



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

September 11, 2018

The Honorable City Council
Palo Alto, California

Staff Recommendation That the Policy and Services Committee Review and Recommend to the City Council Acceptance of the Fiscal Year 2019 Audit Work Plan

The Palo Alto Municipal Code requires the City Auditor to submit an annual audit work plan to the City Council for review and approval. The attached report presents the proposed audit work plan for Fiscal Year 2019, prepared based on Council priorities, risk, and the City Auditor's professional judgment. Once approved, we will issue quarterly reports summarizing the status of each assignment. The work plan may be amended during the fiscal year subject to approval of the City Council.

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Fiscal Year 2019 Audit Work Plan(PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF
**PALO
ALTO**

Fiscal Year 2019 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 and nonaudit service responsibilities. It estimates approximately 8,900 hours of direct time¹ for six full-time staff. The hours allotted to each audit and nonaudit service reflect our efforts to continue 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:

- 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?
- Financial – Is there an opportunity to improve how the City manages, invests, spends, and accounts for its financial resources?
- 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, as well as potential risks related to the planned implementation of a new Enterprise Resource Planning (ERP) system.²

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

² An ERP System is the software and technology used to manage core business processes, such as accounting, payroll, and human resources in an integrated manner.

Nonaudit Services and Special Projects

The following table lists nonaudit services and special projects for the FY 2019 audit work plan:

| Project | Scope | Planned Hours |
|---|--|---------------|
| Annual Performance Report | Annual. The annual performance report provides 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. | 275 |
| Annual Performance Report Transition | One Time. Provide training and assistance to departments on how to develop relevant and meaningful performance measures and work with the City Manager's Office to develop a reporting process in preparation for transitioning performance reporting to the City Manager's Office. | 125 |
| Annual Citizen Centric Report | Annual. The four-page report highlights key financial data and data from the annual Performance Report, and provides an overview of our City's economic outlook. The Citizen Centric Report follows the Association of Government Accountants' recommended 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. | 12 |
| National Citizen Survey | Annual. The National Research Center (NRC) conducts The National Citizen Survey™ on behalf of the City of Palo Alto. The survey contains a series of standardized questions that the NRC uses to benchmark Palo Alto residents' opinions of City services against other jurisdictions, as well as several custom questions. In addition to the NRC's report, we analyze the results of key quality of living indicators and tabulate the survey 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). | 150 |
| 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. | 230 |
| Fraud, Waste, and Abuse Hotline Administration and Training | 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 develop marketing materials that will encourage employees to report fraud, waste, or abuse when they see it. | 40 |
| 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 |
| Enterprise Resource Planning (ERP) Advisory Project | Ongoing. Provide advisory services to the Department of Information Technology regarding its planning of a new ERP system. | 70 |

| Project | Scope | Planned Hours |
|---|---|---------------|
| Review and Monitor the Implementation Status of Prior Audit Recommendations | Ongoing. 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. | 220 |
| Office of the City Auditor Quarterly Reports | Quarterly. Prepare and issue quarterly reports to the City Council to provide 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. | 15 |
| Grant Management/Internal Control Training | One-time. Provide grant management and internal control training to department staff who manage federal grants. | 25 |
| Total Hours for Special and Ongoing Projects | | 1252 |

Performance Audits

The following audits from our FY 2018 audit work plan are in progress and will continue into the FY 2019 audit work plan. The hours shown represent the remaining hours expected for FY 2019.

| Audit | Department | Audit Objective(s) | Planned Hours |
|--|--|---|---------------|
| Code Enforcement | Planning and Community Environment | Evaluate code enforcement policies and practices for responsiveness, consistency, and follow-up, particularly for repeat offenders and complex cases. | 160 |
| ERP Planning: Separation of Duties | Information Technology | Evaluate the adequacy of separation 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. | 50 |
| ERP Planning: Data Integrity and Reliability – Data Standardization | Information Technology and Citywide | Determine if the city has procedures that govern the standardization of master data in SAP and to give examples for types of standardization that would be beneficial when implementing the new ERP system. | 70 |
| ERP Planning: Data Integrity and Reliability – Human Resources Data | Information Technology, Human Resources, and Administrative Services | Assess the reliability of employee data that Human Resources maintains in the City's SAP system and make recommendations to help ensure that deficiencies are corrected prior to transferring data to the new ERP system. | 50 |
| ERP Planning: Data Integrity and Reliability – Utility Customer Data | Information Technology and Utilities | Assess the reliability of Utilities' customer data in the City's SAP system and make recommendations to help ensure that deficiencies are corrected prior to transferring data to the new ERP system. | 580 |
| 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. | 85 |

