



Policy and Services Committee MINUTES

Special Meeting
July 10, 2012

ROLL CALL

Chairperson Holman called the meeting to order at 6:16 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Espinosa, Holman (Chair), Klein, Schmid

Absent:

ORAL COMMUNICATIONS

Joy Ogawa spoke regarding the Vehicle Habitation Ordinance. She reiterated comments she made at the June 26, 2012 meeting held at Escondido School. At the September 2007 meeting Staff addressed the oversized vehicle problem by introducing an Ordinance regarding vehicle habitation rather than a Residential Parking Permit Program (RPP).

AGENDA ITEMS

1. Council Priority Setting Process.

Sheila Tucker, Assistant to the City Manager spoke regarding the Council priority setting procedures. As directed by the Policy and Services Committee (Committee) Staff had completed the Committee's recommended changes and outlined them in Attachment C of the Staff Report. Some additions had been made to the process at the advice of the City Attorney to accommodate compliance to the Brown Act.

Council Member Klein said the Definition should be "A Council Priority is defined as a topic that will receive particular, unusual, and significant attention during the year" versus the more lengthy definition listed in Attachment C. He had concerns regarding the definition section. He suggested limiting the definitions to a single sentence as a Council priority was a topic that would receive particular, unusual, and significant action during the year.

MINUTES

Council Member Espinosa agreed with the suggested language.

Chair Holman asked if the language; by establishing a priority the Council sends a message to the organization, should be moved to a different section.

Council Member Klein said he did not feel the paragraph was necessary as a definition as what a priority was.

MOTION: Council Member Klein moved, seconded by Council Member Espinosa to change the definition of a priority to "A Council Priority is defined as a topic that will receive particular, unusual, and significant attention during the year."

Council Member Klein questioned the statement listed under Process, 1a, "All Council Members will have the opportunity for equal input on the priorities for consideration." That statement was always true and it did not need to be listed.

Council Member Espinosa explained there had been conversations about whether the priority setting would happen at the Committee or Council level. That statement was designed to ensure, if the process was moved to the Committee level, the discussion would go back to Council and all Council Members had a chance to participate.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER: to change the language under the header Process on Item 1B to "Staff will collect and organize Council Members input into a fixed list to be provided to the Council no less than a week in advance of the Council Retreat".

Council Member Klein was uncertain of the process between the Committee and Staff. He was not clear if the Committee was shaping the list or merely providing suggestions to the Staff. He asked what was meant by the statement "the Committee would initiate Council input on the priorities."

Ms. Tucker said Staff understood the role of initiating the process, providing feedback, and could make recommendations on how the process was designed during the retreat.

Council Member Schmid mentioned the Staff Report identified the Brown Act as placing limitations on what the Committee could do.

Ms. Tucker said the Committee could collect information from the Council but should not have discussions regarding the collected data.

MINUTES

Chair Holman understood the Brown Act compliance in this particular case was that Staff should collect the Council responses, not the Committee. She questioned Item 1a which read "all Council Members had the opportunity for equal input on the priorities for consideration". There were no specifics detailing the when, how, to whom, or in what form Council input was submitted. Item 1b was not precise about which department would collect the responses. The report noted Staff would collect and organize Council input into a priority list to be provided to the Council in no less than a week prior to the retreat. She suggested a timeframe of two weeks because of the holiday schedule. She felt at least two Council Members should be needed to make a recommendation for a priority.

Ms. Tucker said in late 2011 when the initial process discussion went before the Committee it was suggested they provide how they wished to handle the process. Staff had returned with those suggestions but had not included details as to how to move forward. Returning to the Committee now was to receive the detail.

Chair Holman said if the intention for setting the process for priorities was meant to be seen three months in advance the Council could not see the information in November.

Ms. Tucker specified the current process was that Staff worked with Mayor on how prioritization was done at the retreat. The change would be that Staff would work with the Committee instead.

Chair Holman believed formalizing the process would benefit the Staff and Council as a whole since the position of Mayor changed annually.

Council Member Espinosa wanted to clarify there were four steps in the process; 1) Staff would collect ideas for both priorities and process three months before the retreat from all Council Members, 2) the suggested priorities would go before the Committee to set the process and decide whether or not to make recommendations on the priority ideas, 3) no less than a week before the retreat the recommendations on process and potential narrowing of priorities would be sent to the Council, and 4) at the end of the process, the Committee would evaluate and reconsider the entire process to determine if any changes should be made. He said the key issue was the Committee would be setting the process and narrowing the list of priorities. The part of the process where Staff collected the individual Council ideas then provided them to the Committee for review was where the concern arose because at that point the Committee would be reviewing all of the ideas from all of the Council Members.

MINUTES

Ms. Tucker said the role of the Committee should be limited to recommendations about the priority process.

Council Member Espinosa disagreed.

Ms. Tucker clarified the first step of the Committee soliciting priorities and ideas about the process. The report currently read the Committee makes recommendations about the priorities not necessarily the process.

