



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 17, 2016

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the City Auditor's Office Fiscal Year 2017 Proposed Work Plan

At its meeting on August 16, 2016, the Policy and Services Committee unanimously recommended the City Council accept the City Auditor's Office Fiscal Year 2017 Proposed Work Plan. On page 6 of Attachment A, the Analysis of Agreements with PAUSD was revised based on Policy and Services Committee direction. The Auditor's Office will be issuing quarterly reports describing the status and progress of the work plan. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: City Auditor's Office Fiscal Year 2017 Proposed Work Plan (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (August 16, 2016) (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF
**PALO
ALTO**

Fiscal Year 2017 Audit Work Plan



Office of the City Auditor

"Promoting honest, efficient, effective, economical, and fully accountable and transparent city government"

Overview

The Palo Alto Municipal Code requires the City Auditor to submit an annual audit work plan to the City Council for approval. This proposed audit work plan represents ongoing administrative responsibilities of the Office of the City Auditor, as well as required audit responsibilities. It estimates approximately 10,000 hours of direct time¹ for six full-time staff. It accounts for reclassifying the Administrative Assistant to a Performance Auditor I to more effectively use the employee's time, and for continuing to increase our efficiency in conducting performance audits.

The proposed audit work plan considers risk factors that, if addressed, will provide opportunities to mitigate those risks and improve operations:

- Financial – Is there an opportunity to improve how the City manages, invests, spends, and accounts for its financial resources?
- Operational – Are City programs/activities performed and City services delivered in the most efficient, effective, and economical manner possible, and do they represent sound business decisions, including appropriate responses to changes in the business environment?
- Regulatory – Do City programs and activities comply with applicable laws and regulations?
- Health and Safety – Are City services delivered in a manner that protects our residents and employees from injury or unnecessary exposure to factors that can affect an individual's health?
- Information Security – Is City, resident, and employee information (electronic or physical) protected against unauthorized access, use, disclosure, disruption, modification, inspection, recording, or destruction?

In addition, the proposed audit work plan considers several factors:

- Relevance – Does the audit have the potential to affect Council or City management decision-making or impact City residents?
- Best Practices – Does the audit provide the opportunity to compare current performance to best practices?
- Return on Investment – Does the audit have the potential for cost savings, cost avoidance, or revenue generation?
- Improvement – Does the audit have the potential to result in meaningful improvement in how the City does its business?
- Actionable – Is it likely that the audit will produce actionable recommendations that are feasible and practical?
- Manageable – Is the audit scope narrow enough to ensure it is completed in a timely manner?

The audit work plan also considers risks related to major functions within the Utilities Department, as identified through a 2011 Utilities Risk Assessment, a 2013 Utilities Organizational Assessment conducted by external consultants, and prior audits.

¹ The estimated hours consider available time after accounting for holidays, vacation, required training, and administrative time.

Nonaudit Services and Special Projects

The following table lists nonaudit services and special projects for the FY 2017 audit work plan:

Project	Scope	Planned Hours
Annual Performance Report (Service Efforts and Accomplishments)	Annual. We prepare the annual performance report to provide the City Council, City staff, Palo Alto residents, and other stakeholders with relevant information and data regarding the performance of City programs, functions, and activities. The reduced hours for FY 2017 represent our transition to a more streamlined process for collecting information and preparing the report and time to develop a transition plan for moving performance reporting to the City Manager's Office.	300
National Citizen Survey	Annual. We contract with the National Research Center (NRC) to conduct The National Citizen Survey™. The survey contains a series of standardized questions that the NRC uses to benchmark Palo Alto residents' opinions of City services against other jurisdictions. In addition to the NRC's report, we will tabulate the results in Tableau software to allow users of the Palo Alto Open Data website to perform an interactive analysis of the results (e.g., how people within different demographic categories answered a question).	300
Annual Citizen Centric Report	Annual. We prepare a four-page summary of highlights from the annual Performance Report, financial data, and an overview of our City's economic outlook. The Citizen Centric Report follows the Association of Government Accountants' recommended report format, which is designed to provide information to the public about Palo Alto's financial condition and performance in an easy-to-understand and visually appealing format.	20
Sales Tax Allocation Reviews	Ongoing. We identify misallocations and underreporting of local sales and use tax through in-house monitoring and a contract with an outside vendor (currently MuniServices, LLC). We also look for opportunities to receive direct allocation of sales and use tax on large commercial construction projects. We report sales and use tax recoveries in quarterly reports to Council, and also provide a quarterly sales and use tax information report which includes information from MuniServices, LLC.	120
Administration of the Fraud, Waste, and Abuse Hotline	Ongoing. We receive notification of complaints filed through the hotline, reply to the complainant, route and monitor cases for investigation, and convene the Hotline Review Committee (City Manager, City Attorney, and City Auditor) to determine the routing of cases and their closing upon completion of an investigation. The hours include time to review and update the procedures for administering the hotline and investigating complaints received.	60
Annual External Financial Audit	Annual. The Palo Alto Municipal Code requires the Office of the City Auditor to contract with an independent certified public accounting firm (currently Macias, Gini, & O'Connell, LLP) to conduct the annual external audit of the City's financial statements. The firm also conducts the federally required Single Audit. We coordinate those efforts between the Administrative Services Department and Macias, Gini, & O'Connell, LLP.	30
Review and Monitor the Implementation Status of Prior Audit Recommendations	Ongoing. We review and provide feedback to departments on their reports of the implementation status of prior audit recommendations. We include a summary of the status in our Quarterly Reports.	90

