CITY OF PALO ALTO
OFFICE OF THE CITY AUDITOR

December 15, 2008

Honorable City Council
Palo Alto, California

Finance Committee Recommendation to Approve City Auditor's Fiscal Year 2008 - 09 Work Plan

At its meeting on October 16, 2008 the Finance Committee unanimously recommended the City Council Approve the City Auditor's Fiscal Year 2008-09 Work Plan (minutes from this portion of the meeting are attached).

Respectfully submitted,

Lynda Flores Brouchoud

Lynda Flores Brouchoud
City Auditor

Attachments
A: Finance committee Agenda from 10/21/08
B. Related Minutes
C: City Auditor's Fiscal Year 2008-09 Work Plan

ATTACHMENT A

FINANCE COMMITTEE
AGENDA

REGULAR MEETING
Tuesday, October 21, 2008
7:00 p.m.
Council Conference Room
250 Hamilton Avenue
Palo Alto, California

1. Consideration of a Recommendation to City Council to Adopt a Resolution Approving the Execution of the Agreement for a Long-Term Assignment of the City's Share of Transfer Capability on the California-Oregon Transmission Project to Other Members of the Transmission Agency of Northern California

2. Adoption of a Resolution Approving the Ameresco Butte County Landfill Gas Renewable Energy Power Purchase Agreement for the Acquisition of Up to Four Average Megawatts of Energy Over Twenty Years at an Estimated Cost Not to Exceed $71 Million

3. City Auditor's Fiscal Year 2008-09 Work Plan with Risk Assessment

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

5. Discussion for Future Meeting Schedules and Agendas

the internal control weaknesses that were brought out in the audit report and make sure that whatever they are signing off on is addressing that, and not get caught up in the means or the methods in how they get there.

MOTION: Council Member Yeh moved, seconded by Council Member Burt, that the Finance Committee recommend to the City Council to accept the Auditor's Office Quarterly Report as of September 30, 2008.

MOTION PASSED 4-0.

4. City Auditor's Fiscal Year 2008-09 Work Plan with Risk Assessment

Ms. Brouchoud noted that in moving forward, they have a proposed fiscal year 2008-2009 work plan with the Citywide risk assessment attached to it and the last page of the handout has a short form summary that lists topics of the audit and the departments that are most directly involved in the audits themselves. There are three new audits on the proposed work plan for this year. The first is the citywide cash handling audit. The City Council added this to the work plan in July 2008. The second is a prospective analysis of the bond measure proceeds that would be contingent upon voter approval of Measure N, and this would really review the controls the City has in place or plans to have in place over the bond funds, and would not actually audit the use of the bond funds. The third would be a general overall audit of the Utilities Department, because it is a very large department and it showed up in six of the top ten areas identified in the citywide risk assessment. A preliminary survey will be conducted to gather information pertaining to the department's goals, mission, budget and regulatory requirements, and use that information to determine more targeted areas that would be audited. There are also audits in process, two audits that were carried over from 2006-2007, the Wastewater Treatment Fund and the purchasing cards audit. She noted that the auditor's department has a very full plate especially with Ms. Khoshroo leaving, and welcomed the committee's input and suggestions on their priorities given the proposed work plan.

Council Member Burt asked about the police department surprise audit. Ms. Brouchoud explained that this is not a performance audit, but at the request of the Police Chief, she believed their procedures required that they take a look at them periodically.

Chairperson Morton commented that the last cash handling audit which was done 10-12 years ago made certain interactions with the support groups for many City programs almost nightmarish. He urged the staff to look at two things, the dollar amount and the implementation of procedures that might require volunteer consent or volunteer understanding so that the procedures don't become so horrendous that it makes the activity almost undoable.

Council Member Schmid asked Ms. Brouchoud if she wanted ideas and suggestions.

Ms. Brouchoud said yes, specifically with the proposed work plan, and if there is a certain priority order. She stated they would basically be taking them in the order that they come, looking at what has been carried over that they haven't been able to get to yet and then looking at the newer ones.

Council Member Schmid said his understanding was that there are four performance audits done per year, and noted that there were eight listed.

Ms. Brouchoud said the number of performance audits done per year can vary depending on the complexity of the audit that is being looked at. She said a number of them were in progress, and with Ms. Khoshroo's departure, she was not sure how many they would be able to complete. She said that if they know something is a higher priority for the community and the Council, they will make sure and try to address that.

Ms. Khoshroo noted that historically when they brought the work plan forward they put a little more on it than they knew they could reasonably accomplish within the year. They wanted to have enough work in case something fell through.