Council Member Klein noted there were several policy decisions to discuss prior to rewording. The first decision was whether the Committee should sculpt the list of Council Member priority suggestions versus providing them all to Council for consideration. He did not feel that was an appropriate role for the Committee. He questioned whether additional items would be eligible at the retreat. He disagreed. He did not feel the proposal of at least two Council Members submitting an idea in order for it to be considered was a valid suggestion.

Council Member Schmid supposed there were two separate steps involved; 1) being what recommendation the Committee wished to present to the Council and 2) questions to address. Suggested questions 1) how many recommendations can each Council Member make, 2) should there be a sense of size and scale or limit of word count, and 3) from whom does the Committee collect the ideas. He recommended part of the definitions be; 1) the newly elected Council Members be invited to participate in the process, 2) restrict the number of priority suggestions to three from each Council Member, and 3) the priority be limited to 200 words. He suggested the definition include an invitation for newly elected Council Members to participate.

Council Member Klein felt a 200 word count was too high.

Council Member Schmid noted the ideas should be listed in categories. He asked if the Staff or the Committee should be selecting the categories. The Committee and Staff should reconvene in October to review the suggestions the Committee may have regarding the process for the retreat knowing what the proposed priorities would be.

Council Member Espinosa was intrigued by limiting the number of proposed ideas but felt three was too few, perhaps five. He had concerns reaching out to Council Candidates but had no issue asking their thoughts once they had been sworn in. He asked Council Member Klein why he felt the Committee

MINUTES

should not be responsible for narrowing the collective list of proposed priority ideas.

Council Member Klein defended the full Council should be able to participate in the process of viewing all of the ideas. He compared the process to the budget season where the Finance Committee reviewed the numbers and made recommendations but the full Council had the ability to make collective changes.

Council Member Espinosa asked how this would differ. If the Committee reviewed the ideas, narrowed the selection, and made recommendations to the full Council it was the same as the budget reference.

Council Member Klein said if all the Committee was being requested to do was review the items and make a recommendation it would be the same.

Council Member Espinosa explained his thought process was whether there was a role the Committee could play in narrowing the proposed ideas and making a recommendation to the full Council. He understood that idea was not acceptable to all. He felt it was reasonable to have the Committee review all of the ideas and narrow them. If the Committee members were not soliciting responses but Staff asked the full Council for recommendations, the recommendations would return to Staff and Staff would present them to the Committee, would there be a Brown Act violation.

Molly Stump, City Attorney said the concern was if Council Members were polled outside of a Council meeting and input was gathered then discussed in a Committee meeting that was not noticed as a meeting of the full Council there would be a Brown Act violation. There was no problem when the Council as a whole was debating on an issue then directed a Committee to address the recommendations or changes. This situation was not implicit of that scenario. The situation at hand was where individual Council Members gave substantive contributions to the Committee process through writing opposed to them being present.

Chair Holman said the example of the budget differed because the input was from the Staff and reviewed by the Finance Committee to recommend to the full Council.

Council Member Klein said one of the unintended consequences of the Brown Act was in some ways it provided a superior position to the Staff.

MINUTES

Ms. Stump agreed that was an accurate observation. The Brown Act did at times provide Staff latitude to do things that other Council Members could not.

Council Member Schmid asked what the process would be if a number of nominations were entered which overlapped in their characteristics. He asked if the Committee could group all of those nominations into a single category versus eliminating some of them.

Chair Holman understood the concept of categorizing similar items but combining them into one topic may not satisfy the intention of the author.

Council Member Schmid said if characterizing them in some fashion did not occur the final vote would be fragmented.

Chair Holman thought that would be vetted at the retreat.

Ms. Stump noted a lot of what was being discussed was not in the realm of the limited question of the law in the Brown Act. Some of the comments were of a legal piece but it was the most productive way for the Committee to work. From a Brown Act perspective it would be fine if Council Members brought their suggestions to a full Council meeting then granted the Committee editing ability. She asked if the Committee was satisfied with that type of structure.

Council Member Klein was unclear about how that was different than sending them directly to Council which did not make sense from a Brown Act perspective.

Chair Holman suggested splitting the Motion into sections. She asked Council Member Klein if there were corrections to the background in his Motion.

Council Member Klein stated he had no corrections to the background of his Motion.

Chair Holman said the Motion on the table was "priorities would receive particular, unusual, and significant attention during the year" was that correct.

Council Member Klein stated that was correct. He accepted the idea that Council Member Schmid had raised three questions that should be addressed and added to the initial three questions for a total of six.

MINUTES

Chair Holman said the Motion was set for the background and definitions. She proposed an Amendment to insert into the definitions "By establishing a priority Council sends a message to the organization to better utilize time available for discussion and decision making" insert the language as a new section titled Purpose.

Council Member Espinosa asked if the referenced organization was the City Staff.

Chair Holman stated yes. She believed the new language supported the definition.

Council Member Schmid asked if the Amendment was to add a second heading under Definition as Purpose.