Project	Scope	Planned Hours
Office of the City Auditor Quarterly Reports	Quarterly. We prepare and issue quarterly reports to the City Council describing the status and progress toward completion of our annual work plan, as required by the Palo Alto Municipal Code.	60
Advisory Roles	Ongoing. The City Auditor is a nonvoting, advisory member of the Utilities Risk Oversight Committee, the Information Technology Governance Review Board, the Information Security Steering Committee, and ERP Strategic and Technical Planning Committees.	60
Internal Control Training	One-time. Coordinate with the Department of Administrative Services to conduct internal control training, with a focus on the recently revised publications, <i>“Standards for Internal Control in the Federal Government”</i> and <i>“Internal Control: Integrated Framework.”</i> Federal grant regulations now require recipients and subrecipients of federal grant dollars to comply with a recognized internal control framework. The regulations specifically identify these two frameworks. This project is a carryover project from our FY 2015 and FY 2016 audit work plan while we waited for the U.S. Government Accountability Office’s update of the <i>“Internal Control Management and Evaluation Tool,”</i> which was a companion document to the <i>“Standards for Internal Control in the Federal Government”</i> that provides a systematic, organized, and structured approach to assessing the internal control structure.	60
Total Hours for Special and Ongoing Projects		1,100

Performance Audits

The following audits from our FY 2016 audit work plan are in progress and will continue into the FY 2017 audit work plan. The hours shown represent the remaining hours expected for FY 2017.

Audit	Department	Audit Objective(s) ²	Planned Hours
Utilities Customer Service: Water Rate and Billing Accuracy	Utilities Department	Evaluate whether the Utilities Department properly implements rates and accurately bills customers for water services.	1,000
Utilities Customer Service: Gas and Electric Rate and Billing Accuracy	Utilities Department	Evaluate whether the Utilities Department properly implements rates and accurately bills customers for gas and electric services.	1,000
Fee Schedules	Community Services Department	Evaluate process for establishing fees to determine if the fees cover the cost of services provided when expected.	240
Analytic Development and Continuous Monitoring: Procure-to-Pay	Citywide	Determine if data analytics and continuous monitoring can help the City detect duplicate vendor or vendor payment records.	120
Analytic Development and Continuous Monitoring: Overtime	Citywide	Determine if implementing a continuous monitoring process for overtime could improve the City’s oversight and management of overtime.	300

² The preliminary scope and planned hours may change after completing the planning phase of the audit.

Audit	Department	Audit Objective(s)²	Planned Hours
Sustainable Purchases	Citywide	Evaluate the City's purchasing practices to determine if environmental sustainability is adequately considered in purchases as appropriate.	360
Allocated Charges	Administrative Services Department	Evaluate the accuracy and use of allocated charges within the budgeting process to ensure charges are allocated equitably based on the benefit each department receives for centralized city services.	660
Total Hours for In-Progress Performance Audits			3,680

The following audits are proposed for the FY 2017 audit work plan; some of these may not be completed until FY 2018:

Audit	Department	Preliminary Audit Objective(s)³	Planned Hours
ERP Planning: Data Integrity, Reliability, and Security	Information Technology	Evaluate the integrity, reliability, and security of data in the current SAP system and make recommendations to ensure that any identified deficiencies are corrected prior to transferring data to the new ERP system.	1,100
ERP Planning: Segregation of Duties	Information Technology	Evaluate the adequacy of segregation of duties for various activities in the current SAP system and make recommendations to ensure that any identified deficiencies are corrected for the new ERP system.	1,000
ERP Planning: Data and System Governance	Information Technology	Evaluate the adequacy of data and system governance in the current SAP system and make recommendations to ensure that any identified deficiencies are corrected for the new ERP system.	750
Business Registry (limited scope)	City Manager	Evaluate the rules and processes used to establish the business registry and make recommendations to help clean up the data and ensure accuracy in the future.	125
Hydromax Crossbore Inspection Contract (limited scope)	Utilities	Evaluate the work performed to date under this contract to determine if the City is taking an appropriate approach to this work, getting appropriate line inspection data from this effort, and allocating an appropriate level of contractor oversight.	125
Code Enforcement	Planning and Community Development	Evaluate code enforcement policies and practices for responsiveness, consistency, and follow-up, particularly for repeat offenders and complex cases.	575
Contract Risk and Oversight	Administrative Services Department	Develop a systematic, data-driven process to identify high-risk expenditures and revenues that occur under formal contracts. Audit selected high-risk contracts to determine if the City has received the goods and/or services it paid for and/or the revenues to which it is entitled, that the contracts are needed and do not result in unnecessary overlaps in services, and that potential contract extensions are appropriately disclosed in the original contract documents.	600

³ The preliminary scope and planned hours may change after completing the planning phase of the audit.

