

Regular Meeting
October 21, 2008

Chairperson Morton called the Finance Committee meeting to order at 7:04 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Burt, Chairperson Morton (chair), Schmid, Yeh arrived at 7:49 p.m.

Absent: None

1. Oral Communications

None.

Chairperson Morton announced that Agenda Item No. 5 would be heard before Agenda Item No. 4.

2. Consideration of a Recommendation to City Council to Adopt a Resolution Approving the Execution of the agreement for a long-Term Assignment of the City's Share of Transfer Capability on the California-Oregon Transmission Project to Other Members of the Transmission Agency of Northern California.

Debra Lloyd, Utilities Senior Resource Planner, gave a presentation on a proposed 15-year assignment of the City's 50 MW share of the electric high voltage California-Oregon Transmission Project (COTP). The COTP was developed by the Transmission Agency of Northern California (TANC), a group of Municipal utilities of which the City is a member, to gain access to low cost Pacific Northwest electric energy resources. The resulting 340 mile transmission line connects the California-Oregon Border to the Tracy Substation in Northern California, and became operational in March 1993. Today's markets and circumstances have changed the economics of COTP ownership and prompted staff to pursue a temporary assignment of the City's interest in the COTP to other TANC members. For example, in FY 07-08 the value realized from the COTP was, at \$800,000, less than 50 percent

of the \$2 million annual cost of ownership. In the long term, the COTP has the potential to be a valuable asset to the City's electric portfolio, hence staff has not proposed an outright sale. Over the next 15 years an assignment of the COTP is estimated to lower Palo Alto's electric supply cost by about \$12 million over the assignment period. This initiative will help mitigate some of the upcoming retail rate increases. The City currently has a couple of short-term assignment agreements in place with two TANC members, which will end January 31, 2009 or when the 15-year assignment is executed.

Chairperson Morton asked if what staff was asking the Finance Committee for was a recommendation to the Council to move forward with the long term 15 year agreement.

Utilities Director Val Fong answered yes. She also stated that staff will come back later for consideration of Agreement Number 3, which covers spot markets with the other members of TANC.

Ms. Lloyd went over the approval process and stated the next step is to get the long term agreement by December 1, 2008, which will replace the short term assignments. She then went over the summary of events over the past 20 years, and stated that this agreement will save the City approximately \$12 million over the term of the agreement.

Ms. Fong stated that staff has set aside reserves for non-economic assets, these are called Calaveras Reserves. Staff will return to the Finance Committee to get feedback on how to use the Calaveras Reserves.

Council Member Schmid asked what is the experience with the short term agreement that we have been in for the past several months and are the recipients making money on it.

Ms. Lloyd stated that the City was receiving the monthly payments to cover the City's COTP costs, and that the energy value, or ability to procure low cost energy at the Oregon Border, was as predicted low this time of year.

Council Member Schmid asked if Turlock and Modesto showed a positive from their experience.

Ms. Fong stated that we don't know because they are in a different control area, have different rules, and they don't share that information with us.

Ms. Lloyd stated that during August the line was curtailed so they may not have made as much on the lines. She explained that Turlock and Modesto

had a different purpose for the use than we did, and Palo Alto pays a higher cost due to our location.

Council Member Schmid asked if the worst outcome for Palo Alto would be if Turlock and Modesto walked away from the agreement.

Ms. Fong stated that if what he was interested in was whether Turlock and Modesto were interested in the long term agreement, the answer is yes.

Ms. Lloyd stated that it was SMUD and Turlock who participated in the short term agreement and that Modesto is waiting until we get the long term agreement in place.

Council Member Burt asked if two of the potential recipients of the City's COTP assignment, Turlock and Modesto Irrigation Districts, were in the SMUD/Western Control Area.

Ms. Lloyd replied that they have their own control area, but are connected to SMUD/Western and had similar reliability benefits and avoided CAISO access charges from use of the COTP transmission.

Council Member Burt asked how much advantage does it give them because they are in a different transmission zone.