Chair Holman said yes.

Council Member Schmid said with that change one of the sentences had been misplaced from Definitions and placed under Purposes. He agreed with that change.

Chair Holman said that was correct. She looked toward the Maker for acceptance and noted she was open to edits.

Council Member Klein felt the language was redundant. He suggested defining the term organization because he thought it was referring to non-profits and not to City Staff.

Chair Holman clarified the change was from "organization" to "Staff" and now read "By establishing a priority Council sends a message to the ~~organization~~ City Staff to better utilize time available for discussion and decision making".

Council Member Klein mentioned the redundancy in the Definition section was between "The topic will receive particular attention throughout the year by establishing a priority question to city staff that will attract heightened attention to city resources." and "The establishment of Council priorities will assist the Council to better utilize time available for discussion and decision making." Priorities are issues that are important matters to the community that warrant an intensified effort during the fiscal year. By designating a priority, Council sends a message to the organization and the community to direct heightened attention and resources toward the issue. A Council priority is defined as a topic that will "receive particular, unusual and significant attention during the year". The Amendment language was "By

MINUTES

establishing a priority Council sends a message to the City Staff to better utilize time available for discussion and decision making” inserted as a new section titled Purpose. He accepted the language as defined under Purpose beneath Definition.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER: to add a section under Definitions titled Purpose and include the language “By establishing a priority Council sends a message to the City Staff to better utilize time available for discussion and decision making”.

Chair Holman confirmed Purpose was the second paragraph under Definition to read as:

DEFINITION: A Council priority is defined as a topic that will receive particular, unusual and significant attention during the year.

PURPOSE: The establishing of Council priorities will assist the Council and City Manager Staff to better allot and utilize time for discussion and decision making.

Chair Holman asked to review the four steps suggested by Council Member Espinosa. She said she was not sure that they focused on criteria.

Council Member Espinosa acknowledged his suggestion was on the process side but there were criteria issues raised; such as the recommendation on the number of ideas per Council Member and the length for each.

Chair Holman viewed criteria as the activity that happened at the retreat opposed to the number of priorities a Council Member could submit. She did not feel the definition of Criteria was the right word for the purpose being discussed. She suggested it could change to “retrieve criteria.”

Ms. Tucker said it was intended to guide Council’s review at the retreat.

Council Member Klein agreed with Chair Holman that criteria was not the correct word usage.

Council Member Espinosa said if the Committee went through a timeline and took each step individually that portion could be incorporated at the end of the Process heading.

MINUTES

Chair Holman asked if the Committee agreed to a different heading, if moving the language under Criteria to the end, and whether the verbiage provided by Staff was acceptable.

Council Member Klein believed the City Council passed the two items under criteria 1. There was a goal of no more than three priorities per year and 2. Priorities had a three year time limit.

Chair Holman understood them to be comments made but not language recommended or voted on.

Ms. Tucker agreed they were parameters that had guided Council in their review of the priorities.

Council Member Klein recalled a discussion on the language. He believed there were different numbers in favor of and someone added language for a goal of no more than three.

Council Member Schmid said on page seven of the packet, item 10 read: There should be no more than three priorities within a year.

Chair Holman clarified the language from the retreat. She did not disagree; however, if the goal was to have a more complete document those items should be towards the end. Addressing Council Member Klein's comment regarding the number of priorities, she said they could make that recommendation.

Council Member Espinosa suggested walking through the timeline of the entire process and see how it worked out.

Chair Holman suggested for the time being adding Retreat in front of Criteria and maintaining the current language as listed by Staff. Retreat Criteria -the following criteria will guide Council's review and adoption of its annual priorities: 1. There was a goal of no more than three priorities per year and 2. Priorities have a three year time limit.

Council Member Klein preferred Retreat Decision Guidelines rather than Retreat Criteria.

Council Member Schmid suggested Retreat Goals.

Chair Holman questioned item 2 under the current heading of Criteria; priorities have a three year time limit. She asked if priorities should generally have a three year time limit.

MINUTES

Council Member Klein did not feel the time line made a difference.

Council Member Schmid felt the time line made a difference. If there was a three year limit some items such as City finances or land use did not have a three year time limit.

Council Member Klein stated those comments were referring back to Definition. The idea was to move away from specific labels as Finances or Comprehensive Plan priorities. Certain items within a City were always a priority and if those same items were included each year what was the point of the process.

Council Member Schmid noted the language began to exclude certain categories.

Council Member Klein preferred to leave the three year time limit in and noted items could be brought back if needed.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER: to change the heading Criteria to Retreat Guidelines and moved to the bottom of the list.

Chair Holman moved on to the Process heading where there were several potential Brown Act issues and policy decisions to make.

Council Member Espinosa said as the Committee walked through the process and achieved agreement it seemed the first step would be All Council Members solicited by Staff for recommendations on potential priorities for the upcoming year.

Chair Holman asked who specifically Staff would be.

Council Member Klein confirmed Staff would refer to the City Manager.