Audit	Department	Preliminary Audit Objective(s)³	Planned Hours
Analysis of Agreements with PAUSD	Citywide	Identify all agreements with PAUSD and the parties involved in each, and benchmark against other school districts to determine which services are generally provided by a school district or the city. Report will be an information report.	360
Public Safety: Civilianization of Sworn Positions	Police and Fire	Evaluate if the City can reduce costs by converting certain sworn public safety positions to nonsworn positions without increasing risk to an unacceptable level. Audit will include benchmarking with other public safety organizations.	450
Total Hours for New Performance Audits			5,085

Other Suggested or Carryover Audit Topics Not Included Above

We have excluded some topics from the FY 2016 audit work plan that were not started and received suggestions for other audit topics, which are listed below, but that we do not have capacity to do during FY 2017:

- From FY 2016 Audit Work Plan:
 - Utility Meter Routes
 - Utilities Asset Management
 - Utilities Staffing
 - Public Benefits
 - Procurement Processes
 - Mobile Device Usage and Security
 - Impact Fees
 - Payroll Processes
 - Application Controls for Critical City Applications (will be incorporated into ERP Planning audits)
 - Data Reliability (will be incorporated into ERP Planning audits)
- New suggestions:
 - Facilities Management
 - Parking Assessment District
 - Transfer Development Rights
 - Planning Codes
 - Financial Condition Report
 - Long-term Liabilities, Including Infrastructure
 - Analysis of Revenue vs. Expenditures and Reserves

Special Meeting
August 16, 2016

Chairperson DuBois called the meeting to order at 6:01 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Berman, DuBois (Chair), Kniss, Scharff

Absent:

Oral Communications

None.

Agenda Items

2. City Auditor's Office Fiscal Year 2017 Proposed Work Plan.

Chair DuBois: Alright, so on to the next item.

Council Member Kniss: Always like hearing about money, Harriet.

Harriet Richardson, City Auditor: So the next item is the Auditor's Office Fiscal Year (FY) 2017 Audit Plan. And when I prioritize these I try to look at you know different types of risk and I most of these came in actually as requests and I prioritize them based on what I thought were the riskiest areas that we needed to look at as well as my own staff and how I could spread them around the different projects during the during the year, keeping in mind that we do have one auditor who is Enterprise Funds so she only audits Enterprise Fund activities. So I'll start on your Packet Page 14 which is with our non-audit services and special projects. So we will continue to do the Annual Performance Report this year and as you know we've streamlined that so we have quite a bit fewer hours allocated to that this year. And we have started the process for the National Citizen Survey already. That should start going out being mailed out to residents by the end of August. And then we have our annual Citizen Centric Report which is just the four page summary of the financial situation of the City and

performance data. And then continue with the sales tax allocation reviews that we currently do, which I just spoke about in the quarterly report. And then the hotline I put I don't normally spend about 60 hours on the hotline, but I put some time in there because we've done a survey of other jurisdictions and I'm going to be using the results of that survey to help inform the Staff Report that I'll write for the discussion item next month. And then we coordinate the annual External Financial Audit with the certified public accounting firm that does our audits. That's currently with Macias, Gini & O'Connell. And then we review and monitor the status of prior audit recommendations as those reports come in which I report on the quarterly report each... I report the status that we know, but the department's report the actual status and separate reports. And we do verify those statuses as we receive the reports before they're presented to you. And then our quarterly reports that I do each quarter and then the advisory roles that I just talked about on the quarterly report and again that we have added the Enterprise Resource Planning (ERP) strategic and technical planning committees as an over in an oversight role. And then this last one, Internal Control Training, this is actually been on our last two audit plans and we didn't do it then because we were waiting for the Government Accountability Office (GAO) to publish another document sort of a management and valuation tool that assists management in implementing internal controls, but they decided not to do that. And so I have talked with our Administrative Services Department (ASD) Director and we're going to coordinate an effort to do some internal control training. One of the reasons this is going to be important is as the GAO revises the government auditing standards they're pulling a lot more from the Standards for Internal Control into the auditing standards which means that we as auditors are going to have to do more work on internal controls. And that typically is where we find deficiencies that we report in our audit findings. So based on that if we do some training it should help departments be understand at least what they should do to implement good internal controls and reduce their audit risk. So we have about 1,100 hours allocated for those types of projects. Then getting into the performance audits the first section here is the audits that are currently in progress. And then the second section is new audits. So as I mentioned on our quarterly report we're in the process of doing the Utilities Customer Service Water Rate and Billing Accuracy and then Gas and Electric Rate Billing Accuracy will be a separate audit. I'm actually we have done some work on that and then stopped and I'm actually going to defer that to later in the year because of some of the new audits that I have planned that I think are going to be a higher priority right now. And we have the Fee Schedules Audit, the Procure to Pay, the Continuous Monitoring of Overtime, Sustainable Purchases all in progress that I have already talked about. We have preliminarily started an audit on allocated charges that I have not sent out an audits start letter on. What we're wanting to do is look