Ms. Fong stated that it is less than a fraction of a cent advantage.

Council Member Burt asked if there are any changes that we need to know about from the conceptual review of this last spring.

Ms. Lloyd stated most of negotiations have to do with voting rights and what costs come back to us at the end of the agreement.

Ms. Fong stated that staff worked with the Energy Risk Manager on this and that the three counterparties are highly rated and that staff is comfortable that they will honor the contract. If they default we are back where we are now.

Council Member Burt asked if the Utilities Advisory Commission (UAC) had seen the final agreement and did they approve it.

Ms. Fong stated that staff did not take the short term agreement to the UAC but they did review and approve the long term agreement.

Council Member Burt asked if there were significant changes to what the UAC saw before and what is in it now.

Ms. Fong stated that the critical piece is the numbers and there was not a real difference in them.

Assistant Director of Utilities and Resource Management Jane Ratchye stated that the UAC did not review the contracts they only reviewed the concept to do the long term assignment.

Council Member Burt asked if there were significant contract changes, would this have gone back to the UAC for additional review.

Ms. Fong replied yes.

Ms. Lloyd stated that the City is still bound by the original project agreement and so the amount of variation that can happen is bound by our original agreement for the COTP.

Chairperson Morton asked what would have to be true for the City to regret the 15 year assignment.

Ms. Fong replied that if all of our transmission lines failed, and the only working transmission line was the California-Oregon transmission line, the City would then regret having given it up.

Chairperson Morton asked if that scenario was likely to happen.

Ms. Fong stated no that the transmission lines would not be down for an extended period of time as that would be blacking out the state of California. The utility companies would want to get power up as quickly as possible.

Chairperson Morton asked if where the fires were this year was it a concern.

Ms. Fong stated yes it was a concern however the CAISO keeps an eye on the lines to protect them.

Ms. Lloyd stated that the COTP 500kV line we participate in is only one of three lines in the State.

MOTION: Council Member Schmid moved, seconded by Council Member Burt, that the Finance Committee recommend that the City Council adopt the Resolution approving the execution of an agreement for a fifteen (15) year assignment of the City's share of the electric high voltage California-

Oregon Transmission Project (COTP) to the Modesto Irrigation District (MID), the Turlock Irrigation District (TID), and the Sacramento Municipal Utility District (SMUD), thereby lowering the cost to serve the electric utility customers of the City.

MOTION PASSED 3-0 Yeh abstaining

3. Adoption of a Resolution Approving the Ameresco Butte County Landfill Gas Renewable Energy Power Purchase Agreement for the Acquisition of up to Four Average Megawatts of Energy Over Twenty years at an Estimated Cost Not to Exceed \$71 Million.

Within the context of implementing existing Council policy by bringing specific contracts forward for Council consideration, Senior Resource Originator Tom Kabat made a presentation outlining progress toward meeting Palo Alto's Renewable Portfolio Standard (RPS), and specific information about the Ameresco Butte County Landfill Gas Renewable Energy Power Purchase Agreement under consideration. The RPS target was described as the goal of filling 33 percent of electric needs with qualifying renewable resources (excluding large hydroelectric) by the year 2015 within a cost constraint of ½ cent per kWh average rate impact. The half cent rate impact constraint amounts to a renewables cost allowance about \$5 million per year above standard market energy products. To date the City has committed to resources amounting to about 20 percent of load while not using any of the allowance. Staff is searching for resources to fill the remaining 13 percent of load with prices that do not consume more than the remaining \$5 million allowance. The specifics of the contract presented included: a) a term of 20 year from 2010 to 2030; b) size of 2 MW meeting about 1 percent of Palo Alto energy needs; c) price of 8.7 cent per kilowatt-hour escalating at 1.5 percent per year; and d) Palo Alto pays only for energy that is delivered. Also presented was information about increasing renewable energy prices in general and the relative attractiveness of this contract from our existing counterparty, Ameresco.

