficiently, and economically, and in compliance with laws, regulations, contract and grant requirements, and City policies and procedures.

The Palo Alto Municipal Code requires the City Auditor to submit an annual work plan to the City Council for review and approval. The proposed FY 15 audit work plan is based upon Council priorities, risk, and the City Auditor's professional judgment. The attached report presents the proposed audit work plan for FY 2015.

Next Steps

As audit work proceeds, we will issue quarterly reports summarizing the status and progress of each of the approved assignments. The quarterly reports will be issued to the City Council and discussed with the Policy and Services Committee as defined in the Palo Alto Municipal Code.

Respectfully submitted,

Harriet Richardson, CPA, CIA, CGAP, CRMA
City Auditor

ATTACHMENTS:

- Attachment A: Fiscal Year 2015 Proposed Audit Work Plan (PDF)

Department Head: Harriet Richardson, City Auditor



Fiscal Year 2015 Audit Work Plan



Office of the City Auditor

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

Overview

The Palo Alto Municipal Code requires the City Auditor to submit an annual audit work plan to the City Council for approval. This proposed audit work plan represents ongoing administrative responsibilities of the Office of the City Auditor, as well as required audit responsibilities. It estimates approximately 8,100 hours of direct time¹ for 5.5 staff. It accounts for one performance auditor returning to half-time effective July 1, 2014, after a temporary increase to 75 percent time in FY 2014; plans for increasing the use of the administrative assistant to assist on audits; and plans for increased efficiencies in conducting performance audits.

The proposed audit work plan considers several factors:

- Council Priorities – Does the audit have the potential to address one or more Council priorities as stated in the Council’s 2014 Work Plan?
- Relevance – Does the audit have the potential to affect Council or City management decision-making or impact City residents?
- Best Practices – Does the audit provide the opportunity to compare current performance to best practices?
- Return on Investment – Does the audit have the potential for cost savings, cost avoidance, or revenue generation?
- Improvement – Does the audit have the potential to result in meaningful improvement in how the City does its business?
- Actionable – Is it likely that the audit will produce actionable recommendations that are feasible and practical?
- Manageable – Is the audit scope narrow enough in scope to ensure it is completed in a timely manner?

In addition, the proposed audit work plan considers risk factors that, if addressed, will provide opportunities for mitigation of those risks and improved operations:

- Customer Service – Are City services delivered in the most efficient, effective, economical, and equitable manner possible?
- Financial – Is there an opportunity to improve how the City manages, invests, spends, and accounts for its financial resources?
- Health and Safety – Are City services delivered in a manner that protects our residents and employees from injury or unnecessary exposure to factors that can affect an individual’s health?
- Information Security – Is City, resident, and employee information (electronic or physical) protected against unauthorized access, use, disclosure, disruption, modification, inspection, recording, or destruction?
- Operational – Are City programs and activities performed in the most efficient, effective, and economical manner possible?

The audit work plan also considers numerous risk areas related to the major functions within the Utilities Department. Based on a 2011 Utilities Risk Assessment and a 2013 Utilities Organizational Assessment, conducted by external consultants, some of the most significant risks are identified and included in the planned audits.

¹ The estimated hours consider available time after accounting for holidays, vacation, required training, and administrative time.

Special and Ongoing Projects

The following table lists special and ongoing projects for the FY 2015 audit work plan:

