

From: [Rice, Danille](#)
To: [Council, City](#); [Council Agenda Email](#)
Cc: [ORG - Clerk's Office](#); [Executive Leadership Team](#); [O'Rourke, Kyle](#)
Subject: Council Consent Agenda Questions for September 13: Item 4
Date: Friday, September 10, 2021 10:33:33 AM
Attachments: [OCA-Baker Tilly - Consent Agenda Questions from Mr. Tanaka \(Sept. 13, 2021\).pdf](#)
[image002.png](#)
[image004.png](#)
[image005.png](#)
[image007.png](#)
[image008.png](#)



Council Question Response

Dear Mayor and Council Members:

On behalf of City Manager Ed Shikada, please find the attached response provided by City Auditor Kyle O'Rourke. The original questions provided by Council Member Tanaka are below for reference.

Item 4: Approval of FY22 Task Orders for the Office of the City Auditor

1. Is the scope of services for the four tasks to be carried out by Baker Tilly sufficiently comprehensive? Do they include services or assignments that are unnecessary?
2. Does Baker Tilly's depth of experience in conducting internal audits for parties in the public sector come with a spotless record? Are there instances where the firm's services have not been up to par and was this taken into account?
3. How do the services which the firm will provide under the four included tasks compare to the services which Baker Tilly has provided to similar clients (municipal governments in Northern California)?
4. Is the description of the cost for the four tasks involved in the operations of Baker Tilly in conducting internal audits comprehensive, or will it require further adjustments in the future? Will the PSB project still be on track for completion in summer 2023?

Thank you.

Danille Rice

Executive Assistant to the City Manager
(650) 329-2105 | danille.rice@cityofpaloalto.org
www.cityofpaloalto.org



September 10, 2021

City of Palo Alto
Office of the City Auditor
RE: Consent Agenda, Sept. 13, 2021

Mr. Tanaka:

Baker Tilly US, LLP (“Baker Tilly”), who currently serves as an outsourced provider of internal audit services and serves in the role of City Auditor, is pleased to have the opportunity to provide responses to the questions posed by your legislative aide, Mr. Ignatuk. Based on the questions posed, we first wanted to provide clarification on the nature of the contract that Baker Tilly has with the City. This may be understood by you and other members of Council, but it is worth clarifying for members of the public.

The [contract Baker Tilly has with the City](#) is what is commonly referred to as a ‘Master Service Agreement’ – this is a contract where parties agree to contract terms and conditions for the provision of professional services, but the contract does not, in and of itself, authorize Baker Tilly to perform any audit or consulting work. In order to obtain authorization to perform specific work (e.g., execute an audit activity), a task order is drafted for review and approval to authorize specific projects ‘under’ the master service agreement.¹

The task orders listed on the Consent Agenda are recurring activities that the Office of the City Auditor (“OCA”) performs on an annual basis. These tasks were approved and executed in FY21, and we are requesting approval for similar task orders in FY22. These tasks are as follows:

- > Task 1. Citywide Risk Assessment
- > Task 2. Preparation of Annual Audit Plan
- > Task 3. Selection of External Financial Auditor and Annual Audit Coordination
- > Task 5. Preparation of Quarterly Reports, Annual Status Report, Provision of City Hotline, and Other Ongoing Office Administrative Functions

Responses to Specific Questions

We received the following four (4) questions from Mr. Ignatuk:

- > Is the scope of services for the four tasks to be carried out by Baker Tilly sufficiently comprehensive? Do they include services or assignments that are unnecessary?

Baker Tilly Response: In short, yes the tasks to be carried out are comprehensive, and no they do not include any unnecessary services.

The scope of services for the task orders on the Consent Agenda represent recurring annual activities conducted by the OCA. For these tasks, we can confirm that the tasks are sufficiently comprehensive. Specifically, the risk assessment and annual audit plan activities are comprehensive and cover all functions and departments of the City. The financial audit task covers all necessary tasks for the OCA

¹ Note that the City may use different terminology.

as it pertains to the financial audit, including assistance in selection of a financial auditor and management of the financial audit process. Lastly, task 5 covers the various reporting requirements of the City auditor and administrative tasks required by municipal code.

Regarding unnecessary services – the OCA is limiting its activities to only those that are necessary to achieve the mission of the OCA. Specifically, we have adapted the scope of work for the risk assessment and annual audit plan tasks to reflect the fact that the prior audit plan was finalized roughly ten (10) months ago (versus a full year having transpired). The budget and corresponding level of effort is roughly one-third that of the prior year, which will allow additional funds to be devoted to audit activities. Note that the OCA will ask for approval of task orders for audit activities through subsequent requests.

- > Does Baker Tilly's depth of experience in conducting internal audits for parties in the public sector come with a spotless record? Are there instances where the firm's services have not been up to par and was this taken into account?

Baker Tilly Response: This question was considered during the selection of our firm during the City's selection process. At that time, we provided evidence of our capacity to successfully perform the services requested, including:

- > A description of our on-going litigation, which included no instances in which our services were not 'up to par'
- > Eight (8) references for similar services, all projects we successfully delivered
- > A list of over fifty (50) clients, all of which we have successfully delivered services and many of which are annuity/repeat clients
- > Baker Tilly's Peer Review, which states that our system of quality control has been suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects
- > Evidence of Baker Tilly's financial viability

As such, we do believe our record supports our initial selection and on-going work for the City.

Note that it may be appropriate for the City Manager's Office, Administrative Services Department, and/or the Office of the City Attorney to provide additional information related to the selection of Baker Tilly during the procurement process.

- > How do the services which the firm will provide under the four included tasks compare to the services which Baker Tilly has provided to similar clients (municipal governments in Northern California)?

Baker Tilly Response: Baker Tilly has roughly 350 internal audit clients, fifty (50) of which are outsourced internal audit relationships, and 300 of which are co-sourced relationships. Nearly every client has the following similarities:

- > Conducting an annual risk assessment in order to identify and prioritize audit activities
- > Developing an annual audit plan summarizing the objectives of each audit activity
- > Reporting functionally to the governing body (or audit committee) in order to maintain independence from management and day to day operations
- > Developing and delivering periodic (e.g., quarterly) reports
- > Acting as a liaison with the financial auditor
- > Tracking and following up on implementation of corrective actions identified in the course of completing audit activities

Our agreement with the City is unique from many of our other client relationships in that it accounts for administrative tasks necessary to perform the duties of the City Auditor under task 5. This task enables us to meet periodically with the City Council, attend meetings with executive management, and attend Council and committee meetings (amongst other tasks, including periodic reporting). In many other client relationships, we do not have these opportunities to 'walk the halls' so to speak, which can make performing our work much more difficult.

Regarding the work we have done with other organizations, we'd encourage you to review our proposal. Within that document, we have a list of our public sector clients, many of which are in the State of California.

- > Is the description of the cost for the four tasks involved in the operations of Baker Tilly in conducting internal audits comprehensive, or will it require further adjustments in the future?

At this time, we believe strongly that our costs for these tasks are comprehensive and will not require adjustment in the future. Should any necessary adjustments be identified, we will bring them to the attention of the Policy & Services Committee and Council for discussion prior to making a formal request for an amendment to task order budget.

Note that we will not request an adjustment to the overall budget set for the OCA, which is included within the FY22 budget.

Conclusion

Thank you for the opportunity to provide responses to the questions posed! Should you have any further questions or wish to discuss this matter, please email the City Auditor (city.auditor@CityofPaloAlto.org).