Committee members expressed interest in staff keeping Council apprised of the remaining renewables allowance as additional purchases are brought forward for consideration.

Council Member Burt pointed out that this agreement meets 1/13th of the remaining need while using only 1/25th of the remaining allowance.

Council Member Schmid asked how staff counts the renewable resource consumption of the allowance.

Mr. Kabat answered that a comparison is done for each commitment of the contract costs and the regular market costs at the time of the commitment.

Council Member Burt asked if the PaloAlto**Green** (PAG) program was factored in.

Mr. Kabat answered that the 6 percent of load represented by PAG subscribers did not factor into RPS goals and resources. PAG is a separate program for customers to go above and beyond RPS.

Council Member Burt asked if RPS purchases could leave our portfolio in an excess position in a wet year.

Mr. Kabat agreed that is possible on a daily or monthly basis and that we may at times need to sell the underlying energy while retaining the renewable energy attributes.

Council Member Morton noted that it was absurd that hydroelectric resources are not considered renewable when landfill gas projects count. He asked whether staff needs to examine the ½ cent per kilowatt-hour rate impact limitation as resources are added to meet the 33 percent RPS.

Council Member Schmid asked about the possibility of a generator being sited at Palo Alto's landfill.

Mr. Kabat answered that the landfill gas was already being used to save natural gas in the nearby Regional Water Quality Control Plant sludge incinerator.

Council member Schmid asked if prices for energy were to fall could we look back and regret the price paid under this agreement.

Mr. Kabat replied that this is a possibility with any fixed price contract.

Council Member Burt asked why the Utilities Advisory Commission (UAC) did not review this contract.

Ms. Fong noted that approving this contract is in line with Council policy (that the UAC helped to form) and that staff is now implementing it. She stated that staff does not typically take contracts that are proposed to implement policy to the UAC.

Council Member Burt noted that this is not just a contract, but a policy review and that Council does look to the UAC for advice and deeper vetting.

Ms. Fong replied that no new policies are being proposed at this time.

Council Member Yeh asked about the risks of depending too heavily on one supplier for our renewable needs.

Mr. Kabat pointed out that the supplier would be supplying about 7 percent of the City's needs, similar to other suppliers and that staff plans to issue additional requests for proposals.

MOTION: Council Member Schmid moved, seconded by Council Member Burt, that the Finance Committee recommend to the City Council Adopt a Resolution Approving the Power Purchase Agreement (PPA) with Ameresco Butte County LLC, a Delaware limited liability company. Additionally, for this agreement, staff recommends the Council waive the application of the investment-grade credit rating requirement of Section 2.30.340(d) of the Palo Alto Municipal Code to this transaction.

MOTION PASSED 4-0

5. Auditor's Office Quarterly Report as of September 30, 2008

Ms. Brouchoud spoke to two items on the agenda, first the City Auditor's Office Quarterly Report as of September 30, 2008. She explained that typically the City Auditor submits a quarterly report to update the Finance Committee and the City Council on their status and progress in meeting the conditions of their work plan, but due to the departure of the prior City Auditor, Sharon Erikson, the last quarterly report that was brought before the Committee was issued in December 2007, and before Ms. Erikson left a status letter was issued in March 2008. She stated that the report being presented tonight represents the third and fourth quarters of last fiscal year 2007-2008 and the first quarter of this fiscal year 2008-2009 which will bring her office current with their reporting requirements.