Project	Scope	FY 2015 Planned Hours
National Citizen Survey	Annual. The Office of the City Auditor contracts with the National Research Center (NRC) to conduct The National Citizen Survey™. The survey contains a series of standardized questions that the NRC uses to benchmark Palo Alto residents' opinions of City services against other jurisdictions. We will conduct additional analysis on the results of this year's survey to try to determine what demographics, if any, affect how residents respond to individual questions.	200
Annual Citizen Centric Report	Annual. The Office of the City Auditor prepares an annual four-page summary of highlights from the annual Performance Report, financial data, and an overview of our City's economic outlook. The Citizen Centric Report follows the Association of Government Accountants' recommended report format, which is designed to be visually appealing and to provide understandable information to the public about the financial condition and performance of our local government.	40
Sales Tax Allocation Reviews	Ongoing. Identify misallocations of local sales and use tax through in-house monitoring and a contract with an outside vendor (currently MuniServices, LLC). We also look for opportunities for direct allocation of sales and use tax on large commercial construction projects. The Office of the City Auditor reports sales and use tax recoveries in quarterly reports to Council, and also provides a quarterly sales and use tax information report which includes information from MuniServices, LLC.	400
Administration of the Fraud, Waste, and Abuse Hotline	Ongoing. The Office of the City Auditor receives notification of complaints filed through the hotline, replies to the complainant, routes and monitors cases for investigation, and convenes the Hotline Review Committee (City Manager, City Attorney, and City Auditor) to determine the routing of cases and their closing upon completion of an investigation.	75
Annual External Financial Audit	Annual. The Palo Alto Municipal Code requires the Office of the City Auditor to contract with an independent certified public accounting firm (currently Macias, Gini, & O'Connell, LLP) to conduct the annual external audit of the City's financial statements. The firm also conducts the federally required Single Audit.	60
Review and Monitor Implementation Status of Prior Audit Recommendations	Ongoing. Review and provide feedback to departments on their reports of the implementation status of prior audit recommendations. Include a summary of the status in the Office of the City Auditor Quarterly Reports.	160
Office of the City Auditor Quarterly Reports	Quarterly. In accordance with the Palo Alto Municipal Code, the City Auditor prepares and issues quarterly reports to the City Council describing the status and progress toward completion of the Office of the City Auditor's annual work plan.	60
Advisory Roles	Ongoing. The City Auditor is a nonvoting, advisory member of the Utilities Risk Oversight Committee, the Library Bond Oversight Committee, the Information Technology Governance Review Board, and the Information Security Steering Committee.	20
Update Audit Policies and Procedures Manual	One-time. The City Auditor will update the Office of the City Auditor's Audit Policies and Procedures Manual to reflect changes in the 2011 revision of the <i>Government Auditing Standards</i> issued by the Comptroller General of the United States. The updates will also add and revise procedures to improve the office's consistency and efficiency in conducting audits.	80

Project	Scope	FY 2015 Planned Hours
Update Section 2.08.130 of the Palo Alto Municipal Code, Office and Duties of the City Auditor	One-time. The City Auditor will update Section 2.08.130 of the Palo Alto Municipal Code to reflect changes in the <i>Government Auditing Standards</i> in 2002, 2003, 2007, and 2011; current auditing practices; and changes requested by the Policy and Services Committee.	40
Internal Control Training	One-time. Coordinate with the Department of Administrative Services to conduct internal control training, with a focus on the recently revised publications, " <i>Standards for Internal Control in the Federal Government</i> " and " <i>Internal Control: Integrated Framework</i> ." Changes in federal grant requirements now require recipients and sub-recipients of federal grant dollars to comply with both sets of requirements.	20
Triennial External Peer Review	Every Three Years. The <i>Government Auditing Standards</i> require the Office of the City Auditor to obtain an external peer review every three years to evaluate its quality control and compliance with the <i>Government Auditing Standards</i> . This project includes preparation of the required documentation for the peer review and coordination with the peer review team. The peer review is scheduled for November 3 through 7, 2014. It also anticipates that the Office of the City Auditor will participate in two peer reviews of other jurisdictions to meet our reciprocity requirements.	200
Total Hours for Special and Ongoing Projects		1,355

Performance Audits

The following table lists the audits proposed for the FY 2015 audit work plan:

