CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

September 22, 2014

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of June 30, 2014

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of June 30, 2014. At its meeting on August 12, 2014, 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

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of June 30, 2014 (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (August 12, 2014) (PDF)

Department Head: Harriet Richardson, City Auditor

Attachment A

CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 12, 2014

The Honorable City Council
Attention: Policy & Services Committee
Palo Alto, California

Auditor's Office Quarterly Report as of June 30, 2014

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, 2014.

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 fouth quarter for FY 2014.

Respectfully submitted,

Harriet Richardson

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Auditor's Office Quarterly Report as of June 30, 2014 (PDF)

Department Head: Harriet Richardson, City Auditor

Attachment A

CITY OF PALO ALTO

Quarterly Report as of June 30, 2014

Office of the City Auditor

“Promoting honest, efficient, effective, and fully accountable city government."

Fiscal Year (FY) 2014 Fourth Quarter Update (April – June 2014)

Overview

The audit function is essential to the City of Palo Alto's public accountability. As mandated by the City Charter and Municipal Code, the mission of the Office of the City Auditor (OCA) is to promote honest, efficient, effective, and fully accountable city government. We conduct performance audits and reviews to provide the City Council and City management with information and evaluations regarding the effectiveness and efficiency with which resources are employed, the adequacy of the system of internal controls, and compliance with policies and procedures and regulatory requirements. Taking appropriate action on our audit recommendations helps the City reduce risks and protect its good reputation.

The City Council appointed Harriet Richardson as City Auditor on April 7, 2014. Her start date was April 15, 2014.

Audits

Below is a summary of our audit work for the fourth quarter of FY 2014 (as of June 30, 2014):

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Solid Waste Program Audit	To evaluate whether the Public Works Department effectively manages the City's Solid Waste Program to ensure accurate refuse billings, ensure sufficient revenue to recover the cost of services, and provide reliable and useful financial and operational data in support of management's strategic and operational decisions.	5/2013	6/2014	Complete	The audit demonstrated that the Public Works Department needs to improve the accuracy of refuse billing, strengthen its oversight of GreenWaste of Palo Alto to ensure the accuracy of refuse service data, and ensure that reliable and useful data are provided to stakeholders for informed decision making. We made 16 recommendations to improve management of the City's Solid Waste Program. Finance Committee approval: 6/3/14 City Council acceptance date: 8/4/14
Franchise Fee Audit	To determine if the franchisees have accurately calculated and remitted franchise fees in accordance with the Palo Alto Municipal Code and whether the City has adequate controls to discharge its responsibilities to administer and enforce state franchises.	2/2014	12/2014	In Process	To be determined (TBD)

Title	Objective(s)	Start Date	End Date	Status	Results/Comments
Audit of Utility Meters: Procurement, Inventory, and Retirement	To determine if proper procedures were followed with the procurement, inventory, and retirement of utility meters	3/2014	10/2014	In Process	To be determined (TBD)
Parking Funds Audit	To determine if the City's parking funds are properly collected, accounted for, and used in compliance with applicable laws, regulations, policies, and governing documents. The audit will focus on the University Avenue, California Avenue, and Residential Parking Permit Funds, and the Parking In-Lieu Fund.	5/2014	12/2014	In Process	To be determined (TBD)

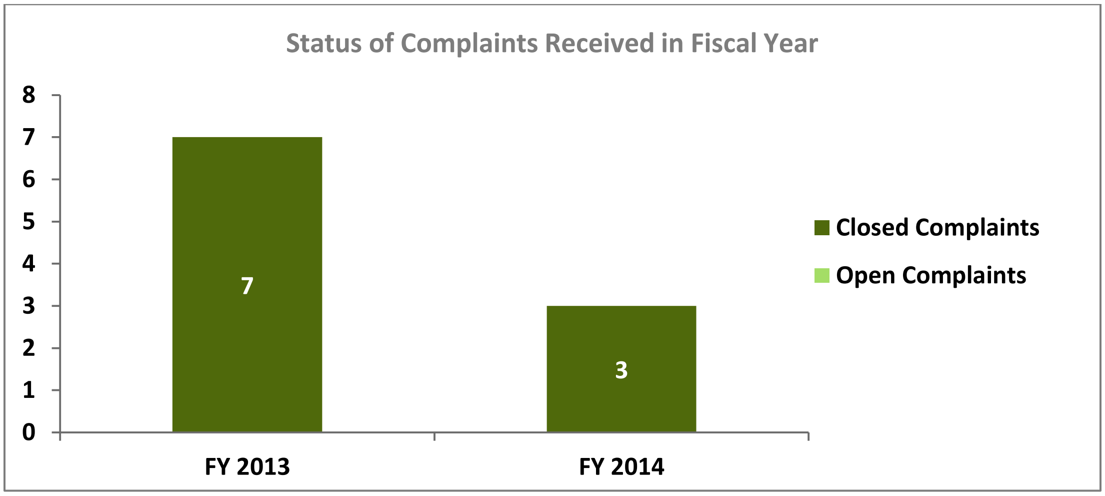
Other Monitoring and Administrative Assignments