Since the last quarterly report of December 31, 2007, the Auditor's office issued, in February 2008, the audit of the Employees Ethics Policies, in March 2008 the Infrastructure Report Card (these were done before Ms. Erikson's departure), and two informational reports of the Palo Alto Sales Tax for the third and fourth quarters of 2007. The City received nearly \$150,000 through last fiscal year's sales tax recoveries, which is on target with our goal. In the first quarter of this fiscal year we received over \$36,000 in sales tax recovery. The office also received 3 distinctions: The 2007 Voice of the People Award as a result of the citizen survey the office conducted for their Service Efforts and Accomplishments (SEA) report, The

Association of Government Accountants Award in June 2008 for the same SEA report, in May 2008 The Association of Local Government Auditors awarded them the 2007 Silver Knighton Award for the audit of library operations. There are a number of projects underway at this time in addition to their ongoing assignments: Audit of vehicle maintenance and replacement, audit of ambulance billing and revenue collection, accounts receivable write-off of the utilities billing, undergoing the new SEA report for 2008 and the annual audit recommendation follow-up. She stated the office has worked very hard to thoroughly review all of the outstanding audit recommendations. There are 142 recommendations including 14 audit reports. They have met with the departments and in two instances, have worked collaboratively with the City Manager's office in their responses to Council on individual audits including the library response that went before Council earlier this month, and the ethics audit which will go before the Policy and Services Committee November 2008.

She said she expects a full report on the status of all of those recommendations coming before this committee in December 2008. The next external peer review is scheduled for February 2009. Household surveys have been sent in preparation for the upcoming SEA report, quarterly sales tax short forms have been filed with the State to claim recoveries in sales tax, the Citywide risk assessment has been completed, they have held preliminary meetings with departments on the ambulance billing audit, and have met with each department head and with the external financial auditor to receive their feedback and discuss items pertinent to their departments. She acknowledged staff members Edwin Young, Patricia Hilaire, Lisa Wehara, and Renata Khoshroo (who will soon be leaving to work for the City of San Jose), for their hard work during the six month City Auditor vacancy.

Chairperson Morton acknowledged Ms. Khoshroo's work during the Auditor's vacancy, and wished her well in her new position with the City of San Jose. He asked if there was any input that they would like to hear from the Committee on the outstanding items.

Director of Administrative Services, Lalo Perez welcomed new City Auditor, Ms. Brouchoud, and thanked Ms. Khoshroo for her great work. He noted that Ms. Brouchoud will look with a fresh pair of eyes to see if there are other ways that we can have these outstanding audit items completed or labeled in a different manner that accomplishes the same goal and spirit of trying to better our processes.

Ms. Brouchoud thanked Mr. Perez, and stated that what they have been looking at with the audit recommendations is really trying to see what are

the internal control weaknesses that were brought out in the audit report and make sure that whatever they are signing off on is addressing that, and not get caught up in the means or the methods in how they get there.

MOTION: Council Member Yeh moved, seconded by Council Member Burt, that the Finance Committee recommend to the City Council to accept the Auditor's Office Quarterly Report as of September 30, 2008.

MOTION PASSED 4-0.

4. City Auditor's Fiscal Year 2008-09 Work Plan with Risk Assessment

Ms. Brouchoud noted that in moving forward, they have a proposed fiscal year 2008-2009 work plan with the Citywide risk assessment attached to it and the last page of the handout has a short form summary that lists topics of the audit and the departments that are most directly involved in the audits themselves. There are three new audits on the proposed work plan for this year. The first is the citywide cash handling audit. The City Council added this to the work plan in July 2008. The second is a prospective analysis of the bond measure proceeds that would be contingent upon voter approval of Measure N, and this would really review the controls the City has in place or plans to have in place over the bond funds, and would not actually audit the use of the bond funds. The third would be a general overall audit of the Utilities Department, because it is a very large department and it showed up in six of the top ten areas identified in the citywide risk assessment. A preliminary survey will be conducted to gather information pertaining to the department's goals, mission, budget and regulatory requirements, and use that information to determine more targeted areas that would be audited. There are also audits in process, two audits that were carried over from 2006-2007, the Wastewater Treatment Fund and the purchasing cards audit. She noted that the auditor's department has a very full plate especially with Ms. Khoshroo leaving, and welcomed the committee's input and suggestions on their priorities given the proposed work plan.

Council Member Burt asked about the police department surprise audit. Ms. Brouchoud explained that this is not a performance audit, but at the request of the Police Chief, she believed their procedures required that they take a look at them periodically.

