



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

September 25, 2002

The Honorable City Council
Attn: Finance Committee (October 1, 2002)
Policy and Services Committee (November 6, 2002)
Palo Alto, California

REPORT ON THE STATUS OF AUDIT RECOMMENDATIONS

Recommendation

We recommend the Finance Committee and Policy and Services Committee review and accept the attached report. The Finance Committee is asked to review the status of recommendations from the audits of travel, purchase orders, overtime, accounts payable, payroll, and utility risk management. The Policy and Services Committee is asked to review the status of recommendations from the audits of building inspection and class registration.

Background

The Municipal Code requires the City Auditor to issue an annual report on the implementation status of recommendations from recently completed audits. This report summarizes the status of 53 recommendations from 8 different audit reports. This includes 29 recommendations that were outstanding after our last status report in November 2001, and 24 new recommendations that the City Council adopted this year. The report shows recommendations that have been completed since our last report and an agreed upon course of action for implementing all other recommendations. We compiled this report based on interviews with appropriate City staff and reviewed its contents with them.

Summary of Results

City staff completed 4 recommendations from the audits of building inspection and class registration, and plans to complete at least 22 recommendations in conjunction with ERP implementation. In addition, the Utilities Department is actively addressing the 24 recommendations from the July 2002 Assessment of Utilities Risk Management Procedures.

Staff's cooperation in implementing audit recommendations demonstrates their commitment to improving the City's administrative processes. I would like to thank the Administrative Services, Community Services, Planning and Community Environment, and Utilities Departments for their assistance in compiling this report.

Respectfully submitted,

Sharon W. Erickson
City Auditor

cc: Frank Benest
Emily Harrison

SUMMARY

STATUS OF AUDIT RECOMMENDATIONS AS OF SEPTEMBER 2002

The Municipal Code requires the City Auditor to issue an annual report on the status of recommendations from completed audits. This report summarizes the status of all open audit recommendations since our last review in November 2001. It shows those recommendations that have been completed or resolved, are in process, or should be dropped, and provides an agreed course of action to implement remaining recommendations.

Page Number	Report Title (Department)	Date Issued	Completed or resolved since last report	In process	Recommend drop	Council Committee
2	Audit of Building Inspection Practices (PBCE)	4/7/97	2			P&S
3	Audit of Travel Expense (ASD)	4/27/98		8		Finance
5	Audit of Purchase Orders (ASD)	11/9/98		5		Finance
8	Audit of Utilities Operations Overtime (ASD – Payroll)	11/98		1		Finance
8	Audit of Class Registration (CSD)	6/21/99	2	3		P&S
11	Audit of Accounts Payable – Tools for Improvement (ASD)	3/27/00		7		Finance
13	Audit of Payroll (ASD – Payroll)	7/2/01		1		Finance
13	Assessment of Utility Risk Management Procedures (CPAU)	7/3/02		24		Finance
TOTAL			4	49	0	

