



City of Palo Alto

(ID # 12109)

Policy and Services Committee Staff Report

Report Type: Action Items

Meeting Date: 4/13/2021

Summary Title: City Auditor's Quarterly Status Report - January through March 2021

Title: Discussion and Recommendation to the City Council to Accept the City Auditor's Quarterly Status Report (Q3 of Fiscal Year 2021) and Approve Additional Task Orders for Approved Audit Activities

From: City Manager

Lead Department: City Auditor

Recommendation

The City Auditor recommends that the Policy & Services Committee take the following actions and forward the corresponding report to City Council for consent:

- 1) Accept the Office of the City Auditor's Quarterly Status Report covering January – March 2021
- 2) Approve the following Task Orders, identified in the Audit Plan Report:
 - Building Permitting Process Review
 - Non-Profit Agreement Risk Review

Discussion

Quarterly Status Report – January – March 2021

In accordance with Task 5 [of our agreement with the City](#), Baker Tilly is required to report quarterly to the Policy & Services Committee on a variety of topics, generally including progress to plan. Baker Tilly intends to present on status and is asking that the Policy & Services Committee accept the Quarterly Status Report covering January – March 2021.

Our presentation includes the following high level status updates organized by task within our agreement with the City:

- Task 1 – Citywide Risk Assessment
 - [Presented to and Approved by P&S on February 9, 2021](#)
 - [Presented to and Approved by City Council on March 1, 2021](#)
- Task 2 – Annual Audit Plan

- [Presented to and Approved by P&S on February 9, 2021](#)
 - [Presented to and Approved by City Council on March 1, 2021](#)
- Task 3 – Financial Audit
 - Finalized the FY20 Single Audit Report and [Prepared to Present at the April 6, 2021 Finance Committee Meeting](#)
 - Developed an Amendment to Extend the Financial Auditor Contract for 1-year and Sought Staff Approval Through the Exception for Competitive Solicitation Process
 - Prepared to Obtain City Council Approval of the Contract Extension at an April Meeting
- Task 4 – Execute Audit Plan
 - Conducted Kick-offs of All Projects Approved by City Council on March 1, 2021
- Task 5 – Periodic Reporting and Hotline Monitoring
 - Closed Two (of two) Hotline Reports Received in CY21
- Task 6 – City Auditor evaluation
 - N/A

Approval of Task Orders

In its capacity serving as the City Auditor, and in accordance with Baker Tilly's agreement with the City, Baker Tilly performed a citywide risk assessment. The purpose of the assessment was to identify and prioritize risks in order to develop the annual audit plan. Baker Tilly [presented the assessment to the P&S Committee in February](#) and subsequently [presented to City Council in March](#).

The Palo Alto Municipal Code (Section 2.08.130) requires the City Auditor prepare and submit an annual audit plan to the City Council for review and approval. Baker Tilly [presented the Audit Plan to the P&S Committee in February](#) and subsequently [presented to City Council in March](#). The Audit Plan was approved at the March 1, 2021 Council Meeting.

At that time, the City Auditor noted that it would subsequently seek approval of certain Task Orders included within the plan. Today, the City Auditor is seeking P&S Committee approval of the following Task Orders, identified within the approved Audit Plan Report:

- 1) Building Permitting Process Review
- 2) Non-Profit Agreement Risk Review

Respectfully Submitted,

Kyle O'Rourke City Auditor and Senior Manager, Baker Tilly

Attachments:

- Office of the City Auditor - Task Orders for March Approval

Task Orders

*Note that certain items are subject to change pending Council discussion and approval.

Budget Status

	FY21	FY22	FY21 – FY22
Total in Contract	\$550,000	\$750,000	\$1,300,000
Total Invoiced Amount	\$76,854	-	\$76,854
Total Contract Remaining	\$473,146	\$750,000	\$1,223,146
Total in Contract for tasks under Task Orders (Task 4)	\$390,000	\$600,000	\$990,000

Audit Activity 4.9 – Building Permitting Process Review

PROFESSIONAL SERVICES TASK ORDER

TASK ORDER 1 – FY21

Consultant shall perform the Services detailed below in accordance with all the terms and conditions of the Agreement referenced in Item 1A below. All exhibits referenced in Item 8 below are incorporated into this Task Order by this reference. The Consultant shall furnish the necessary facilities, professional, technical and supporting personnel required by this Task Order as described below.

