



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 20, 2018

The Honorable City Council  
Palo Alto, California

### **Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of March 31, 2018**

The Office of the City Auditor recommends acceptance of the Auditor's Office Quarterly Report as of March 31, 2018. At its meeting on June 21, 2018, the Policy and Services Committee approved and unanimously recommended that the City Council accept the report. [The City Auditor's report to the Policy and Services Committee](#) and the [transcript minutes](#) are available on the City's [Policy and Services Committee website](#).

Respectfully submitted,

*Harriet Richardson*

Harriet Richardson  
City Auditor

#### **ATTACHMENTS:**

- Attachment A: Auditor's Office Quarterly Report as of March 31, 2018 (PDF)

Department Head: Harriet Richardson, City Auditor





CITY OF  
**PALO  
ALTO**

## Quarterly Report as of March 31, 2018



### Office of the City Auditor

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

## Fiscal Year (FY) 2018 Third Quarter Update (January – March 2018)

### Overview

The audit function is essential to the City of Palo Alto’s public accountability. The mission of the Office of the City Auditor, as mandated by the City Charter and Municipal Code, is to promote honest, efficient, effective, economical, and fully accountable and transparent city government. We conduct performance audits and reviews to provide the City Council and City management with information and evaluations regarding how effectively and efficiently resources are used; the adequacy of internal control systems; and compliance with policies, procedures, and regulatory requirements. Taking appropriate action on our audit recommendations helps the City reduce risks and protect its good reputation.

### Activity Highlights

- Engaged our consultant, MuniServices, to conduct a study session for the City Council on March 26, 2018, regarding sales taxes and their trends.
- City Auditor Harriet Richardson accepted an invitation and went to Ohlone Elementary School to give a presentation on the activities and responsibilities of the Office of the City Auditor as part of the students’ “Volcanic City” project for learning how the City of Palo Alto operates.
- Received notification from the Association of Local Government Auditors that our audit, Accuracy of Utility Meter Billing, will receive a Distinguished Audit Award at the May 2018 annual conference.

### Audit and Project Work

Below is a summary of our audit and project work for the third quarter of FY 2018:

| Title  | Objective(s)   | Start Date | End Date | Status     | Results/Comments  |
|--|--|------------|----------|------------|---|
| Enterprise Resource Planning (ERP) Planning Audit: Data and System Governance and Security | Evaluate the adequacy of data and system governance and security in the current SAP system and make recommendations to ensure that identified deficiencies are corrected for the new ERP system.         | 05/17      | 06/18    | In Process | The audit is in the report writing phase, and we expect to complete the audit in mid-2018.  |
| ERP Planning Audit: Data Reliability and Integrity   | Evaluate the integrity and reliability of data in the current SAP system and make recommendations to ensure that identified deficiencies are corrected prior to transferring data to the new ERP system. | 05/17      | 06/18    | In Process | This will be a series of reports that focus on different aspects of data reliability or specific data sets. Our first two audits are data standardization and the human resources/ payroll data set. These audits are currently in the report writing phase, and we expect to complete them by mid- 2018, with more audits to follow. |
| ERP Planning Audit: Separation of Duties   | Evaluate the adequacy of separation of duties for various activities in the current SAP system and make recommendations to ensure that identified deficiencies are corrected for the new ERP system.     | 05/17      | 06/18    | In Process | The audit is in the report writing phase, and we expect to complete in mid- 2018.   |

| Title                                | Objective(s)  | Start Date | End Date | Status     | Results/Comments  |
|--------------------------------------|---|------------|----------|------------|---|
| Code Enforcement Audit               | Evaluate the timeliness and effectiveness of code enforcement actions, the effectiveness of communication with the public, and the accuracy and completeness of code enforcement case tracking for decision making purposes. We conducted a resident survey to help inform our audit recommendations, as described below. | 05/17      | 06/18    | In Process | The audit is in the report writing phase. We expect to complete the audit in mid-2018.  |
| Mobile Device Inventory and Security | Determine if the City accurately inventories and securely manages city-owned mobile devices, including laptops, tablets, cell/smart phones, and radios.   | 03/18      | 10/18    | In Process | The audit is in the planning phase. We expect to complete the audit in late 2018.   |
| Business Registry                    | 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.  | 02/18      | 06/18    | In Process | The audit is in the report writing phase. We expect to complete the report in mid-2018.   |
| ERP Nonaudit Service                 | Provide advisory services to the Department of Information Technology regarding its planning of a new ERP system.   | 09/16      |          | Ongoing    | We attended 13 tactical team meetings during the third quarter of FY 2018 and provided verbal and written advice based on our technical expertise and best practice information readily available to us. Our interaction with the tactical team was limited due to their participation in vendor demonstrations and other due diligence activities. We did not issue a memo this quarter because the fundamental issues we communicated in our previous memos continue to be our main concerns. |
| Custom Citizen Survey                | Conduct a citizen survey, separate from the annual National Citizen Survey™, to obtain resident opinions about code enforcement activities and the built environment.   | 06/17      | 01/18    | Completed  | The National Research Center mailed the survey to 3,000 residents. We compiled the results into a report and presented them at the annual Council retreat on February 3, 2018.  |

