



Dear Mayor and Council Members:

On behalf of City Manager Ed Shikada, please find below responses from the City Auditor and staff to questions from Councilmember Tanaka regarding the [Monday, March 27 Council Meeting](#) consent agenda items.

**Item 6, Consent of the Macias, Gini & O'Connell's Single Audit Report for the Fiscal Year Ended June 30, 2022**

- 1. Can you explain the purpose and scope of the tests performed by the auditors on the City's internal control and compliance with specific provisions of laws, regulations, contracts, and grant agreements? Why was the data for these tests not disclosed? Please share the results of these tests.**

**City Auditor response:** The role of the external auditor is to provide an opinion as to the assertions that management has made relative to periodic financial statements. The external auditor opines on the assertions. The audits are conducted in accordance with AICPA (aka GAAS) and the GAO Yellow Book government auditing standards.

The role of the internal auditor is to evaluate the city's internal control environment through reviewing operations, compliance with laws, regulations, agreements, policies, processes, and procedures.

- 2. The Staff reports said that the auditors gave "Unmodified opinions as it pertains to both the Financial Statements and to Federal Awards". This is true for the Federal awards, however, the auditors did not express an opinion on the effectiveness of the City's internal control or on compliance with specific provisions. I am concerned about why the auditors chose to conduct these tests but refrained from providing an opinion based on the results. Can you explain?**

**City Auditor response:** The scope of work conducted by the external financial statement auditors does not include an opinion regarding the effectiveness of internal controls as this would be outside of the scope of their engagement. The tests conducted to opine on the financial statements are limited to the statements themselves. For public companies required to be audited under the PCAOB standards, you will find an "integrated audit" in the format you are making inquiries. The PCAOB standards do not apply to governments, such as Palo Alto.

- 3. Why is there a mismatch between the staff report and the auditor report on the opinion of internal controls and compliance? Essentially, the auditor gave a "Disclaimer of Opinion" but the staff claimed it was an "Unmodified opinion" which is a big difference.**

**City Auditor response:** The external auditor's opinion is only relative to the presentation of the financial statements presented by management. MGO did not issue an opinion on internal controls over compliance as that was not the objective of their audit. A disclaimer of opinion is very different, as it is a negative result when an auditor's objective is to audit the effectiveness of internal controls but is unable to give an opinion on effectiveness.

4. **Why did the auditors decide not to express an opinion (i.e. Disclaimer of Opinion) on the effectiveness of the City's internal control and compliance matters, despite conducting tests and reporting no significant findings? Should the City get an Unmodified opinion?**

**City Auditor response:** This is not applicable based on the explanations previously provided.

5. **How does the work the City Auditor does match up with the work MGO does in terms of testing and giving opinions for internal controls or compliance?**

**City Auditor response:** The City Auditor conducts internal audits in accordance with the IIA Professional Practice Standards and the GAO Yellow Book audit standards. The scope of these audits includes operational, compliance, information technology, program and performance audits.

MGO conducts audits of financial statements and certain compliance requirements (such as expenditures of federal awards under the Single Audit) to express an opinion on the accuracy, completeness, presentation, valuation, existence and rights and obligations of assets, liabilities and equity of the governmental organization such that the statements can be relied upon by the public.

6. **Is this approach to testing and reporting on internal control and compliance matters in accordance with standard auditing practices? If so, can you provide more information on the rationale behind this approach?**

**City Auditor response:** The role of the independent external auditor and the internal auditor has been defined by professional auditing standards for the conduct of audits performed for governmental organizations. These standards include the AICPA, IIA, GAO Yellow Book standards.

**Item 7, Approval of Amendment No. 1 with FolgerGraphics, Inc. to increase the Not-to-Exceed Amount by \$235,200 for Professional Printing and Distribution Services of the Enjoy Activity Guide for an Additional Three Years; CEQA Status – not a project.**

1. **If Palo Alto residents can access all the information found on the Enjoy Activity Guide on the city website, to minimize environmental impact and costs, is it necessary to print and send this information by paper?**

**Staff response:** There is a high demand for printed copies of the Enjoy catalog. CSD customer service staff receive numerous inquiries both by phone and in-person, as to when the guides will be arriving in the mail. Some residents prefer to plan out their activities at home and then bring in their guides to a community center and ask our front desk staff to help them register. This is especially important for those who do not have access to or are not comfortable using the internet. Prior to the pandemic, staff eliminated printed versions of the Enjoy catalog except the Summer Camp guide and noticed a drop in enrollment during seasons when a printed catalog was not mailed to each household.