Ms. Tucker agreed the City Manager would be the soliciting advocate.

Council Member Schmid asked if there should be a limit placed on the number of recommendations being solicited.

Council Member Espinosa agreed there should be a limited number of submissions, although he was not aware of what that should be.

Council Member Klein concurred with the reasoning.

MINUTES

Chair Holman asked if the suggested number was three.

Council Member Schmid said the number the Committee was aiming for was three so he felt it was a reasonable number.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER: the first step would be All Council Members would be solicited by City Manager selected Staff for three recommendations on potential priorities for the upcoming year.

Council Member Schmid wanted to discuss the newly elected Council Members and when their ideas should be registered.

Chair Holman noted the earlier recommendation was for no additions accepted at retreat so if the newly elected were not involved early after their appointment their ideas would be left out of the process. She felt that needed to be addressed.

Council Member Espinosa asked if that language should be added to the process somewhere.

Council Member Klein agreed to the additional language.

Chair Holman asked how to address newly elected Council Members.

Council Member Schmid suggested the addition of verbiage stating; New Council Members from the November election will be included in the solicitation process.

Council Member Klein said timing was a consideration because three months prior to the retreat was October while the election was not until November.

Chair Holman proposed the language could say upon election the City Manager would contact the newly elected Council Members for their input.

Council Member Espinosa asked if there were concerns from the City Attorney regarding those persons who had been elected but not yet sworn in to the position.

Ms. Stump clarified the Brown Act applied to any persons upon the elected or appointed process even if they had not been sworn in.

MINUTES

Council Member Espinosa said his concern was although they had been receiving City Council packets for two months they may not have any context to the broader issues affecting the City for adequate input.

Council Member Klein proposed the additional language to the "no additions to the retreat" rule that the newly elected Council Members who had not served were an exception to the rule.

Council Member Espinosa believed that would place the Committee in a tough position.

Chair Holman agreed and felt everyone should be treated the same.

Council Member Klein said they could not be treated the same. The newly elected were in a different timeframe. He mentioned the Charter had an area that needed discussion for change with respect to when the newly elected Council Members take office. The surrounding cities elected take office earlier than Palo Alto elected. He was suggesting December 1st, right after the certification of the votes.

Ms. Stump agreed the election votes were usually certified in the beginning of December. At the point where the votes were certified City Staff would be working with the newly elected to orient them to City policy and procedures.

Council Member Klein was comfortable having Staff solicit recommendations from newly elected Council Members once the votes had been certified.

Chair Holman asked whether there were new suggestions allowed at the retreat by the newly elected.

Council Member Klein said no.

Council Member Schmid agreed no.

Ms. Stump clarified there could be additions made up to the notice period which was 72 hours prior.

Chair Holman stated the language in the process was different than the 72 hour window because the Staff needed time to collate so the Motion was for a one week ahead of the retreat. She suggested for the process, the City Manager would solicit suggestions from Council which would be sorted by priority. The City Manager will solicit a limit of three suggestions from each newly elected Council Member. There will be no additions at the retreat.

MINUTES

Council Member Klein expected Staff to eliminate close redundancies in recommended ideas.

Ms. Tucker said Council would approve the documents. The priorities applied to Council with regard to the retreat, priorities would have a three year time limit. Staff could analyze and provide this language in a document, based off language that was already adopted.

Ms. Stump said if a Council Member made a suggestion that was barred by the three year limit rule the Committee may want to include language in the process on how Staff should manage them.

Council Member Klein said redundancies should be added to the list with an asterisk.

Chair Holman asked if there was a role for the Committee Chair to work with the City Manager's office to organize the list.

Council Member Schmid put forward the City Manager Staff would solicit the Council Members ideas three months prior to the retreat. He asked if there should be a time period set for the Committee to meet and confer with the results. It made sense in early December for the Committee to meet to receive the input from Staff on the collected proposed priorities. Once they had been reviewed and organized the Committee could establish the retreat work flow process.

Chair Holman asked if the Committee could review the information without having it first be referred by the full Council.

Ms. Stump confirmed the recommendation was to work with the input from all nine Council Members then work in Committee to organize and rephrase.

Council Member Schmid said the organizing and rephrasing would only occur if necessary but the concept was to establish a process of ranking the priorities during the meeting for the retreat.

Ms. Stump clarified procedural issues could be discussed at a later meeting.

Council Member Klein believed the policy decisions should be completed prior to moving forward.

Ms. Stump agreed the raw results could be attached to the Staff report for discussion.

MINUTES

Chair Holman asked if number four would be for the City Manager Staff to collect and organize Council Members input into a list of priorities to be provided to Council no less than two weeks prior to the retreat.

Council Member Espinosa clarified language should be added as a second sentence that Staff was authorized to delete redundancies in the list.

Ms. Tucker asked if the Committee wished for Staff to complete an analysis on the top three.

Council Member Klein said yes.

Chair Holman confirmed the language for number four would be City Manager Staff would collect and organize Council Members input into a list of priorities to be provided to Council no less than two weeks prior to retreat.