Audit	Department	Council Priority Area(s) for 2014	Risk Areas	Preliminary Scope ²	FY 2015 Planned Hours ²
Annual Performance Report (Service Efforts and Accomplishments)	Citywide	Finance, Infrastructure, Technology, Transportation	N/A	Annual. The Office of the City Auditor prepares the annual performance report to provide the City Council, City staff, Palo Alto residents, and other stakeholders with relevant information and data regarding the performance of City programs, functions, and activities.	1,200
Parking Funds	Planning and Community Environment Department and Administrative Services Department	Finance, Transportation	Customer Service, Financial	In progress. Determine if the City's parking funds are properly collected, accounted for, and used in compliance with applicable laws, regulations, policies, and governing documents. The audit will focus on the University Avenue and California Avenue Parking Permit Funds, the Residential Parking Permit Fund, and the Parking In-Lieu Fund.	500
Utility Meters: Procurement, Inventory, and Retirement	Utilities Department	Infrastructure	Financial, Information Security, Operational	In progress. Determine if proper procedures were followed to procure, manage, and retire utility meters. This audit resulted from issues identified in the prior citywide inventory management audit.	500

² The preliminary scope and planned hours may change after completing the planning phase of the audit.

Audit	Department	Council Priority Area(s) for 2014	Risk Areas	Preliminary Scope ²	FY 2015 Planned Hours ²
Cable Franchise Fees	Information Technology Department and Administrative Services Department	Finance	Financial, Information Security, Operational	In progress. Determine if the cable franchisees have accurately calculated and remitted franchise fees in accordance with the Palo Alto Municipal Code and whether the City has adequate controls to discharge its responsibilities to administer and enforce state franchises. This audit is being conducted with the assistance of a consultant.	400
Utilities Customer Service – Rate and Billing Accuracy	Utilities Department	Finance, Technology	Customer Service, Financial, Information Security, Operational	Carryover from FY 2014. Evaluate whether the Utilities Department properly implements rates and accurately bills customers.	700
Public Benefits	Planning and Community Environment Department	Land Use, Infrastructure, Finance	Financial, Operational	From the FY 2014 Work Plan, Audit Horizon. Evaluate whether benefits and funds are properly accounted for; if funds are used in accordance with relevant regulations, policies, and governing documents; and if the use of funds generated the anticipated benefits.	600
Disability Rates and Workers' Compensation	People, Strategies, and Operations Department	Finance, Technology	Financial, Health and Safety	From the FY 2014 Work Plan, Audit Horizon. Assess the effectiveness of activities to manage and minimize disability retirements and workers' compensation claims. Review of processes to ensure employee safety, tracking and reporting activities, contract administration, and efficiency of claim processing.	600
Procurement Processes	Administrative Services Department	Finance, Technology	Customer Service, Financial, Information Security, Operational	From the FY 2014 Work Plan, Audit Horizon; requested by the City Manager. Assess the efficiency and effectiveness of the procurement process. Audit will focus on efficiency, consistency in application of processes, compliance with City regulations and policies, and use of best practices.	700
Animal Services	Police Department	Finance, Technology	Customer Service, Financial, Information Security, Operational	New in FY 2015. Evaluate and compare with best practices the efficiency and effectiveness of services provided, including whether Animal Services receives all revenue to which it is entitled (e.g., license and other fees, fines, and permits), and whether improvements can be made in operations to allow the program to break even with the cost of services provided.	400
Fee Schedules	Citywide	Finance	Customer Service, Financial, Operational	New in FY 2015. Evaluate City processes for establishing fees to determine if the fees cover the cost of services provided when that is expected and best practices for efficient and effective service delivery. The specific fees to be reviewed will be narrowed down during the planning phase of the audit.	750

Audit	Department	Council Priority Area(s) for 2014	Risk Areas	Preliminary Scope ²	FY 2015 Planned Hours ²
Meter Routes	Utilities Department	Finance, Technology	Financial, Information Security, Operational	New in FY 2015. Evaluate the process for establishing routes and assigning them to meter readers to determine if the process optimizes available resources and uses them efficiently.	400

Total Hours for Performance Audits 6,750

An audit of software and license management was listed on the revised Fiscal Year 2014 audit work plan but is not carried forward to Fiscal Year 2015 because the Information Technology Department is working on a project to ensure the City is in compliance with all licensing agreements.