Below is a summary of other assignments as of the fourth quarter of FY 2014 (as of June 30, 2014):

Title	Objective(s)	Status	Results/Comments
Sales and Use Tax Allocation Reviews	The OCA conducts sales and use tax monitoring in-house and also contracts with an outside vendor.	Ongoing	The OCA continues to submit inquiries to the State Board of Equalization. As of the end of the fourth quarter, the City received $168,916 in total sales and use tax recoveries, including $12,791 in recoveries related to new businesses. Due to processing lags at the State Board of Equalization, there are 42 potential misallocations waiting to be researched and processed: 20 from OCA and 22 from the vendor. Total Sales and Use Tax Recoveries for FY 2014: $104,417 from OCA inquiries and $64,499 from vendor inquiries.
Quarterly Reporting	Each quarter, the OCA provides Quarterly Status Updates and Sales Tax Digest Summaries for Council review.	Ongoing	Quarterly reports are published on the OCA website at www.cityofpaloalto.org/gov/depts/aud/reports/default.asp.
City Auditor Advisory Roles	Provide guidance and advice to key governance committees within the City.	Ongoing	The City Auditor is an advisor to the following: Utilities Risk Oversight Committee, the Library Bond Oversight Committee, the Information Technology Governance Review Board, and the Information Security Steering Committee.

Fraud, Waste, and Abuse Hotline Administration

On August 16, 2012, we launched the City's Fraud, Waste, and Abuse Hotline. As of June 30, 2014, we have received a total of ten complaints, which have all been closed. The chart below summarizes the status of complaints received in each fiscal year.



Source: City of Palo Alto hotline case management system as of March 31, 2014

The hotline review committee, composed of the City Auditor, the City Attorney, and the City Manager or their designees, meets as needed to review all activity related to the hotline. We did not receive any new complaints during the fourth quarter of FY 2014.

CITY OF PALO ALTO

POLICY AND SERVICES COMMITTEE FINAL MINUTES

Regular Meeting
Tuesday, August 12, 2014

Chairperson Price called the meeting to order at 7:00 P.M. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Klein, Price (Chair), Scharff, Schmid

Absent:

Oral Communications

None

Agenda Items

1. Auditor's Office Quarterly Report as of June 30, 2014.

Harriet Richardson, City Auditor, noted the Quarterly Report was the final one for Fiscal Year (FY) 2014. Audit Staff completed the Solid Waste Program Audit and presented it to the Finance Committee on June 3, 2014 and to the Council on August 4, 2014. The Public Works Department needed to improve the accuracy of its refuse billing and strengthen its oversight of Green Waste Palo Alto to ensure accuracy of refuse service data. Staff made 16 recommendations to improve management of the City's Solid Waste Program. The Franchise Fee Audit has an estimated completion date of December 2014. The objective of the Audit is to determine whether franchisees had accurately calculated and remitted franchise fees in accordance with the Palo Alto Municipal Code and whether the City had adequate controls to discharge its responsibilities. To assist with the audit, the City awarded a contract to the Buske Group to verify franchisee remittances.

Council Member Scharff requested that Staff clarify the objectives of the audit.