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
AUDIT OF BUILDING INSPECTION PRACTICES (Issued 4/7/97)				For review by P&S
This was the second in a series of audits of the Inspection Services Division of the Planning Department. Of the original 19 recommendations: 18 are now completed/resolved and 1 was previously dropped. This completes the review.				
<p>#3: Reinspection fees were not consistently charged. To ensure that reinspection fees are consistently charged, we recommend that the building inspection supervisor review and approve any reinspections that may be subject to fee waiver.</p> <ul style="list-style-type: none"> - Additionally, a report reflecting reinspection fees paid should be developed as part of the new permit information tracking system. This report should be reviewed by staff prior to scheduling reinspections to ensure that the appropriate fees have been paid as required. - Reinspection fees should be charged for initial reinspections in certain circumstances. We recommend that reinspection fees be charged for first-time reinspections due to the negligence of owners or contractors. 	X			<p>Nov-2001: In process. Staff will develop clear and workable standards for reinspection fees that do not penalize builders or homeowners who are cooperating in good faith with City requirements. Target date: TBD.</p> <p>Current status: Implemented. Reinspection fees are entered into the permit system as a separate line item. The permit system shows if a reinspection fee has not been paid, and additional reinspections will not be scheduled until fees are collected. Inspectors have been trained on consistent standards for applying reinspection fees.</p>
<p>#5: Expired permits were not properly monitored and renewal fees were not properly assessed. We recommend the permits provided to applicants clearly state the conditions under which a permit expires; the renewal fees to reinstate the permit; and that occupying a structure without final approval is a code violation. Additionally, expired permits should be flagged for follow-up.</p>	X			<p>Nov-2001: In process. Information about permit expiration is stamped on every permit. The division will add language to the permit stating that a reinstatement fee will be charged. Target date: TBD.</p> <p>Current status: Implemented. Notice of permit expiration is shown on every permit issued. A notice of plan review expiration is also shown on the web site and the permit status system. In addition, the Division has initiated a temporary occupancy program, funded by a \$250 fee, to control occupancy prior to final inspection.</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
AUDIT OF TRAVEL EXPENSE (Issued 4/27/98)				For review by Finance
<p>The objective of this audit was to evaluate internal controls over travel expenses paid by the City. Of the original 15 recommendations: 7 were previously completed/resolved and 8 are in process. ASD plans to implement the remaining recommendations in conjunction with the enterprise resource planning (ERP) computer system implementation.</p>				
<p>#1: Distribute copies of the City's travel policies and procedures to all department managers, highlighting authorization, approval, and documentation requirements. This distribution should be accompanied by a transmittal letter to be signed by department managers as evidence of their review and understanding of these procedures. Signed letters should be returned to the Director of Administrative Services Department.</p>		X		<p>Nov-2001: In process. The update of the travel policy has been delayed due to staff turnover in the Accounting Division. Staff has met with the new City Auditor to review proposed changes to both the travel and petty cash policies. Staff will complete changes by the end of 2001-02.</p> <p>Current status: Staff has advised Executive Staff of planned changes to travel procedures, and is beginning a 6-month pilot program on 9/1/02. Written policies and procedures will be revised after completion of a 6-month pilot program and in conjunction with ERP implementation. Target date: Jul-2003.</p>
<p>#2: Provide signature blocks on the travel authorization forms and travel expense reports which require the signature of the department head or designee. The signature block should indicate that the approving party certifies that the employee's payment request complies with the City's travel policies and procedures.</p>		X		<p>Nov-2001: In process. To be completed as part of the updated policies and procedures in 2001-02.</p> <p>Current status: Revised forms are a component of the 6-month pilot program beginning 9/1/02. Forms will be finalized along with policies and procedures after completion of the 6-month pilot program and in conjunction with ERP implementation. Target date: Jul-2003.</p>
<p>#3: Develop a comprehensive list of travel expenses which will not be paid by the City. This list should include hotel/meal charges for extended travel stays, hotel charges at double occupancy rates, and fees for social events, such as golf tournaments and sightseeing tours. This list should be distributed to all department heads and incorporated into the City's travel policies and procedures. Exceptions should be justified in writing by the traveler (in advance when possible) and should include supporting documentation. All exceptions should be approved by the City Manager.</p>		X		<p>Nov-2001: In process. Staff developed a list of disallowed expenses which was included in the Accounts Payable Quick Reference Guide. Staff will include the list in the 2001-02 update of the travel policy.</p> <p>Current status: Staff is addressing the issue of allowable expenses in the revised pilot program procedures. Pre-authorization forms will include an "Other" category requiring pre-approval of unusual</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
#7: The City could save money if employees request government discount rates for hotels. Provide a block on both the Travel Expense Report and Request for Travel Authorization form requiring employees to indicate whether discounted government hotel rates were obtained. Employees should provide justification when such rates are not obtained.		X		<p>items (e.g. special events) by the department head, and documenting cost savings and pre-approval for an "Unrelated Weekend Stay-over". Policies and procedures will be finalized after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Target date: Jul-2003.</p> <p>Nov-2001: In process. Few transactions occur that do not have group rates set, and not all hotels offer government rates. However the form will be updated and language will be included in the revised travel policies and procedures to be completed in 2001-02.</p> <p>Current status: Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Pre-travel authorization forms will include "Conference or government rate" confirmation. Target date: Jul-2003.</p>
#8: Update the City's travel policies and procedures relating to obtaining discounted government rates and providing documentation requirements when discounted rates cannot be obtained.		X		<p>Nov-2001: In process. To be completed in 2001-02.</p> <p>Current status: Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Pre-travel authorization forms will include "Conference or government rate" confirmation and department head approval. Target date: Jul-2003.</p>
#10: Ensure that the signature block for the travel authorization form (see recommendation #2) also states that the employee certifies that the expense report will be filed within the time frame established by the City's travel policies and procedures.		X		<p>Nov-2001: In process. The form will be revised and this change will be included in the revised travel policies and procedures to be completed in 2001-02.</p> <p>Current status: Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Revised forms are a component of the pilot program and will specify that reports must</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