This is a service provided by the City for residents, and may be revisited each year through the budget process. At some point in the future there may be greater community acceptance of online-only program catalogs. Staff monitors customer feedback and forwards recommendations accordingly.

2. **To measure the efficiency of these paper guides, is there data that shows people are registering for activities or using information from the printed guides (such as from different website links or survey questions)?**

**Staff response:** Staff have not captured this information.

3. **Why are there 4 different optional rate schedules on the 2020-2023 contract? What determines the difference between the unit pricing options to print the Enjoy Activity Guides, and how are options chosen?**

**Staff response:** The different options were included to provide the City with options on number of pages of the catalog and quality of paper for the cover. In the Amendment, there is only one option for 64 pages and one type of paper.

4. **Percentage increase vs inflation?**

**Staff response:** The cost per guide in the contract extension is based on increased cost of paper since the start of the original contract. The 2023-2026 prices are at a roughly 5% increase per guide per year.

5. **Does the number of households in Palo Alto match the number of printed copies of the Enjoy Activity Guides? If there are more copies than households, what is being done with the excess? If there are fewer copies than households, what determines which households receive the guides?**

**Staff response:** We print roughly 900 more copies than the number of households in Palo Alto. These additional copies are available at all Community Centers, Libraries, the Palo Alto Art Center, the Children's Theatre, and the Junior Museum & Zoo. The majority of these are picked up by non-residents, which accounts for roughly 12-15% of revenue from these programs.

6. **Why were 1,000 more Enjoy Activity Guides printed for the summer during the 2020-2023 contract?**

**Staff response:** These were additional guides to be placed at the different centers described in the previous question. After assessing the needs of each center, current staff lowered the number of copies.

**Item 8, Approval of Contract Amendment Number One (1) with Team Sheep, Inc., Authorizing One-Time Payment not-to-exceed \$85,000 for Salaries Associated with the Rinconada Pool 45-day Closure for Replastering; CEQA status – not a project**

1. **Can the staff provide a detailed explanation of the calculations and projections that demonstrate how the proposed one-time payment of \$85,000 to Team Sheep, Inc. during the 45-day closure period makes good financial sense for the city in the long term? Please show the financial ROI analysis that justify this investment despite the significant difference between the payment amount and the revenue share of \$15,085 received in Fiscal Year 2022.**

**Staff response:** The cost of Team Sheep's payroll during winter months is \$53k per 28-day period, or \$1892.85 per day. The total payroll for 45 days was calculated using this rate. The company cannot afford to continue to pay staff during this time and absorb the loss in revenue. This would not be a viable scenario for Team Sheep to continue operating in Palo Alto. The contract states that a facility will be provided in order to operate the pool. The Rinconada Pool is a valued City asset that many residents rely on for their physical and mental health, especially for those who are not able to do other types of exercises due to physical limitations. Continuing the

programming at the pool is very important to residents as they continue to pursue their health and well-being.

2. **Can the staff address concerns regarding the necessity of providing financial assistance to Team Sheep, Inc. for employee salaries during the cold and rainy season, when it's assumed that there would be less demand for swimming facilities and potentially reduced staffing needs?**

**Staff response:** The facility is open the same number of hours regardless of the weather and how many people come to the pool. There is a minimum number of staff that must be employed to ensure the safety and management of the pool. In the winter months, revenue is completely generated from lap swimming, Masters swimming and rental revenue from Palo Alto Stanford Aquatics. The payroll numbers used for the calculation are based on winter months and not summer months, when the costs are much higher.

3. **Can the staff explain how the proposed financial assistance to Team Sheep, Inc. for employee salaries will help retain staff, considering that the approval for this amendment is being sought halfway through the 45-day closure period? Is it not too late for this assistance to effectively support staff retention?**

**Staff response:** To rehire permanent, full time people is extremely hard to do. It is very challenging to find good, reliable, committed full time employees in an aquatics facility. It could take weeks to reopen the pool with the proper staffing in place. The full time staff employed by Team Sheep have all served the community of Palo Alto for years, since the start of the Team Sheep contract. Staff and Team Sheep have negotiated the recommended amendment, and Team Sheep has retained its staff at its own risk should Council not approve the amendment.

4. **Can the staff provide information on the percentage of Team Sheep, Inc. employees and users who are Palo Alto residents, as the city's financial assistance aims to support the community? It would be helpful to understand how this payment will directly benefit local residents.**

**Staff response:** As shown in Team Sheep's annual report that is included in the staff report as a link, 76% of lap swim members are residents while 64% of Masters members are residents. Full time employees who work at Rinconada Pool do not live in Palo Alto; however, most of the part time lifeguard staff (generally high school age) live with their families in Palo Alto.