



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 17, 2016

The Honorable City Council  
Palo Alto, California

### **Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of June 30, 2016**

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of June 30, 2016. At its meeting on August 16, 2016, the Policy and Services Committee approved and unanimously recommended the City Council accept the report. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Harriet Richardson  
City Auditor

#### **ATTACHMENTS:**

- Attachment A: Auditor's Office Quarterly Report as of June 30, 2016 (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (August 16, 2016) (PDF)

Department Head: Harriet Richardson, City Auditor





# CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 16, 2016

The Honorable City Council  
Palo Alto, California

## Auditor's Office Quarterly Report as of June 30, 2016

### RECOMMENDATION

The City Auditor's Office recommends the Policy and Services Committee review and recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of June 30, 2016.

### SUMMARY OF RESULTS

In accordance with the Municipal Code, the City Auditor prepares an annual work plan 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 fourth quarter for FY 2016.

Respectfully submitted,

A handwritten signature in black ink that reads "Harriet Richardson".

Harriet Richardson  
City Auditor

### ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of June 30, 2016 (PDF)

Department Head: Harriet Richardson, City Auditor





CITY OF  
**PALO  
ALTO**

## Quarterly Report as of June 30, 2016



### Office of the City Auditor

“Promoting honest, efficient, effective, economical, and fully  
Accountable and transparent city government.”

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.

Highlights of Activities During the Quarter

- Published and presented the performance audit on Cable Franchise and Public, Education, and Government (PEG) Fees.
- Published and presented the performance audit on Disability Rates and Workers’ Compensation.
- Harriet Richardson, Mimi Nguyen, and Lisa Wehara each gave presentations at the annual conference of the Association of Local Government Auditors (ALGA) in May:
  - Harriet gave a joint presentation with an auditor from Portland, OR, that discussed how each of our offices conducts its annual citizen survey; Harriet also discussed our approach to using a citizen survey for the Animal Services audit that we completed in April 2015.
  - Mimi’s presentation demonstrated how our office has implemented SharePoint as a means of documenting our audit work. Several other audit offices are replicating what we have done as an economical and efficient way to document their work.
  - Lisa’s presentation provided an overview of the Animal Services audit in a session devoted to the Knighton Award winners in the small, medium, and large audit office categories.
- Harriet participated in an all-day session at the U.S. Government Accountability Office (GAO) and subsequent task force conference calls to discuss proposed changes to the Government Auditing Standards and the GAO requested her input on a proposed tool that it developed for auditors to use to assess internal controls in performance audits.

Below is a summary of our audit and project work for the fourth quarter of FY 2016:

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Cable Franchise and PEG Fees Audit	Determine if 1) the City accurately accounted for its receipt of franchise and public, education, and government (PEG) fees and met its oversight responsibilities regarding the Media Center’s use of the PEG fees, 2) AT&T and Comcast collected and remitted the appropriate amount of franchise and PEG fees, and 3) the City established and sufficiently defined roles and responsibilities to administer its cable communications program and state franchises.	02/14	05/16	Complete	Presented the report to the Policy and Services Committee at its meeting on May 10, 2016.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Disability Rates and Workers' Compensation Audit	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.	06/15	06/16	Complete	Presented the report to the Policy and Services Committee at its meeting on June 14, 2016.
Citywide Analytic Development and Continuous Monitoring: Procure-to-Pay	Determine if data analytics and continuous monitoring can help the City detect duplicate vendor or vendor payment records.	06/15	11/16	In Process	We are performing additional field work, at the request of the Administrative Services Department, to verify if potential duplicate payments we identified were indeed duplicate payments. We will revise our draft report based on the results and extend the planned date of presentation to Policy and Services Committee to November 2016.
Fee Schedules Audit	Evaluate City processes for establishing fees to determine if the fees cover the cost of services provided when expected. The specific fees to be reviewed will be narrowed down during the planning phase of the audit.	06/15	11/16	In Process	The audit is focusing on Community Services fees and is in the field work phase. Estimated date of presentation to Policy and Services Committee is November 2016.
Utilities Customer Service: Rate and Billing Accuracy Audits	Evaluate whether the Utilities Department properly implements rates and accurately bills customers.	06/15	12/16 and 04/17	In Process	The audit is in the field work phase and, thus far, has focused on water billings. Due to the variety of issues we have identified, we will issue a separate report on the accuracy of water billings and then do the field work for gas and electric billings. Estimated date of presentation of water billings to Policy and Services Committee is December 2016; estimated date of presentation of gas and electric billings is April 2017.