#12: Update the City's travel policies and procedures relating to obtaining and submitting evidence of attendance.		X		<p>be completed within 30 days of travel. Target date: Jul-2003.</p> <p>Nov-2001: In process. A list of required documentation was included in the Accounts Payable Quick Guide, and will be added to the revised travel policies and procedures update in 2001-02.</p> <p>Current status: Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. A copy of the agenda will satisfy as evidence of attendance. Target date: Jul-2003.</p>
#15: Review and update current written procedures to provide clear direction in processing travel advances and expense reimbursements. Departments could also benefit from more user-friendly procedures which provide step-by-step guidance in completing travel authorizations and expense reports. A bullet format or use of flowcharts could be very helpful. The procedures should also include a list of allowable expenses.		X		<p>Nov-2001: In process. Updated procedures were included in the Accounts Payable Quick Reference Guide and will also be included in the revised travel policies and procedures manual to be completed in 2001-02.</p> <p>Current status: Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Target date: Jul-2003.</p>
<div style="display: flex; justify-content: space-between;"> AUDIT OF PURCHASE ORDERS (Issued 11/9/98) For review by Finance </div> <p>The objective of the audit was to evaluate internal controls and operating procedures surrounding blanket purchase orders and purchases under \$25,000. Of the original 25 recommendations: 20 were previously completed/resolved and 5 are in process. ASD plans to complete the expanded procurement card pilot project by Mar-2003, and to implement the remaining 4 recommendations in conjunction with the ERP implementation.</p>				
<p>#13: Standard material codes are not used for purchases.</p> <p>a. Purchasing should work with ITS to provide for the input of standard material codes into the purchasing module.</p> <p>b. Purchasing should work with ITS to develop a report reflecting purchases by commodity. This report should be provided to Purchasing on a periodic basis and used in negotiating purchases.</p>		X		<p>Nov-2001: In process. The City's financial system cannot accommodate standard material codes without costly modifications. Commodity information is now gathered and collected manually and reports of purchases by commodity are generated as needed. This feature will be incorporated into specifications for the new ERP system. Target date:</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
				<p>TBD.</p> <p>Current status: Purchasing staff anticipates adding this recommendation to the blueprint process of the ERP implementation. The new ERP system should address this issue. Target date: Jul-2003.</p>
<p>#14: A mechanism for gathering information on vendor performance has not been established.</p> <ul style="list-style-type: none"> a. Purchasing should meet with department representatives to discuss some common vendor performance criteria, such as adherence to delivery dates, quality of goods and services, etc. b. Based on departmental feedback, Purchasing should develop a standard vendor performance report to be completed by the department. c. Vendor performance results should be entered into a separate vendor history database indexed by vendor name and/or commodity or services purchased and which is accessible to buying personnel. 		X		<p>Nov-2001: In process. Vendor performance is collected on an informal basis. Although staff recognizes the value of establishing a vendor performance database, staff has concluded that collecting and verifying the validity of the data on a more formal basis would be costly at this time. The number of marginal performers may be too small to make this effort worthwhile on a routine basis. Staff will reassess this recommendation when a new financial system is in place that has the capability to automate vendor performance information. Target date: TBD.</p> <p>Current status: Staff will seek opportunities to implement these recommendations during the implementation of the new ERP system. Target date: Jul-2003.</p>
<p>#20: Purchasing does not issue citywide blanket orders.</p> <ul style="list-style-type: none"> a. Using the Blanket Order Report, Purchasing should identify vendors with multiple blanket orders and determine if a consolidated blanket order is practicable. b. Purchasing should work with the departments to ensure that citywide orders are generated for subsequent purchases. c. Purchasing should adopt a policy regarding citywide blanket orders and incorporate it into the Purchasing Manual. 		X		<p>Nov-2001: In process. Although citywide blanket orders would have merit, staff determined that due to limitations in the financial system, it would be impractical to expand their use at this time due to additional administrative efforts in the areas of receiving and invoice payment. Staff will explore whether the new ERP system would facilitate central blanket orders. Target date: TBD.</p> <p>Current status: Staff will revisit these recommendations and implement a process if the new ERP system allows for allocation of charges directly to the various department codes. Target date: Jul-2003.</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
<p>#23: Current price quote requirements for small dollar purchases are too restrictive.</p> <ul style="list-style-type: none"> a. Purchasing should eliminate the requirement to obtain three price quotes for purchases under \$3,000, effective immediately. b. Purchasing should develop procedures which allow departments to handle purchases under \$3,000. c. Purchasing should incorporate these changes into the Purchasing Manual. 		X		<p>Nov-2001: In process. Staff eliminated the requirement to obtain three price quotes for purchases under \$3,000. According to the 1999-2001 Purchasing Guide, purchases of \$3,000 and below require "only a sufficient number of bids... to insure the economic advantage of the City." Written quotes are now only required for purchases over \$5,000. The Purchasing Guide is being changed to reflect this policy. Target date: TBD.</p> <p>Current status: Staff is incorporating the change regarding the requirements for quotes for purchases over \$5,000 into the revision to the Purchasing Manual. Staff will implement the recommendation that allows for department to handle purchases under \$3,000 as part of the ERP implementation. Staff will work with the Auditor's Office to ensure safeguards are set in place. In addition, training will be required, as well as an update of the purchasing manual. Target date: Mar-2003.</p>
<p>#24: Purchasing should expand and expedite the testing of procurement cards.</p> <ul style="list-style-type: none"> a. The pilot program should be expanded to include issuance of cards to operating departments. b. A timetable for completion of the pilot program should be established. We found that other municipalities have completed the pilot program and subsequent evaluation in six to nine months. c. The City Auditor's Office should assist with evaluating the effectiveness and adequacy of internal controls of the program as part of the pilot program. 		X		<p>Nov-2001: In process. The Procurement Card pilot project will be completed by December 31, 2001.</p> <p>Current status: The Pilot Program has been completed and has been expanded to the operating departments. The expansion includes the use of P-cards for travel-related expenses. Staff has worked with the City Auditor in reviewing the expansion of the program and will implement changes based on the result of experiences of the pilot project. Target date: Mar-2003.</p>

