



POLICY AND SERVICES COMMITTEE MINUTES

Special Meeting
September 10, 2013

Chair Price called the meeting to order at 6:04 P.M. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Holman, Klein, Price

Absent: Kniss

ORAL COMMUNICATIONS

None

AGENDA ITEMS

Chair Price announced the order of Agenda Items would be changed because of Staff availability. Agenda Item Number 2 would be heard first.

Jim Pelletier, City Auditor, requested the original order of the Agenda be retained as the Staff needed for Agenda Item Number 2 were not currently present.

1. Auditor's Office Quarterly Report as of June 30, 2013.

Jim Pelletier, City Auditor, reported the Auditor's Office worked on the Special Advisory Memorandum regarding cash handling, an audit of supporting ethics policies and results of the 2013 Ethical Climate Survey, an audit of inventory management, and an audit of the Utilities Contract Oversight. The Utilities Contract Oversight audit would be presented to Council in a few weeks. Staff was beginning a preliminary draft of the inventory management audit. The audit of the Solid Waste Program remained in process with a projected completion date of November 2013. Recovery of sales and use taxes for the year totaled \$59,700 from Staff inquiries and \$71,000 from vendor inquiries. The Fraud, Waste and Abuse Hotline received eight calls since its inception. Three items remained open; one item was being closed; and two items were passed to Human Resources for investigation.

MINUTES

Council Member Klein requested more information regarding reports of fraud and abuse with respect to substantiation of information.

Mr. Pelletier indicated Staff reviewed the specific allegations made in the calls. If the call provided insufficient information for Staff to investigate an allegation they would place questions in the system for the caller to answer if he/she called again regarding the original call. If no additional information was provided, Staff could not investigate. For other calls, Staff would begin their investigation and find there was no evidence to support an allegation. Those calls were noted as unsubstantiated and were closed.

Council Member Klein wanted to understand if the allegations were frivolous.

Mr. Pelletier stated Staff seriously considered all allegations, but investigated the more serious ones. One investigation determined that an employee accepted a gift of approximately \$20. Staff's recommendation was to retrain the employee regarding City policies. The allegation of kickback and/or bribery was serious; however, the investigation determined the allegation was not a major concern.

Council Member Holman inquired whether Staff received allegations but could not obtain sufficient information to determine the seriousness of the allegations. In addition, she inquired whether a call could lead Staff to review a broader array of allegations.

Mr. Pelletier explained the first consideration was whether the caller provided sufficient information for Staff to initiate an investigation. Staff attempted to follow-up with the caller via the system, but did not directly contact the caller in order to maintain anonymity. Generally Staff received access to information once a department was aware of an investigation. At times, allegations did lead to a broader investigation. In response to the most recent investigation, a separate audit into contracting practices was initiated. Staff investigated the allegations and performed the audit in parallel in an attempt to minimize the impact to the department.

MOTION: Council Member Klein moved, seconded by Council Member Holman to recommend the City Council accept the Auditor's Office Quarterly Report as of June 30, 2013.

MOTION PASSED: 3-0 Kniss absent

MINUTES

2. Report on the Status of Audit Recommendations (June 2013).

Jim Pelletier, City Auditor, reported on the status of audit recommendations as required by the Municipal Code. Sixty-seven audit recommendations from eight completed reports were available, 27 of which were included in the prior status report. The Auditor's Office provided the recommendations and an action plan. The report indicated the items not completed by the original due date provided by the department.

Council Member Klein noted many recommendations directed to the Human Resources (HR) Department regarding recordkeeping for retirement and healthcare plans. He inquired about actions being taken in response to the recommendations.

Kathy Shen, Director of Human Resources, indicated the Department was documenting all recommendations. The Department was developing procedures for reimbursing retirees and updating the retirement tiers. A regular monthly schedule was in place to compare reports from Employee Benefit Specialists (EBS), SAP and California Public Employees' Retirement System (CalPERS). She was recruiting for a benefits manager who would focus on the processes.

Council Member Klein believed the reconciliation could be computerized.

Ms. Shen was reviewing the use of SAP for HR purposes and the possible purchase of software to create reports. Software could make the reconciliation easier.

Council Member Klein asked why the SAP system did not synchronize with the CalPERS system.

Ms. Shen reported CalPERS utilized a different program. Her Department needed new software to compare the reports from SAP and CalPERS.

Council Member Klein requested Mr. Reichental comment on the synchronization of software.