Chairperson Morton asked if that didn't also permit them to have some items already in place for next year, so that not everything is a new unanticipated audit.

Ms. Khoshroo agreed.

Council Member Schmid spoke about the City having recently gone through a six month period around the Children's Theatre in which a problem was discovered by a police action in 2007 that traced back to 2001. He noted that Council had a discussion that we should look at our current cash handling and see if there are problems that could crop up that might be similar, and if we have the correct procedures in place. He stated that this raises a larger policy issue, that there was a performance audit in 1998 or 2001 that didn't work.

Mr. Perez stated that it might have been a review of the Auditor's Office recommendation that the travel expense policy be updated.

Council Member Schmid asked that when we do an audit what does the Council expect from that audit? Does it solve problems like that? How could a problem crop up immediately after we did such an audit?

Ms. Brouchoud stated that review would have taken place essentially 8 years ago and if the audit was looking at a travel policy it could have had a very narrow focus. They Auditor's Office has recently been instructed to look at Citywide cash handling (the whole City) and travel reimbursements, oversight procedures, and looking at the history of any audits already done.

Council Member Schmid asked that if an audit on cash handling is done, would we expect there not be a problem in the next year or two, or who becomes responsible for the problem? What are our expectations and anticipations? When you do an audit, do you assume responsibility for it being carried out, or is it Administrative Services, or the external auditor?

Ms. Brouchoud stated that there is a combination. When they do issue an audit, it's basically an opinion that they have followed the generally accepted government auditing standards in maintaining independence, documentation and objectivity in arriving at their audit conclusions. Following these standards provides reasonable assurance for the audit report findings and opinions. However, the audit does not guarantee that fraud or other negative things aren't occurring; not to say that we have any indication that fraud is occurring, but audits do not provide an absolute guarantee. In terms of recommendations that do come up from an audit, the Auditor's Office directs their recommendations to the appropriate department to implement those recommendations. The Auditor's Office also has an annual follow-up process of which they are going through right now to follow-up and make sure those recommendations are being implemented.

Council Member Schmid suggested that there is a responsibility from Council as well that when these findings are presented to them that they are alerted or aware.

Mr. Perez added that a lot of the responsibility comes out of his department, Administrative Services Department (ASD) and himself, and that he has to be accountable. If he agrees with recommendations the auditor has put forward, it is his responsibility to insure they get carried out. He stated he would never be able to guarantee that an incident would not occur. If anything, he is expecting an incident to occur. That is his approach. There is a risk balance that as a manager you have to make a certain discretion as to how much control can you put in place and how much are you trying to protect and so the key is to ensure that we are following those procedures, that the procedures are refreshed and reviewed in conjunction with the City Auditor's office.

Council Member Schmid asked what the role of the external auditor is, and should they be picking up things, and is it their responsibility?

Ms. Brouchoud explained that the external auditor would be focusing on material misstatements. To the extent that the amounts involved may be nominal, the external auditor would not report them.

Chairperson Morton added that auditors have thresholds, but it is often 3-5 percent of the total number, so what would be significant in the City level is not going to be twenty thousand dollars, it's going to be in the order of hundreds of thousands of dollars. An auditor would not bill the City for time spent looking at things under that threshold. If your net of transactions is something at the two hundred thousand plus level, you're not going to sift those things out. If you use the Children's Theatre issue, the auditor might come across it when they're looking at those transactions, but they wouldn't go looking for those transactions because you have to have a way of going through the millions of transactions and sorting what's going to be significant.

Council Member Yeh asked about the 142 recommendations and he noted that a lot of what is driven in terms of implementation recommendations happens from the Auditor's and City Manager's offices.

Council Member Schmid stated that over the last month, the Public Works Department has come in asking for replacement vehicles before time expired on these major pieces of equipment. He asked if vehicle replacement included heavy equipment.

City Manager Keene noted that it was included, it is in the pool and in the schedule.

Ms. Brouchoud added that they can be treated separately, because you have a mileage requirement on vehicles and more of a metered or hourly requirement on a lot of these pieces of heavy equipment. The audit isn't in process, and while she didn't want to jump the gun in saying what it will or will not cover, based on what she has seen in terms of the fire truck approval, they haven't focused specifically on emergency services and those pieces of equipment that require a different type of analysis than a regular vehicle.

Council Member Schmid agreed that these were big issues but noted that the manner in which it was presented to Council were two opposite cases and he believes that that would be worthy of some attention.