CONTRACT NO.

OR PURCHASE ORDER REQUISITION NO. (AS APPLICABLE)

- 1A. MASTER AGREEMENT NO. (MAY BE SAME AS CONTRACT / P.O. NO. ABOVE):
- 1B. TASK ORDER NO.: FY21-009
2. CONSULTANT NAME: Baker Tilly US, LLP
3. PERIOD OF PERFORMANCE: START: May 1, 2021 COMPLETION: December 31, 2021
4. TOTAL TASK ORDER PRICE: \$83,500
BALANCE REMAINING IN MASTER AGREEMENT/CONTRACT \$1,235,000
5. BUDGET CODE _____
COST CENTER _____
COST ELEMENT _____
WBS/CIP _____
PHASE _____
6. CITY PROJECT MANAGER'S NAME & DEPARTMENT:
Lydia Kou, Chair of the City Council's Policy and Services Committee
7. DESCRIPTION OF SCOPE OF SERVICES (Attachment A)
MUST INCLUDE:
- SERVICES AND DELIVERABLES TO BE PROVIDED
 - SCHEDULE OF PERFORMANCE
 - MAXIMUM COMPENSATION AMOUNT AND RATE SCHEDULE (as applicable)
 - REIMBURSABLE EXPENSES, if any (with "not to exceed" amount)
8. ATTACHMENTS: A: Task Order Scope of Services B (if any): N/A

I hereby authorize the performance of the work described in this Task Order.

I hereby acknowledge receipt and acceptance of this Task Order and warrant that I have authority to sign on behalf of Consultant.

APPROVED:
CITY OF PALO ALTO

APPROVED:
COMPANY NAME: _____

BY: _____
Name _____
Title _____
Date _____

BY: _____
Name _____
Title _____
Date _____

Attachment A DESCRIPTION OF SCOPE OF SERVICES

Introduction

Attachment A, the Description of Scope of Services, contains the following four (4) elements:

- Services and Deliverables To Be Provided
- Schedule of Performance
- Maximum Compensation Amount and Rate Schedule (*As Applicable*)
- Reimbursable Expenses, if any (With “Not To Exceed” Amount)

Services & Deliverables

Baker Tilly’s approach to conducting the Building Permitting and Inspection Process Review involves three (3) primary steps:

- Step 1: Audit Planning
- Step 2: Business Process Analysis
- Step 3: Reporting

Step 1 – Audit Planning

This step consists of the tasks performed to adequately plan the work necessary to address the overall audit objective and to solidify mutual understanding of the audit scope, objectives, review process, and timing between stakeholders and auditors. Tasks include:

- Gather information to understand the environment under review
 - Understand the organizational objectives, structure, staffing and business processes of the functions assigned to the Chief Building Official
 - Review applicable ordinances, building codes, regulations, policies, and other standards and expectations with respect to building permitting and inspection
 - Review prior audit results, if applicable
 - Review additional documentation and conduct interviews as necessary to perform preliminary risk analysis for the purpose of identifying permit types or sub-processes to be reviewed
- Secure agreement on the audit objectives. Preliminary audit objectives are to: (1) Identify highest impact area to focus the assessment (e.g., specific permit type(s), specific sub-processes, customer segments, etc.); (2) Assess permitting and inspections process efficiency and effectiveness, (3) Benchmark building permitting and inspections performance against best practices, industry standards, and a selected sample of comparable local government jurisdictions
- Assess the audit risk
- Write an audit planning memo and audit program
 - Refine audit objectives and scope
 - Identify the audit procedures to be performed and the evidence to be obtained and examined
- Announce the initiation of the audit and conduct a kick-off meeting with key

participants

- Discuss audit objectives, scope, audit process, timing, resources, and expectations
- Discuss documentation requests, interview participants and stakeholder engagement for the review

Step 2 – Organizational and Business Process Analysis

This step involves executing the procedures in the audit program to gather information, interview individual process owners and participants, survey appropriate industry stakeholders, conduct focus groups and field observations, and analyze the data and information gathered in order to obtain sufficient evidence to address the agreed-upon audit objectives.