Jonathan Reichental, Chief Information Officer, indicated current software was designed to interplay; however, the City was using older software. New software appeared to be the right solution.

David Ramberg, Assistant Director of Administrative Services, reported within the past year CalPERS opened a portal that allowed Staff to securely upload employee information. That was not the same as synchronization of

MINUTES

information; however, CalPERS was gradually making improvements that allowed Staff to communicate with their data files.

Council Member Holman inquired about other cities' solutions to interface with CalPERS. The addition of new software appeared to be adding another layer of technology.

Ms. Shen stated the new software would allow Staff to create reports from SAP but was not an add-on to SAP. Some cities utilized a manual process, similar to the City's process, to interface with CalPERS; some cities utilized EBS as a third-party administrator.

Council Member Holman inquired whether EBS should be utilized.

Ms. Shen replied yes. EBS wrote the checks and performed the reconciliation with CalPERS. She intended to request the new benefits manager create a strategy for outsourcing services.

Council Member Klein inquired whether the Council should make these problems known to the State Government. It was incredible that CalPERS did not have a method to interface with cities.

Mr. Reichental agreed to review the CalPERS system for additional information.

Chair Price did not know if the League of California Cities (LCC) or CalPERS had a technical division that could converse with the entities using CalPERS. Cities could be vulnerable with respect to application of formulas and amounts issued to individuals. She inquired about the lack of target dates for many items.

Ms. Shen explained her Department was short four employees but was working toward a full Staff by the end of 2013. Having a Benefits Manager would help with the process. Cities in the Bay Area were having similar issues with CalPERS technology.

Chair Price agreed with Council Member Klein regarding a discussion with State Government. She asked if Staff was working on the recommendations while searching for a Benefits Manager.

Ms. Shen noted Sandra Blanch; the Assistant Director of Human Resources was working on the documentation plan. Ms. Blanch requested a working session with EBS and the Auditor's Office to determine the documentation needed to satisfy the Auditor's Office.

MINUTES

Chair Price inquired whether Staff training and support was needed to better coordinate efforts.

Ms. Shen answered yes. A Benefits Manager was needed to help with strategy and efficiency.

Council Member Holman requested an estimation of the percentage of items completed.

Ms. Shen reported most of the items were almost complete, if not complete. She needed to know the information the Auditor needed in order to close out items. She could return with a report of the items open and closed or a percentage of items completed.

Council Member Holman inquired about Ms. Shen's comment that some items could not be closed for a few years.

Ms. Shen meant that it would be a few years before the issue of the HR information system could be resolved. Most items could be addressed by the end of 2013.

Council Member Holman asked if two years was a realistic timeframe to identify and correct the information system issue.

Mr. Reichental reported the Information Technology (IT) Department would begin evaluating the SAP system in a few weeks. In the first half of 2014 he would have a better idea of whether a SAP upgrade or new HR software would be appropriate for the City. A two-year timeframe to resolve issues was not unreasonable. The problem was not only choosing and implementing software but also integrating processes and training Staff.

Council Member Holman was hoping the timeframe would be closer to a year because of the length of time items remained open. She asked if Mr. Reichental had any knowledge of whether LCC had tools or communication to work with CalPERS.

Mr. Reichental would follow up on that issue.

Mr. Pelletier indicated the HR Department had some critical risks that needed to be addressed. The Department needed to understand and prioritize risks and determine temporary fixes while waiting for a final solution. With temporary fixes in place, the Auditor's Office could close

MINUTES

items. He was looking for accuracy and completeness in the responses in order to work with the HR Department.

Council Member Holman inquired whether there was a method to prioritize the items for the HR Department.

Mr. Pelletier prioritized items by including them in the audit report. The next step was for Ms. Shen to prioritize them for her department.

Ms. Shen felt the priority was ensuring retirees received the correct reimbursement. The second priority was internal recordkeeping. Many of the items concerned reimbursement or documentation of tiers. New software would help; however, new procedures would increase accuracy. She needed help from the Auditor's Office to understand when an item could be deemed closed.

Council Member Klein did not understand why the State Government's technology was not as accurate and efficient as the Federal Government's technology. He asked if the Auditor considered whether deficiencies were attributable to CalPERS and how the City's problems compared to other cities' problems.

Mr. Pelletier knew CalPERS had problems with technology. The audit reviewed items the City could control. The manual processes did not produce accurate results.

Council Member Klein inquired whether City processes regarding the Federal Government produced accurate results.