at the budget process to ensure that charges are allocated equitably based on the benefit the department's received for the centralized City services. We're focusing on the General Fund and the IT allocations on for that particular audit. Moving into the new audits I have three audits on here for ERP planning. And the idea behind this audit is to try and identify concerns with the current ERP system, our SAP system that should be fixed to prevent basically garbage out becoming garbage in in the new ERP system when it's implemented. So the first one is data integrity, reliability, and security; we'll be looking at those things in the current SAP system and make recommendations that go to make sure those types of things are corrected before transferring any data over to the new ERP system. We're going to look at segregation of duties. This particular segregation of duties is when you don't want one person doing multiple tasks that could allow them to basically commit fraud, steal, do things like that. So in ERP and SAP there is some concerns about how it was set up that some things were not adequately segregated among different staff and we're going to look at that and see how that can be fixed within the new ERP system. We'll make some recommendations; probably have some matrices to help people understand how those should be separated. And then we're also going to be looking at data and system governance. Right now it's difficult to know who is really responsible for data when IT implements the system, but they say departments own the data. But when as auditors we go out and we're asking for information the departments generally don't know the back anything beyond the screen they see. They don't understand the back workings, behind the screen workings of how things come together. For example, on the Utility Billing Audit we had to build the tables that go into a bill because we couldn't identify those easily from any records that the City has. So really looking at that and making sure that those types of things are well documented as we move into a new ERP system. The next audit is a limited scope audit just looking at the business registry, looking at the rules and processes that were used to establish it and see if we can make some recommendations to clean up the data and assure a smoother process in the future. And the next one this one was specifically requested by the City Manager's office for us to look at the Hydromax cross for inspection crop a contract. So the contractor who was doing that work had to stop due to some complications, but there's more work that needs to be done. And so they asked that we look at that to see if there's adequate documentation for what was done. Are we getting our money's worth for what was done and do we, are we on the right track for continuing providing the correct oversight and that sort of thing. The next audit is Code Enforcement. We were asked to look to evaluate the policies and practices for responses, responsiveness, consistency, and follow up especially for repeat offenders and complex cases. And the next audit is contract risk and oversight. Really looking at we focus in on certain types of contracts on that to

determine if the City receives the good value for its money, the goods and services it paid for it paid for, revenues its entitled to, that we're not duplicating services through varied multiple contracts, and that potential contract extensions are appropriately disclosed in the contract documents. And then if you turn to the last page we have two more audits there. One is looking at the just analyzing the agreements that we have with the School District. There's a lot of contracts out there or a lot of agreements and multiple City departments have responsibility for various aspects of different contracts and so we're really just kind of pulling it together for informational to see what the benefits, who is getting those benefits, who's paying for what, and looking at how that should continue in the future. And in some cases it might be recommending we continue financial support, return operational support over to or operations over or vice versa. We'll look and see how those, how those work out. And then the last one that I have a request for was to look at the civilian whether civilian is, civilianizing certain sworn positions and public safety would result in some cost savings without increasing risk to an unacceptable level. So we would be benchmarking against other public safety organizations to see if there are options for doing that. And then at the bottom of the page I've got two sections there. The first section is audits that were on our Audit Plan last year that are not included this year and I'll explain why. And the last section are new audits. They were new suggestions that I just couldn't fit into the audit plan. So on the ones that we did not include the bottom three payroll process that application controls and data reliability we'll be touching on each of those in the ERP audits that we're planning so I didn't see a need to do those as separate audits. The first three utility meter routes, utility asset management staff, and utilities staffing because we only have one enterprise auditor there was only so much that she could do so I haven't included those. Procurement Process is the Procurement Manager has been making quite a few changes to the procurement process and so based on that we didn't see the same level of risk in the need to do that as an audit. Mobile device usage and security IT we're starting a project on that and so we didn't start that audit, but now that we're doing the ERP audits we probably won't be able to fit IT in for a fourth audit. And then the last few public benefits and impact fees were simply just a matter of scheduling and not being able to fit them in. And then the new suggestions that the bond were all a matter of scheduling and not being able to fit them in; so that completes my recommendations for our audit plan for FY '17.

James Keene, City Manager: Thank you, Mr. Chair and thank you Harriet. I had a just a couple of comments on the proposed Audit Work Plan and apologize I haven't had a chance to talk with Harriet about these. I don't think there's a real issue per se or anything, but first of all obviously it's