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AUDIT OF UTILITIES OPERATIONS OVERTIME (Issued 11/98)				For review by Finance
<p>The objective of this audit was to evaluate the internal controls and operating procedures surrounding overtime in the Utilities department. Of the original 4 recommendations: 3 were completed and 1 is in process. ASD plans to implement the remaining recommendation in conjunction with phase 2 of the ERP implementation.</p>				

#2: Overtime pay codes and hours were not always accurately entered into the timekeeping system. We recommend that Utilities Operations:

X

Nov-2001: In process. Recommendations a, b, and c are completed. An automated timekeeping system is needed to address recommendations d, e, and f, and to eliminate the TUP system. The new ERP system will integrate electronic timekeeping and reporting tools. Target date: TBD.

- a. Ensure that *all* pay codes used by the sections for recording overtime are captured and reflected in the Timekeeping Utilities Program (TUP) system.
- b. Work with Payroll Division personnel to ensure that *all* pay codes in the TUP system are consistent with those in the payroll system.
- c. Work with the Payroll Division to ensure that definitions of pay codes are consistent between the two systems.
- d. Payroll system access be assigned to Utilities administrative personnel.
- e. Administrative staff be assigned responsibility for timecard entry for Utilities Operations.
- f. Work with Payroll Division personnel to ensure that management reports, including information on overtime, are generated by the payroll system.

Current status: The City's ERP project (RAFTS), Phase 1 is currently underway. Phase 2, which begins in May 2003 will include an automated timekeeping system. This new fully integrated electronic timekeeping system will eliminate all timekeeping sub-systems, including TUP. Target date: Jan-2004.

AUDIT OF CLASS REGISTRATION (Issued 6/21/99)				For review by P&S
<p>The objective of this audit was to evaluate internal controls and operating procedures and practices surrounding the City's class registration process. Of the original 13 recommendations: 10 have been completed/resolved and 3 are in process. CSD plans to implement the 3 remaining recommendations by Dec-2002.</p>				

#1: The City should consider additional methods for registering for classes.

