



City of Palo Alto

City Council Staff Report

(ID # 10177)

Report Type: Action Items

Meeting Date: 9/9/2019

Summary Title: P&S Recommendation to Accept Status Updates of Audits

Title: Policy and Services Committee Recommends the City Council Accept the Status Updates of the Audits of the Citywide Cash Handling and Travel Expense; Cable Franchise and Public, Education and Government (PEG) Fees; Continuous Monitoring: Overtime; Continuous Monitoring: Payments Audit; and Inventory Management

From: City Manager

Lead Department: Administrative Services

Recommendation

The Policy and Service Committee and Staff recommend the City Council acceptance of the status updates of the Audits of the Citywide Cash Handling and Travel Expense; Cable Franchise and Public, Education, and Government (PEG) Fees; Continuous Monitoring: Overtime; Continuous Monitoring: Payments Audit; and Inventory Management.

Background

At its meeting on June 11, 2019, the Policy and Services Committee approved by a vote of 2-1 to recommended that the City Council accept the status reports (status updates as of April 2019). Since the item did not receive a unanimous vote it, per the City's practice, this item was placed as an action item for City Council discussion.

The staff report from June 11, 2019 including the status of audit recommendations is online located [here](#). Minutes from the meeting are also available online [here](#).

Discussion

At the June 11 meeting discussion focused on the extended period of time it has taken to address the outstanding audit recommendation from the Citywide Cash Handling and Travel Expense audit from 2010 related to reimbursements for nighttime meeting meals. The one outstanding audit recommendation reads as follows:

Recommendation 6. ASD should review the nighttime meeting reimbursement policy. If the City decides to maintain this practice, ASD should report the amounts as income on employee

Form W2s to conform to Internal Revenue Service requirements. In addition, ASD should review other types of meal expense to ensure any reportable amounts are included on employee Form W-2s.

Since the audit was issued in November 2010 staff has completed 10 of the 11 recommendations. The original audit is available on the City's website via this [link](#). Staff's focus has been on completing the higher priority audit recommendations related to cash handling procedures and the travel policy. Stemming from the cash handling audit, staff also embarked on completing an overall review of the City's credit card handling procedures as they relate to the Purchase Card Industry (PCI) compliance. This offshoot involved numerous staff across the City and outside consultants over a two-year span.

Recommendation 6 related to nighttime meals reimbursement has taken an extended period of time to complete due to the following factors: the recommendation was among the lower priorities from the audit and was delayed while staff completed the other 10 recommendations; the low dollar amount and low count of nighttime meeting meals made it a lower risk; the relative high complexity of manually capturing nighttime meals expense and reflecting them on the employee's paystub and Form W2; deliberations with the City Auditor and the City Manager's Office about whether any other meals fall in the taxable category; other required changes to the overall business meals policy; and staff turnover.

Nighttime meeting meals include the \$20 received by management employees and overtime meals when received by SEIU staff attending night meetings. These meals are considered a taxable fringe benefit by Internal Revenue Service (IRS) regulations and must be taxed as compensation on an employee's paycheck and reported on Form W2. There are approximately 3-5 employee nighttime meal reimbursements per week at no more than \$20 per meal for management employees. Most business meals at the City are not considered taxable meals by IRS regulations. IRS regulations ([Publication 15-B](#)) exclude from taxable wages meals that are "furnished on your business premises for your convenience" or meals included as "de minimis". De minimis meals are those that are occasional meals that have "so little value (taking into account how frequently you provide meals to your employees) that accounting for it would be unreasonable or administratively impracticable". Meals that fall into this category include light refreshments at all-day training events and the annual employee appreciation event.

As stated in the Attachment C staff has developed a form and draft policy for tracking and reporting meals expense on employee W2s. The draft policy is being reviewed by departments. Once the review is completed staff expects to implement the policy citywide via training sessions with employees. Staff expects to start tracking employee nighttime meal reimbursements by January 2020.

Open audit recommendations from other audits are detailed in the June 11 [report](#). Many of these are linked to the upcoming upgrade of the SAP enterprise resource planning system (ERP)

and the ongoing discussion with the Media Center on the use of PEG fee revenue. Below is a summary of the status of open recommendations:

Audit	Status
Citywide Cash Handling and Travel Expense (issued 9/2010)	Staff is in the final stages of implementing an updated meals policy that will include accounting for nighttime meals as taxable wages on employee W2s as required by the Internal Revenue Services (IRS). Staff expects this recommendation to be completed before the end of the year.
Inventory Management (issued 12/2013)	All recommendations complete.
Cable Franchise and PEG Fee (issued 6/2016)	As directed by Council staff is working with our joint action partners and the Media Center to determine the best approach to expending public, education, government (PEG) fee revenue and providing financial support to the Media Center. The most recent update to Council was provided in June (Report ID 10396). Staff expects to have a new agreement with the Media Center for Council review before the end of the year that reflects the new approach on PEG revenue.
Continuous Monitoring: Payments (issued 4/2017)	Staff is discussing alternative approaches to completing these recommendations with the City Auditor and expects to have these completed in early 2020.
Continuous Monitoring: Overtime (issued 9/2017)	Staff is working with departments to develop a process to report overtime citywide and take corrective action as appropriate. Staff expects this recommendation to be closed in early 2020.

Regarding the open recommendations related to the ERP upgrade, staff is in discussion with the City Auditor’s Office to complete the recommendations via an alternative approach than originally specified. This is due to the fact that the City will remain on the SAP platform rather than shifting to a new platform. The alternative approaches that ASD will review with the City Auditor should enable these recommendations to be completed in time for the next scheduled update to the Policy and Services Committee in early 2020. This will be sooner than waiting for the upgraded SAP platform to complete these recommendations.

Resource Impact

The implementation of the audit recommendations thus far have been handled with existing resources limiting the pace of implementation as well as the absorption of additional duties and processes as requested in the findings.

Policy Implications

The implementation of the audit recommendations is consistent with existing city policies.