pretty clear that the Auditor has an ambitious performance audit work plan for FY '17. Here when you look at the items that begin on Page 15 and carry over into Page 16 in addition I really think that the proposed audits identified especially these where the bulk of the of our resources are going to need to go related to the ERP planning and all of those are absolutely critical performance audits that need to take place. I did want to make a comment on just three of the proposed audits. First is this limited scope item on the business registry. And I would just say that of course we're at the very beginning of the FY here and a lot of these are going to depend upon her capacity during the course of the year. Some of them may be towards the later part of the year. Right now our own staffing situation is we've got a gap in that. So to the extent that the Auditor may need some direct staff support for doing that I don't think in the near term we're in a position to be able to support that. If she's able to sort of do that analysis without you know having to be able to work with you know Tom Fehrenbach who was the lead on the business registry and he's now departed. We could do that, but with that note. Secondly, under Code Enforcement, the Planning Director this morning after the leadership team meeting asked me to bring this up. That her suggestion would be to defer until later the audit on Code Enforcement and the reason for that is if you recall that the Council added funding for a key third Code Enforcement staff person who's been you know not on the job and up to speed for you know I mean for certainly under a year and we'd be in a much better position we think to get, do a good and meaningful audit after we have a little more track record with this additional staff person. I think was a key recommendation from the Council to be able to add that additional capacity. And I think if we did the audit in the beginning part in any way of the year you just wouldn't get the full measure of it. And then lastly just on the last page I would say is the analysis of the agreements with the Palo Alto Unified School District (PAUSD). I would just share that I had, you know I've had to put and those of you who were on the City School Liaison Committee. During the break I did have a chance to catch up with the School Superintendent on a number of issues. I did mention I'm not sure I got exactly the specifics of a performance audit being done, but that we anticipated that there would be reviews taking place this year on some of the different sort of shared service agreements that we have with the School District and that we would obviously keep them involved and I'd certainly would be in regular communication with the School Superintendent. So I did want to just make those three comments. Thank you.

Vice Mayor Scharff: Great. Alright, so I guess I agree with the City Manager. I don't think we should do Code Enforcement this year. We can just hire another person; I think City Manager is right. I think it would be the wrong

time to do that audit. I also agree with the business registry that with Tommy leaving I think it doesn't make any sense. I don't see quite how we do that audit. And so I would probably not do those two audits frankly right now. I did have a question on the civilianization of sworn positions. I think this is a good audit if it moves us towards what the Chief has already said he wants to do. And I guess I was a little I know we've done a study in the past. We hired fire consultants to come in and do this and make recommendations as to how the Fire Department operates and then based on that we did a lot of I would say restructuring of the Fire Department. So I can't remember if that was already included in some of the work that was done. I was also wondering if you know, Police and Fire seem specialized to me. I could be completely wrong and so is it a better use of resources for us to do this through the Auditor's Office or to hire a consultant who specializes in this? I just wanted to raise that question and I guess I wanted to get the City Manager's view on that. And then I also have some concerns about the analysis of the agreements to the PAUSD. I do think that that is an area of which at some point we should take on; however, you know this includes things like who pays for the crossing guards? I don't quite want to take on right now not paying for the crossing guards. You know the School District has a huge budget issue which is you know primarily of their own making.

Council Member Kniss: Greg, are you talking about the track?

Mr. Keene: No, he's talking about the school crossing guards.

Vice Mayor Scharff: No, I'm talking about the crossing guards. I mean I believe we pay for those and the School District doesn't. And you know, I think we should move towards the School District pays for half of it or something along those lines. I think so, but I guess I'm raising we have a lot on our plate right now in all sorts of things and I'm just wondering if this is the moment where we should do this or not do this. And I'm sort of on the fence. I'm not really arguing one way or the other, I'm just saying that of all the audits this is going to be the most political and the most where we, you know, create a bunch of issues that we're going to have to then deal with and that's not necessarily a bad thing, it's just a timing issue. And right now the School District is going to be more difficult on these issues because they have a big budget issue. So for them to come up with a bunch more money to start paying for things I think that could be more, more difficult. And what I would hate to see is us to do the audit, decide then to not take no action on it because it's too difficult politically because the School District doesn't have any money right now as opposed to a more ideal time to do it. So that's the only thing I raise that question. I actually wanted feedback from the City Attorney, from the City Manager on both those concerns.

Mr. Keene: Mr. Chair? Great, so let me start with the second item on the School District issue. I, first of all I think you bring up some very good points. I mean there are a whole range of formal relationships that we have and informal. We've got the school crossing guards, we run the shuttle bus program that you know provides transportation, we've obviously had the Track Watch Program guarding the tracks in relation to the teen suicide issue and that sort of thing which is a huge cost. And just this past year the whole issue of middle school athletics and things that come up. That being said I mean I think first of all the you know, the Auditor is very structured and required to be so in her approach to get to work plan clearly pacing on this work plan even during the course of the year. I mean things could be put off in my idea and I actually do think that it would not be really an appropriate signal to send to the School District that we're going to start this conversation off by putting doing an audit. I mean it seems to me that there are conversations that can happen at the City School District. I mean a City/School subcommittee between Board Members and Council Members about just this range of issues and how to go forward, but if this was the recommendation and act I'd just would I'm sensitive to your concern. I may ask the Auditor to jump in on the second item as relates to the public safety civilianization of sworn positions. We did do a comprehensive cost of services in coverage study I don't know about five or six years ago. It dealt with a whole range of issues. These were some of them. The ideal worked out with station location, response times, a whole bunch of things. So I don't I clearly think that additional analysis in some form will be necessary if we really want to. It's not so much a question of just moving forward with this, but able to have the rationale and documentation to explain to the public or to labor groups or whatever why this is in the City's best interest. As it relates to the question of would an outside consultant be a better route to go I'd really kind of defer, I'd certainly want to get Harriet's perspective on that first.

