Summary Title: Auditor Resource Evaluation

Title: Issuance of a Request for Proposals (RFP) for an Evaluation of Organizational and Resource Options for the City Auditor's Office and Refer to the Council Appointed Officers Committee Evaluation of the RFP Results and Development of Recommendations to the Council

From: City Manager

Lead Department: City Manager

Recommendation
Staff, in consultation with the Mayor, recommends that Council take the following actions: (a) refer to the Council Appointed Officers Committee the evaluation of organizational and resource options for resourcing the Office of the City Auditor; (b) direct staff to issue a Request for Proposals for consultant support for this evaluation; and, (c) authorize the Council Appointed Officers Committee to recommend a consultant selection and review the consultant’s report and use it to guide the development of options for subsequent consideration by the full City Council.

Background
With retirement of the current City Auditor Harriet Richardson, the City is in need of qualified professional services to perform auditing services. In the near term, this includes oversight of ongoing audit work and review in-progress and final work products, including coordination and oversight of the ongoing work by staff within the Office, in a manner in keeping with professional standards and City Council expectations. For the longer term, and in anticipation of recruiting the next City Auditor, the City Council can consider obtaining a third-party evaluation of options for managing the Auditor’s workplan, including best practices in organizational structure and staffing levels.

Discussion
Based on the immediate need for qualified professional support, staff contacted several consulting companies and has identified a consulting company, Management Partners, that can provide audit support services for an interim period. Management Partners will assign a senior consultant with appropriate licensure and experience to oversee the
ongoing work and products from the City Auditor’s Office. The recommended agreement is expected to span roughly four to six months, with expenses for an initial scope within the City Manager’s contracting authority. In addition, the City’s Human Resources Department will assign a manager to provide ongoing personnel supervision and support to staff in the City Auditor’s Office.

As the City Council looks forward to the recruitment of a new City Auditor, it is appropriate to review the responsibilities assigned to this office as well as its organizational resources.

Duties of the City Auditor are defined by the City Charter:

It shall be the duty of the city auditor to ensure that the city departments and officers responsible for accounting and financial management activities comply with statutory requirements and accounting standards. It shall be the duty of the auditor to conduct internal audits of all the fiscal transactions of the city including, but not limited to, the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures; and the city auditor shall provide other analyses of financial and operating data as directed by the city council. The city auditor shall conduct internal audits in accordance with a schedule approved by the city council and may conduct unscheduled audits from time to time. The results of these audits shall be reported in writing to the city council and the city manager. In addition, the auditor shall have such other duties as the council may by ordinance direct. (Charter, Art. IV, Sec. 12.)

The resources needed to perform these duties could be provided in a variety of manners, ranging from entirely in-house staffing to project-specific consultant engagements, or a combination of resources. Given the City Council’s ongoing review of the City’s strategy for fiscal stability, including the costs and funding necessary for city employee pensions, this is an appropriate time to review organizational options for resourcing the City’s audit function.

In order to provide the City Council with a comprehensive review of options, staff will issue a Request for Proposals (RFP) for consulting services. The scope of services requested will consist of the following:

1. Research and provide a comparison of Palo Alto’s City Auditor function with other similar government agencies. This should include, but not be limited to the following:
   a. duties and organizational placement of independent audit function;
   b. staffing and budget relative to citywide budget;
   c. annual number of audits generated, and cost per audit;
   d. hours spent per audit, both by auditors and responding organizations; and,
   e. other objective measures of audit productivity and effectiveness.
2. Identify and develop recommendations for the allocation of responsibilities between the Office of the City Auditor and responsibilities that fall under other Council Appointed Officers. Specifically, relative to functions under the City Manager (“the Administration”), evaluate organizational options associated with placement of audit functions within the Administration versus independent of the Administration given the ultimate goals of transparent, efficient, and effective services to the public.

3. Review and provide best practice comparisons of the current City Auditor organizational and resource structure to other agencies, professional standards, and applicable research.

4. Review and develop recommendations for the professional qualifications and licensure required for the City Auditor position.

5. Consult as needed with the City’s Council Appointed Officer Committee throughout the engagement, and present results to the full City Council upon completion.

The review of proposals and recommended selection of provider for these services will be routed through the Council Appointed Officers Committee. Depending on the budget required to complete the requested tasks, the Council Appointed Officers Committee’s recommendation will either be referred to staff for ministerial contract award, or forwarded to the full City Council for approval.

Once a contract is awarded, the Council Appointed Officers Committee would be assigned to work with the consultant to ensure completion of the expected scope, discuss the consultant's findings, and develop recommendations that will then be forwarded to the full City Council for consideration.

**Timeline, Resource Impact**
Funding for the contractual services required will be provided from salary savings in the City Auditor’s Office and Council Contingency if needed. Consulting services for the interim will begin immediately, as will issuance of the RFP for the evaluation of organizational and resource options. Sufficient salary savings in the Office of the City Auditor are anticipated to be available for the actions recommended in this report.

**Environmental Review**
This is not a project as defined by the California Environmental Quality Act.