Chairperson Morton stated that in past budgets we have extended the life of equipment and that this may not be the appropriate way to balance a budget the next time around.

Council Member Burt commented that when we have equipment that goes beyond its expected life then that would be a basis for a department to evaluate a success, and wasn't exceptional preventative maintenance the reason we were able to extend it. Did we actually run a risk of having equipment failure and basically expose ourselves by extending it, or were we just lucky. Conversely, if we have a piece of equipment that does not achieve its useful life, what might be the cause? He was uncertain if we have mechanisms that do that kind of failure analysis or success evaluation, when is it sizeable enough to warrant it. At what point in time is it not worth that, but on a big piece of capital equipment that was one of the questions that came to mind, why we have these two different extremes, do we have explanations.

Mr. Keene said that Ms. Brouchoud reviewed her recommendations with him on both the cash handling and the audit of vehicle replacement and he thought they were really good and necessary areas to focus on. The vehicle replacement fund in general because there's a lot of money there and a lot of different factors, and that the scope as we look at this extends to the fleet in total. He said that what we will find ultimately is that there are standards that we should regularly have, and there may be some recommendation on what those should be. We will always have some situations that are outside the standard, and so the question gets to be is the methodology and the analytical process used, is it rigorous enough to justify the conclusions that were made. There are operations issues and questions of what is our inventory like and how much just in time versus buying things and letting them sort of stick around.

Ms. Brouchoud said she believed the terminology used is mechanical assessments, and are we performing those on our vehicles to make sure we have appropriately replaced ones that need replacement and didn't replace those that have a future life. This is a very big topic because you can have replacement connected with vehicle utilization, connected with when we add vehicles or specific equipment to the fleet. It involves a lot of different elements, and we are in the process of looking at this.

Council Member Schmid mentioned one outside topic that was not listed that he gets a lot of feedback on, the police structure and building, but not police patrols and how efficient and effective police patrols are.

Mr. Keene asked if Council Member Schmid meant modes of deployment.

Council Member Schmid confirmed.

Council Member Yeh asked about the prospective analysis bond measure proceeds for the library issue. He asked if there was any time sensitivity because it's called prospective, whether or not a bond passes would this need to occur prior to that oversight committee being put into place or could it occur at the same time.

Ms. Brouchoud didn't believe that the audit would infringe on the timeline for the oversight committee, since it is a separate committee that would be formed. What their analysis would do is to be more of an evaluation of what regulations are in place such as Federal and Internal Revenue Services, taxes and bonds more on the technical side of it, she did not see the analysis impacting the oversight committee.

Mr. Perez stated that given the current financial conditions, assuming that a successful measure passed, we are under no obligation to issue the debt right away as long as there is authorization. Staff would do the analysis and work with a financial advisor as to what the right time would be. If there would be a need for us to proceed with a design element for instance, we would advance the funds from an infrastructure reserve. That would allow us to move forward without a delay in the process.

Council Member Yeh asked about the Utilities Advisory commission (UAC) and the potential for any role for the UAC in the overview survey describing the Utilities Department audit proposed in the work plan.

Ms. Brouchoud said there were two possibilities and it would depend largely on what the Council wants and the feedback from the UAC. She said that if we go ahead with what is proposed here, where their office does a preliminary survey of the Utilities department and the audit scope really isn't defined yet, as part of that process we would interview members of the UAC for feedback on how things are working or any areas that they would want them to know about. If there are specific areas that the UAC and Council want to give them direction on, then that specific audit scope would be brought to them and incorporated into the work plan.

Council Member Yeh said that he supported the spirit of what Council Member Burt said earlier in terms of the role of the UAC and what they could do in terms of improving and augmenting the effectiveness of the Utilities Department. He said that the role of the UAC is not exactly clear in the Administrative Code, but that in most audits the Administrative Code is consulted and cited as part of the criteria. He stated that given there will be staffing transitions and that they are allies in this, as things develop with recruitment schedules, letting them know what the Auditor's Office needs are in meeting these audit task plans.