On the Horizon

The following list of audits topics are expected to be on the Fiscal Year 2016 or Fiscal Year 2017 audit work plans or to be moved into Fiscal Year 2015 if circumstances warrant eliminating an approved audit on the Fiscal Year 2015 audit work plan:

Audit	Department	Council Priority Area(s) for 2014 ³	Risk Areas	Preliminary Scope ⁴	Planned Hours ³
Sustainable Purchasing Practices	Citywide	Environment	Health and Safety	Assess the City's purchasing practices to determine if environmental sustainability is adequately considered in all purchases as appropriate.	400
Impact Fees	Planning and Community Environment Department and Development Services Department	Land Use & Transportation	Customer Service, Financial, Operational	Evaluate the processes for determining the amount of each type of fee and who should be assessed the fee. Evaluate the processes for assessing and collecting established impact fees to determine if they are collected as required, are assessed fairly among those required to pay, and if they achieve the intended benefits.	700
Payroll Processes	Administrative Services Department	Finance	Customer Service, Financial, Information Security, Operational	Evaluate the effectiveness of payroll processes to ensure that payroll calculations and deductions are accurate and in compliance with federal and state laws and relevant labor agreements, and that appropriate security controls are in place to prevent unauthorized access to the payroll system and employee data.	800
Information Technology (IT) Vendor Management	Information Technology Department	Technology	Customer Service, Financial, Information Security, Operational	Evaluate controls over contract management for critical IT vendors to ensure vendors are completing contracted services on time and within budget in accordance with contract requirements, that the contracts are needed or still necessary given the advances in technology, and that awarded contracts do not result in unnecessary overlaps in services.	600

³ Topics may change depending on Council priorities set for 2015.

⁴ The preliminary scope and planned hours may change after completing the planning phase of the audit.

Audit	Department	Council Priority Area(s) for 2014 ³	Risk Areas	Preliminary Scope ⁴	Planned Hours ³
Mobile Device Utilization and Security	Information Technology Department	Technology	Information Security, Operational	Identify the existence and effectiveness of security controls over selected mobile devices used to access City data, and to assess the adequacy of the City's mobile computing security policies and procedures, governance, and the City's risk assessments of these devices.	400
Application Controls for Critical City Applications	Information Technology Department	Technology	Information Security, Operational	Evaluate the effectiveness of controls in critical applications relative to authorization, data integrity, data availability, data privacy, and segregation of duties.	500
Utilities Asset Management	Utilities Department	Infrastructure, Technology	Financial, Information Security, Operational	Evaluate the effectiveness of the Utilities Department's asset management practices, including whether the department effectively implements best practices in infrastructure asset management and whether its practices allow efficient identification of the location and condition of its physical assets.	700
Allocated Charges	Administrative Services Department	Finance	Customer Service, Financial, Information Security, Operational	Evaluate the accuracy and use of allocated charges within the budgeting process to ensure charges are allocated equitably based on the benefit each department receives for centralized City services.	700
Utilities Staffing	Utilities Department	Finance	Customer Service, Financial, Operational	Assess the effectiveness of staffing decisions as they relate to specific projects and ongoing work to determine if work can be performed more efficiently and effectively with different staffing levels. Assessment will include an evaluation of the ratio of supervisors and managers to staff.	800
Data Reliability	Citywide	Technology	Finance, Information Security, Operational	Assess data obtained from critical systems to ensure it is complete, accurate, and relevant to the Council's and management's decision-making processes.	800
Total Hours for Future Performance Audits					6,400
Project	Scope			Planned Hours	
Performance Measurement and Management Training (Nonaudit Service)	Provide training to key staff on developing performance goals that are specific, measurable, achievable, relevant, and time-bound; evaluate the results; and use the results to improve policies, programs, and outcomes.			80	
Total Hours for Future Performance Audits/Nonaudit Services					80



POLICY AND SERVICES COMMITTEE DRAFT MINUTES

Regular Meeting
Tuesday, September 9, 2014

Chairperson Price called the meeting to order at 6:02 P.M. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Klein, Price (Chair), Scharff, Schmid

Absent:

ORAL COMMUNICATIONS

None.