| Audit | Department | Audit Objective(s) | Planned Hours |
|---|--|--|----------------------|
| Mobile Device Inventory and Security | Information Technology and Citywide | Determine if the City accurately inventories and securely manages city-owned mobile devices. | 610 |
| Transferrable Development Rights | Planning and Community Environment | Determine if the City maintains an accurate and complete record of the transferable development rights (both City - owned and non-City-owned) that have been certified, transferred, and used to date. | 575 |
| Nonprofit Services Agreements | Community Services, Transportation, Public Works, and Development Services | Evaluate whether nonprofit organizations that receive City funding are achieving the outcomes we expect from the funding we provide. The audit focuses primarily on nonprofit organizations that provide senior services. | 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. Select a sample of 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. | 700 |
| Total Hours for In-Progress Performance Audits | | | 3,455 |

The following audits are proposed for the FY 2019 audit work plan; some of these may not be completed until FY 2020:

| Audit | Department | Preliminary Audit Objective(s)³ | Planned Hours |
|--|--|--|----------------------|
| ERP Planning: Data Integrity and Reliability – Utilities Bill/Price Class and Rate Schedule Data | Information Technology and Utilities | Assess the reliability of utilities bill/price class and rate schedule data in the City's SAP system and make recommendations to help ensure that deficiencies are corrected prior to transferring data to the new ERP system. | 380 |
| ERP Planning: Data Integrity and Reliability – Payroll Rates and Deductions Data | Information Technology, Human Resources, and Administrative Services | Assess the reliability of payroll rates and deductions data in the City's SAP system and make recommendations to help ensure that deficiencies are corrected prior to transferring data to the new ERP system. | 380 |
| ERP Planning: Data Integrity and Reliability – Inventory Materials Data | Information Technology and Administrative Services | Assess the reliability of Human Resources Department data in the City's SAP system and make recommendations to help ensure that deficiencies are corrected prior to transferring data to the new ERP system. | 380 |

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 |
|---|--|---|---------------|
| ERP Planning: Data Integrity and Reliability – Accounting General Ledger Data | Information Technology and Administrative Services | Assess the reliability of accounting general ledger data in the City's SAP system and make recommendations to help ensure that deficiencies are corrected prior to transferring data to the new ERP system. | 350 |
| Parking Assessment Districts | | Examine the City's parking assessment districts to assess the equity of costs and benefits to the City and property owners in the districts. | 345 |
| Residential Parking Permit Program and City Parking Facilities | | Evaluate the effectiveness of how the residential parking permit programs were implemented to identify where efficiencies can be gained in how the program is managed, both financially and operationally, by looking at the program citywide rather than by neighborhoods (or sections thereof). Audit would also evaluate whether the number of employer parking permits is appropriate based on proximity of available parking garages and their usage in an RPP area. | 720 |
| Construction Audit | | Assess the effectiveness of the City's construction management practices as they relate to the bidding and change order processes. | 700 |
| SCADA System and Security Audit | | Evaluate the effectiveness of processes related to installing, maintaining, and securing SCADA operations. | 340 |
| Procurement/Request for Proposals (RFP) Bidding Process | | Assess the effectiveness of the procurement process, with a focus on consistency in application of processes, compliance with City regulations and policies, and cost estimating practices. | 460 |
| Total Hours for New Performance Audits | | | 4,055 |

Other Suggested Topics Not Included Above

The following lists other suggested topics for which we do not expect to have capacity to do during FY 2019. However, we will start audits from this list if time allows.

Citywide Audits:

- Asset Management
- Direct (FV 60) Payments
- Facilities Management
- Facilities Rental Fees and Usage
- Financial Condition Report
- Impact Fees
- Long-term Liabilities, Including Infrastructure
- Permitting Processes
- Planning Codes
- Public Benefits
- Succession Planning

Utilities Audits:

- Accuracy of Gas Utility Billings
- Accuracy of Electric Utility Billings
- Utility Meter Routes
- Net Metering Program