X

Nov-2001: In process. Customers enjoy a variety of registration methods including having the Enjoy Catalog available on-line with fax-in registration, mail-in registration, drop-off registration, in-person registration, and soon will have fully interactive on-line registration. After much discussion, staff has recommended against implementing and

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
<p>c. Staff should continue their efforts towards obtaining the necessary software to process registration through the Internet. While we understand that the initial CIP request was denied, we encourage Community Services to pursue this project in their efforts to improve processing efficiency and customer service.</p> <p>d. Staff should consider establishing drop boxes at one or more registration sites to accommodate after hour receipts.</p>				<p>maintaining a phone registration system that would require significant staff time and cost approximately \$20,000. However, drop boxes will be implemented by Jun-02, and staff continues to work with the IT division of ASD and the class registration system vendor to implement full-service, on-line Internet registration. Target date: TBD.</p> <p>Current status: The drop box project has been postponed as a cost-cutting measure, but will be re-evaluated during 2002-03. The Art Center and Junior Museum remain open on Saturdays and Sundays for working parents to drop off registration forms. On-line registration is currently being implemented. Target date: Dec-2002.</p>
<p>#2: We recommend that Community Services adopt a policy allowing residents to register between one to two weeks in advance of non-residents.</p>		X		<p>Nov-2001: Staff did not agree with and recommended dropping this recommendation. Residents are allowed to register before non-residents for the very popular camp programs. For the balance of programs, residents receive a 10 percent discount. Many of the programs have a regional draw, and the practice of allowing non-resident participation has allowed the City to present a far broader array of classes and topics than the City would otherwise be able to provide. Moreover, there are only a handful of classes that have wait lists that residents are not able to get into.</p> <p><i>The Finance Committee did not agree with dropping this recommendation, and referred the issue to the Parks & Recreation Commission.</i></p> <p>Current status: In process. A number of alternatives to allow residents to register in advance of non-residents will be brought to the Parks & Recreation Commission for consideration. Target date: Nov/Dec-2002.</p>
<p>#3: To improve customer service, we recommend that the <i>Enjoy</i> catalog be issued in advance of the first day of registration.</p>		X		<p>Nov-2001: In process. The <i>Enjoy</i> catalog is distributed through the <i>Palo Alto Weekly</i>. The distribution date will be advanced by one week once the on-line registration system is in place. Target</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
#10: System information could be used more effectively. We recommend that staff identify, obtain, and utilize management reports available through the system. Staff should consider additional vendor on-site training to become familiar with other system options and capabilities.	X			<p>date: Mar-02.</p> <p>Implemented Spring 2002. Customers now have one week to view the catalog before registration begins.</p> <p>Nov-2001: In process. New reporting capabilities are available for the ESCOM class registration system. The division is in the process of learning how to best use these new reporting capabilities. Target date: Jun-02.</p> <p>Current status: Implemented. ITS and CSD have designated and trained Class Software Administrators. Class Administrators attend regular Class trainings, maintain the Class software for the City, and conduct trainings on software use and capabilities for other CSD staff. This has enabled staff to take advantage of the reporting capabilities of the Class software.</p>
#12: We recommend that Community Services work with the City's Budget Division to develop a reasonable methodology for determining the costs of classes. This can be used to determine the level of cost recovery in establishing fees charged to its customers.		X		<p>Nov-2001: In process. The Recreation Division is working with ASD to develop a cost methodology that will be a prototype for other divisions. Target date: Jun-02.</p> <p>Current status: The Recreation Open Space & Sciences Division (ROSS) plans to adopt a cost recovery methodology as prescribed by the LERN Resources Network – a consulting firm that specializes in recreation program management. In partnership with the Budget Division, ROSS will incorporate the new methodology in the ROSS Marketing Plan. Target date: Oct-2002.</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
AUDIT OF ACCOUNTS PAYABLE – TOOLS FOR IMPROVEMENT (Issued 3/27/00)				For review by Finance
<p>The objective of this audit was to evaluate internal controls and operating procedures and practices surrounding the City's accounts payable process. Of the original 11 recommendations: 4 were completed and 7 are in process. ASD plans to complete the 7 remaining recommendations in conjunction with the ERP implementation.</p>				
<p>#2: An edit report, reflecting changes, additions, and deletions to the vendor database and the employees processing those edits should be generated and reviewed by management on a periodic basis.</p>		X		<p>Nov-2001: In process. In lieu of re-programming the current system, staff will implement additional vendor reports as part of the new ERP system implementation. Target date: TBD.</p> <p>Current status: ERP system implementation is proceeding. Target date: Jul-2003.</p>
<p>#3: There were a significant number of inactive and duplicate vendor accounts on the database. Management should continue their efforts to clean up the database and should establish a regular schedule for maintenance.</p>		X		<p>Nov-2001: In process. Currently, staff eliminates duplicate vendor accounts when they're identified. The new ERP system will facilitate regular database maintenance. Target date: TBD.</p> <p>Current status: ERP system implementation is proceeding. Target date: Jul-2003.</p>
<p>#7: Signature authority for claim vouchers requires review and evaluation. Uniform policies for approval authority should be established. Additionally, dollar thresholds should be established to facilitate efficient processing. Finally, Accounts Payable should review the current list and remove terminated employees from the list immediately.</p>		X		<p>Nov-2001: In process. Human Resources staff notifies Accounts Payable staff of terminated employees on a daily basis via an automated email system. The terminated employee is noted on the authorized signature list. Dollar thresholds are being reviewed as part of an overall review of processes and because of increases in volume processed. Expected completion by the end of 2001-02.</p> <p>Current status: Departments have been notified to submit a revised authorized signature listing when an employee terminates employment with the City or when there is an addition to the list. This procedure, including dollar thresholds, will be revised with the implementation of the ERP. Target date: Jul-2003.</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
<p>#8: To improve oversight and facilitate timely resolution of pending items, we recommend that: the Manager of Accounting assign sufficient staff to resolve the current backlog of invoices; the quarterly report be revised to include the nature of the problem, current status, estimated timeframe for resolution, and summarize the number and aging of items contained in the file by type of problem; and the report should be review and approved by the Manager of Accounting. The Manager of Accounting should ensure that there is appropriate follow-up with non-responsive departments.</p>		X		<p>Nov-2001: In process. In order to increase the number of items processed and the resolution of pending items, temporary staff has been added in Accounts Payable. In addition, staff conducted two citywide reviews of open encumbrances during the past fiscal year. The current IFAS system does not have the capability to provide the needed report. In lieu of re-programming the current system, staff will implement additional reports as part of the new ERP system implementation. Target date: TBD.</p> <p>Current status: ERP system implementation is proceeding. Target date: Jul-2003.</p>
<p>#9: Open receivings (received not charged) are not monitored. A report reflecting goods received but not charged should be generated and reviewed with the appropriate follow-up on receivings over 60 days old.</p>		X		<p>Nov-2001: In process. The current IFAS system does not have the capability to provide the needed report. In lieu of re-programming the current system, staff will implement additional reports as part of the new ERP system implementation. Target date: TBD.</p> <p>Current status: ERP system implementation is proceeding. Target date: Jul-2003.</p>
<p>#10: A report which provides information regarding departmental delays in submitting invoices should be generated and reviewed by the Manager of Accounting.</p>		X		<p>Nov-2001: In process. The current IFAS system does not have the capability to provide the needed report. In lieu of re-programming the current system, staff will implement additional reports as part of the new ERP system implementation. Target date: TBD.</p> <p>Current status: ERP system implementation is proceeding. Target date: Jul-2003.</p>
<p>#11: Comprehensive written procedures should be developed immediately.</p>		X		<p>Nov-2001: In process. Staff is in the process of reviewing procedures and making several revisions to accounts payable and purchasing procedures. Travel and petty cash procedures are being addressed this fall. Revisions of the remaining procedures will be completed before the end of 2001-02.</p> <p>Current status: Policies and procedures will be revised in conjunction with ERP implementation.</p>

