



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 17, 2009

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

Auditor's Office Quarterly Report as of September 30, 2009

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, 2009.

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 first quarter activities and summarizes our fiscal year 2010 Work Plan activities. Information on the status of each assigned project is attached (pages A-1 through A-5).

During the first quarter of the fiscal year, the City Auditor's Office issued the following reports to the City Council:

- Auditor's Office Review of City Telephone Rates and Charges (Sept-2009)
- Sales Tax Digest Summary - First Quarter Sales (Sept-2009)
- Audit of Police Investigative Fund (Jul-2009)
- Auditor's Office Quarterly Report as of June 30, 2009 (Jul-2009)

Our revenue audit monitoring continues to yield benefits to the General Fund. The City received **\$31,121** for the first quarter as a result of our in-house and contracted sales tax audits (our annual FY goal is \$150,000 in audit recoveries). This does not include potential audit recoveries that were identified, but have not yet been collected.

Also:

- Subsequent to issuing our Review of City Telephone Rates and Charges, the City Manager and Administrative Services Department (ASD) returned to the Finance Committee with an update. In the update, ASD staff confirmed the anticipated \$235,000 in annual savings identified in the audit report. Staff also reported that the City's service provider lowered the City's long-distance rates while the City finalizes a contract and issued a retroactive credit of almost \$11,000 for long-distance charges to the City.
- The Association of Government Accountants (AGA) awarded the FY 2007-08 Service Efforts and Accomplishments (SEA) Report its prestigious Gold Award.

- The Gold Award marked five consecutive years of professional recognition for the SEA Report. As a result, AGA named the City of Palo Alto the first city to receive the Circle of Excellence Award for SEA reporting. AGA representatives presented the award at the August 3, 2009 City Council meeting.
- The National Research Center (who conducts the annual Citizen Survey for the SEA Report), in cooperation with the International City/County Management Association (ICMA), awarded the City of Palo Alto the 2009 Voice of the People Award for Excellence in Garbage Collection Services. This marks the fourth consecutive year the City has received a Voice of the People Award for City services, including garbage collection. As reported in the 2007-08 SEA Report, 92% of Palo Alto survey respondents rated garbage collection as good or excellent.
- In September 2009, the City Auditor's Office initiated the Prospective Analysis of Bond Measure Proceeds for the Measure N library bonds. The City Auditor met with the Library Bond Oversight Committee during the quarterly meeting in October.
- In July 2009, the City Auditor served as the team leader in conducting the Association of Local Government Auditors' Peer Review of the Internal Audit Division of the Los Angeles City Controller.

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, 2009

Status of Audit Projects as of June 30, 2009

Original Audit Project Description and Preliminary Objectives	Status	Accomplishments Year-To-Date	Items to be Completed
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.	Completed	First quarterly report issued.	
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 the departments involved during the year to discuss progress towards implementing open audit recommendations.	Completed	Report issued October 20, 2009. The report summarized the status of 83 audit recommendations from 14 different reports (63 carried over and 20 new recommendations). The report determined that 37 (45%) of the audit recommendations were completed or resolved, 37 (45%) were in-process, and 9 (11%) were not started.	
3) Meeting Attendance – To facilitate internal communication and coordination of efforts, the City Auditor attends: <ul style="list-style-type: none"> a. <i>City Manager’s weekly executive leadership team meetings.</i> b. <i>Utility Risk Oversight and Coordinating Committee (UROCC)</i> – Since issuance of our <i>Assessment of Utility Risk Management Procedures</i> in Jul-2002, the City Auditor has acted as an advisor to the UROCC. 	On-going On-going		