AGENDA ITEMS

4. City Auditor's Office Fiscal Year 2015 Proposed Work Plan.

Harriet Richardson, City Auditor, proposed audits that would comply with the City Auditor's Mission Statement. The prior City Auditor compiled a list of approximately 150 topics for her review. She talked with Council Members to obtain their views on important topics. She based the work plan on that information, Council Priorities, and general risk areas. The work plan would require approximately 8,100 hours for 5 1/2 Staff to perform direct audit work. The administrative assistant would be assisting with audit work as he had the ability and capacity. She wanted to ensure audits would affect Council or City Manager decision making or would impact City residents. She wanted to ensure the City had the opportunity to compare its performance with other cities and industry best practices. She considered return on investment, cost savings, cost avoidance, and revenue generation in selecting audits. She wished to ensure audits produced actionable recommendations that were feasible and practical and could be completed timely. Audits could mitigate risk factors and result in improved operations. She reviewed a 2011 Utilities risk assessment and a 2013 Utilities organization assessment in order to propose an audit for the Utilities Department. The Staff Report contained a listing of routine work performed by the City Auditor's Office. One-time tasks included an update of the

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Policies and Procedures Manual, an update of the Municipal Code, internal control training, and an external peer review.

Council Member Schmid calculated 70 percent of Staff time would be spent for audit work, 10 percent for holidays and vacations, and 20 percent for training and administrative time. That did not fit with goals of effective and efficient work.

Ms. Richardson estimated 70 percent of the administrative assistant's time would be spent on audit work, which was included in total hours. Total hours did not include time for all professional training requirements and reciprocal peer review requirements.

Council Member Schmid noted the work plan proposed 11 audits; whereas, the Council usually received four audit reports each year. He assumed more audits could be accomplished because audits would require fewer hours than in previous years.

Ms. Richardson advised that several audits were currently in progress.

Council Member Schmid inquired about the number of audits that could be completed in Fiscal Year 2015.

Ms. Richardson reported audits of parking funds, utility meters, cable franchise fees, and the Annual Performance Report should be delivered by the end of the calendar year. She anticipated at least three more audits being completed before the end of the fiscal year and two or three additional audits beginning before the end of the fiscal year.

Council Member Schmid reiterated that six audits should be completed by the end of the fiscal year. The audit of sales tax allocation consumed 400 man hours at a cost of approximately \$30,000. He asked if the annual return from that could be between \$20,000 and \$40,000.

Ms. Richardson indicated the amount recovered in Fiscal Year 2014 totaled approximately \$169,000.

Council Member Schmid inquired whether the return on investment for audit of sales tax allocations was worthwhile.

Ms. Richardson answered yes. In addition, Muni Services contracted with the City for recovery of sales tax allocations and received a percentage of the amount of funds it recovered.

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Council Member Schmid requested the amount of funds Muni Services recovered.

Ms. Richardson replied approximately a third of the \$169,000.

Council Member Schmid supported audits of public benefits and impact fees, use of Council Priorities, and goals of return on investment and actionable recommendations. Associating audits with issues under Council discussion was important.

Council Member Klein was comfortable with the plan. He suggested audits of accounts payable and software contracts.

Ms. Richardson reported several Council Members and the City Manager requested an audit of procurement processes. An audit of payroll processes could be done the following year along with accounts payable. She was trying to balance out the audits and not overload one department. There were more concerns regarding payroll. Software contracts could be covered in an audit of information technology vendor management.