Audit procedures will include, but are not limited to:

- Interview the appropriate internal and external stakeholders and process owners to understand the process, the information system used, and the internal controls related to building permitting and inspections.
- Narrow focus to one (1) to two (2) high risk permitting categories/types as determined through the planning process.
- Administer a confidential survey of external building permit and inspections process stakeholders (residential and commercial contractors and design professionals) and complete follow-up building industry focus groups for selected permit types.
- Review the building codes, state statutes, and other applicable policies, practices, procedures, regulations and standards to identify the criteria to be used for analysis of the organizational structure, performance and results, staffing levels, business processes, and supporting technologies utilized by the permitting and inspections unit.
- Perform test procedures including observation of controls (such as application controls) and review of selected documents (such as supporting documents for the receipt and processing of permit applications, collection of permit and inspection fees, key performance indicators, etc.)
- Benchmark operational performance against industry best practices and established standards

Step 3 – Reporting

In Step 3, the project team will perform tasks necessary to finalize audit working papers, prepare and review a draft report with the stakeholders, and submit a final audit report. Tasks include:

- Develop findings, conclusions, and recommendations based on the supporting evidence gathered
- Validate findings with the appropriate individuals and discuss the root cause of the identified findings
- Complete supervisory review of working papers and a draft audit report
- Distribute a draft audit report and conduct a closing meeting with key stakeholders
 - Discuss the audit results, findings, conclusions, and recommendations

- Discuss management responses
- Obtain written management responses and finalize a report
- Review report with members of City Council and/or the appropriate Council Committee
- Present the final report to the City Council and/or appropriate Council Committee

Deliverables:

The following deliverable will be prepared as part of this engagement:

- Audit Report

Schedule of Performance

Anticipated Start Date: May 1, 2021

Anticipated End Date: December 31, 2021

Maximum Compensation Amount and Rate Schedule

The not-to-exceed maximum, inclusive of reimbursable expenses (as summarized below) for this Task is \$83,500. The not-to-exceed budget is based on an estimate of 360 total project hours, of which 40 are estimated to be completed by the City Auditor.

Reimbursable Expenses

If circumstances allow, Baker Tilly anticipates planning one on-site fieldwork week. Given this possibility, Baker Tilly could incur reimbursable expenses for this Task.

The not-to-exceed maximum for reimbursable expenses for this Task is \$5,600.

The following summarizes anticipated reimbursable expenses (three trips):

- Round-trip Airfare – \$1,800
- Rental Car - \$500
- Hotel accommodation - \$2,600 (6 nights)
- Food and incidentals – \$700

Note that if current restrictions associated with COVID-19 continue, an on-site visit may not be possible. The project team will work with the City to consider circumstances at the time.

Audit Activity 4.10 – Nonprofit Agreement Risk Management

PROFESSIONAL SERVICES TASK ORDER

TASK ORDER 1 – FY21

Consultant shall perform the Services detailed below in accordance with all the terms and conditions of the Agreement referenced in Item 1A below. All exhibits referenced in Item 8 below are incorporated into this Task Order by this reference. The Consultant shall furnish the necessary facilities, professional, technical and supporting personnel required by this Task Order as described below.

CONTRACT NO.

OR PURCHASE ORDER REQUISITION NO. (AS APPLICABLE)

- 1A. MASTER AGREEMENT NO. (MAY BE SAME AS CONTRACT / P.O. NO. ABOVE):
- 1B. TASK ORDER NO.: FY21-010
2. CONSULTANT NAME: Baker Tilly US, LLP
3. PERIOD OF PERFORMANCE: START: May 1, 2021 COMPLETION: December 31, 2021
4. TOTAL TASK ORDER PRICE: \$82,875
BALANCE REMAINING IN MASTER AGREEMENT/CONTRACT \$1,235,000
5. BUDGET CODE _____
COST CENTER _____
COST ELEMENT _____
WBS/CIP _____
PHASE _____
6. CITY PROJECT MANAGER'S NAME & DEPARTMENT:
Alison Cormack, Chair of the City Council's Policy and Services Committee
7. DESCRIPTION OF SCOPE OF SERVICES (Attachment A)
MUST INCLUDE:
- SERVICES AND DELIVERABLES TO BE PROVIDED
 - SCHEDULE OF PERFORMANCE
 - MAXIMUM COMPENSATION AMOUNT AND RATE SCHEDULE (as applicable)
 - REIMBURSABLE EXPENSES, if any (with "not to exceed" amount)
8. ATTACHMENTS: A: Task Order Scope of Services B (if any): N/A

I hereby authorize the performance of the work described in this Task Order.