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
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Target date: Jul-2003.

AUDIT OF PAYROLL (Issued 7/2/01)

For review by Finance

The objective of this audit was to evaluate internal controls, operating procedures and practices related to the City's payroll process. Of the original 7 recommendations: 5 have been completed/resolved, 1 was previously dropped, and 1 is in process. ASD plans to complete the remaining recommendation in conjunction with phase 2 of the ERP project.

#1: Collect Human Resource (HR) and payroll data electronically. HR management should complete an evaluation of the net benefits and adequacy of controls of self-service software and prepare a timetable for implementation by the end of the third quarter 2001. If a significant new benefit or cost savings is realized before the projected installation of a complete HR and Payroll replacement, then HR management should work with the Administrative Services Division to install an interim self-service module.

X

Nov-2001: In process. Staff fully supports the concept of employee self-service for human resource, payroll and timecard self-service through a web browser interface. Such applications are components of the ERP system that is expected to be procured in 2002-03. Therefore, staff does not recommend expending resources on a temporary solution at this time. Target date: TBD.

Current status: Phase 2 of the City's ERP project, which is scheduled to begin May 2003, fully supports employee self-service. The City's selected vendor, SAP, has a fully integrated HRIS system that will provide employee self-service through a web browser interface. Target date: Jan-2004.