Council Member Espinosa wished to add language that provided Staff the authority to correct and eliminate redundancies. The term organizing meant to move items.

Council Member Schmid mentioned summarizes.

Chair Holman thought summarizes was too general.

Council Member Klein felt organize was the best solution.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER TO REVISE THE PREVIOUS INCORPORATION TO READ: the language for number four which was under the heading Process as Item 1B as City Manager Staff would collect and organize Council Members input into a list of priorities to be provided to the Council no less than two weeks in advance of the Council Retreat.

Council Member Espinosa was uncertain where in the development process discussion would take place within the Committee. Before Staff solicitation or after the retreat and a resetting of priorities had occurred.

Council Member Schmid questioned whether the recommendation was for the Committee to make a decision for Item 2A; Recommendations about the prioritization process will be forwarded to Council for adoption in advance of the Council Retreat.

Council Member Espinosa asked if the Committee felt there were issues within the process that had not been discussed.

MINUTES

Council Member Schmid mentioned the Council could have any number of consolidated priorities from 4 to 30. The Committee was set to recommend a process supposing a large number. The question was what the Committee was going to recommend to them to ease the procedure of regulating their recommendation to three. That was a decision needed without knowing the actual number from each Council Member.

Council Member Espinosa had been accepting of the Committee Chair working with the City Manager to manage the process. There had been a recent desire to have ranked voting or other process decisions made before the retreat. The ranking process may be fluid but was dependent upon the number of priorities recommended each year.

Chair Holman suggested submitting the process the Committee had completed to Council for the September meeting and they could make a decision after reviewing the recommendations.

Council Member Klein was not satisfied submitting an incomplete document to the Council.

Ms. Tucker asked if the Committee would be comfortable with the current process where the Staff worked with the Mayor prior to the retreat.

Council Member Klein agreed that was plausible.

Council Member Espinosa did not see the urgency for getting the document to Council.

Chair Holman noted the Staff report clearly stated the process of solicitation was to begin in October; therefore, the Council needed to see it in September.

Council Member Klein said the Committee shall each year make a recommendation regarding the process of the retreat taking into account the number of priorities suggested by Council Members with such process to be forwarded to Council for adoption in advance of the Council retreat.

Council Member Espinosa mentioned the Council had up to two weeks prior to the retreat to supply input.

Council Member Klein believed only the newly elected Council Members had up to two weeks prior to supply input.

MINUTES

Chair Holman suggested upon election the City Manager would invite newly elected Council Members to submit priority suggestions but there was no time line.

Council Member Espinosa felt there needed to be a time line initiated in order for the Committee to have time to review.

Council Member Schmid recommended after certifications of the election which would usually be two weeks after the election.

Chair Holman asked when the suggested submitted by date should be.

Council Member Klein stated December 10th.

Chair Holman stated there would need to be a special Policy & Services Committee meeting set annually to review the input.

Council Member Espinosa recommended submission by December 1st and the input would be agendized for the regular Policy & services Committee meeting in December.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER: the language for number four which was under the heading Process as Item 2A should read The Policy & Services Committee shall meet each December to make recommendations regarding the design of the Council Retreat process paying particular attention to the number of priorities suggested by Council Members. The process was to be forwarded to Council for adoption in advance of the Council retreat.

Ms. Tucker was reviewing the schedule in order for Staff to supply the information to the Committee for review and submission to the Council for adoption two weeks prior to the retreat.

Council Member Klein wanted the timing of the retreat varied each year.

Ms. Tucker noted it was usually mid to late January of each year.

Chair Holman said 2b currently read, Staff will evaluate the process each year, with input from Council Members, and provide recommendations on changes to the process and/or criteria as necessary. She suggested the language be changed to reflect the Policy & Service Committee evaluate the process.

Council Member Klein recommended eliminating the language.

MINUTES

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER: to eliminate the language under the header Process Item 2B “Staff will evaluate the process each year, with input from Council members, and provide recommendations on changes to the process and/or criteria as necessary”.

Council Member Schmid confirmed a prior inclusion to the Motion moved the header Retreat Guidelines (former Criteria) to the end of the process. He felt it would be appropriate to add a Guiding Goals section to the front. The idea would be for anyone who looked at the process to know there would be three priorities with a three year period.

Chair Holman agreed there was merit to the suggestion and if it was agreed by the Maker and Seconder she would move the “No additional priorities rule” to that new section.

Council Member Klein thought that language was already part of the process.

Council Member Espinosa agreed it should stay as part of the process.

Chair Holman asked if there was agreement on the location of the Retreat Guidelines.

Council Member Klein stated the location was not as important as the content.

Council Member Espinosa was in agreement on the location.

Ms. Tucker asked for clarification on the header being Retreat Guidelines or Retreat Goals.

Chair Holman confirmed it was Retreat Guidelines.

Council Member Klein stated the title was Guidelines for Selection of Priorities.