Council Member Burt referred to Ms. Khoshroo's description of putting more on their plate than is really feasible and one of the reasons to do so is to have items in line should an opening occur. He stated that it is difficult to exactly predict what you are going to be able to accomplish in a one year. He said he is a little apprehensive about having the plate really overflowing. He would advocate that there be a distinction between what you would say is a full plan and one or two items you hope to add to the committed plan if it is possible to do so, and put the others into the following year's schedule. He said that if they were to audit the percentage of scheduled items that were accomplished by an auditor's department it wouldn't look good. The question would be is that because the Auditor's Office is unproductive or because they really put things in an artificial category. He would like to see the categories become more realistic and characterized as they did tonight. For instance, if we are going to accomplish these eight, we hope to add these two additional ones if possible, and these other three need to be rescheduled to next year. There are 5 with target dates of TBD, so all the others are in process and they are not going to get readjusted on priorities for the most part. So then the issue really is the numbers 12 through 16 plus 8, there are six that have not begun. To his knowledge, they haven't given any input on which of those six they would consider to be higher priorities. He didn't find it easy as he went through them to say which should fall by the wayside except for perhaps number 8 which seems comparatively small. All of them have value, but that was the one he found easiest to support as not having as one of the priorities for this year if they had to make those choices. He asked when number 15 would commence if the bond measure should pass.

Ms. Brouchoud stated that her concept was that if the bond measure passed, they would be moving forward by the first of the year. She added that this was another one that was contingent, and as Ms. Khoshroo mentioned, they designed it so that if something should drop off they would have other items in its place. She said it is very typical that they don't get to audit all the audits on their work plan. They have two that are two years old that have not been started yet. She added that Council Member Schmid did mention another possibility so she asked if they would want to add the Police item to this or not at this time or consider it for next year, so they'd look for that direction as well.

Chairperson Morton said he thought Ms. Brouchoud mentioned earlier that the Police Chief indicated that there is an expectation that the Auditors Office look at the investigative fund in a periodic way, and didn't know if that was an internal requirement or not.

Ms. Brouchoud stated it was an internal request.

Ms. Khoshroo said that it is a very quick audit, usually a one day.

Ms. Brouchoud added that it was not on the performance audit list and it's procedural. The big ones are items 9-16 and 9-11, so that leaves on the table 12-16.

Council Member Burt said he wished he had better answers to the prioritization, and that he thought they should struggle with this as a recommendation to Council among 12-16, prioritize them, and out of additional ones that haven't been done, what portion of them did she think were reasonable, that could be accomplished.

Ms. Brouchoud said that it is quite frankly difficult to say because it is her first year on the job, are now recruiting for a position and they have a full plate. She posed the prioritization question out to the Committee not intending that if they don't have a priority, that's ok, they will work off of what they have and she will use her staffing resources and pull them accordingly. Her purpose in asking if they had a priority was because, understanding that they do have a full plate, and so if they don't get to it, she wants to make sure that is ok, and that they haven't missed a real pressing need.

Council Member Burt commented that numbers 13-14 seemed to be interrelated to discretionary fund handling by departments. His personal expectation is that first on a real substantive basis they compare this to the Utilities Department in its scale and the Wastewater Treatment Fund, since those are huge economic expenditures to the City. He said that there may be a need to have those as a fairly high priority to assure the community that even though the dollar amounts might not be high in absolute numbers, that things would be handled properly. We need to frame the issue in context of what is a reasonable expectation and he would like to pose that as something for consideration, because the community view of the outcome needs to be placed in a context. You are obviously going to find things, there are all these different departments and they are doing things differently and it's tough to keep a handle on. Somehow we need to frame the issue before we dive into it in terms of what are reasonable expectations of how much control goes too far, how much control is necessary and what level of perfection we ought to expect as we go into it. I think numbers 13 (Audit of Purchasing Card Transactions) and 14 (Citywide Cash Handling) need to get done this year. While they are not our greatest importance, they are important to reassuring confidence in the community.

Chairperson Morton noted that the City Council has already weighed in on number 14 and so that is a continuation of their request.

Council Member Burt said that if he recalled correctly it was the former City Manager who proposed it as an outside auditor and the Council elected to postpone it from immediate action in order to allow the new City Auditor to add it on to the next year's agenda. In that sense the Council conveyed that it wasn't so urgent that it had to be done immediately and by an outside auditor

Chairperson Morton agreed, but added that they did make clear that they were expecting that the City Auditor would review this issue. The items through number 11 are already on the plate. If we follow Council Member Schmid's recommendation of adding items 13 and 14 to the plate, the plate gets fairly full.

Council Member Burt said that his understanding was that the Auditor take their recommendations as a Committee and integrate it with the Auditor's Department's own best judgment and make a recommendation to the Council as a whole as opposed to the Finance Committee making a recommendation to the Council.

Ms. Brouchoud said that what was before them tonight is adoption of the work plan and then they would take into consideration the priority that the Committee has given them when they assign staff to complete the work.