I hereby acknowledge receipt and acceptance of this Task Order and warrant that I have authority to sign on behalf of Consultant.

APPROVED:
CITY OF PALO ALTO

APPROVED:
COMPANY NAME: _____

BY: _____
Name _____
Title _____
Date _____

BY: _____
Name _____
Title _____
Date _____

Attachment A
DESCRIPTION OF SCOPE OF SERVICES

Introduction

Attachment A, the Description of Scope of Services, contains the following four (4) elements:

- Services and Deliverables To Be Provided
- Schedule of Performance
- Maximum Compensation Amount and Rate Schedule (*As Applicable*)
- Reimbursable Expenses, if any (With “Not To Exceed” Amount)

Services & Deliverables

Baker Tilly’s approach to conducting a Nonprofit Agreements Risk Management Review involves three (3) primary steps:

- Step 1: Audit Planning
- Step 2: Process and Control Review
- Step 3: Reporting

Step 1 – Audit Planning

This step consists of the tasks performed to adequately plan the work necessary to address the overall audit objective and to solidify mutual understanding of the audit scope, objectives, audit process, and timing between stakeholders and auditors. Tasks include:

- Gather information to understand the environment under review
 - Understand the organizational structure and objectives
 - Review the City code, regulations, and other standards and expectations
 - Review prior audit results, as applicable
 - Review additional documentation and conduct interviews as necessary
- Assess the audit risk
- Write an audit planning memo and audit program
 - Refine audit objectives and scope
 - Identify the audit procedures to be performed and the evidence to be obtained and examined
- Announce the initiation of the audit and conduct kick-off meeting with key stakeholders
 - Discuss audit objectives, scope, audit process, timing, resources, and expectations
 - Discuss documentation and interview requests for the audit

Step 2 – Process and Control Review

This step involves executing the procedures in the audit program to gather information, interview individuals, and analyze the data and information to obtain sufficient evidence to address the audit objectives. The preliminary audit objective is to: (1) Determine whether adequate controls are in place and working effectively to ensure that nonprofit organizations are properly selected and monitored for successful partnership; (2) Assess the selection and monitoring process against the best practices. Procedures include:

- Interview the appropriate individuals to understand the process, the information system used, and internal controls related to selection and approval of nonprofit organizations, contracting process, and performance monitoring activities
- Review policies and procedures as well as the regulations and standards to identify the criteria to be used for evaluation of control design and effectiveness
- Review the documents (such as contracts and related procurement files, payments, and performance reviews) for the selected nonprofit organizations
- Compare the process and controls against best practices

Step 3 – Reporting

In Step 3, the project team will perform tasks necessary to finalize audit working papers, prepare and review a draft report with the stakeholders, and submit a final audit report. Tasks include:

- Develop findings, conclusions, and recommendations based on the supporting evidence gathered
- Validate findings with the appropriate individuals and discuss the root cause of the identified findings
- Complete supervisory review of working papers and a draft audit report
- Distribute a draft audit report and conduct a closing meeting with key stakeholders
 - Discuss the audit results, findings, conclusions, and recommendations
 - Discuss management responses
- Obtain written management responses and finalize a report
- Review report with members of City Council and/or the appropriate Council Committee
- Present the final report to the City Council and/or appropriate Council Committee

Deliverables:

The following deliverable will be prepared as part of this engagement:

- Audit Report

Schedule of Performance

Anticipated Start Date: May 1, 2021

Anticipated End Date: December 31, 2021

Maximum Compensation Amount and Rate Schedule

The not-to-exceed maximum, inclusive of reimbursable expenses (as summarized below) for this Task is \$82,875. The not-to-exceed budget is based on an estimate of 400 total project hours, of which 20 are estimated to be completed by the City Auditor.

Reimbursable Expenses

If circumstances allow, Baker Tilly anticipates planning one on-site fieldwork week. Given this possibility, Baker Tilly could incur reimbursable expenses for this Task.

The not-to-exceed maximum for reimbursable expenses for this Task is \$5,200.

The following summarizes anticipated reimbursable expenses (for three team members):

- Round-trip Airfare – \$1,500
- Rental Car - \$400
- Hotel accommodation - \$2,500 (6 nights)
- Food and incidentals – \$800

Note that, if current restrictions associated with COVID-19 continue, an on-site visit may not be possible. The project team will work with the City to consider circumstances at the time.