Ms. Richardson explained that the City received franchise fees of 5 percent from Comcast and AT&T for residential subscribers and 1 percent of Public, Education and Government (PEG) fees. The Buske Group would verify that franchisees remitted fees for every subscriber within the Joint Power Authority region. The Audit of the procurement, inventory, and retirement of water, gas, and electric meters resulted from issues identified in the Inventory Management Audit. Field work for the Audit was close to completion, with an expected publication date of October 2014. Auditors identified issues and discussed them with the Utilities Department. Auditors were reviewing the University Avenue and California Avenue Parking Permit Funds, the Residential Parking Permit Fund, and the Parking In-Lieu Fund for accuracy of calculation of fees, timeliness of collection, and proper expenditure of funds. The Parking Fund Audit is expected to be completed in December 2014. The Auditor's Office continued its audit of sales and use tax allocations. Audit Staff and MuniServices identified vendors whose sales tax had been misallocated. MuniServices identified approximately $65,000 in misallocated sales tax. The Auditor's Office identified approximately $105,000 in misallocated sales tax. Approximately 42 potential misallocations were awaiting research and processing. Quarterly Reports of sales tax results are published on the City website. The Auditor's Office continued in advisory roles for the Utilities Risk Oversight Committee, Library Bond Oversight Committee, the Information Technology Governance Review Board, and the Information Security Steering Committee. The Quarterly Report did not include work regarding the National Citizen Survey. Those surveys were released last week. Audit Staff will begin work the following month for the Annual Performance Report. The Fraud, Waste, and Abuse Hotline had not received complaints during the quarter. Staff closed the only remaining open complaint as unsubstantiated. Since its initiation, the Hotline had received ten complaints, all of which had been closed.

Council Member Scharff asked about the results of the ten complaints.

Ms. Richardson reported one complaint was substantiated and led to the Contract Oversight Audit. The remaining nine complaints were unsubstantiated. On May 13, 2014, the Policy and Services Committee (Committee) directed her to return with recommended changes to the Municipal Code to clarify which Committee would receive which Audit Reports.

Council Member Klein inquired about proposed new audits.

Ms. Richardson was working on a proposed audit plan for FY 2015 and will present it to the Committee on September 9, 2014.

Council Member Schmid understood the mandate of the Oversight Committee did not provide authority or an ability to examine actions. Perhaps the Auditor's Office could determine ways to provide better

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oversight to the Oversight Committee, if that was within the Auditor's purview. Each of the proposed Audits for FY 2015 was a small piece of the overall Budget. The previous evening the Council discussed information needed for it to make intelligent decisions in the Comprehensive Plan Update process. One of the goals of the Auditor's Office was to handle problems important to the Council. He inquired whether the City Auditor could assist the Council with its desire to obtain information.

Ms. Richardson advised that a Public Benefits Audit planned for FY 2014 would be rescheduled for FY 2015. In reviewing topics for FY 2015, she was reviewing Council Priorities and identifying topics that aligned with Council Priorities. When presenting the plan to the Council, she would associate each audit with a Priority.

Council Member Klein did not believe that was the proper role of the Auditor's Office. The September 9 Committee meeting was the correct time for such a discussion. All topics mentioned by Council Member Schmid were more appropriately addressed to the City Manager. The Auditor's Office would need two or three times the current number of staff to address information discussed in the August 11, 2014 Council meeting.

Council Member Schmid clarified that he was not requesting more data, but an analysis.

Council Member Klein remarked that the Auditor responded to concerns. The Auditor's role was to determine whether things were performed properly.

Council Member Scharff agreed with Council Member Schmid that the audits proposed for FY 2014 lacked impact. One role of the City Auditor was to review City processes and ensure processes were good. The contract and inventory audits fulfilled that role. In planning for FY 2015, the City Auditor should consider audits that would drive improvements to City processes.

Chair Price explained that these issues could be discussed in the course of the Committee's evaluation of the Auditor's work. The Auditor's Office did not have the expertise to focus on areas other than efficiency and process. It was not appropriate to hold an extended conversation on items not on the Agenda. Council Members should be more explicit regarding the types of issues to be examined in order to assist the Auditor in defining a work plan.

MOTION: Council Member Scharff moved, seconded by Council Member Klein to recommend the City Council approve the Auditor’s Office Quarterly Report as of June 30, 2014.

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MOTION PASSED: 4-0