Mayor Filseth called the meeting to order at 12:02 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present:        DuBois, Filseth (Chair), Kniss

Absent:

Oral Communications

None.

Agenda Items

1. Discussion and Recommendation That the City Council Accept the Report, “Internal Auditing Practices: City of Palo Alto Relative to Industry Standards”.

Sharon Erickson, Former City Auditor for the City of Palo Alto supported retention of the City Auditor's Office within the organization. She expressed concerns regarding Mr. Harper's recommendations.

Herb Borock noted the report did not contain the reasons for creating the City Auditor position and for the City Auditor being independent of the City Manager.

Mayor Filseth explained that the review of the City Auditor's Office resulted from the need for budget cuts and the retirement of the City Auditor.

Kevin Harper, Kevin W. Harper CPA & Associates shared his professional experience.

Mayor Filseth expressed concerns about the cost and appropriateness of audits and unimplemented audit recommendations.

Council Member DuBois suggested many of the unimplemented audit recommendations could be awaiting the new Enterprise Resource Planning (ERP) system. The number of hours spent on each audit was concerning.
An Audit Committee could oversee the audit function. Perhaps Risk Assessment and Cybersecurity Audits needed to be added to the work plan.

Council Member Kniss indicated that the Auditor's Office had the second highest budget and the highest cost per audit of the comparable cities. The Council Appointed Officer’s Committee (Committee) thought there may be a need to explore performance measures for cost savings and improvements.

Mayor Filseth questioned whether a Code Enforcement Audit was necessary when high-risk activities were not being audited. With respect to internal controls, the City Auditor seemed to be viewed as a consultant rather than a risk manager. He inquired regarding the management of risks.

Mr. Harper explained that an internal auditor's role was to provide insight into risks. The first step of every internal audit function was to identify risks. The City needed to enhance senior management's identification of risks and the internal auditor's quantification of risks, including developing an Audit Plan based on identified risks.

Council Member DuBois believed the hours per audit needed to be appropriate and there needed to be value found in auditing the performance and efficiency of services.

Council Member Kniss remarked that the Council determined audit topics for the most part. The Council did not seem to have a defined process for identifying audit topics and the number of audits per person was remarkably low.

Council Member DuBois recalled that the Policy and Services Committee (P&S) reviewed the City Auditor's work plans. Limiting the scope of audits potentially increased the number of audits conducted.

Council Member Kniss suggested audits were a tool for determining whether the City was managing taxpayer funds to the best of their ability.

Council Member DuBois requested information about the County of Santa Clara's (County) audits.

Council Member Kniss reported the County's Auditor operated independent of the Board of Supervisors, even though the Board of Supervisors approved the Auditor's Work Plan.

Mayor Filseth asked if the report revealed any surprising information.

Council Member Kniss advised that the cost of audits was particularly surprising.
Mr. Harper cautioned Committee Members about relying solely on survey results to compare the City Auditor with other cities' auditors. For example, the City Auditor performed non-audit work, such as analysis of the National Citizen Survey, which auditors in other cities may or may not perform.

Council Member Kniss suggested the City Auditor not perform “non-audit work.”

Mr. Harper suggested the City Auditor focus on major risks facing the City. Non-audit work was not the best use of the City Auditor's talents and experience.

Mayor Filseth inquired whether the County had a backlog of unimplemented audit recommendations.

Council Member Kniss was not able to recall.

Mr. Harper thought that the number of unimplemented recommendations was not a concern; however, the age of them was a concern. Audit recommendations outstanding for more than a year meant management did not believe the recommendations were cost efficient. Management and the internal auditor needed a working relationship in order to discuss the costs and benefits of audit recommendations.

Council Member DuBois suggested the Committee discuss recruiting a City Auditor versus outsourcing audit functions.

Terence Howzell, Chief Assistant City Attorney reported the Agenda Item pertained to discussion and feedback regarding the report and anticipated a Council discussion of next steps.

**MOTION:** Council Member DuBois moved, seconded by Council Member XXX to recommend the City Council accept the report, “Internal Auditing Practices: City of Palo Alto Relative to Industry Practices”, and give serious focus to Recommendation Numbers 5 and 8.

Mr. Howzell suggested Council Members consider having the consultant address the applicable standards for the City Auditor's conduct. An issue was raised as to whether Government Accountability Office (GAO) standards or Institute of Internal Auditors (INA) standards governed the City Auditor.

Mayor Filseth recommended Mr. Harper review the letter and comment on the issue.

Council Member DuBois felt the Council would discuss the issue of Auditor Independence. He did not find a conflict between GAO and INA standards.
Mr. Howzell indicated there could be consensus that government auditing functions were governed by standards contained in a document known as The Yellow Book.

Council Member Kniss expressed concern that the next Committee may not feel the same urgency to resolve the auditor issues. Perhaps P&S was able to review the issues before the Council discussed them.

Mayor Filseth commented that the Council could refer the matter to P&S. He wanted the Council to review the outstanding audit recommendations.

Council Member DuBois related that P&S significantly reduced the number of outstanding audit recommendations; he was not concerned about them because there were good reasons for outstanding recommendations.

MOTION RESTATE D: Council Member DuBois moved, seconded by Mayor Filseth to recommend the City Council accept the report, “Internal Auditing Practices: City of Palo Alto Relative to Industry Practices,” with a focus on Recommendation Numbers 5 and 8, and ask consultant, Kevin W. Harper, to be prepared to discuss the issue of appropriate accounting standards at a future Council meeting.

MOTION PASSED: 3-0

Future Meetings and Agendas

None.

ADJOURNMENT: The meeting was adjourned at 12:47 P.M.