ASSESSMENT OF UTILITY RISK MANAGEMENT PROCEDURES (Issued 7/3/02)

For review by Finance

The purpose of our review was to assess the adequacy of utility risk management procedures, the appropriateness of designated scopes of authority and levels of management oversight, and the adequacy of management reporting. CPAU expects to implement all 24 recommendations within the next year.

#1: City of Palo Alto Utilities (CPAU) should continue to implement the Deloitte & Touche consultant recommendations and establish target dates for completing each recommendation.

X

Audit response: Most consultant recommendations to be completed by end of 2002. Some longer-term tasks to be completed by end of Spring 2003 and some are ongoing.

Current status: Same.

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#2: CPAU should provide written justification and obtain approval from the Risk Oversight Committee (ROC) for any recommendations that are not implemented and provide written progress reports to the ROC and other oversight levels that detail the status and target date for implementing each Deloitte & Touche recommendation.		X		Audit response: Comprehensive work plan schedule was submitted to the ROC in June 2002. Monthly progress reporting begins July 2002. Current status: Same.
#3: In conjunction with the ROC and the City Council, CPAU should (a) clearly define the roles, responsibilities, and scope of authorities for each oversight body in the risk management process including the ROC, the Utility Advisory Commission, and the City Council, and (b) establish formal policies and procedures commensurate with these oversight roles.		X		Audit response: Roles, responsibilities and scope for oversight bodies are included in draft Energy Risk Management (ERM) Policies. Council to approve ERM Policies by year end 2002. Some procedures already revised. Oversight procedural improvements to be incorporated in ERM Guidelines and ERM Procedures Manual. Revised ERM Guidelines to be approved by ROC by end of 2002. Complete ERM Procedures Manual by Spring 2003. Current status: Same.
#4: In lieu of allowing CPAU unlimited dollar authority, the City Council should award base contracts that: (a) specify not-to-exceed dollar amounts, duration and volumes for electric and gas commodity transactions; and (b) clarify what types of business CPAU staff is allowed to transact under authority of each contract.		X		Audit response: Revised draft RFI/RFP procurement process is under development with CPAU, ASD, and City Attorney, which proposes Council Approval of Master Agreements with pre-specified limits. Transactions and Authorities are clarified in ERM Policies. Detailed authorities to be spelled out in ERM Guidelines and ERM Procedures Manual. ERM Guidelines to be approved by ROC by end of 2002. Current status: Same.
#5: The City Council should delegate authority and clarify CPAU purchasing and sales authority under pooling agreements with NCPA and other agents.		X		Audit response: Risk implications of agency scheduling contracts to be reviewed by the ROC by end of 2002. Current status: Same.
#6. The Administrative Services Department Purchasing Manager, in conjunction with CPAU and the City Attorney, should establish and approve an RFP process for commodities that ensures greater competition for gas and electric commodities, and ensures the City receives the best price from responsible bidders.		X		Audit response: Finalize improved RFI/RFP process during summer 2002. ROC to approve first Master Agreements in Winter 2002. Council to approve by Spring 2003. Current status: Same.

Audit report and recommendation	Completed or resolved	In process	Recommend drop	Comments
#7: The City Council should clarify its policy on “buying for load” to allow for purchases to meet reasonable contingencies while retaining the prohibition on speculative purchases.		X		Audit response: Detailed risk limits and reporting to be key elements of revised ERM Guidelines. ROC approval of ERM Guidelines approved by ROC by end of 2002. Current status: Same.
#8: CPAU should provide the ROC with detailed transaction reports that provide assurance that commodity purchases are not in excess of forecasted demand.		X		Audit response: Compliance reporting is summarized in ERM Policies, and will be included in ERM Guidelines and Procedures Manual. Regular transaction-level reporting to ROC by Fall 2002. Current status: Same.
#9: The ROC should establish a formal exception reporting system.		X		Audit response: Will be included in ERM Guidelines. ERM Guidelines approved by ROC by end of 2002. Current status: Same.
#10: CPAU should prepare detailed financial and portfolio reports that show the financial results and performance of each transaction, as well as the summary results of all positions in the energy portfolio.		X		Audit response: Same timeline as recommendation 8 (Fall 2002). Current status: Same.
#11: CPAU should restructure standard reports so as to provide each risk oversight body with data that is relevant to its roles, responsibilities, and authorities.		X		Audit response: Described broadly in ERM Policies and will be detailed in ERM Guidelines and Procedures Manual. Initial UAC review in Fall 2002. Council review by Winter 2003. Current status: Same.
#12: The City Attorney should clarify which information should be held confidential, and advise the CPAU in preparing policies and procedures for handling confidential information.		X		Audit response: Task Request to be submitted to the City Attorney’s Office in July 2002. Current status: Task request submitted. Target date for revised procedures: Winter 2003.
#13: The ROC and CPAU should segregate and clearly detail the roles, responsibilities and authorities for the front, middle, and back office personnel.		X		Audit response: Oversight roles described in ERM Policies and roles, responsibilities and authorities will be detailed in ERM Guidelines and Procedures Manual. ERM Guidelines to be approved by ROC

