



City Council Staff Report

From: City Auditor
Report Type: **CONSENT CALENDAR**
Lead Department: City Auditor

Meeting Date: **December 16, 2024**
Report #:2411-3826

TITLE

Approval of Audit Reports and Task Orders: 1) ADA Compliance Audit and Recruitment & Succession Planning Audit; 2) Annual Risk Assessment and 2025 Audit Plan; 3) Task Order Execution for Remaining FY25 Tasks; and 4) Realignment of FY 2024 and FY 2025 Task Order Budgets with No Fiscal Impact as Reviewed by Policy & Services Committee; CEQA: Not A Project

RECOMMENDATION

The Office of the City Auditor recommends City Council:

1. Approve the following audit reports:
 - a. ADA Compliance Audit as recommended by the Policy & Services Committee on November 6 2024¹
 - b. Recruitment & Succession Planning Audit to be reviewed by the Policy & Services Committee on December 10, 2024²
 - c. Approve the FY 2024 annual risk assessment and 2025 audit plan to be reviewed by the Policy & Services Committee on December 10, 2024³
2. Approve execution of the following task orders:
 - a. Approve remaining FY2025 Task orders Attachment A (to be issued in a supplemental report on December 12, 2024): i.) FY25 Risk Assessment, ii)FY25 Annual Audit Plan –the development of the audit plan will happen in FY2025 but will result in the FY2026 Annual Audit Plan which will commence July 1, 2026.

¹ Policy & Services Committee, November 6, 2024, Agenda Item #2,
<https://portal.laserfiche.com/Portal/DocView.aspx?id=106161&repo=r-704298fc&searchid=0759e1e3-bc8f-4010-8f4f-d598698c0cc5>

² Policy & Services Committee, December 10, 2024, Agenda Item #4,
<https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=6263&meetingTemplateType=2&compiledMeetingDocumentId=12450>

³ Policy & Services Committee, December 10, 2024, Agenda Item #5,
<https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=6663&meetingTemplateType=2&compiledMeetingDocumentId=12450>

- b. Amend FY2024 and FY2025 Audit Office operating budgets with no fiscal impact to better align with tasks performed to be reviewed by the Policy & Services Committee on December 10, 2024⁴
 - i. Amend FY2024 Task 4: Execute the Annual Audit Plan to realign the authorized budget with a net zero impact overall: Task 4.22: ADA Compliance Audit reduced by \$11,000, Task 4.23: Recruitment & Succession Planning Audit increased by \$3,500, Task 4.25: Emergency Preparedness/Wildfire Audit Increased by \$2,000, Task 4.26: Utility Billing increased by \$3,000, and Task 4.28: Dispatch Center Assessment increased by \$2,500.
 - ii. Amend FY2025 budget to realign the authorized budget with a net zero impact overall: Task 1: Citywide Risk Assessment reduced by \$40,000, and Task 5: Preparation of Quarterly Reports, Annual Status Reports, Provision of the City Hotline and Other Ongoing Administrative Functions increased by \$40,000.

BACKGROUND

In accordance with the City's agreement with Baker Tilly, services to conduct recurring/annual activities each year are required including:

- Task 1: Citywide Risk Assessment
- Task 2: Preparation of Annual Audit Plan
- Task 3: Selection of External Financial Auditor and Annual Audit Coordination

Various audit specific task orders are approved annually in alignment with the Annual Council Approved Audit Work plan. Task Orders approved by the Council are executed by the Policy & Services Committee Chair as the Project Manager for the Baker Tilly contract as stipulated in the contract terms.

ANALYSIS

The Office of the City Auditor is seeking City Council approval for various audit reports and task order changes either approved by or scheduled to be reviewed by the Policy & Services Committee.

Completed Audit Reports Reviewed by Policy & Services Committee

ADA Compliance Audit Report⁵: The objective of the ADA Compliance audit was to determine if the City has made improvements to facilities, programs and services in accordance with the ADA Transition Plan Update (Plan Update), the purpose of which is to ensure compliance with the Americans with Disabilities Act (ADA).

⁴ Policy & Services Committee, December 10, 2024, Agenda Item #3, <https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=6541&meetingTemplateType=2&compiledMeetingDocumentId=12450>

⁵ Policy & Services Committee, November 6, 2024, Agenda Item #2, <https://portal.laserfiche.com/Portal/DocView.aspx?id=106161&repo=r-704298fc&searchid=0759e1e3-bc8f-4010-8f4f-d598698c0cc5>

The ADA Transition Plan Update was adopted by Palo Alto in 2021 and focuses on making improvements to physical barriers in existing City facilities and rights-of-way. The Plan Update presents a vision to improve accessibility in Palo Alto over the next 60 years. Audit findings and recommendations focus on three areas of improvement:

- While the City has made progress on the ADA Transition Plan Update, efforts were hampered by the pandemic and reductions in staffing and lack adequate tracking and monitoring;
- ADA requests and grievances made by the public have not been consistently tracked and monitored; and
- While the City implemented nearly two-thirds of ADA self-assessment recommendations, there is no formal oversight for completing this work including determining whether recommendations should be implemented and/or an appropriate timeframe for completion.

The Policy & Services Committee unanimously recommends Council approval of this audit.

Recruitment & Succession Planning Audit Report⁶: The objectives of the Recruitment and Succession Planning audit were to determine 1) the efficiency and effectiveness of the recruitment and hiring process; and 2) whether a formal succession plan and related policies and procedures are in place.