Chairperson Morton commented that the last cash handling audit which was done 10-12 years ago made certain interactions with the support groups for many City programs almost nightmarish. He urged the staff to look at two things, the dollar amount and the implementation of procedures that might

require volunteer consent or volunteer understanding so that the procedures don't become so horrendous that it makes the activity almost undoable.

Council Member Schmid asked Ms. Brouchoud if she wanted ideas and suggestions.

Ms. Brouchoud said yes, specifically with the proposed work plan, and if there is a certain priority order. She stated they would basically be taking them in the order that they come, looking at what has been carried over that they haven't been able to get to yet and then looking at the newer ones.

Council Member Schmid said his understanding was that there are four performance audits done per year, and noted that there were eight listed.

Ms. Brouchoud said the number of performance audits done per year can vary depending on the complexity of the audit that is being looked at. She said a number of them were in progress, and with Ms. Khoshroo's departure, she was not sure how many they would be able to complete. She said that if they know something is a higher priority for the community and the Council, they will make sure and try to address that.

Ms. Khoshroo noted that historically when they brought the work plan forward they put a little more on it than they knew they could reasonably accomplish within the year. They wanted to have enough work in case something fell through.

Chairperson Morton asked if that didn't also permit them to have some items already in place for next year, so that not everything is a new unanticipated audit.

Ms. Khoshroo agreed.

Council Member Schmid spoke about the City having recently gone through a six month period around the Children's Theatre in which a problem was discovered by a police action in 2007 that traced back to 2001. He noted that Council had a discussion that we should look at our current cash handling and see if there are problems that could crop up that might be similar, and if we have the correct procedures in place. He stated that this raises a larger policy issue, that there was a performance audit in 1998 or 2001 that didn't work.

Mr. Perez stated that it might have been a review of the Auditor's Office recommendation that the travel expense policy be updated.

Council Member Schmid asked that when we do an audit what does the Council expect from that audit? Does it solve problems like that? How could a problem crop up immediately after we did such an audit?

Ms. Brouchoud stated that review would have taken place essentially 8 years ago and if the audit was looking at a travel policy it could have had a very narrow focus. The Auditor's Office has recently been instructed to look at Citywide cash handling (the whole City) and travel reimbursements, oversight procedures, and looking at the history of any audits already done.

Council Member Schmid asked that if an audit on cash handling is done, would we expect there not be a problem in the next year or two, or who becomes responsible for the problem? What are our expectations and anticipations? When you do an audit, do you assume responsibility for it being carried out, or is it Administrative Services, or the external auditor?

Ms. Brouchoud stated that there is a combination. When they do issue an audit, it's basically an opinion that they have followed the generally accepted government auditing standards in maintaining independence, documentation and objectivity in arriving at their audit conclusions. Following these standards provides reasonable assurance for the audit report findings and opinions. However, the audit does not guarantee that fraud or other negative things aren't occurring; not to say that we have any indication that fraud is occurring, but audits do not provide an absolute guarantee. In terms of recommendations that do come up from an audit, the Auditor's Office directs their recommendations to the appropriate department to implement those recommendations. The Auditor's Office also has an annual follow-up process of which they are going through right now to follow-up and make sure those recommendations are being implemented.

Council Member Schmid suggested that there is a responsibility from Council as well that when these findings are presented to them that they are alerted or aware.

Mr. Perez added that a lot of the responsibility comes out of his department, Administrative Services Department (ASD) and himself, and that he has to be accountable. If he agrees with recommendations the auditor has put forward, it is his responsibility to insure they get carried out. He stated he would never be able to guarantee that an incident would not occur. If anything, he is expecting an incident to occur. That is his approach. There is a risk balance that as a manager you have to make a certain discretion as to how much control can you put in place and how much are you trying to protect and so the key is to ensure that we are following those procedures,

that the procedures are refreshed and reviewed in conjunction with the City Auditor's office.

Council Member Schmid asked what the role of the external auditor is, and should they be picking up things, and is it their responsibility?