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Citywide Analytic Development and Continuous Monitoring: Overtime	Determine if implementing a continuous monitoring process for overtime could improve the City's oversight and management of overtime.	06/15	11/16	In Process	The project is in the field work phase. Estimated date of presentation to Policy and Services Committee is November 2016.
Sustainable Purchases	Assess the City's purchasing practices to determine if environmental sustainability is adequately considered in all purchases as appropriate.	03/16	11/16	In Process	The project is in the planning phase. Estimated date of presentation to Policy and Services Committee is November 2016.

### Other Monitoring and Administrative Assignments

Below is a summary of other assignments as of June 30, 2016:

Title	Objective(s)	Status	Results/Comments
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 fourth quarter were \$43,249 from our inquiries and \$11,098 from vendor inquiries, for a total of \$59,551 year-to-date: \$44,084 from our office and \$15,467 from the vendor. Due to processing delays at the State Board of Equalization, there are 63 potential misallocations waiting to be researched and processed: 21 from our office and 42 from the vendor.</p> <p>2) The City of Palo Alto received \$963,464 as a result of the development agreement with Stanford University Medical Center. The amount included \$884,649 for calendar year 2015 and \$78,815 for prior-year adjustments. The City has received \$2,017,656 for 2011 through 2015 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>
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, Information Security Steering Committee, and Information Technology Governance Review Board. We have recently taken on an advisory role for the strategic and technical planning groups for planning the new Enterprise Resource Planning (ERP) system.

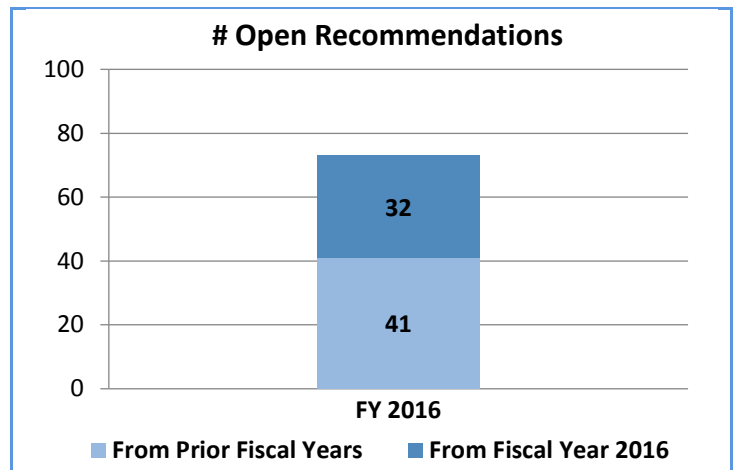
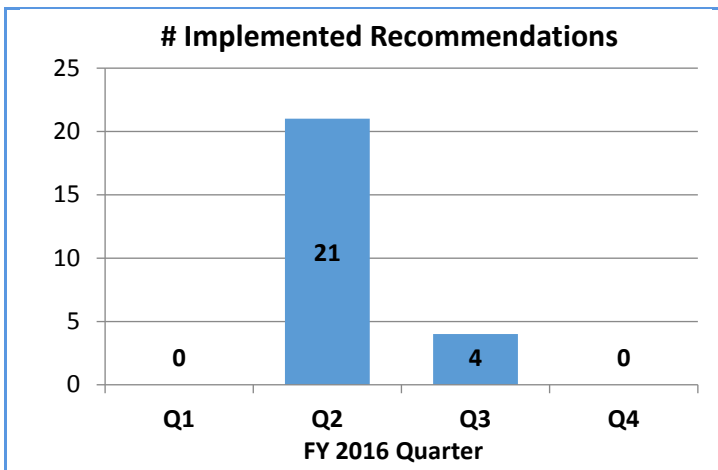
### Status of Audit Recommendations