MOTION PASSED: 4-0

Council Member Klein left at 7:32 p.m.

2. City Auditor’s Office Fiscal Year 2013 Proposed Workplan and Risk Assessment.

MINUTES

Jim Pelletier, City Auditor reviewed the presentation and recommended the Policy & Services Committee (Committee) recommend to the City Council approval of the 2013 City-wide Risk Assessment and Audit Workplan. He defined risk as the potential event or missed opportunity that may negatively impact the City's ability to meet its objectives. Risk was typically measured in terms of likelihood which was the probability at which risk could occur and impact which was the potential effect. While financial impact was most often considered operational and compliance, reputational risk was also an important consideration. He noted there were four possible decreases: 1) reducing the risks through strong policies and internal controls, 2) sharing the risk by partnering with others or buying assurances against the risk, 3) simply accepting the risk, or 4) avoiding the risk by exiting the service. The Office of the City Auditor (OCA) completed an Annual Risk Assessment as a means to 1) prioritize high risk areas for audit, 2) to ensure effective and efficient use of OCA resources, and 3) to eliminate unnecessary or duplicative audits. There were many different ways in which to assess an audit. He researched Best Practices throughout other government agencies and determined the methodology to pursue the City's Assessment. The two principles he based the assessment on were 1) keep it simple and 2) a collaborative systematic approach to make the results more easily understandable. There were four components the assessment touched on 1) the environmental scan, 2) the Enterprise Fund Assessment, 3) the General Fund Assessment, and 4) the Information Technology Assessment. The Enterprise and General Funds Assessments were a collaborative process with the City Manager team. The Audit Universe was the term used to describe all areas within the City that were subject to risk assessment and potential audits. The current year's assessments began with the City's 62 divisions and 10 Funds out of which 15 risk factors were identified. Risk Assessment questionnaires were completed by each Executive Leadership Team Member for each of their divisions or Fund. The introduction to the Information Technology (IT) assessment was part of the framework for the upcoming year's Risk Assessment and Audit Workplan. There were no IT assessments on the current plan in order to provide the newly implemented Chief Information Officer the ability to implement his vision of the newly established department. The IT department had unique elements and therefore did not fit into a standard risk assessment which was why there would be a separate IT Risk Assessment. The assessment would begin with an inventory of the IT systems inventory, IT projects inventory, and an IT risk environment. He mentioned the current Staff in the OCA did not include an IT specific auditor but believed his Staff had the capability to perform the application control type audits. The overall Annual Workplan was inclusive of monitoring and administration assignment, Council and meeting requests, Special Advisory Memorandum (SAMs), the newly implemented Hotline,

MINUTES

Service Efforts and Accomplishments (SEA) and Citizen-Centric Report (CCR), and audits. Additional time had been spent on the SEA and CCR development to redesign them to make them more user friendly.

Council Member Schmid saw risk differently than what was defined in the presentation. The flow chart seemed to focus a great deal on information type areas where he was more concerned with the areas where the City was cut short such as; the Refuse Fund paying \$30 million in money that had already been expended without any current usage, the benefits obligations which were under estimated in the past and was now being paid for, and Fire Staffing. The question was how the criteria of selection could assist in the identification of the areas that could be risky in the future. An area on his list that was not shown on the flow chart for risk assessment was parking; business, worker, customer, and resident. There were six special funds listed as Parking Funds but he was unable to track the funds entering, exiting or availability of those Funds. If parking was an issue with every development what needed to happen for it to be a part of the audit list.

Mr. Pelletier stated there were two components 1) would be seen through the environmental scan which was not reflected in the Heat Map. Those items were coming in over time to be considered as potential issues.

Council Member Schmid asked if the environmental scan process arose only after the problem was confronted.

Mr. Pelletier said potentially, yes. He asked if Staff was expected to achieve a predictive model to be able to audit potential issues in advance.

Council Member Schmid appreciated the SAMs program where the OCA could take a quick look at an emerging issue. It was disappointing to see that the SAMs program was such a small portion of the budget.

Mr. Pelletier agreed and noted it was 1 percent.

Council Member Schmid felt the SAMs program was more valuable than 1 percent in order to assist Council in catching the potential risk prior to aftermath.

Mr. Pelletier noted by the City Charter the Auditor was required to follow Government Audit Standards (GAS). SAMs were considered non-audit services which were allowed as long as they were identified as such.

Council Member Schmid clarified the SEA was not an audit but was a large portion of the work and budget.

MINUTES

Mr. Pelletier stated the SEA was treated as an audit. GAS were followed in the preparation of the SEA Reports.

Council Member Schmid asked if SAMs could be selected in the audit preparation.

Mr. Pelletier asked for clarification on taking a limited SAMs approach to achieve a better understanding of the issue and use that to determine whether or not there should be a full-scale audit. That proposal was an appropriate use of the SAMs tool.

Council Member Schmid said the revenue sources were lagging the expenditures and he asked if that was a chronic problem, a risk factor for the City. He asked what the realm of the state mandates were and how they affected the City's ability to deal with the risks.