In May 2024, a progress report on the Recruitment Strategic Plan with 31 initiatives related to recruitment and hiring process improvements across four categories was issued. Also in May 2024, the City implemented a pilot Workforce Career Advancement & Continuity Planning program based on state guidance issued by Cal-ICMA. Audit findings and recommendations focus on three areas of improvement:

- While the City has made progress implementing recommendations from the Municipal Resource Group Recruitment Strategic Plan and seen improvements in hiring and recruitment metrics, oversight and monitoring of implementation progress can be strengthened.
- Due to developments facilitated by the Recruitment Strategic Plan, the City's policies and procedures no longer reflect current recruitment and hiring practices.
- The City has undertaken several steps to enhance succession planning efforts but lacks a formalized succession planning program, policies and procedures.

The Policy & Services Committee will review this on December 10, 2024; a supplemental report will be issued following the Committee's discussion.

Annual Risk Assessment and 2025 Audit Plan: Baker Tilly, serving as the City Auditor, interviewed City Council members and executive leadership across all departments within the City regarding risks to the City and individual departments. The FY2025 Audit Plan was prepared based on the results of the FY2023 risk assessment survey conducted in the fall of 2023 and the

⁶ Policy & Services Committee, December 10, 2024, Agenda Item #4, <https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=6263&meetingTemplateType=2&compiledMeetingDocumentId=12450>

FY2024 risk assessment interviews conducted in summer of 2024 and informed by current business factors such as other planned assessments and studies to ensure efficient allocation of City resources.

The Policy & Services Committee will review this on December 10, 2024; a supplemental report will be issued following the Committee's discussion.

Approve Execution of Task Orders

Remaining FY 2025 Task Orders: Work for two FY2025 Task Orders has not been approved or started yet. This work will be performed from January 2025 through June 2025. No change in budget is requested, this execution will enable work to begin on these tasks:

- *FY2025 Task 1: Citywide Risk Assessment* - Beginning with year 1 and continuing at a minimum of every other year thereafter, prepare a citywide risk assessment for review by the City Manager and appropriate City Council Committee(s), and approval by the City Council. The risk assessment will inform and contribute to the development of the City's Annual Audit Plan.
- *FY2025 Task 2: Preparation of Annual Audit Plan:* Prepare an annual audit plan for review by the City Manager and appropriate City Council Committee(s), and approval by the City Council, that identifies preliminary audit objectives, the schedule for each audit, and the estimated not to exceed resources and costs for each audit. The City Auditor shall consult with the City Attorney as necessary when developing audit plans. The Annual Audit Plan will be largely based on the Risk Assessment outlined in Task 1.

The final task orders will be issued in a supplemental report December 12, 2024.

Amend FY2024 and FY2025 Audit Office operating budgets with no fiscal impacts: Work on the FY2024 Annual Audit Plan began in June 2024 and will largely be completed by the end of December 2024 with some audits being reported in the Spring of 2025. These reports include: ADA Compliance (4.22), Recruitment & Succession Planning (4.23), Grant Management (4.24), Emergency Preparedness (4.25), Utility Billing (4.26), PCI DSS (4.27), and Dispatch Center Assessment (4.28). While the City Auditor endeavors to estimate the necessary audit hours and budget for each audit in the Annual Audit Plan, audits can sometimes take more or less time than estimated. The following net zero adjustments are recommended to align with actual activities.

- Task 4.22 ADA Compliance Audit: reduce budget by \$11,000
- Task 4.23 Recruitment & Succession Planning: increase budget by \$3,500
- Task 4.25 Emergency Preparedness/Wildfire Audit: increased budget by \$2,000
- Task 4.26 Utility Billing: increase budget by \$3,000
- Task 4.28: Dispatch Center Assessment increase budget by \$2,500

For FY 2025, the Baker Tilly Contract specifies a budget of \$55,000 to conduct a risk assessment which would culminate in the FY26 Annual Audit Plan. Due to the delayed start of the FY24 and FY25 Annual Audit Plans, rather than conduct another full risk assessment so close to the

current effort, the City Auditor proposes to conduct a brief risk assessment survey to supplement the FY26 Audit Plan in early CY 2025. This survey is estimated to cost \$15,000. The remaining risk assessment funds of \$40,000 will be added to FY 2025 Task 5: Preparation of Quarterly Reports, Annual Status Reports, Provision of City Hotline and Other Ongoing Office Administrative Functions. The budget for Task 5 has been insufficient each year of the City's contract with Baker Tilly and the FY 2025 budget is close to being fully expended. There will be no change in the overall FY 2025 budget, but this action will align the budget with the actual costs of these respective tasks.

The Policy & Services Committee will review this on December 10, 2024; a supplemental report will be issued following the Committee's discussion.

FISCAL/RESOURCE IMPACT

The timeline and resource needs for implementation of management's corrective action plans for the ADA Compliance Audit and Recruitment & Succession Planning Audit are identified by management within the audit reports.

The execution of the task orders remains within both contractual authorization as well as annual budget appropriations.

STAKEHOLDER ENGAGEMENT

These items have been brought forward through the Policy & Services Committee and coordinated with internal stakeholders.

ENVIRONMENTAL REVIEW

Council action on this item is not a project as defined by CEQA because the audit activities do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. CEQA Guidelines section 15378(b)(4).

ATTACHMENTS

Attachment A - FY 2025 Task Orders: Task 1 FY25 Risk Assessment, Task 2 FY25 Annual Audit Plan (to be issued in a supplemental report on December 12, 2024)

Note: Documents reviewed by the Policy & Services Committee and seeking approval are linked by reference for brevity.

APPROVED BY:

Kate Murdock, City Auditor