Sixty-six recommendations were open at the beginning of FY 2016, and we added 32 recommendations during the year; seventy-three recommendations remain open at this time. Twenty-five recommendations (38% of the 66) from prior



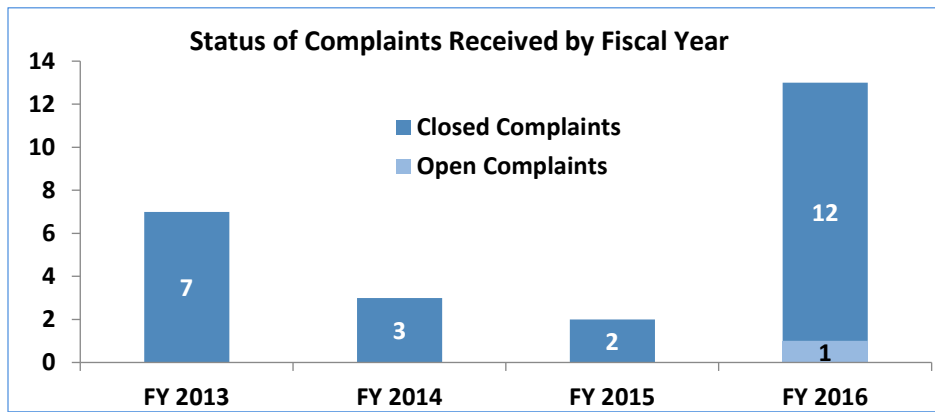
Attachment A  
 years were implemented during the fiscal year: 0 during the first quarter of FY 2016, 21 during the second quarter, 4 during the third quarter, and 0 during the fourth quarter. Below is a summary of open audit recommendations, by audit, as of June 30, 2016:

Audit Title	Report Date	Status Report Dates	Due Date of Next Status Report	Total Recommendations	Implemented During Quarter	Open
Citywide Cash Handling and Travel Expense	09/15/10	11/10/15 09/23/14 09/10/13 10/22/12 04/19/11	Past Due	11	0	2
Contract Oversight: Trenching and Installation of Electrical Substructure	11/05/13	12/15/15 09/23/14	Past Due	6	0	2
Inventory Management	02/18/14	09/23/14	Past Due	14	0	14
Utility Meters: Procurement, Inventory, and Retirement	03/10/15	None	Past Due	15	0	15
Police Department: Palo Alto Animal Services	04/22/15	03/22/16	09/13/16	8	0	8
Parking Funds	12/15/15	None	09/13/16	8	0	8
Disability Rates and Workers' Compensation	05/10/16	None	02/14/17	15	0	15
Cable Franchise and Public, Education, and Government (PEG) Fees	06/14/16	None	03/08/17	9	0	9



### 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 received two hotline complaints during the fourth quarter of FY 2016. 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 June 30, 2016

We recently sent a survey to about 60 local government audit offices that manage a hotline to seek input about how they manage their hotlines to ensure they receive calls when fraud, waste, or abuse are suspected and how they triage and investigate valid complaints. We have received about 25 responses so far and are compiling the results. We will present a discussion item on this topic at the September Policy & Services Committee meeting.



**CITY OF PALO ALTO  
MEMORANDUM**

**TO: POLICY AND SERVICES COMMITTEE**

**FROM: CITY AUDITOR**

**AGENDA DATE: August 16, 2016 ID# 7194**

**SUBJECT: Correction to sales and use tax recoveries figures**

On page 4 of the City Auditor's Office Quarterly Report as of June 30, 2016, under Other Monitoring and Administrative Assignments – Sales and Use Tax Allocation Reviews, the language should read:

1) Total sales and use tax recoveries for the fourth quarter were \$27,845 from our inquiries and \$9,590 from vendor inquiries, for a total of \$59,551 year-to-date: \$44,084 from our office and \$15,467 from the vendor. Due to processing delays at the State Board of Equalization, there are 63 potential misallocations waiting to be researched and processed: 21 from our office and 42 from the vendor.