MOTION: Council Member Schmid moved, seconded by Council Member Yeh, that the Finance Committee recommend to the City Council to approve the City Auditor's Fiscal Year (FY) 2008-09 Work Plan.

Council Member Yeh added that to clarify number 16 regarding the utilities, understanding that utilities can be incredibly technical that the Auditor's office should possibly recruit someone with that kind of knowledge.

Ms. Brouchoud stated that she has two challenges there. If she tried to recruit someone with that knowledge, she would need more staff to get the rest done, and looking at contracting a portion of this out she would probably have to come back to this committee or the Council for budget for that.

Council Member Burt added that we need to bear in mind that we have within ASD an oversight function of commodity risk that's done and that was set up a number of years ago to separate some independence from the Utilities Department, so it may not be identical to what an auditor would do but we need to acknowledge that we do have that check and balance built into our system.

MOTION PASSED 4-0.

6. Discussion for Future Meeting Schedules and Agendas

Nov. 4 Cancelled meeting
Nov. 18 Calaveras Reserve
NCPA Third Phase Agreement for the Salinas Landfill Power Project

<u>ADJOURNMENT</u>: The meeting adjourned at 9:30 p.m.

October 16, 2008

Honorable City Council
Attention: Finance Committee
Palo Alto, California

City Auditor's Fiscal Year 2008-09 Work Plan

RECOMMENDATION

The City Auditor's Office recommends that the Finance Committee review and recommend to the City Council approval of the City Auditor's Fiscal Year (FY) 2008-09 Work Plan.

BACKGROUND

The mission of the City Auditor's Office is to promote honest, efficient, effective and fully accountable City government. To fulfill this mission, the Auditor's Office conducts audits and examinations of City departments, programs, and services. The purpose of these audits and examinations is to provide the City Council and City management with information and evaluations regarding the effectiveness and efficiency with which City resources are employed, the adequacy of systems of internal controls, and compliance with City policies and procedures and regulatory requirements.

The Palo Alto Municipal Code requires the City Auditor to submit an annual plan to the City Council for review and approval. This report presents the City Auditor's Work Plan for FY 2008-09.

As part of our annual review of potential audit subjects, we solicit audit suggestions from City Council members, members of the public, and staff. We also use information from the City's adopted operating and capital budgets and financial statements to prepare a spreadsheet model of potential audit subjects. The model, called the "Citywide Risk Assessment," helps prioritize audit work by comparing the following ten factors: proposed 2008-09 expenditures, three-year expenditure trend, fund type, proposed five-year capital expenditures, estimated 2008-09 revenue, three-year revenue trend, number of staff (budgeted full time equivalents), fund balance, audit requests, and date of last audit. The results of the Citywide Risk Assessment are attached (see Attachment A).

DISCUSSION OF PROPOSED AUDIT ASSIGNMENTS

The list of proposed assignments for FY 2008-09 includes a mix of audits and special projects that address a wide range of concerns and are consistent with the City Auditor's areas of responsibility. We designed the work plan to address what we consider to be the highest priority areas, while limiting the scope of work to align with our staffing and budget resources. Given the six-month vacancy in the City Auditor position, this work plan is being considered partway through the fiscal year and represents an ambitious undertaking.

Our proposed work plan supports two of the City Council's Top 4 priorities -- Civic Engagement (through the Service Efforts and Accomplishments Report) and the Library building (through the Prospective Analysis of Bond Measure Proceeds). Of the top ten highest risk areas identified by our Citywide Risk Assessment, the Wastewater Treatment Fund was ranked the highest risk and is included in the proposed work plan. The Utilities Department had the most number of programs in the top ten areas (six of ten) and is also included in the proposed work plan. We welcome your comments and suggestions to help ensure we prioritize our work plan to meet the City Council's needs. We have also included an outline summary of the work plan, along with the affected City departments (See Attachment B). Following is a description of each of the projects.

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.

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 departments mid-year to discuss progress towards implementing open audit recommendations.

3. **External Peer Review** – The external peer review (conducted once every three years) will evaluate the quality control of the Auditor's Office and its compliance with Government Auditing Standards (GAS).