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REVENUE AUDITS AND MONITORING			
<p>4) Sales and Use Tax Allocation Reviews – Sales and use tax represented about 14%, or \$19.65 million, of projected General Fund revenue in the City’s Adopted Operating Budget for FY 2010.</p> <p>The Auditor’s Office contracts with MuniServices for quarterly sales and use tax recovery and information services, and we also conduct sales and use tax monitoring in-house. The purpose of this monitoring is to identify misallocations of local sales and use tax of companies doing business in Palo Alto. In addition, MuniServices prepares the quarterly sales and use tax information reports that are provided to the City Council as informational items.</p> <p>The contract with MuniServices expires in March 2010, and has an option to renew for one additional year by mutual consent.</p>	On-going	<p>In the first quarter of FY 2010, the City received \$31,121 in sales and use tax recoveries related to misallocation of tax from 4 companies.</p> <p>In addition, potential misallocations from 39 companies (14 MuniServices and 25 City of Palo Alto) are pending resolution by the State Board of Equalization.</p> <p>Total Sales and Use Tax Recoveries: FY 2009-10 \$31,121 (MuniServices- \$738 and the City Auditor’s Office - \$30,383)</p>	
<p>5) Alternative Fuel Tax Credit Recoveries (NEW) – As part of the Auditor’s Office continuous revenue monitoring efforts and preliminary findings from the vehicle audit, the Auditor’s Office initiated revenue recoveries from the Federal government’s alternative fuel tax program, which is in effect through December 31, 2009.</p>	On-going	<p>The Auditor’s Office worked with ASD and our revenue consultant to file claims for the alternative fuel tax credit. We anticipate the City will receive recoveries during the second quarter.</p>	
<p>6) Unclaimed Property Recoveries – The State of California acquires unclaimed property through State law which requires businesses to annually report and deliver property after there has been no customer contact for three years.</p>	On-going	<p>The Auditor’s Office worked with ASD to file five claims for unclaimed property with the State. We anticipate the City will receive recoveries during the second quarter.</p>	
FINANCIAL AUDITS AND PROCEDURAL REVIEWS			
<p>7) 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	<p>In Oct – 2009 Maze & Associates will begin fieldwork for the audit of the June 30, 2009 financial statements. The presentation of the financial statements is scheduled for December 2009 to the Finance Committee.</p>	<p>Target completion date: Dec-2009</p>

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<p>8) Controls Review of SAP Upgrade and Utilities Module Implementation – The City’s SAP upgrade is occurring in two phases – Phase I on Employee Self-Service/Management Self-Service and Phase II on Utilities. Phase I was completed July 2008. The Auditor’s Office has reviewed general controls throughout the upgrades.</p>	On-going	<p>Prior to the system activation, the City Auditor’s Office worked with ASD and the external financial auditors (Maze & Associates) to conduct network security scans and detailed vulnerability testing of the new system. ASD and the Utilities Department are currently using this information to integrate additional internal controls into the new system. In addition, the external financial auditors will include testing of the utility system as part of their annual review and preparation of the City’s financial statements.</p> <p>The City Auditor’s Office will continue to monitor the progress through final implementation.</p>	Target completion date: Sept - 2009
<p>9) SAP Account Sampling (NEW) – The City has implemented the SAP system and upgrades to serve as an enterprise management system for a variety of key financial information and transactions including payroll, utility billing and financial transactions. The purpose of these reviews will be to sample accounts within the SAP system to test for internal controls and efficiencies.</p>	Not started		Target completion date: TBD
<p>10) American Reinvestment and Recovery Act (ARRA) Monitoring (NEW) – President Obama signed the ARRA in February 2009, providing approximately \$787 billion in federal stimulus grant funds, including \$144 billion for state and local fiscal relief. The ARRA requires unprecedented accountability and transparency of the grant funds. The Auditor’s Office will identify best practices and internal controls to share with departments receiving ARRA funds.</p>	On-going	<p>During the first quarter, the Auditor’s Office developed a self-assessment checklist consistent with specific expectations and compliance requirements of the ARRA. The City Manager’s Office is reviewing the draft checklist and will be distributing the checklist to each department program awarded ARRA funding.</p>	

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PERFORMANCE AUDITS AND SPECIAL PROJECTS			
11) Annual Service Efforts and Accomplishments (SEA) Report	In process	This will be the 8th 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-2010	Target completion date: Dec-2009
12) 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	Draft report in process.	Target completion date: Fall - 2009
13) Citywide Cash Handling - The purpose of this review is to study Citywide cash handling and travel reimbursement, oversight procedures, and the City Auditor's history of audits on cash services.	In process	Field work in process.	Target completion date: TBD
14) Prospective Analysis of Bond Measure Proceeds – Through the 2008 voter-approved Measure N, the City is 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 general obligation bond funds to ensure the funds are used efficiently and in compliance with federal regulations for the use of tax-exempt bond funds.	In process	Preliminary survey in process.	Target completion 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 completion date: TBD

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<p>16) Utilities Department - 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.</p>	Not started	<p>In preparation for the audit, the Auditor's Office issued a Request for Proposal to select a consultant to provide utilities expertise during the audit. The Auditor's Office will be able to begin the audit after the contract is in place.</p>	<p>Target completion date: TBD</p>
<p>17) 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 \$22 million, proposed expenditures of \$20 million, 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.</p>	Not started		<p>Target completion date: TBD</p>
<p>18) Planning and Community Development Permit Process (NEW) – According to the 2007-08 SEA Report, Planning and Community Development revenue increased 68%, the number of inspections increased 71%, and the number of building permits issued decreased 6%. The Department has also implemented the new Green building program and certifications. This audit will focus on the efficiency and effectiveness of the permit process.</p>	Not started		<p>Target completion date: TBD</p>