*Harriet Richardson*

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HARRIET RICHARDSON  
City Auditor

Special Meeting  
August 16, 2016

Chairperson DuBois called the meeting to order at 6:01 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Berman, DuBois (Chair), Kniss, Scharff

Absent:

Oral Communications

None.

Agenda Items

1. Auditor's Office Quarterly Report as of June 30, 2016

Chair DuBois: So our first item on the agenda is the Auditor's Office Quarterly Report.

Harriet Richardson, City Auditor: Is this on? Good evening, Mr. Chair and members of the committee; Harriet Richardson, City Auditor, here to present the Auditor's Office Quarterly Report as of June 30, 2016. So couple of highlights during the audit, during the quarter we completed, published, and presented two audits, the Cable Franchise and Public Education Government Fees Audit and the Disability Rates and Workers Compensation Audit. Also three people in my office, me and Mimi went in and Lisa Wehara each gave presentations at the annual conference for the Association of Local Government Auditors in May. I gave a presentation with an auditor from Portland on how we conduct our National Citizens Survey compared to how they conduct their citizen's survey and also discussed our approach using the Citizen's Survey in an audit which we did with our Annual Services Audit. Mimi's presentation discussed how our office has implemented SharePoint as an efficient means for documenting our audit work and quite a few other audit offices around the country are replicating what we've done as an economical and efficient way to document their work. Lisa's presentation

provided an overview of the Animal Services Audit at a session that was devoted to winners of the annual Knighton Award for the best audit shop. She presented in the medium size office category and I mentioned last time that we would be getting the award and I did bring the award so you could see it. And then I participated in an all-day session at the United States (U.S.) Government Accountability Office and subsequent task force conference calls to discuss proposed changes for the government auditing standards and to provide input on a proposed tool that is being developed for auditors to use to assess internal controls in a performance audit. So summary of the audits, so I already mentioned that we completed the Cable and Disability Rates Worker's Compensation Audits. We are in the process of completing an audit for continuous monitoring. We call it [inaudible] pay. It's really accounts payable and that's looking at determining if we can use data analytics to identify, to prevent or identify if we do pay a vendor twice on the same invoice. So where we have a draft report on that says in progress due to performing additional field work. They have completed that field work at this point and we are in the process of drafting that report now. We expect to present that to this committee in November. We are also working on a fee schedule audit. Originally we had a broad scope that said we'd narrow it down to what we were going to look at as we got into the audit and some cost of services at were some fees were already audited or reviewed under cost of services study and so we're focusing on Community Services and we're in the fieldwork phase of that. We expect to finish that by November also. So the next audit was one audit that we are actually splitting into two, the Utilities Customer Service Rate and Billing Accuracy Audits. We plan to look at water, gas, and electric and we have done most of the work on water based, but based on the number of issues we're identifying we have determined that we will separate that into two audits and we expect to present the water portion of it in December. I have on here that we will present the gas and electric in April. That may get deferred depending on how we do on our other audits that we have planned on our new audit plan that I'll be presenting next. And then we're also doing continuous monitoring audit of overtime to see if there's ways that we can use data analytics to identify trends and how we use overtime and determine if there's ways that we could better manage our overtime based on that data. And then we also have an audit in progress on sustainable purchasing to look at whether or not the City is complying with the City's environmental sustainability purchasing requirements as required when that opportunity is available. We do have several of these scheduled to end in November, but it's unlikely that we'll put all of those on a single agenda so and you have other things besides our audits. So it will likely be that some of those will get delayed into December or January for presentation. We continue to monitor Sales and Use Tax. You do have a correction memo for the numbers that are in here. During this quarter we collected \$27,845