Mr. Pelletier noted the information presented to the Committee was more of a quantitative analysis and as previously mentioned there were multiple levels of granularity that could make the process unwieldy. The list was created to assist Staff in prioritizing the necessary audits.

Council Member Schmid said if there was a comparison between the Refuse Fund, Gas Utility, and Electric Utility they all appeared the same on the chart. In reality the Refuse Fund lost \$30 million.

Mr. Pelletier explained the basis for the results shown on the chart were direct input from the Department Heads. He assured the Committee he did not give more weight to the Heat Map than the environmental scan but the Heat Map provided a more quantitative systematic approach to illustrate management's perception for where they felt the risk may be.

Council Member Schmid said with the scan process there could be enough analysis completed to alert the Council of the concerns in the environment they may not necessarily be aware of.

Mr. Pelletier agreed that would be an appropriate use of the environmental scan process. It could not be utilized to predict risk but notify Staff of impending risk.

Council Member Espinosa mentioned the importance of receiving charts and Heat Maps in color. During his tenure there had been annual reviews of how the City Auditor assessed risk, understood risk, limited resources, and

MINUTES

different models used by different Auditors. The work completed and presented for the 2013 fiscal year led him to ask what was different.

Mr. Pelletier understood the risk assessment process chosen by his administration differed from the previous ones but the 2012 assessment categories implemented well into the Heat Map model which corroborated the different models used and validated the path he chose. He anticipated there would be annual review and comments from the Council and there would be adjustments made to the model.

Council Member Espinosa noted another difference was the consideration and explanation of volume in the context of delineating hours per project and what that result would justifiably allow. He asked if in the future the OCA saw a difference in the amount of work being taken on.

Mr. Pelletier said in reviewing the audits selected versus the list from prior years it was much smaller but more attainable. He included the budgeted time allotted for each audit to show an accurate timeline for his Staff.

Council Member Espinosa said there was a model without major change from past years and a list of audits significantly shorter than previous years. He asked if the City was in jeopardy of missing possible risks by not accomplishing ample work or diving into enough areas where there could be problems or concern.

Mr. Pelletier stated risk was about impacts and likelihood. In some instances impact might be significant but the likelihood might be quite low. There was a balance that needed to be placed on the need versus resource limitation. He believed his role was to illustrate to the Committee and Council to the best of his ability where the risks were and allow them to direct him on their preferences.

Chair Holman appreciated the list being accomplishable in the fiscal year.

Mr. Pelletier noted there were items that may arise during the year that could supersede the items on the list but his goal was to substantially complete the list provided.

Chair Holman concurred with Council Member Schimd's concern with the multiple Parking Funds. She asked if the section on Purchasing and Contracts included the City's practices of requesting or using Request for Proposal (RFP's) or Request for Quote (RFQ's). She asked if that was too fine grained.

MINUTES

Mr. Pelletier stated yes, it was. The risk factors were represented by one question provided to management on a questionnaire. The question was a high level question about their perception of risk related to Purchasing and Contracts.

Chair Holman asked if at some point that process would be looked into.

Mr. Pelletier said absolutely.

Chair Holman said Grant management was different than revenues but they were related. She asked why Staff recommended deferral for the 2011 Single Audit which identified \$9,000,000 in Federal Grants.

Mr. Pelletier did not feel it was less important but not at as high a risk as some of the other audits. The Grant represented only 2 percent of the City's total revenue. As the Grants were generally covered by the annual Single Audit performed by the City's external auditor, Staff recommended deferral while the City addressed past Single Audit findings.

Chair Holman asked for clarification on the use of the efficiency and effectiveness in the context of the Planning & Community Environment Development Permit Process section.

Mr. Pelletier clarified efficiency and effectiveness meant the process itself within the Development Center, what had been set-up for how the City serviced their customers. Was Staff effectively managing the process which included compliance with established policies or procedures. Were the processes designed efficiently, did they work properly, were the goals being met. His thought was to use a more consultative approach where there would be assistance for the Development Center to assist them in mapping out their processes to identify redundancies and controls.

Chair Holman asked how Palo Alto compared with other communities specifically in the areas of compliance, reliability of information, and expenditures.

Mr. Pelletier noted the City was fairly comparable in those categories. The reliability of information was in reference to the Council decision making process. So the reliability of the information received from the City Staff was crucial to the decision making process. Compliance from a government perspective was a high risk area because there were so many factors.

Council Member Schmid felt the general five areas identified were on target. He questioned the Development Permit Process and the Wastewater

MINUTES

Treatment Plant. The City was spending a large block of time reorganizing the development process and he asked if the audit process would be on what was expected not what was being done.

Mr. Pelletier believed his team had the ability to take a more advisory approach. The Development Center process began in 2010.

Council Member Schmid clarified the City Council approved the process in 2011.

Mr. Pelletier stated the Development Center was an audit that had been deferred until 2013.

Council Member Schmid asked if there was enough information to perform an audit on the Development Center.