| Title                     | Objective(s)   | Start Date | End Date | Status    | Results/Comments   |
|---------------------------|--|------------|----------|-----------|--|
| National Citizen Survey™  | Obtain resident opinions about the community and services provided by the City of Palo Alto and benchmark our results against other jurisdictions. | 06/17      | 01/18    | Completed | The National Research Center has mailed the survey to 3,000 residents. We received the results, did some analysis of the results, and prepared an executive summary. We presented the results at the annual Council retreat on February 3, 2018. We are currently reviewing the questions to identify ones that can be deleted in the 2018 survey to potentially increase the response rate. |
| Annual Performance Report | Provides citywide information for key areas, including spending, staffing, workload, and performance   | 08/17      | 01/18    | Completed | Departments provided data, which we compiled into the annual report and presented at the annual Council retreat on February 3, 2018.   |
| Citizen Centric Report    | Provides City and community information, performance results, and summary revenue and expenditure data in an easy-to-read four-page format.        | 12/17      | 01/18    | Completed | We collected and compiled data into the report, which we presented at the annual Council retreat on February 3, 2018.  |

### Other Monitoring and Administrative Assignments

Below is a summary of other assignments as of March 31, 2018:

| Title                       | Objective(s)  | Status  | Results/Comments  |
|-----------------------------|---|---------|---|
| City Auditor Advisory Roles | Provide guidance and advice to key governance committees within the City. | Ongoing | The City Auditor serves as an advisor to the Utilities Risk Oversight Committee and Information Security Steering Committee. We are also serving as an advisor for the strategic and technical planning groups for planning the new ERP system (see comment in the Audit and Project Work section above). |

| Title                                | Objective(s)   | Status  | Results/Comments  |
|--------------------------------------|--|---------|---|
| Sales and Use Tax Allocation Reviews | <p>1) Identify businesses that do business in Palo Alto that may have underreported or misallocated their sales and use tax and submit inquiries to the state for review and tax reallocation.</p> <p>2) Monitor sales taxes received from the Stanford University Medical Center Project and notify Stanford of any differences between their reported taxes and state sales tax information, in accordance with the development agreement.</p> <p>3) Provide Quarterly Status Updates and Sales Tax Digest Summaries for Council review.</p> | Ongoing | <p>1) Total sales and use tax recoveries for the third quarter of FY 2018 were \$0 from our inquiries and \$41,592 from the vendor's inquiries, for a total of \$41,592 for the quarter and \$313,120 for the fiscal year-to-date. Due to processing delays at the State Board of Equalization, 39 potential misallocations are waiting to be researched and processed: 15 from our office and 24 from the vendor.</p> <p>2) We receive calendar-year sales tax information for the Stanford Medicine development project about six months after the end of the calendar year. We will report the 2017 sales tax information for this project in our June 2018 quarterly report. The City has received \$2,896,941 for calendar years 2011 through 2016 as a result of this agreement.</p> <p>3) Quarterly sales tax reports are published on the Office of the City Auditor website at <a href="http://www.cityofpaloalto.org/gov/depts/aud/reports/default.asp">www.cityofpaloalto.org/gov/depts/aud/reports/default.asp</a>.</p> |

### Status of Audit Recommendations

Sixty-four recommendations were open at the beginning of the third quarter of FY 2018, and 11 were closed. One status report that was due in the third quarter of FY 2018 is scheduled to be presented to the Policy and Services Committee in June 2018, but we have already verified the implementation of two recommendations for that audit. One status report is past due, and five other status reports are due during the fourth quarter of FY 2018. Below is a summary of the open audit recommendations as of March 31, 2018:

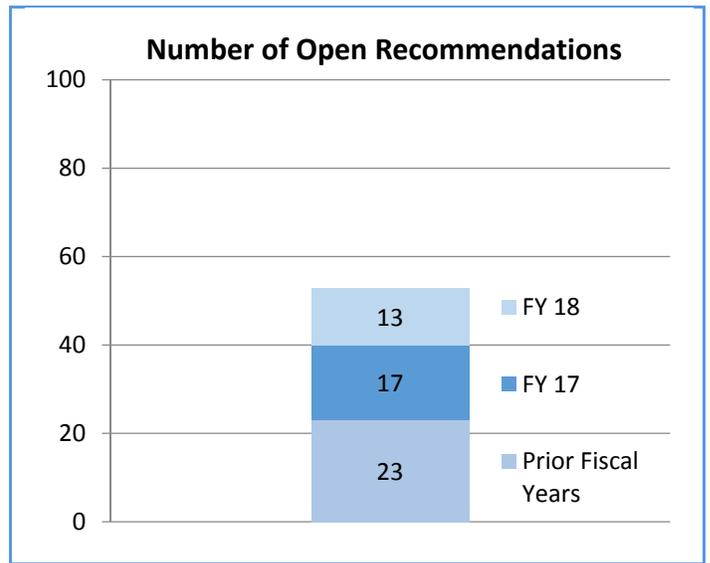
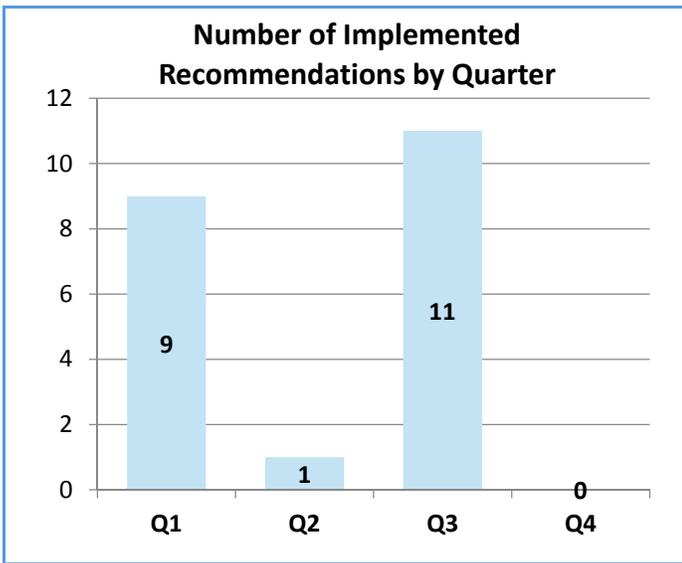
| Audit Title and Report Date                               | Due Date and Prior Status Report Dates  | Total Recommendations/ Number Open                              | Summary of Open Recommendations  |
|---|---|---|--|
| Citywide Cash Handling and Travel Expense Issued 09/15/10 | Due – 09/18<br>03/21/18<br>08/22/17<br>11/10/15<br>09/23/14<br>09/10/13<br>10/22/12<br>04/19/11 | Recommendations: 11<br>Open: 1<br>Implemented during quarter: 0 | Review practice of reimbursing employee meals when not in a travel status and report the amounts as income to employees to conform to Internal Revenue Service requirements (ASD)  |
| Inventory Management Issued 02/18/14                      | Due – 05/18<br>11/02/17<br>09/23/14   | Recommendations: 14<br>Open: 4<br>Implemented during quarter: 0 | <ul style="list-style-type: none"> <li>• Implement City's inventory management policies and procedures (ASD/UTL/PWD/IT)</li> <li>• Update and enforce inventory count policies and procedures to ensure consistent and accurate inventory records (ASD)</li> <li>• Identify, formalize, and communicate inventory management goals and objectives to City departments (ASD)</li> <li>• Ensure staff identify and use key SAP inventory management reports and appropriately configure and update SAP parameters that affect inventory levels (ASD/IT)</li> </ul> |

