



POLICY AND SERVICES COMMITTEE SUMMARY MINUTES

Regular Meeting
February 9, 2021

The Policy and Services Committee of the City of Palo Alto met on this date in virtual teleconference at 7:01 P.M.

Present: Kou, Stone, Tanaka

Absent:

Oral Communications

Cherrill Spencer announced that she is a member of Palo Alto's (City) Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) Coalition. The Coalition has been advocating since February 2018 for the City to approve an ordinance for CEDAW. She wanted to know how the organization of the Community Summit regarding gender equality is going. She advised Staff to request gender data that was collected from the National Community Survey.

Agenda Items

1. Discussion and Recommendation to the City Council to Accept the City Auditor's Risk Assessment Report, Annual Audit Plan, and Quarterly Status Report.

Kyle O'Rourke, City Auditor shared that the item contained three reports and the first report was the Quarterly Status Report. The report captured data from October through December of 2020 and a small portion of January 2021. The second item was the Risk Assessment Report and the third item was the Audit Plan for the next 18-months. The scope of work for the auditor included the Citywide Risk Assessment, the preparation of the Annual Audit Plan, the financial audit tasks, the execution of the Annual Plan, the preparation of Quarterly Reports and Annual Status Report, and evaluation and benchmarking. The financial audit fieldwork is complete for five of the six audits. The results of those five audits were presented to the Finance Committee on January 11, 2021, and one audit is still pending. Staff is in the process of reviewing Palo Alto's (City) Auditors Procedure Manual as well as reviewing the Fraud, Waste, Abuse Policy. In terms of the City Auditor Evaluation, Staff is in the preliminary peer-review process. The Quarterly Report indicated that one report was made by using the Fraud, Waste, and Abuse Hotline. It appeared that the matter was a personnel matter and was still being investigated.

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Chair Kou asked if it was common to have a low number of reports for a Fraud, Waste, and Abuse Hotline.

Mr. O'Rourke answered yes, it is normal. He shared that Staff is exploring the training process and possibly re-advertise the hotline.

Council Member Stone inquired who operates the hotline and answers the phone.

Mr. O'Rourke mentioned that the City has hired a third-party provider who receives the call and provides a report. The report is then transferred into a cloud-based solution and then City members who oversee the hotline receive notification that there was a report.

Council Member Stone questioned how the investigative piece works.

Mr. O'Rourke indicated that the City Attorney, the City Manager, and himself are the ones who review the report. The party who the complaint was made against does not receive notice that a complaint was made.

Council Member Stone questioned when City Council (Council) is made aware of the investigation.

Mr. O'Rourke explained if it was a true Fraud, Waste, and Abuse complaint then it would be reported separately from the Quarterly Report and done in a closed session with Council.

Molly Stump, City Attorney added that it depended on the nature of the complaint and if it warranted a close session or not.

Council Member Tanaka inquired who the hotline is open to and can they stay anonymous.

Mr. O'Rourke confirmed that they stay anonymous and it is open to City employees.

Council Member Tanaka questioned why it is not open to everyone.

Ms. Stump clarified that the setup would need to be changed if everyone could use it. At its conception, Council decided to have it available to only City employees.

Mr. O'Rourke added that there are channels for the public to use to report fraud, waste, or abuse.

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Council Member Tanaka wanted to understand how other Cities structure their hotline.

Mr. O'Rourke commented that both types exist, but most have a similar set up to the City's.

Council Member Tanaka stated that he was interested in opening the hotline to everyone. He asked if folks receive a reward for reporting fraud, waste, or abuse behavior.

Mr. O'Rourke answered no.

Council Member Tanaka was in favor of providing a reward.

Mr. O'Rourke moved to the Fiscal Year (FY) 2021 Citywide Risk Assessment. The assessment project was done in four phases: planning, information gathering, analysis, and reporting. Risks that were considered included financial, operational, technology, fraud, strategic, compliance, and reputation risks. Once risks are identified, they were scored based on likelihood which meant the probability of an adverse event occurring, and impact which meant financial or other impacts of an adverse event occurring. An overall score was also determined once all risks were analyzed. He emphasized that the report was not drawing any conclusions and was rather assessing areas of risk to inform the Audit Plan. In the assessment, 148 auditable areas were identified with 10 projects scoring in the high risk category, 27 in the high-moderate risk category, 48 in the moderate risk category, 37 in the low-moderate risk category, and 26 scorings in the low risk category. Key risks included COVID-19 response, economic recovery, capital program/Public Safety Building, high-cost claims and litigations, workforce and succession planning, asset management, contract management, Information Technology (IT) risks, investments, debt, and cash management, and ethics.

Council Member Stone inquired what risk is associated with reputation.

Mr. O'Rourke indicated that the most significant reputation risk is the loss of public trust.

Council Member Stone questioned if recruiting and retaining Staff has become a problem for the City.

Mr. O'Rourke concurred that it was not speculation but could not point to any data that proved that there is an issue.

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Council Member Stone declared that he was interested in seeing the data points when they are available. He wanted to understand what the extent was for the City providing Stanford University with police services.

Mr. O'Rourke stated it was dispatch services.

Council Member Stone questioned if the audit on replacement of City vehicles reviewed the guidelines for replacement and funding.

Mr. O'Rourke noted that funding for those replacements would be part of the audit.

Council Member Stone mentioned a typo for Risk ID 79.

Mr. O'Rourke affirmed that it is a typo and he would correct the report.

Council Member Stone inquired if the purpose of the assessment is to point out the risks and then Council will provide solutions to those risks.