Mr. Pelletier believed the current status provided an opportunity for a hybrid situation. The opportunity was to perform an audit from practices performed presently but in a different setting. From that perspective the same procedures needed to be completed, the same services needed to be provided to the customers. From the advisory perspective there was a new process being developed to have departments work together with an opportunity to apply and configure the best way in which to have the Center set-up and have adequate controls when doing so.

Council Member Schmid asked how an audit would be performed on the Wastewater Treatment Plant when it was in its infancy.

Mr. Pelletier clarified the Wastewater Fund was being reviewed to determine whether the cost sharing allocations to partner agencies had been properly implemented and maintained.

Council Member Schmid asked if that process would assist in deciding where to go from here forward.

Mr. Pelletier was uncertain. He had met with Phil Bobel, the Assistant Director for Environmental Service who had two concerns for an audit; the peer compliance piece and whether what was set-up the correct way. He began all audits with a risk assessment to review the processes being considered for the audit to achieve a better understanding of where the risks were.

MOTION: Council Member Schmid moved, seconded by Council Member Espinosa that the Policy & Services Committee recommend the City Council

MINUTES

approve the Office of the City Auditor's Fiscal Year 2013 Citywide Risk Assessment and Workplan.

Chair Holman asked a question that hinged on both policy and risk. Where there were partner agencies was the process all policy or partly audit and policy. If there was implication of risk in terms of losing a partner which part would that fall under.

Mr. Pelletier asked for clarification on the question.

Chair Holman mentioned an issue she had with regard to the Animal Services was it had a large impact and that discussion did not go before Council. She asked if Council needed to make a policy to determine when an item should be brought before them or was it an Auditor role to advise the red flags if there was a risk of losing a partner.

Mr. Pelletier felt the safer route would be for Council to set policy. He noted as an independent auditor he was not aware of everything the City was involved in.

Chair Holman clarified there were some aspects of the community that were partner services. From a risk assessment stand point should the City develop procedures or policies whereas they should address the partner type of situations so a notification arises earlier.

Mr. Pelletier clarified if the City anticipated losing a major contract partner Staff would be required to report their knowledge to the Council.

Chair Holman agreed but asked if that process would be strictly policy or an Auditor's recommendation.

Sheila Tucker, Assistant to the City Manager noted there were cities where there were policies in place that were centered on service evaluations that outlined the process surrounding budget cycles where there were notifications. There were business case analysis and timelines to follow when evaluating services.

Council Member Schmid asked if the financing for the Wastewater Treatment Plant was shared and whether Staff was looking at cost sharing agreements for the Plant.

Mr. Pelletier asked for clarification if the question was the cost for the City Auditor Staff.

MINUTES

Council Member Schmid said yes, were Mountain View and Los Altos paying for part of the process cost.

Mr. Pelletier stated no.

Council Member Schmid asked if the partners would trust the outcome of the cost sharing without their input.

Mr. Pelletier clarified was the question was whether Palo Alto would contact them as the work was being performed and request their input.

Council Member Schmid clarified the report mentioned the analysis would take 600 Staff hours. He asked if the partners would be paying for part of those hours. Was the audit Palo Alto's or a joint audit.

Mr. Pelletier felt it was a Palo Alto audit to comply with the terms of the agreement entered between the Palo Alto, Mountain View, and Los Altos.

Council Member Schmid said the other cities may perform their own audit.

Mr. Pelletier agreed.

Chair Holman asked if the audit performance was controlled by the contract.

Mr. Pelletier said if there was an audit clause in the agreement but everything was a public record so if there was information they were interested in they could simply request it.

Council Member Schmid believed since the cities were partners they would desire a joint audit.

Mr. Pelletier believed not all cities had their own auditor.

MOTION PASSED: 3-0, Klein Absent

FUTURE MEETINGS AND AGENDAS

Council Member Espinosa noted the upcoming agenda contained four items and each were time consuming items.

Sheila Tucker, Assistant to the City Manager mentioned the Human Habitation in Vehicles item had been deferred.

MINUTES

Council Member Espinosa suggested incorporating a goal of not longer than 90 minutes per item or schedule an additional meeting in August or September.

Chair Holman asked why the Human Habitation in Vehicles had been deferred.

Ms. Tucker stated there was additional time needed to review the options.

Chair Holman asked for clarification on time with the community or the language.

Council Member Espinosa understood part of the additional time needed was the direction from Council regarding partnering with the houses of faith. Staff did not receive the responses anticipated which necessitated an alteration in the approach being presented to Council.

Chair Holman suggested an additional meeting in September.

Council Member Espinosa agreed to an additional September meeting.

Chair Holman requested Staff poll Colleagues for their preference on starting the next meeting at 5:00 p.m. rather than 6:00 p.m. and have the Auditor's recommendation be the first agenda item.

Ms. Tucker recommended the meeting with the Human Habitation in Vehicles be in the Council Chambers.

ADJOURNMENT: Meeting adjourned at 8:33 pm.