Council Member Klein wished to determine not only whether software contracts overlapped but also whether discrete contracts were needed.

Chair Price added whether contracts were duplicative.

Council Member Klein wanted to know if the number of contracts were necessary given the advances in technology.

Council Member Scharff want to understand why the City Auditor considered Council Priorities in proposing a work plan and how Priorities pertained to audits.

Council Member Klein agreed with Council Member Scharff's comments.

Council Member Schmid disagreed.

Chair Price remarked that Priorities had some structural relationship to audits, but did not hamper or affect the work plan.

Ms. Richardson did not omit an audit because it was outside Priorities. She considered audits in relation to high level categories of Priorities. Priorities provided some structure for the direction of audits.

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Council Member Scharff clarified that Priorities had no effect on the audits proposed in the work plan.

Ms. Richardson concurred.

Council Member Scharff asked if the City Auditor weighted one audit over another because it met a Priority.

Ms. Richardson responded no.

Council Member Scharff felt consideration of the Priorities in selecting audits provided the community with a false message and was not good government. He inquired about the review period of the audit of parking funds.

Ms. Richardson reported the audit would review records for the previous five years.

Council Member Scharff reported in 2012 the Parking In-Lieu Fund contained \$75,000. The Fund currently contained almost \$5 million. He questioned whether Staff had not been correctly collecting those fees prior to 2012 or if there was another issue.

Ms. Richardson advised that there were no projects to generate fees for the Parking In-Lieu Fund. She asked if the Policy and Services Committee (Committee) wished to move any audits from the horizon to the work plan.

Chair Price asked if Staff had the capacity to add audits to the work plan.

Ms. Richardson would substitute audits rather than add audits. The Annual Performance Report required a significant number of work hours, and she was not completely clear how it was used. The results of the National Citizen Survey were used extensively, and she planned to perform more analysis of data from that survey.

Council Member Scharff was most interested in the Utilities staffing audit.

Chair Price inquired whether the Annual Performance Report could yield information similar to the Service Efforts and Accomplishments (SEA) report while reducing the number of hours required to obtain that information.

Ms. Richardson suggested Staff include a disclaimer that they did not verify every number but were relying on information from Departments. That could significantly reduce the number of hours.

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Chair Price did not believe the Committee could direct Staff to do that, but it could recommend the Council authorize a reduced effort.

Ms. Richardson explained that the majority of Staff time was spent checking data and removing extra information from graphics.

Chair Price felt prior reports were too busy and contained too much information.

Ms. Richardson advised that Staff could eliminate some graphics without reducing information and combine graphics to tell a story.

Council Member Scharff concurred. Collection of the information should be standardized.

Ms. Richardson had consulted with Mr. Rossmann regarding aligning information collected for budget purposes with information collected for performance measures. Audit Staff could review processes for collecting information.

Council Member Schmid commented that the SEA report was unique in that it was cumulative and provided a ten-year perspective. Data was associated with performance measures. The Council should utilize performance measures effectively.

Ms. Richardson would like to see Departments provide their goals along with performance numbers.

Council Member Schmid agreed.

Chair Price inquired whether assisting Departments was within the City Auditor's technical advisory role.

Ms. Richardson could do that work. The reasons for Departments not meeting their goals could lead to an audit.

Chair Price asked if that topic could be included in the work plan.

Ms. Richardson recommended it be included as training on performance measurement and management. She would add that to the horizon for the following year.

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MOTION: Council Member Klein moved, seconded by Chair Price that the Policy and Services Committee recommend the City Council approve the Fiscal Year 2015 Proposed Audit Work Plan and add to the IT Vendor Management audit “and are they needed/still necessary given advances in technology.”

MOTION PASSED: 4-0

FUTURE MEETINGS AND AGENDAS

September 23, October 14 and 21, 2014.

ADJOURNMENT: Meeting adjourned at 9:18 P.M.