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				by end of 2002. Complete ERM Procedures Manual by Spring 2003. Current status: Same.
#14: The City should go forward with establishing a formal middle office function. The middle office, once established, should report to the Director of Administrative Services.		X		Audit response: ASD and CPAU are working to develop this function, currently conducted by joint ASD/CPAU Internal Risk Oversight Committee. Risk Manager position in place by January 2003. Linked to recommendations 18,19. Current status: Same.
#15: The back office bookkeeping and accounting functions should be segregated from the front office to the extent possible and, where feasible, report to the Administrative Services Department.			X	Audit response: Included in response to recommendation 14. Current status: Same.
#16: CPAU should provide additional training in accounting for energy transactions to staff performing middle and back office functions.			X	Audit response: Staff is developing a comprehensive education and training plan. Training plan in place by end of Summer 2002. First round of training complete by end of Fall 2002. Training is ongoing. Current status: Same.
#17: Written risk management procedures should clarify who is authorized to execute agreements on behalf of the City, require supervisory review of all transactions, and clarify procedures for handling different types of transactions.			X	Audit response: Authorities are clarified in ERM Policies and will be detailed in ERM Guidelines. Supervisory review documentation already incorporated in transaction execution process. Revised Procedures Manual shall conform to authorities as reflected in ERM Policies and ERM Guidelines, and shall clarify review and tracking of different types of transactions. Complete ERM Procedures Manual approved by Middle Office by Spring 2003. Current status: Same.
#18: The middle office, under the Director of Administrative Services, should be responsible for ensuring and enforcing compliance with CPAU risk management policies and procedures, ensuring supervisory reviews and oversight actions are documented; and making sure internal controls			X	Audit response: Middle Office oversight functions are described in ERM Policies and will be detailed in ERM Guidelines. See recommendation 14. Linked to recommendations 14, 19.

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are observed.				Current status: Same.
#19: The middle office should also monitor trader activities, perform detailed reviews of all transactions, establish approval limits and authorities for transactions for each oversight level, and designate responsibilities for verifying that transactions are properly and correctly executed.		X		Audit response: See recommendations 14, 18. Current status: Same.
#20: CPAU should continue to regularly and actively (a) review the performance of the energy procurement strategy, (b) quantify the risk and cost consequences of alternatives, and (c) communicate the risks and costs of recommended revisions to the City Council.		X		Audit response: Strategy review is already part of the long-term planning process underway and ongoing. Current strategy and alternatives to be reviewed by staff and reported to the ROC by Winter 2002. Reports to Council will provide enhanced discussion of risks for alternatives. Current status: Same.
#21: The ROC and CPAU should include in their analysis the financial risks of using fixed price contracts to implement the laddering strategy and identify alternatives to take advantage of market trends.		X		Audit response: Risks and opportunities of alternatives shall continue to be evaluated. Included in goals for recommendation 20 (Winter 2002). Current status: Same.
#22: CPAU should conduct a peer study to provide the City Council with background information comparing CPAU commodity supply strategies with other municipal utilities.		X		Audit response: Supports recommendations 20, 21. Included in goals plan for recommendation 20 (Winter 2002). Current status: Same.
#23: CPAU should develop a quality assurance program for testing, reviewing, and verifying the accuracy of data used in its energy models.		X		Audit response: Part of systems/planning models enhancements work plan and Middle Office procedure development. Complete ERM Procedures Manual approved by Middle Office by Spring 2003. Complete systems modifications by Summer 2003. Quality assurance and systems improvements are ongoing. Current status: Same.
#24: CPAU should establish a formal archive (electronic and/or paper) that contains final, official records of minutes, reports, data, policies, procedures,		X		Audit response: Included in Middle Office roles and responsibilities, and to be included in ERM

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practices, and other actions taken. The archive should document the options considered; the reason for specific actions; the motions made; the voting results; and whether actions taken are authorized and approved by appropriate officials.				Procedures Manual. Establish archive by Spring 2003. Current status: Same.