REVENUE AUDITS:

4. **Sales Tax Allocation Reviews** (on-going) – Sales tax represents about 15 percent, or $22 million, of projected General Fund revenue for 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. Target completion date: on-going

FINANCIAL AUDITS AND PROCEDURAL REVIEWS:

5. **Annual External Financial Audit** (contracted audit service) – The City Charter requires that the City Council engage an independent certified public accounting firm (currently Maze & Associates) to conduct an annual external audit. Target date for completion of the audit of the June 30, 2008 financial statements: Target date: Dec-2008

6. **Controls Review of SAP Upgrade and Utilities Module Implementation** (on-going) – The City's SAP upgrade is occurring in two phases – Phase I on Employee Self-Service/Management Self-Service was completed July 2008. Phase II on Utilities is currently planned to be completed February 2009. The Auditor's Office has reviewed general controls throughout the upgrade. Target date: Feb - 2009

7. **Accounts Receivable Write-Off of Utilities Billing** (in process) – As the Utilities Department implements the SAP Utilities module, the Auditor's Office is evaluating the outstanding accounts receivable balance from the prior system to identify potential recoveries. Target date: Jan – 2009

8. **Police Investigative Fund (NEW)** - In accordance with the Police Investigative Fund procedures, the City Auditor will conduct a surprise, external audit of the fund. The fund is used to cover certain costs incurred during investigations. Target date: TBD

PERFORMANCE AUDITS AND SPECIAL PROJECTS:

9. **Annual Service Efforts and Accomplishments (SEA) Report** (in process) – This will be the 7th 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). Target date: Jan-2009

10. **Audit of Ambulance Billing and Revenue Collection** (in process) – The Palo Alto Fire Department responds to between 3,000 to 4,000 medical/rescue calls, and transports between 2,000 to 3,000 individuals annually. The purpose of this review is to assess the overall efficiency and cost effectiveness of ambulance billing and collections. Target date: Jan-2009

11. **Audit of Vehicle Replacement and Maintenance Fund** (in process) – The purpose of this review is to evaluate economy, efficiency and effectiveness of fleet and equipment replacement and maintenance operations. Target date: Spring-2009

12. **Wastewater Treatment Fund** (carryover from FY 2007-08) – 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 would be to review the cost-sharing agreements and allocation of charges to partner agencies. Target date: TBD

13. **Audit of Purchasing Card Transactions** (carryover from FY 2007-08) – 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. Target date: TBD

14. **Citywide Cash Handling (NEW)** - on July 7, 2008, the City Council voted to have the City Auditor study Citywide cash handling and travel reimbursements, oversight procedures, and the City Auditor's history of audits on cash services. Target date: TBD

15. **Prospective Analysis of Bond Measure Proceeds (NEW** – subject to voter approval of Measure N) – If voters approve Measure N in the November 2008 election, the City will be preparing to issue general obligation bonds to rebuild the Mitchell Park Library and adjacent community center, and renovate the Main and Downtown libraries. This audit will prospectively evaluate controls for the use of the bond funds to ensure the funds are used efficiently and in compliance with federal regulations for the use of tax-exempt bond funds. Target date: TBD

16. **Utilities Department (NEW)** – Several of the highest risk areas identified in the Citywide Risk Assessment pertain to the Utilities Department. This audit will conduct a preliminary survey of the Utilities Department and develop an audit scope to identify opportunities for improvements in efficiency and effectiveness. Target Date: TBD

Prior Year's Projects Not Included in the FY 2008-09 Work Plan

- **Police Community Survey** (incorporated into the SEA project): This project was intended to conduct a second survey of persons requesting services from the Police Department and of drivers of vehicles that are stopped to determine how they feel they were treated during the stop. In-lieu of another survey, the Auditor's Office added questions to the National Citizen Survey (used in the SEA Report) to gauge community satisfaction from those in contact with the Palo Alto Police Department. We will incorporate the survey results into the next SEA Report.

- **Property Tax Allocation:** Previous audits revealed low audit recoveries related to property tax allocation and in March 2008, the City Auditor reported to the Finance Committee that this audit would most likely be deferred. If circumstances change in the future, this project could be considered again.

Next Steps

After discussing the proposed Work Plan with the Finance Committee, we will ask the City Council to approve the FY 2008-09 Work Plan in November. Meanwhile, we are continuing work on carryover items from the FY 2007-08 Work Plan.

As audit work proceeds, I will bring to the Finance Committee quarterly reports describing the status and progress towards completing each of the approved assignments (those quarterly reports are forwarded to the City Council for acceptance). Generally, audit reports are heard at the committee level (either by the Finance Committee or the Policy and Services Committee) unless the item is considered to be of interest to the full City Council.

Respectfully submitted,

Lynda Flores Brouchoud

Lynda Flores Brouchoud
City Auditor

Attachment A: Citywide Risk Assessment Model
Attachment B: FY 2008-09 Work Plan Summary