Ms. Brouchoud explained that the external auditor would be focusing on material misstatements. To the extent that the amounts involved may be nominal, the external auditor would not report them.

Chairperson Morton added that auditors have thresholds, but it is often 3-5 percent of the total number, so what would be significant in the City level is not going to be twenty thousand dollars, it's going to be in the order of hundreds of thousands of dollars. An auditor would not bill the City for time spent looking at things under that threshold. If your net of transactions is something at the two hundred thousand plus level, you're not going to sift those things out. If you use the Children's Theatre issue, the auditor might come across it when they're looking at those transactions, but they wouldn't go looking for those transactions because you have to have a way of going through the millions of transactions and sorting what's going to be significant.

Council Member Yeh asked about the 142 recommendations and he noted that a lot of what is driven in terms of implementation recommendations happens from the Auditor's and City Manager's offices.

Council Member Schmid stated that over the last month, the Public Works Department has come in asking for replacement vehicles before time expired on these major pieces of equipment. He asked if vehicle replacement included heavy equipment.

City Manager Keene noted that it was included, it is in the pool and in the schedule.

Ms. Brouchoud added that they can be treated separately, because you have a mileage requirement on vehicles and more of a metered or hourly requirement on a lot of these pieces of heavy equipment. The audit isn't in process, and while she didn't want to jump the gun in saying what it will or will not cover, based on what she has seen in terms of the fire truck approval, they haven't focused specifically on emergency services and those pieces of equipment that require a different type of analysis than a regular vehicle.

Council Member Schmid agreed that these were big issues but noted that the manner in which it was presented to Council were two opposite cases and he believes that that would be worthy of some attention.

Chairperson Morton stated that in past budgets we have extended the life of equipment and that this may not be the appropriate way to balance a budget the next time around.

Council Member Burt commented that when we have equipment that goes beyond its expected life then that would be a basis for a department to evaluate a success, and wasn't exceptional preventative maintenance the reason we were able to extend it. Did we actually run a risk of having equipment failure and basically expose ourselves by extending it, or were we just lucky. Conversely, if we have a piece of equipment that does not achieve its useful life, what might be the cause? He was uncertain if we have mechanisms that do that kind of failure analysis or success evaluation, when is it sizeable enough to warrant it. At what point in time is it not worth that, but on a big piece of capital equipment that was one of the questions that came to mind, why we have these two different extremes, do we have explanations.

Mr. Keene said that Ms. Brouchoud reviewed her recommendations with him on both the cash handling and the audit of vehicle replacement and he thought they were really good and necessary areas to focus on. The vehicle replacement fund in general because there's a lot of money there and a lot of different factors, and that the scope as we look at this extends to the fleet in total. He said that what we will find ultimately is that there are standards that we should regularly have, and there may be some recommendation on what those should be. We will always have some situations that are outside the standard, and so the question gets to be is the methodology and the analytical process used, is it rigorous enough to justify the conclusions that were made. There are operations issues and questions of what is our inventory like and how much just in time versus buying things and letting them sort of stick around.

Ms. Brouchoud said she believed the terminology used is mechanical assessments, and are we performing those on our vehicles to make sure we have appropriately replaced ones that need replacement and didn't replace those that have a future life. This is a very big topic because you can have replacement connected with vehicle utilization, connected with when we add vehicles or specific equipment to the fleet. It involves a lot of different elements, and we are in the process of looking at this.

Council Member Schmid mentioned one outside topic that was not listed that he gets a lot of feedback on, the police structure and building, but not police patrols and how efficient and effective police patrols are.

Mr. Keene asked if Council Member Schmid meant modes of deployment.

Council Member Schmid confirmed.

Council Member Yeh asked about the prospective analysis bond measure proceeds for the library issue. He asked if there was any time sensitivity because it's called prospective, whether or not a bond passes would this need to occur prior to that oversight committee being put into place or could it occur at the same time.