from our efforts and \$9,590 from our vendors' efforts for a total of \$59,551 for the year. That is quite a bit lower than what we've collected in previous years, but we just got notification that for the next quarter we're going to have a very large sum coming in from a very old vendor form request for to the State Board of Equalization that's going to be over \$200,000 so that one's for a multi-year collection of state sales tax, of sales tax. And then in June we always report the sales tax that we get from the development agreement with Stanford University. That's based on a calendar year so it's for calendar year '15 and we get the information in the May/June timeframe. So for this year we received \$963,464 as a result of that development agreement. To date we've received 2,000 about approximately \$2 million for 2011 through 2015 as a result of that agreement. We continue to participate in our advisory roles: the Utilities Risk Oversight Committee, the Information Security Steering Committee, and the Information Technology Governance Review Board. We recently have taken on an advisory role to participate in both the strategic and technical planning groups for the new enterprise resource planning system. The purpose of that is really to see as they're planning the audit if we see something that looks like it may be going astray from what we'd expect to see if we audited after the fact that we try and get it corrected and get them on course, the right course before it gets, gets there. The next section of the Report is the Status of the Audit Recommendations. So we have what, two... four, five, six, seven, eight audits with open recommendations dating, the audits dating from 2010 until the two most recent ones in 2016. The graph below that shows that none of the recommendations were reported as implemented during this quarter. During the year a total of 25 were implemented. There is still 41 outstanding from audits prior to 2016 and 32 from the audits that we conducted this fiscal year. And then the last item on here is the Fraud Waste and Abuse Hotline. During fiscal year 2016 we received 13 complaints. One of those is still open. We continue to receive complaints that primarily are personnel types of issues rather than fraud, waste or abuse types of issues and we'll be coming back at the Council's request to Policy and Services next month with a report about how we might address that. And that completes my report for our Quarterly Report right now. [Inaudible] Answer any questions.

Chair DuBois: Thank you for the report. You had some questions?

Council Member Kniss: So I've got a couple of things, right? Maybe we'll go backwards. So you said that the about the hotline which has been a hot topic since I've been here. It's something that you wanted to reevaluate because you're saying it's primarily about... am I not on?

James Keene, City Manager: Oh, no. Excuse me, I'm sorry. It's just moving the mic just in case I had to say anything, but I'll happily move it away.

Council Member Kniss: So we have been discussing this for a long time and I think as you said it'll come up next month?

Ms. Richardson: Yes.

Council Member Kniss: But I think it's important that we really take a good look at it. I don't think our City Manager is very enthused about it as I recall and so maybe we need to take a look at if it's not fraud abuse and so forth, but instead is personnel kinds of issues that that may not be worth our time. And I don't remember what it cost, but I'm going to presume that it's everything [inaudible].

Ms. Richardson: I'll be presenting that and looking at do, do we keep it and just define fraud waste and abuse better and advertise it to employees so they know what types of things to report or to do we do something different? So it will be a discussion item for next month.

Council Member Kniss: And if you look back to seven, Page 7 and look at this for overtime it seems to me that whenever we've had these discussions that all overtime is not created equal.

Ms. Richardson: That's correct.

Council Member Kniss: So I'm not quite sure how you're going about that. I think you understand my... what I'm saying. So could you say a little more about that?

Ms. Richardson: What we're looking at is if you look at data and really focus on when overtime is used and what the purpose of the overtime is and you start disaggregating the data instead of just looking at it in the aggregate can you identify trends that might help you look at different ways to staff that might be more efficient than using overtime?

Council Member Kniss: Well, I'm also thinking that overtime for the Fire especially at this time of year is different.

Ms. Richardson: Right.

Council Member Kniss: When Police are short on staff that's different.

Ms. Richardson: Right, we understand ...

Council Member Kniss: And the same with Utilities with rights ...

Ms. Richardson: We're looking at four departments primarily: Police, Fire, Utilities, and Public Works.

