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Policy & Services Committee Staff Report

From: City Auditor
Report Type: ACTION ITEMS
Lead Department: City Auditor

Meeting Date: August 8, 2023
Report #:2307-1786

TITLE

Approval of Office of City Auditor FY2024 Task Orders; CEQA Status – Not a project

BACKGROUND

The City Auditor recommends that the Policy & Services Committee recommend City Council approval for the following Task Orders:

- 1) FY24-Task 01 – Citywide Risk Assessment
- 2) FY24-Task 02 – Annual Audit Plan
- 3) FY24-Task 03 – External Financial Auditor
- 4) FY24-Task 05 – Various Reporting & City Hotline
- 5) FY24-Task 06 – Evaluation and Benchmarking

ANALYSIS

In accordance with our agreement with the City¹ including Amendment No. 1 to the contract², Baker Tilly is required to conduct recurring activities each year. Those recurring activities including the following tasks outlined in our agreement:

- Task 1: Citywide Risk Assessment
- Task 2: Preparation of Annual Audit Plan
- Task 3: Assist with Selection of a Financial Auditor and Assist in Managing the Financial Audit
- Task 5: Various Tasks including periodic reporting, fraud/waste/abuse hotline, office administrative functions

¹ September 28, 2020: Baker Tilly Contract Approval - <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020-2/id-11624.pdf?t=64761.15>

² May 9, 2022: Baker Tilly Contract Amendment No. 1 Approval - <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220509/20220509pccsmamended-linked.pdf>

- Task 6: Evaluation and Benchmarking

The Office of the City Auditor (OCA) is seeking approval from the Policy & Services Committee of the Tasks Orders that correspond to the Tasks outlined above and recommendation to forward these task orders to the City Council for approval. The Task Orders provide the contractual authority to begin this work in the new Fiscal Year 2024. An excerpt from the contract outlining these tasks is below for ease of reference.

Task 1 *“Beginning with year 1 and continuing at a minimum every other year thereafter, prepare a citywide risk assessment following the same review and approval requirements described in Task 2. The risk assessment process will be the primary determinant of subsequent audit activity.”*

Task 2 *“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 objectives of each audit to be performed, 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 required in Task 1.”*

Task 3 *“Selection of External Financial Auditor and Annual Audit Coordination: Coordinate the annual external financial audit in each year of the contract term. Pursuant to the City Charter, the City Auditor shall oversee the selection process for the annual external financial auditor.”*

Task 5 *“Preparation of Quarterly Reports, Annual Status Report, Provision of City Hotline, and Other Ongoing Office Administrative Functions:*

Prepare and issue quarterly reports describing the status and progress toward audit completion, to be provided as information reports to the City Council and reviewed by the appropriate committee, unless other reporting methods are directed by Council.

Prepare and issue an annual report in the first quarter of each fiscal year on the status of recommendations made in completed audits, to be provided as an information report to the City Council and reviewed by the appropriate committee, unless other reporting methods are directed by Council.

Maintain and respond to the City’s employee “hotline” function provided through voicemail, email or written submissions. Coordinate referrals as appropriate to other City offices, departments or divisions and incorporate relevant referrals into future risk assessments, audit plans or audit activity as appropriate.”

This task provides for authorization of travel during the full 2024 fiscal year assuming a trip every other month (total of 6 trips). Although the contract stipulated an on site presence every two weeks by the Office of the City Auditor, leveraging remote work efficiencies and ensuring economical use of contract authority and funds, this task order revises that frequency. Baker Tilly will use discretion to ensure travel is used to minimize travel expenses and maximize effectiveness of time on site, ultimately ensuring alignment with audit work schedules and Council and Committee activities.

Additionally, the current contract, Amendment NO.1³, includes the budget schedule for FY 2023, FY 2024, and FY 2025 that shows a budget amount of \$60,000 each year for Task 5. The main activities related to this task have been meetings with management and City Council members and preparing staff reports for City Council and Committee meetings. However, Baker Tilly needs to perform other activities normally performed by the Internal Audit function, namely, engagement project management and annual audit plan monitoring. Therefore, the Maximum Compensation Amount in the proposed task order for Task 5 is \$90,000 that includes a \$30,000 transfer from the Task 4 budget amount of \$582,250 shown in the current contract.

Task 6 “Undergo a peer evaluation following the guidelines of the Association of Local Government Auditors every two years (i.e., at the end of the initial contract term, then every other year thereafter throughout the contract term), or as required by the City Council, so that performance of the internal audit function can be objectively assessed.

Prepare a cost per audit analysis following the first completed fiscal year, to be submitted at the beginning of the second fiscal year and every year thereafter throughout the contract term, that includes benchmark agencies determined by the CITY, and obtain independent third-party certification of data accuracy.

The cost per audit analysis will be used to evaluate the cost effectiveness of services provided by the CONSULTANT. This evaluation will be incorporated into ongoing performance assessments as required and will help ensure that fees for service provision throughout the duration of the Agreement are objectively determined and mutually agreed upon.

This evaluation and report from the peer evaluator will be presented to the Policy and Services Committee and City Council in alignment with typical audit reporting activities.”

The current contract, Amendment NO.1, includes the budget schedule that shows Task 6 budget amounts of \$21,000, \$6,000, and \$21,000 for FY 2023, FY 2024, and FY 2025, respectively. In preparation for and support of a peer evaluation in FY 2024, the Maximum

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Compensation Amount in the proposed task order for Task 6 is \$24,000 that includes a \$18,000 transfer from the Task 4 budget amount of \$582,250 shown in the current contract.

As a result of transfers to Task 5 and Task 6, the remaining Task 4 budget amount is to be adjusted to \$534,250 for which an audit plan will be presented to the Policy and Services Committee and City Council in coming months. The table below summarizing two budget amount transfers from Task 4 to Task 5 and Task 6 shows the net effect on the total contract value is \$0.

	FY2023-24 Budget per Amendment 1	Transfer	Updated Budget Amount
Task 4	\$582,250	-\$48,000	\$534,250
Task 5	\$60,000	\$30,000	\$90,000
Task 6	\$6,000	\$18,000	\$24,000
TOTAL	\$648,250	\$0	\$648,250

FISCAL/RESOURCE IMPACT

Work recommended in these tasks is within both the approved scope and compensation of the contract with Baker Tilly and funding levels in the FY 2024 Operating Budget for the Office of the City Auditor.

STAKEHOLDER ENGAGEMENT

No stakeholder outreach was necessary to create task orders for the tasks described in the signed contract.

ENVIRONMENTAL REVIEW

Council action on this item is not a project as defined by CEQA because the Auditor task orders are administrative activities that will not result in direct or indirect physical changes in the environment. CEQA Guidelines section 15378(b)(5).

ATTACHMENTS

- Attachment A: TASK ORDER FY24-01 Citywide Risk Assessment
- Attachment B: TASK ORDER FY24-02 Annual Audit Plan
- Attachment C: TASK ORDER FY24-03 External Financial Auditor
- Attachment D: TASK ORDER FY24-05 Various Reporting & City Hotline
- Attachment E: TASK ORDER FY24-06 Evaluation and Benchmarking

APPROVED BY:

Adriane D. McCoy, City Auditor