Ms. Richardson: So it is something that auditors in other jurisdictions have looked at so and they're... yes, I do acknowledge there are people who specialize in this type of thing. I think that there's a lot of literature out there also that can help us with assessing what types of positions are appropriate for civilianization and what types should be sworn. And there's a variety of factors that we would consider that we would list in the audit report about that would need to be considered when you make a decision should we convert it or should we leave it as sworn. So I don't think that our recommendations would be completely black and white. I think that they would, might be a little bit more these are some for consideration, these are some that you could probably easily convert, but I don't think it's going to be a clear list of these ones convert and these one stay.

Chair DuBois: ...questions from Marc and Liz. I just want to say if you want to speak on an item later there are speaker cards. You can fill them out and bring them up to the Assistant City Clerk. So Marc.

Council Member Berman: So thank you, Greg, for bringing up the Palo Alto Unified School District's (PAUSD's) timeline is sensitive. And yeah, that makes a lot of sense. On the business registry I'm you know, I understand that Tom isn't with, you know, Tom left, but we do seem to have some issues with you know the accuracy of the data in that in that registry. And I'm, I don't know what's been done to try to make sure that the next round of data is you know either more accurate or perceived to be more accurate. Maybe the current data already is accurate, but clearly there are a lot of opinions in the community that there were some gaps there. So you know, do you think Harriet that you can conduct a pretty high level evaluation of the rules and processes? Even without Tom being here that could be valuable and helpful to staff to try to improve that process before the next round and if not or Jim if you don't think that would be helpful then what are we going to do to make sure that you know, that data is more comprehensive and more accurate this time around?

Ms. Richardson: I do believe that there's some things we can look at that would be, it would be high level. We're looking at the process. We're not getting into a lot of details, but we would look at what possibly went wrong. There are a lot of other cities that have some sort of business registry and even just talking to some of them and saying how do you ensure accuracy in getting some benchmarking against other cities would probably want to be the way we would start this audit. And I do you can see I don't have a lot of hours on it. We're not intending to get real deep on it. It's really looking at the rules and is there a way to clean that up for how people register to make sure that the business registry is accurate.

Council Member Berman: Great. And if we, you know, if some things do get knocked off of this work list what, you know, what on the carryover audit topics is this listed in kind of order of priority or what would you prioritize?

Ms. Richardson: I would probably start with something from the new suggestions list and not from the old lists for the reasons I cited earlier why I didn't include them. So there's been there's all of these were requested...

Council Member Berman: By individual Council Members and...

Ms. Richardson: Yes.

Council Member Berman: Got it.

Ms. Richardson: Yes, so it's just like it's a yes. They were all requests by a Council Member.

Council Member Berman: Ok.

Ms. Richardson: And so I think it would really be thinking about what we can do within the same amount of time and would provide the most benefit to Council. The Facilities Management was really looking at how we maintain our infrastructure that we have. Parking Assessment District there were some concerns that came out about when we did the Parking Funds Audit. That came up about the rules for how that's managed. Transfer Development Rights was really looking at whether or not we have good records on all of those. I can tell you right now that I did talk to Hillary in Planning and they actually have someone in their department who's been doing a lot of work to collect data and go through old records and get a good set of data to make sure that they do have they are aware of all the ones that have been established and the ones that have been sold. Planning Codes was just released seeing is they're comparing what we do and have in our planning codes to some other cities that seemed to be more simplified than what we have and making some recommendations there. Financial Condition Report was really looking at where do we sit for long term. It kind of ties into long term liabilities including infrastructure and the analysis of revenue expenditures and reserves get cut [inaudible] probably tie most of that into a single financial condition report.

Council Member Berman: Got it, thanks.

Mr. Keene: Just a suggestion, you know assuming that something does come off it's about at the most about a quarter of a Full Time Equivalent (FTE) for years' capacity and you know probably the Auditor could be in better shape when the item from the committee goes to the Council and be in a position to have done some time assessment as to what, what that quarter FTE could buy as far as some of these other audits when the recommendation came forward and not have to make a decision on the fly.

Council Member Berman: Absolutely, yeah. No, I was looking for what she thought, not necessarily a hard suggestion. Yeah, great. Thanks.

Council Member Kniss: So let's go to the PAUSD. As a former trustee a long time ago, but I remember even then that they actually the City came to the

rescue many years ago. I think it is a pattern. Maybe not a bad pattern, but I think if we don't begin to assess what it's really costing us we have the Track Watch that I think ran at least a million this year, am I right?

Mr. Keene: Significantly over a million dollars.

Council Member Kniss: Right.

Mr. Keene: And we only actually we don't even have full year funding [inaudible] issue.

Council Member Kniss: On the I don't know how much the crosswalks are?

