



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 16, 2008

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

Auditor's Office Quarterly Report as of September 30, 2008

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, 2008

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. Due to the vacancy of the City Auditor's position from March 8, 2008 to Sept 17, 2008, no quarterly reports were issued during this time. This report provides the City Council with an update (inclusive of 3rd and 4th quarter FY 2007-08 and 1st quarter FY 2008-09) on the activities of the Office as of September 30, 2008.

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

- Informational report on Q3-2007 Palo Alto sales tax (Apr - 2008)
- Informational report on Q4-2007 Palo Alto sales tax (Aug -2008)
- Audit of Employee Ethics Policies (Feb - 2008)
- Approval of Amendment #1 to Contract No. C05110846 With Maze and Associates (Feb - 2008)
- Resolution of Appreciation for Sharon Winslow Erickson (Mar - 2008)
- Status of Audit Projects as of March 4, 2008 (Mar – 2008)
- Infrastructure Report Card for Palo Alto (Mar – 2008)

Also:

- In Sept – 2008 the City received the 2007 Voice of the People Award as a result of last year's citizen survey conducted as part of the annual Service Efforts and Accomplishments Report issued in Jan - 2008
- In June – 2008 the Association of Government Accountants (AGA) awarded us the Certificate of Excellence in Service Efforts and Accomplishments (SEA) reporting for the third consecutive year
- In May – 2008 the Association of Local Government Auditors (ALGA) awarded us the 2007 Silver Knighton Award for the Audit of Library Operations

Our revenue audits continue to yield benefits to the General Fund. The City received **\$149,810** during the fiscal year 2007-08 and **\$36,032** for 1st quarter 2008-09 as a result of our in-house and contracted sales tax audits (our goal is \$150,000 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):

- Annual Work Plan 2008-09 with Risk Assessment (Oct - 2008)
- Audit of Vehicle Maintenance and Replacement (Spring - 2009)
- Audit of Ambulance Billing and Revenue Collection (Jan - 2009)
- Status of Audit Recommendation Follow Up (Dec - 2008)
- Service Efforts and Accomplishments Report (Jan - 2009)
- Accounts Receivable Write-Off of Utilities Billing (Jan - 2009)

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,



Lynda Flores Brouchoud
City Auditor

Attachments:

- Status of Audit Projects as of September 30, 2008

Status of Audit Projects as of September 30, 2008

[illegible]

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
<p style="text-align: center;">REVENUE AUDITS</p> <p style="text-align: center;">[Note: We conduct our revenue audits in accordance with applicable Government Auditing Standards, and report the results of our revenue audits in this report. In accordance with state law, confidential information about specific businesses is not included.]</p>			
<p>4. Sales tax allocation reviews – Sales tax represents about 15%, or \$22 million, of projected General Fund revenue for FY 2007-08 and FY 2008-09. We contract with MuniServices for quarterly sales tax audit and information services, and we also conduct sales 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.</p> <p>In the last quarterly report as of December 31, 2007, we indicated that the contract was expiring in March 2008, and that we would be requesting proposals for the sales tax audit and information services. MuniServices was the only vendor which submitted a proposal. We entered into contract with them in March 2008. The new contract term is for one year with options to renew for up to two additional one year periods with mutual consent.</p>	On-going	<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.</p> <p>In the second quarter of FY 2007-08, the City received \$61,881 in sales tax recoveries related to misallocation of tax from 5 Palo Alto companies.</p> <p>In the third quarter of FY 2007-08, the City received \$14,027 in sales tax recoveries related to misallocation of tax from 6 Palo Alto companies.</p> <p>In the fourth quarter of FY 2007-08, the City received \$55,784 in sales tax recoveries related to misallocation of tax from 2 Palo Alto companies. The amounts listed above are the results of audits conducted earlier by MuniServices and the City Auditor's Office.</p> <p>Sales Tax recoveries:</p> <p>FY 2007-08 \$149,810</p> <p>(MuniServices-\$67,293 and the City Auditor's Office - \$82,517)</p> <p>In the first quarter of FY 2008-09, the City received \$36,032 in sales tax recoveries related to misallocation of tax from 8 Palo Alto companies. This amount is the result of audits conducted earlier by MuniServices and the City Auditor's Office.</p>	Next quarterly sales tax information report: Feb-2009

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
		<p>In addition, potential misallocations from 30 companies (11 MuniServices and 19 City of Palo Alto) are pending resolution by the state Board of Equalization.</p> <p>Sales tax recoveries year to date:</p> <p>FY 2008-09 \$36,032</p> <p>(MuniServices- \$8,253 and the City Auditor's Office - \$27,779)</p>	
<p>5. 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	The City Auditor deferred this audit in Mar-2008.	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 the annual external audit.</p>	On-going	In Mar -2008 Maze & Associates began interim audit work in preparation for the audit of the June 30, 2008 financial statements, and has completed the fieldwork.	Target completion date for issuance of audited financial statements: Dec-2008
<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>	Completed	Report issued March 4, 2008.	
<p>8. Controls review of SAP upgrade and Utilities module implementation – The implementation of SAP upgrades over the next 16 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>	On-going	<p>The City's SAP upgrade is occurring in two phases: Phase I on Employee Self Service/Management Self-Service (ESS/MSS) was completed July 2008.</p> <p>As part of our Phase II review, in addition to evaluating general controls for the Utilities module implementation, the Auditor's Office has also reviewed the outstanding accounts receivable balance from the prior system to identify potential recoveries.</p>	Target completion date: Feb-2009 (Phase II)

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
PERFORMANCE AUDITS AND SPECIAL PROJECTS			
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.	Completed	Report issued March 4, 2008.	
10. Service Efforts and Accomplishments (SEA) Report – This is the 7 th 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).	In process	We are in the fieldwork phase of the audit.	Target completion date: Jan-2009
11. Audit of vehicle replacement and maintenance fund – The purpose of this review is to evaluate the efficiency and effectiveness of fleet and equipment replacement and maintenance operations.	In process	We are in the fieldwork phase of the audit.	Target completion date: Spring-2009
12. Audit of ambulance billing and revenue collection – The Palo Alto Fire Department responds to almost 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.	In process	We are in the report writing phase of the audit.	Target completion date: Jan-2009
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.	Not started		Target date: TBD
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.	Not started		Target date: TBD
15. 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