Mr. Pelletier explained the processes for the Federal Government were different.

Council Member Klein asked how the interaction was different.

Mr. Pelletier indicated the process was different and a different department processed payroll. Benefits administration was a specialized area and the City had a complex multi-tiered structure that required multiple modes of interacting with CalPERS.

Council Member Klein requested a comparison of the City's deficiencies with other cities' deficiencies.

Mr. Pelletier was unsure how he would audit in terms of other cities' procedures. Part of the process relied on the City to perform reconciliations

MINUTES

to ensure the data was correct and to input data into the system correctly. Staff had the responsibility of reviewing CalPERS reports for accuracy and reconciling those reports with City data. The audit focused on the responsibilities and processes under the City's control. Improving City processes could make the process better. CalPERS could also make improvements; however, that was outside the scope of the audit.

Council Member Klein expressed concern about City Staff having to perform reconciliations. He questioned why CalPERS did not accept the City's data at face value.

Ms. Shen reported CalPERS did not administer the plans. She agreed with Mr. Pelletier's comment that the City had to reconcile data properly and pay retirees properly. Staff had to perform those reconciliations because CalPERS did not administer their own plans.

Mr. Pelletier added that CalPERS only managed the minimum contribution and the City was responsible for reimbursing employees.

Council Member Klein inquired about the number of tiers in the City's plan.

Ms. Shen replied there were five tiers.

Council Member Klein felt it would be useful for the Council to have a report from Ms. Shen.

Chair Price observed other cities had a variety of tiers. The problem included issues all cities were having with CalPERS and successful practices of other cities to manage data with CalPERS. Someone must have information about successful practices in other cities.

Mr. Pelletier explained that processes became too complex for CalPERS' abilities to handle the information.

Chair Price felt the City's situation was not unique.

Mr. Pelletier agreed other cities were in the same situation.

Pam Antil, Assistant City Manager, suggested Chair Price was inquiring whether Staff consulted with other cities about similar problems and whether there were solutions.

MINUTES

Ms. Shen reported cities in similar situations were also performing manual reconciliation. There were no best practices she was aware of. She wanted to release a bid for a vendor who could handle all aspects of benefits.

Chair Price believed there would be financial implications for funding the different options.

Council Member Holman inquired about the employee ethics policy.

Ms. Antil recalled at the prior meeting Staff indicated they were updating the ethics policy.

Council Member Holman inquired whether Staff received outside assistance with updating the ethics policy.

Ms. Antil replied no, Staff was revising the policy internally.

Council Member Holman felt the advantage of using an outside contractor was their experience with many different entities.

Ms. Antil reported Staff had employee ethics policies from various cities and from the private sector. Those policies were similar and covered core areas. Some aspects of the ethics policies existed in other City policies. Staff could have an outside vendor work on the ethics policy if the Council directed.

Council Member Holman inquired whether the policies from other entities were current.

Ms. Antil indicated some of the policies were current. Staff wanted to include some language concerning use of social media and images. Staff was working to ensure the new policy did not conflict with or duplicate existing policies.

Council Member Holman noted the American Institute of Certified Planners (AICP) had its own code of ethics and asked if the proposed ethics policy would incorporate the AICP code of ethics.

Ms. Antil noted several professional organizations had codes of conduct. Language could be included in the ethics policy regarding incorporation of professional ethics. Incorporating ethics from all professional organizations would make the policy too large. In addition, those policies would not apply to all employees.

MINUTES

Council Member Holman asked how the proposed ethics policy would be presented to the Council to allow the Council to interpret and evaluate it.

Ms. Antil stated Staff was assigned to present an employee ethics policy. It could be implemented by the City Manager rather than by Council adoption. It was acceptable to have separate ethics policies for employees and elected and appointed officials. Staff could provide the Council with samples from various ethics policies for comparison.

Council Member Holman suggested Staff indicate whether policies were appropriate for employees or for the City as a whole.

Chair Price inquired about the participants in the SAP team.

Mr. Reichental reported that the SAP team was comprised of individuals from departments across the City.

Mr. Ramberg indicated the Administrative Services Department (ASD) managed all of the SAP footprint for the first two years but now only managed the functional or business process side. ASD ensured the business processes were operating correctly throughout the City and worked with the IT Department to make adjustments to those processes as needed. Members of ASD participated in the SAP team and SAP Program Management Office.

Chair Price believed there was a considerable amount of attention on SAP at the current time.