Mr. O'Rourke clarified that the risk assessment is not suggesting that there are problems. It is more to inform the Audit Plan.

Chair Kou wanted to know what the strategic component is for Risk ID 43, print and mail services.

Mr. O'Rourke shared that the City's strategic plan identifies cost-saving measures and looking at ways to achieve cost-effectiveness.

Council Member Tanaka inquired if there is any work being done around Staff report quality.

Mr. O'Rourke answered there are no audit activities currently happening related to Staff reporting.

Council Member Tanaka commented that often the Staff report is missing key details which makes it hard for Council to make the right decision.

Mr. O'Rourke declared that Staff could do that type of audit.

Ms. Stump shared that possible solutions could be that Council work with Staff on its expectations, Council could direct Council Appointed Officers who are responsible for the Staff reports to fix the reports, or have the discussion now with the auditor.

Mr. O'Rourke articulated that shuffling of the FY 2021 – 2022 Audit Plan can take place to make room for that audit. In his opinion, the first step would

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be to address the issue with Staff first and possibly rejecting decisions when the Staff report lacks details.

Ms. Stump stated that every Council Member is seeking different information and that information may not be important to other Council Members.

Council Member Tanaka noted that the concern has not been addressed because the majority of Council Members feel the Staff reports are not adequately relaying all the details. He agreed with Ms. Stump's statement.

Mr. O'Rourke presented the FY 2021 – 2022 Audit Plan. To develop the Audit Plan, many considerations were considered and the primary consideration was the Risk Assessment Report. Other considerations included the ability to add value, City Council direction, audit coverage, prior audits, ripeness, and on-going internal initiatives and scheduling. The Audit Plan was grouped into three phases. Phase One were audits that would started now and would end before the end of the FY, Phase Two were audits that would start in the current FY and be completed by the next FY, and Phase Three were audits that were conducted and completed in FY 2022. He shared that audit activity referred to any audit-type project that the City audit function will conduct. Staff was seeking approval for six projects for Phase One which included construction project controls, asset capitalization audit, assessment of the Systems and Applications and Data Processing (SAP) functionality and internal controls, IT risk management, investment management, and power purchase agreement. Under Phase Two activities, Staff was seeking approval for one project, an economic recovery advisory. Under Phase Three, Staff has several projects but was not seeking approval for any of them at the time they were presented. Staff's recommendation was for City Council to accept the Audit Plan with the change of prioritizing the Public Safety Building to Phase One and deprioritizing the investment management audit.

Council Member Stone summarized that the Public Safety Building Audit will take place of the Oversight Committee he had suggested at a prior Council meeting.

Mr. O'Rourke confirmed that is correct.

Council Member Stone supported the change.

Council Member Tanaka also supported moving the Public Safety Building up to Phase One. He appreciated the auditor working to improve customer service for the Development Center. He asked if that work included surveys.

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Mr. O'Rourke explained that it could, but it can take away too much funding from the budget.

Council Member Tanaka advised Mr. O'Rourke to discuss it with the City Manager.

Mr. O'Rourke confirmed that there are existing data points available as well as other methods to collecting data.

Chair Kou inquired if the FY 2021/2022 costs will remain the same if the reprioritization of the two projects happens.

Mr. O'Rourke answered yes, the budget will be adhered to.

MOTION: Council Member Stone moved, seconded by Council Member Tanaka to take the following actions and forward the corresponding reports to City Council for approval:

- A. Accept the Fiscal Year 2021 Risk Assessment Report and recommend City Council approval;
- B. Approve the Fiscal Year 2021 Audit Plan Report and recommend City Council approval with the following changes:
 - i. Reprioritization of the Public Safety Building audit activity, instructing the City Auditor to draft a Task Order for a City Council agenda item;
 - ii. De-prioritization of the Investment Management audit activity and not seeking approval of the Task Order at this time;
- C. Approve the following Task Orders, identified in the Audit Plan Report:
 - i. Construction Project Controls;
 - ii. Asset Capitalization;
 - iii. Assessment of SAP Functionality and Internal Controls;
 - iv. IT Risk Management;
 - v. Investment Management;
 - vi. Power Purchase Agreements;
 - vii. Economic Recovery Advisory; and

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D. Accept the City Auditor's Office Quarterly Status Report covering October – December 2020.

Council Member Tanaka questioned if the plan falls within the budget that has been already allocated.

Mr. O'Rourke shared that the budget was exactly the budget that was in the auditor's contract.

Ms. Stump confirmed that what is proposed is contained in the FY 2021 Budget.

MOTION PASSED: 3-0

Ms. Stump understood that the item will be placed on the Council's Agenda as an action item.

Chair Kou confirmed that is correct.

Mr. O'Rourke requested feedback from Staff regarding his presentation before the Council meeting.

Future Meetings and Agendas

Council Member Tanaka inquired if the Zoom vote application could be used instead of an oral vote.

Molly Stump, City Attorney stated that per the Governor's Order, it does require a roll call vote, but she announced she will confirm that.

Chantal Cotton Gaines, Deputy City Manager shared that the Elimination of all Forms of Discrimination Against Women (CEDAW) Summit will be coming to the Policy and Services Committee as well as work that Staff has done regarding race and equity.

Monique Ziesenhenné, Assistant City Manager stated that Chair Kou and herself will be reviewing all the referrals from the Council retreat. If any Committee members have preferences, they should share those with Staff.

Adjournment: The meeting was adjourned at 8:58 P.M.