| Audit Title and Report Date  | Due Date and Prior Status Report Dates | Total Recommendations/<br>Number Open                           | Summary of Open Recommendations  |
|--|--|---|--|
| Utility Meters: Procurement, Inventory, and Retirement Issued 03/10/15 | Due – 05/18<br>11/02/17                | Recommendations: 15<br>Open: 1<br>Implemented during quarter: 0 | <ul style="list-style-type: none"> <li>• Correct purchase order documents to accurately reflect engineering specifications (ASD)</li> </ul> <p>NOTE: Two recommendations were closed because they were deemed to be no longer relevant.</p>  |
| Parking Funds Issued 12/15/15  | Due – 05/18<br>11/14/17                | Recommendations: 8<br>Open: 3<br>Implemented during quarter: 0  | <ul style="list-style-type: none"> <li>• Develop policies and procedures to clarify roles and responsibilities and ensure accurate calculation and reporting of parking-in-lieu fees (PCE, ASD, PWD, CLK)</li> <li>• Establish policies and procedures to clarify roles and responsibilities for parking programs and parking permit funds (ASD/PCE/PWD/POL)</li> <li>• Identify financial and performance data required for effective evaluation of parking program (PCE/ASD/POL)</li> </ul>  |
| Disability Rates and Workers' Compensation Issued 05/10/16             | Due – 08/18<br>02/13/18                | Recommendations: 15<br>Open: 8<br>Implemented during quarter: 7 | <ul style="list-style-type: none"> <li>• Update the safety manual/supplemental tools (HR)</li> <li>• Review departmental procedures and safety requirements to ensure they align with citywide policies and procedures (HR)</li> <li>• Identify and provide industry-specific ergonomics and general wellness training opportunities (HR)</li> <li>• Address the disability leave benefits incorrectly reported as compensation to CalPERS (HR)</li> <li>• Review claims that had differences in additional city benefits and correct any errors identified (HR)</li> <li>• Determine optimal structure, update tools and procedures, and allocate sufficient and skilled resources to ensure accuracy of benefit eligibility and work status of injured employees (HR)</li> <li>• Ensure that data for managing disability leave is accurately captured through SAP time reporting (HR)</li> <li>• Identify useful performance measures and establish procedures to ensure reliable reporting (HR)</li> </ul> |

| Audit Title and Report Date   | Due Date and Prior Status Report Dates | Total Recommendations/<br>Number Open                          | Summary of Open Recommendations  |
|---|--|--|--|
| Cable Franchise and Public, Education, and Government (PEG) Fees<br>Issued 06/14/16 | Due – 09/18<br>03/21/18<br>08/22/17    | Recommendations: 9<br>Open: 6<br>Implemented during quarter: 0 | <ul style="list-style-type: none"> <li>• Assess ongoing need for PEG fees; place fees in restricted account until decisions are made about use of fees (CMO/ATTY/ASD/IT)</li> <li>• Determine whether to allocate unrestricted funds, instead of PEG fees, to subsidize the Media Center’s operations. (CMO/ATTY/ASD/IT)</li> <li>• Send letters to cable companies to demand payment of underpaid franchise and PEG fees (CMO/ATTY/ASD/IT)</li> <li>• Develop criteria for assessing the accuracy of future cable franchise and PEG fee payments and require more detail with payment remittances (ASD)</li> <li>• Assign responsibility for the cable communications program and provide effective oversight of the program (CMO/CLK)</li> <li>• Draft an ordinance to update the Palo Alto Municipal Code based on clarified assignment of responsibility (CMO/ASD/ATTY/CLK)</li> </ul> |
| Community Services Department (CSD): Fee Schedule Audit<br>Issued 02/14/17          | Due – 05/18<br>11/14/17                | Recommendations: 3<br>Open: 2<br>Implemented during quarter: 0 | <ul style="list-style-type: none"> <li>• Revise City’s cost recovery policy to align with relevant laws and reconfigure the Questica budget system to support fees that recover more than 100 percent of costs (ASD)</li> <li>• Configure SAP or the new ERP system to align cost centers with CSD programs (CSD)</li> </ul>   |
| Continuous Monitoring: Payments<br>Issued 04/13/17                                  | Due – 09/18<br>03/21/18                | Recommendations: 7<br>Open: 5<br>Implemented during quarter: 2 | <ul style="list-style-type: none"> <li>• Build a continuous monitoring process into the new ERP system to identify potential duplicate invoices and seek recovery of duplicate payments (ASD)</li> <li>• Update invoice processing policies and procedures to facilitate identification of duplicate payments (ASD)</li> <li>• Update policies and procedures to clarify guidance for creation of vendor master records and develop standardized coding vendor records (ASD)</li> <li>• Build a continuous monitoring process into the new ERP system to identify duplicate, incomplete, or unused vendor records (ASD)</li> <li>• Clean vendor master file before merging data into new ERP system (ASD)</li> </ul>   |