Ms. Brouchoud didn't believe that the audit would infringe on the timeline for the oversight committee, since it is a separate committee that would be formed. What their analysis would do is to be more of an evaluation of what regulations are in place such as Federal and Internal Revenue Services, taxes and bonds more on the technical side of it, she did not see the analysis impacting the oversight committee.

Mr. Perez stated that given the current financial conditions, assuming that a successful measure passed, we are under no obligation to issue the debt right away as long as there is authorization. Staff would do the analysis and work with a financial advisor as to what the right time would be. If there would be a need for us to proceed with a design element for instance, we would advance the funds from an infrastructure reserve. That would allow us to move forward without a delay in the process.

Council Member Yeh asked about the Utilities Advisory commission (UAC) and the potential for any role for the UAC in the overview survey describing the Utilities Department audit proposed in the work plan.

Ms. Brouchoud said there were two possibilities and it would depend largely on what the Council wants and the feedback from the UAC. She said that if we go ahead with what is proposed here, where their office does a preliminary survey of the Utilities department and the audit scope really isn't defined yet, as part of that process we would interview members of the UAC for feedback on how things are working or any areas that they would want them to know about. If there are specific areas that the UAC and Council want to give them direction on, then that specific audit scope would be brought to them and incorporated into the work plan.

Council Member Yeh said that he supported the spirit of what Council Member Burt said earlier in terms of the role of the UAC and what they could do in terms of improving and augmenting the effectiveness of the Utilities Department. He said that the role of the UAC is not exactly clear in the Administrative Code, but that in most audits the Administrative Code is consulted and cited as part of the criteria. He stated that given there will be staffing transitions and that they are allies in this, as things develop with recruitment schedules, letting them know what the Auditor's Office needs are in meeting these audit task plans.

Council Member Burt referred to Ms. Khoshroo's description of putting more on their plate than is really feasible and one of the reasons to do so is to have items in line should an opening occur. He stated that it is difficult to exactly predict what you are going to be able to accomplish in a one year. He said he is a little apprehensive about having the plate really overflowing. He would advocate that there be a distinction between what you would say is a full plan and one or two items you hope to add to the committed plan if it is possible to do so, and put the others into the following year's schedule. He said that if they were to audit the percentage of scheduled items that were accomplished by an auditor's department it wouldn't look good. The question would be is that because the Auditor's Office is unproductive or because they really put things in an artificial category. He would like to see the categories become more realistic and characterized as they did tonight. For instance, if we are going to accomplish these eight, we hope to add these two additional ones if possible, and these other three need to be rescheduled to next year. There are 5 with target dates of TBD, so all the others are in process and they are not going to get readjusted on priorities for the most part. So then the issue really is the numbers 12 through 16 plus 8, there are six that have not begun. To his knowledge, they haven't given any input on which of those six they would consider to be higher priorities. He didn't find it easy as he went through them to say which should fall by the wayside except for perhaps number 8 which seems comparatively small. All of them have value, but that was the one he found easiest to support as not having as one of the priorities for this year if they had to make those choices. He asked when number 15 would commence if the bond measure should pass.

Ms. Brouchoud stated that her concept was that if the bond measure passed, they would be moving forward by the first of the year. She added that this was another one that was contingent, and as Ms. Khoshroo mentioned, they designed it so that if something should drop off they would have other items in its place. She said it is very typical that they don't get to audit all the audits on their work plan. They have two that are two years old that have not been started yet. She added that Council Member Schmid did mention

another possibility so she asked if they would want to add the Police item to this or not at this time or consider it for next year, so they'd look for that direction as well.

Chairperson Morton said he thought Ms. Brouchoud mentioned earlier that the Police Chief indicated that there is an expectation that the Auditors Office look at the investigative fund in a periodic way, and didn't know if that was an internal requirement or not.

Ms. Brouchoud stated it was an internal request.

Ms. Khoshroo said that it is a very quick audit, usually a one day.