Mr. Keene: \$350,000 - \$400,000.

Council Member Kniss: Yeah, yeah. So, so I think one of the things that would help me make a decision on this is to know what is the amount of money really involved? At some point we really do have to have this conversation. When I was on Finance at least two years ago we had a discussion then about approaching the School District on sharing cost especially for the Track Watch. And I think we also need some sort of philosophical discussion about is when kids are not on a school ground are they our responsibility? So if they're getting there in some way or another and what are the other, what are the other woven in costs? And it's it's we have an interesting situation because we have no control over the School District whatsoever. And so many of the decisions that are made we're excluded from those as well and that's not a bad thing, but I think realistically at some point we have to actually take that on and I it probably isn't going to be wildly popular. So you bet on [inaudible].

Chair DuBois: Anything else?

Council Member Kniss: Nope, that's it.

Chair DuBois: Yeah, so I was going to make a comment on that one as well. I guess I just wanted to clarify what the purpose was because it again, I can see kind of immediately jumping to cost sharing, but there could be other reasons to do the audit.

Ms. Richardson: Right. It was really looking at the different programs that that are shared and evaluating whether they should truly be shared or

should they be operated by one party or another. And I don't think that necessarily means that we wouldn't provide financial support. I think part of it does, some of it probably comes down to what you were saying. Are we responsible for those kids? If we're operating it do we take on that responsibility versus whether they're operating it and we're just providing financial support.

Council Member Kniss: That's a good [inaudible].

Chair DuBois: Yeah, so again I think and I'm not sure we requested it either, but I think if we do it in the right way that probably is the most politically sensitive audit on this list. It's a very, a vicious worklist. But overall it seems like it strikes a nice balance between different areas. So again if the purpose is to really understand all of our obligations with the School District because that seems reasonable to me then we can decide what the outcome of that is. On Code Enforcement I think that is a really useful one. I would just prefer to see it shifted towards the end of the year. It's a smaller audit.

Ms. Richardson: And it and it likely would be because we have the audits in progress and then based on the timeline for ERP they're planning to issue a Request For Proposal (RFP) in March. We will need to get started on those pretty quickly to be able to provide some input even though the audits might not be complete. So it would end up being one pushed out.

Chair DuBois: And I think then the owner's been here for a little while, right? So if we did it towards the end of the year?

Mr. Keene: Yeah, if we could plan that and I mean the Planning Director suggested and I think it was a good offer too that you know, there's nothing that would preclude us from doing a public study session with the Council on the status of Code Enforcement. That's different than an audit, but there is an opportunity to at least get an interim report as to how things are going and how they're working.

Chair DuBois: Ok, and then on the data clean up one I kind of had the same thoughts I think that Marc did, which was again it's also relatively small hours. I think if it's more process oriented you could look at potentially even look at it after the fact in terms of how the data is analyzed and if we can spot check the data for inconsistencies and that kind of thing. You're going to, it may not make a difference if we have a person there for you to talk to if you're just working with the data. So my take would be to kind of keep

the plan as it is and maybe just shift priorities throughout the year without the ordering.

Vice Mayor Scharff: So I've been sold on the business registry. I think if we keep it high level it's only a 125 hours. On the Code Enforcement it's 575...

Chair DuBois: It's half the size of a business registry audit

Vice Mayor Scharff: It's three times, it's almost three times the size of a business registry audit which [inaudible – multiple people talking]. Almost four times. So I mean I think, I think we should do it, but I think this is not a 2016 audit. I think it's a 2017 audit and I see no reason why we should try and shoehorn it in, I mean a 2018 audit not a 2017 audit.

Council Member Berman: I'm assuming if we moved it the other work plan it might roll over anyways.

Vice Mayor Scharff: But why not just start it then? I mean why not just say because it's 600 hours, what does that mean? Does that... I mean that's a lot. That's a big audit, 600 hours. So I wouldn't do that one. Now I mean I think we should do it, I just wouldn't do it this year. And the agreements with the School District I think it depends on how we worded that. So I think it would be helpful to identify all agreements with PAUSD with the parties involved in each and evaluate the required services under each. I'm not so sure we really want the Auditor...

Mr. Keene: We shouldn't, right.

Vice Mayor Scharff: To, to be making a recommendation, to be making recommendations about who... it's one thing to identify everything and say these are all the agreements, these are how they're being done. I think that's useful information, but I don't want the Auditor saying we should do this or we should do that. I don't think that's a good idea. And I guess I won't support it. I guess I've been sold on the public safety one and I think I've been sold on everything else that we would do. So for me, for me it's moving the Code Enforcement one off to next year and then it depends on... so I guess with that said what, how would you, what would you do on the PAUSD audit? Do you think it's worth going forward with it if I'm not going to want you make recommendations that would say anything about cost sharing or necessarily I'm not sure you say who should run it. I mean take, take crossing guards for instance. You know, it's clearly a School District function, right? [Inaudible] crossing guards, but the City does it. So I mean

how would you, how would you approach something like that as an auditor? Would you say I've gone and looked at 12 other school districts and cities and the school districts pay for that in six of them and you know the city pays in six or the school district pays in all 12 and the city doesn't pay in any. I mean how would you approach it?