Council Member Kniss: And [inaudible] seem to usually have very good reasons for why they have overtime. So that's what I, I guess what you're saying is it's the aggregation of this information is going to give you the data that you want?

Ms. Richardson: Disaggregation.

Council Member Kniss: The... Ok, the disaggregation.

Ms. Richardson: De-aggregation? You choose the right one.

Council Member Kniss: Ok, ok. I hear that, but that seems to be...

Ms. Richardson: It's another way of looking, looking at data that might help you see things in a different way.

Council Member Kniss: Ok, I'll wait to see that. Those are my questions Tom.

Chair DuBois: Great. Greg, Marc?

Vice Mayor Scharff: I'm good.

Chair DuBois: I just had one question which seems so we had \$200,000 in sales tax coming in, again on from a total basis where does that put us compared to last year?

Ms. Richardson: Well that will count for the, to the first for the first quarter for this coming year.

Chair DuBois: Ok.



Ms. Richardson: For this for Fiscal Year (FY) '17 and that puts us way ahead of anything we've collected in prior years.

Chair DuBois: Ok, well we did have ...

Ms. Richardson: It's a single, pardon me?

Chair DuBois: We did have some large [inaudible]

Ms. Richardson: Right, we... it's kind of up and down. This year was quite low compared to previous years.

Chair DuBois: Ok, and then again there's that backlog that you're waiting to hear?

Ms. Richardson: Correct.

Chair DuBois: Has that backlog gotten larger?

Ms. Richardson: It fluctuates. You might get a few that get resolved and then you add a few and so there's a little bit of up and down there. Last time that we had 50, last quarter we had 56 outstanding so we're up to 63 right now.

Vice Mayor Scharff: So I just want to follow up, maybe I misunderstood. The \$200,000 that you're talking about I thought that was past collections [inaudible] the State didn't give us that they were supposed to or is this?

Ms. Richardson: It's past collections that a vendor misallocated to other jurisdictions.

Vice Mayor Scharff: Ok, that's what I thought, right? So it's not, yeah. So when would that if that had normally come through, come in and...

Ms. Richardson: It would have been spread out over the period of time that it should have normally come in, which was actually it was a long period of time. Third quarter of... third calendar quarter of 2007 or 2006 through the second quarter of 2014.

Vice Mayor Scharff: So here again I think disaggregation is better than aggregation in that when we look at our 2016 sales tax and our 2017 sales

tax are we going to include that \$200,000 in those numbers as if we, as if we collected it in 2017, which we show off the...

Ms. Richardson: Yes, yes.

Vice Mayor Scharff: But that'll screw up the numbers in terms of a trend of are we collecting more sales tax or less sales tax because that sales tax really should've been counted in previous years.

Ms. Richardson: Correct and I'm not sure how Administrative Services Department (ASD) reallocates that, is anyone?

Vice Mayor Scharff: [inaudible] cash based accounting.

Ms. Richardson: So we're going to be getting a large sum, I already told Jim about that. A large sum of money; it's sales tax, but it's from the this these different years and he's saying it's going to throw off our how it looks like how much we collect this year when it's really.

David Ramberg, Assistant Director of Administrative Services: It will, yeah. We'll accrue it in the current year.

Vice Mayor Scharff: Right here you just do a footnote.

Mr. Keene: We'll do a footnote.

Vice Mayor Scharff: Just says it so it's not... That would be great. Ok, sorry.

Chair DuBois: But overall it sounds like sales tax has gone down.

Ms. Richardson: Well, I wouldn't say in general. It's just that the misallocations that we've identified have gone down.

Chair DuBois: Right, that's yeah.

Vice Mayor Scharff: Ok, sales tax receipts have not gone down. Just so we're clear.

Chair DuBois: Any other questions? Get a Motion?

Council Member Kniss: We'd like to have sales tax going through. I move adoption of the report from the Auditor.

**MOTION:** Council Member Kniss moved, seconded by Chair DuBois to recommend the City Council accept the Auditor's Office Quarterly Report as of June 30, 2016.

**MOTION PASSED:** 4-0