MOTION: Council Member Klein moved, seconded by Council Member Holman to recommend the City Council recommend the City Council accept the Report on the Status of Audit Recommendations (June 2013)

MOTION PASSED: 3-0, Kniss absent

3. City Auditor's Office Fiscal Year 2014 Proposed Work Plan and Risk Assessment.

Jim Pelletier, City Auditor, requested approval of the work plan of audits. The work plan indicated the audits the Auditor's Office would perform, not the monitoring and administrative assignments. The first few audits were brought forward from previous years. The proposed new audits involved software license management, change order management related to a construction project, and contract management in the Utilities Department. He suggested the Acting Auditor provide recommendations to adjust the plan

MINUTES

at the next quarterly update because he would be departing from the City, the work plan was unattainable.

Council Member Klein requested an audit of disability claims and programs. He also wanted to understand why the process for hiring a consultant seemed to require an excessive amount of time.

Mr. Pelletier inquired whether Council Member Klein was concerned with the timing between the Council decision and getting a consultant on board.

Council Member Klein felt the time between the Council approving a requisition for a consultant and/or a new employee and an announcement of an opening was excessive.

Chair Price asked if Council Member Klein was focusing on outside consultants.

Council Member Klein said he was focusing on consultants filling employee positions.

Pam Antil, Assistant City Manager, indicated the Purchasing Department would approve hiring a recruiter to perform recruitment.

Mr. Pelletier reiterated that Council Member Klein was concerned with the time between Council action and having a contract in place.

Council Member Klein agreed. He suggested a third audit concerning the enforcement of public benefits.

Mr. Pelletier indicated that audit was on the list to perform. He asked if the Policy and Services Committee (Committee) wanted to replace one or more of the audits on the plan with one or more of the suggested audits or consider the audit for a future work plan.

Council Member Klein requested an audit of enforcement of public benefits be considered when the new plan was presented to the Committee.

Mr. Pelletier would ensure the Acting Auditor considered the suggestions in his/her status update in the next quarter.

Chair Price stated the articulation of public benefits should be sufficiently clear and measurable so that enforcement was possible.

MINUTES

Council Member Klein indicated the articulation of public benefits was a Council responsibility.

Chair Price remarked that only clear and identifiable public benefits could be enforced.

Council Member Holman felt the Auditor needed to understand the Ordinance in order to understand the enforcement of public benefits.

Mr. Pelletier was concerned because the Council set the requirements for the Planned Community (PC) Zone. The City Auditor had no authority to audit the Council. The Auditor would not have the expertise needed to comment on whether or not the City Attorney worded an Ordinance properly. The Auditor could audit the enforcement of public benefits.

Chair Price inquired whether the Auditor could review the current process.

Mr. Pelletier was comfortable the Auditor could audit how the City enforced public benefits.

Council Member Holman requested an audit of parking funds.

Mr. Pelletier would consider an audit of parking funds.

Chair Price asked if the City Auditor had sufficient time to perform the audits while maintaining ongoing work. She noted there were 40 new audit recommendations.

Mr. Pelletier responded yes. The audit recommendations resulted from the audits completed in the prior year.

Chair Price inquired whether the current audits would yield additional recommendations for future audits.

Mr. Pelletier replied yes. The number of audits assigned was based on the number of hours remaining after subtracting the number of hours required for ongoing work from the total available hours of employees.

Council Member Holman wished to ensure a Motion did not include the audits requested by Council Member Klein and her.

Mr. Pelletier would consider the suggested audits in the new work plan. They would be added to the list of projects as priority audits.

MINUTES

Council Member Klein asked if the Council could revise the priority of audits once the new City Auditor provided a work plan.

Mr. Pelletier would adjust the work plan according to the Council's priorities.

Chair Price noted the Committee could act when the new plan was presented at the next quarterly update.

Mr. Pelletier stated the audits in process would require time to complete; therefore, the Committee did not need to make a decision at the current time. The Auditor needed time to determine whether he had sufficient time and expertise to perform the audits.

Council Member Holman inquired whether the Auditor would highlight those audits that did not require a full audit.

Mr. Pelletier responded yes, that would be part of the discussion.

MOTION: Council Member Klein moved, seconded by Council Member Holman to recommend the City Council approve the City Auditor's Office Fiscal Year 2014 Proposed Work Plan and Risk Assessment.

MOTION PASSED: 3-0 Kniss absent

FUTURE MEETINGS AND AGENDAS

ADJOURNMENT: Meeting adjourned at 7:34 P.M.