Ms. Richardson: Most likely that is how we would approach it. We'd look at similar types of school districts to see and I don't know what those school districts would be right now, but that's most likely what we would do if we were making just comparisons. And we could even do that without making a recommendation as to whether the City should continue supporting or not. We could still do some benchmarking in that and then leave it up to Council. I mean then you have the information you can make a decision based on that.

Vice Mayor Scharff: So is it really an audit if you don't make recommendations? I don't think I've ever seen an audit come out of your office without recommendations. That's my only, you know.

Council Member Kniss: I mean is it just information?

Vice Mayor Scharff: Right, I have never seen an audit that doesn't have recommendations and you know...

Council Member Kniss: Could you do an information only really is the question.

Ms. Richardson: Right, right. We could do that.

Vice Mayor Scharff: You could? And you're sure? I mean this doesn't go against auditing?

Ms. Richardson: No.

Vice Mayor Scharff: Ok.

Council Member Berman: Harriet would tell us.

Vice Mayor Scharff: Ok. Well alright, I'd be fine if we're doing it for informational purposes as long as we're not...

Mr. Keene: But, but this whole issue of even the determination you're talking about leaving out. I mean...

Vice Mayor Scharff: Absolutely.

Mr. Keene: Yeah. I would just think you would strike that second half of that language. Just say the required services under agreement and costs, you know, borne by each party or something.

Vice Mayor Scharff: That's right.

Chair DuBois: And maybe benchmarking.

Mr. Keene: And benchmarking, yeah.

Vice Mayor Scharff: Correct. So I just sort of like a mini-Motion. Are we all agreed that that's what we want to do on the school?

Chair DuBois: I am.

Council Member Kniss: I can, I think it's a good middle good middle of the road decision. Bad pun.

Vice Mayor Scharff: Ok. Alright. So I guess that's what we want.

Chair DuBois: So in terms of the work plan in terms of either if we pull Code Enforcement off then I guess you would come back to, would this come back to Council on consent with the proposal?

Ms. Richardson: I can do that. I can put it in as consent if you'd like me to do it that way. We do, we do forward this with any changes that you recommend now as a consent item and I can just go ahead if you want me to add one of these other ones in I can do that.

Vice Mayor Scharff: So there's two approaches we could do. We could either do that or we could have her forward everything else for the work plan and then you could come back to us and we could talk about one of these and then recommend that to Council if we want.

Council Member Kniss: A better decision.

Vice Mayor Scharff: What?

Council Member Kniss: A better decision. I'm not sure the other five would agree to not go with the Code Enforcement. That's been a popular, popular item.

Ms. Richardson: It was recommended by a Council Member who is not on this Committee.

Council Member Kniss: Yes.

Vice Mayor Scharff: Well, if we don't put it on Consent...

Chair DuBois: It comes back as an Action Item and then you could, kind of an alternative...

Vice Mayor Scharff: But wait you're doing it wrong. If you don't put it on Consent the whole point of having a Committee goes away. I mean why have a Committee? I mean there's three Council Members to pull it.

Chair DuBois: Not everything that goes to Committee is unanimous. Things go to...

Vice Mayor Scharff: No, that's what I mean. Right. But I mean the goal is to make it unanimous and to get through the business because I know we get things through too fast and we sit around and have nothing to do at Council.

Mr. Keene: Every time.

Vice Mayor Scharff: Every time.

Ms. Richardson: Another option would be to leave it on, but say start late in the FY so it's basically being mostly performed in FY 18.

Council Member Kniss: For the Code?

Ms. Richardson: Yes.

Chair DuBois: Once a new person is [inaudible]

Council Member Berman: I would support that.

Vice Mayor Scharff: Yeah, go with it.

Council Member Kniss: Yeah, that's...

Mr. Keene: Well yeah, let's do that because...

Vice Mayor Scharff: That's fine.

Mr. Keene: It needs to go on Consent. Somebody can always pull it off Consent. So this, this ought to force somebody pulling it off consent.

Vice Mayor Scharff: So why don't we do that? As long as it's clearly understood.

Chair DuBois: So do we have a Motion then to... So I'll move we go with work plan with the changes discussed.

Council Member Kniss: With the Code starting at a later date.

Vice Mayor Scharff: Correct.

Council Member Kniss: and I'll second it.

Chair DuBois: All in favor? Alright, well thank you very much Harriet.

MOTION: Vice Mayor Scharff moved, seconded by Council Member Kniss to recommend the City Council approve the Fiscal Year (FY) 2017 Proposed Audit Work Plan with the following changes:

- A. The audit for Analysis of Agreements with PAUSD should read "Identify all agreements with PAUSD and the parties involved in each and benchmark against other school districts to determine which services are generally provided by a school district or the city."
- B. The Code Enforcement audit should begin later in Fiscal Year 2017 so the bulk of the work is performed in Fiscal Year 2018.

MOTION PASSED: 4-0