Ms. Brouchoud added that it was not on the performance audit list and it's procedural. The big ones are items 9-16 and 9-11, so that leaves on the table 12-16.

Council Member Burt said he wished he had better answers to the prioritization, and that he thought they should struggle with this as a recommendation to Council among 12-16, prioritize them, and out of additional ones that haven't been done, what portion of them did she think were reasonable, that could be accomplished.

Ms. Brouchoud said that it is quite frankly difficult to say because it is her first year on the job, are now recruiting for a position and they have a full plate. She posed the prioritization question out to the Committee not intending that if they don't have a priority, that's ok, they will work off of what they have and she will use her staffing resources and pull them accordingly. Her purpose in asking if they had a priority was because, understanding that they do have a full plate, and so if they don't get to it, she wants to make sure that is ok, and that they haven't missed a real pressing need.

Council Member Burt commented that numbers 13-14 seemed to be interrelated to discretionary fund handling by departments. His personal expectation is that first on a real substantive basis they compare this to the Utilities Department in its scale and the Wastewater Treatment Fund, since those are huge economic expenditures to the City. He said that there may be a need to have those as a fairly high priority to assure the community that even though the dollar amounts might not be high in absolute numbers, that things would be handled properly. We need to frame the issue in context of what is a reasonable expectation and he would like to pose that as something for consideration, because the community view of the outcome needs to be placed in a context. You are obviously going to find things,

there are all these different departments and they are doing things differently and it's tough to keep a handle on. Somehow we need to frame the issue before we dive into it in terms of what are reasonable expectations of how much control goes too far, how much control is necessary and what level of perfection we ought to expect as we go into it. I think numbers 13 (Audit of Purchasing Card Transactions) and 14 (Citywide Cash Handling) need to get done this year. While they are not our greatest importance, they are important to reassuring confidence in the community.

Chairperson Morton noted that the City Council has already weighed in on number 14 and so that is a continuation of their request.

Council Member Burt said that if he recalled correctly it was the former City Manager who proposed it as an outside auditor and the Council elected to postpone it from immediate action in order to allow the new City Auditor to add it on to the next year's agenda. In that sense the Council conveyed that it wasn't so urgent that it had to be done immediately and by an outside auditor

Chairperson Morton agreed, but added that they did make clear that they were expecting that the City Auditor would review this issue. The items through number 11 are already on the plate. If we follow Council Member Schmid's recommendation of adding items 13 and 14 to the plate, the plate gets fairly full.

Council Member Burt said that his understanding was that the Auditor take their recommendations as a Committee and integrate it with the Auditor's Department's own best judgment and make a recommendation to the Council as a whole as opposed to the Finance Committee making a recommendation to the Council.

Ms. Brouchoud said that what was before them tonight is adoption of the work plan and then they would take into consideration the priority that the Committee has given them when they assign staff to complete the work.

MOTION: Council Member Schmid moved, seconded by Council Member Yeh, that the Finance Committee recommend to the City Council to approve the City Auditor's Fiscal Year (FY) 2008-09 Work Plan.

Council Member Yeh added that to clarify number 16 regarding the utilities, understanding that utilities can be incredibly technical that the Auditor's office should possibly recruit someone with that kind of knowledge.

Ms. Brouchoud stated that she has two challenges there. If she tried to recruit someone with that knowledge, she would need more staff to get the rest done, and looking at contracting a portion of this out she would probably have to come back to this committee or the Council for budget for that.

Council Member Burt added that we need to bear in mind that we have within ASD an oversight function of commodity risk that's done and that was set up a number of years ago to separate some independence from the Utilities Department, so it may not be identical to what an auditor would do but we need to acknowledge that we do have that check and balance built into our system.

MOTION PASSED 4-0.

6. Discussion for Future Meeting Schedules and Agendas

Nov. 4 Cancelled meeting

Nov. 18 Calaveras Reserve

NCPA Third Phase Agreement for the Salinas Landfill Power Project

ADJOURNMENT: The meeting adjourned at 9:30 p.m.