| Audit Title and Report Date   | Due Date and Prior Status Report Dates | Total Recommendations/ Number Open                                      | Summary of Open Recommendations   |
|---|--|---|---|
| <p>Green Purchasing Practices<br/>Issued 04/13/17</p>                           | <p>Scheduled for 06/18<br/>None</p>    | <p>Recommendations: 8<br/>Open: 6<br/>Implemented during quarter: 2</p> | <ul style="list-style-type: none"> <li>• Clearly define department(s) responsible for implementing green purchasing policies and determine if additional staffing and funding are needed to implement the policies (ASD/CMO)</li> <li>• Develop consolidated procedures to implement green purchasing policies (CMO/ASD/PWD)</li> <li>• Educate City staff on green purchasing policies (ASD)</li> <li>• Evaluate if new e-procurement system or other technology solution can help with tracking and reporting green purchases and establish appropriate green purchasing performance measures (ASD/PWD)</li> <li>• Require vendors to provide data on amounts of green products and services that City purchases from them (ASD/PWD)</li> </ul> |
| <p>Utilities Department: Cross Bore Inspection Contract<br/>Issued 06/01/17</p> | <p>Past Due<br/>None</p>               | <p>Recommendations: 4<br/>Open: 4<br/>Implemented during quarter: 0</p> | <ul style="list-style-type: none"> <li>• Prioritize uninspected sewer pipelines for inspection and disclose potential inspection challenges in future contract solicitations (UTL)</li> <li>• Identify and update missing data in laterals database (UTL)</li> <li>• Incorporate relevant provisions from National Association of Sewer Service Companies' contract template in future sewer inspection contracts (UTL)</li> <li>• Identify gaps in staff expertise and develop a training and certification plan for field staff who will monitor field inspections (UTL)</li> </ul>   |

| Audit Title and Report Date                                   | Due Date and Prior Status Report Dates | Total Recommendations/<br>Number Open   | Summary of Open Recommendations   |
|---|--|---|---|
| <p>Accuracy of Water Meter Billing</p> <p>Issued 08/16/17</p> | <p>Due – 05/18</p> <p>None</p>         | <p>Recommendations: 11</p> <p>Open: 11</p> <p>Implemented during quarter: 0</p> | <ul style="list-style-type: none"> <li>• Correct billing errors identified (UTL)</li> <li>• Investigate 123 other meter records with discrepancies and correct as necessary (UTL)</li> <li>• Review and correct meter records for meters larger than 2 inches (UTL)</li> <li>• Explore options for addressing equity in meter size rates (UTL)</li> <li>• Until new ERP system is implemented, implement a temporary monitoring or reporting system to identify and correct discrepancies that may result in billing errors and ensure new ERP system has controls to prevent and identify such discrepancies (UTL)</li> <li>• Develop a policy and procedures to report significant, systemic infrastructure changes to Council and update City of Palo Alto Utilities' (CPAU) Rules and Regulations as needed (UTL)</li> <li>• Seek direction from Council before proceeding with installing additional electronic meters (UTL)</li> <li>• Determine if installed eMeters should be replaced and if billing adjustments are required (UTL)</li> <li>• Clarify purchasing policy and procedures for product standardization and sole source (ASD)</li> <li>• Retrain staff on purchasing policies and procedures and completion of required forms (ASD)</li> <li>• Determine roles and responsibilities and develop a procedure for tracking sole source purchases to avoid overspending approved amounts (ASD)</li> </ul> |
| <p>Continuous Monitoring: Overtime</p> <p>Issued 09/06/17</p> | <p>Due – 10/18</p> <p>None</p>         | <p>Recommendations: 2</p> <p>Open: 2</p> <p>Implemented during quarter: 0</p>   | <ul style="list-style-type: none"> <li>• Explore potential of developing a continuous monitoring process for overtime (ASD)</li> <li>• Form a work group to design standardized overtime management processes in the new ERP environment (ASD)</li> </ul>   |



**Open Recommendations by Audit Issuance Date**

| Fiscal Year | Audit Title  | Number of Open Recommendations |
|-------------|--|--------------------------------|
| 2011        | Citywide Cash Handling and Travel Expense                        | 1 of 11                        |
| 2014        | Inventory Management   | 4 of 14                        |
| 2015        | Utility Meters: Procurement, Inventory, and Retirement           | 1 of 15                        |
| 2016        | Parking Funds  | 3 of 8                         |
|             | Disability Rates and Workers' Compensation                       | 8 of 15                        |
|             | Cable Franchise and Public, Education, and Government (PEG) Fees | 6 of 9                         |
| 2017        | Community Services Department: Fee Schedule                      | 2 of 3                         |
|             | Continuous Monitoring: Payments                                  | 5 of 7                         |
|             | Green Purchasing Practices                                       | 6 of 8                         |
|             | Utilities Department: Cross Bore Inspection Contract             | 4 of 4                         |
| 2018        | Accuracy of Water Meter Billing                                  | 11 of 11                       |
|             | Continuous Monitoring: Overtime                                  | 2 of 2                         |

**Fraud, Waste, and Abuse Hotline Administration**

The hotline review committee, composed of the City Auditor, the City Attorney, and the City Manager, or their designees, meets as needed to review hotline-related activities. No complaints were received during the third quarter of FY 2018. All prior-year complaints have been closed. The chart below summarizes the status of complaints received in each fiscal year since the hotline was implemented.

