



# POLICY AND SERVICES COMMITTEE TRANSCRIPT

Special Meeting  
Tuesday, April 25, 2017

Chairperson Wolbach called the meeting to order at 7:00 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present: DuBois, Kou, Wolbach (Chair)

Absent: Kniss

## Oral Communications

None.

## Agenda Items

1. Audit of Green Purchasing Practices.

Chair Wolbach: Our first item is an audit of Green Purchasing Practices. I'll turn it over to the auditor for a Staff report?

Harriet Richardson, City Auditor: Good evening Mr. Chair and Members of the Committee. Harriet Richardson, City Auditor, here to present the audit of Green Purchasing Practices. With me is Lisa Wehara, who worked on this audit. So, we wanted to start off with a couple of positive things. The green purchasing activities and their accomplishments before we get into what the audit found. Right here is a list of things that they've accomplished. Just a couple of them is that they've created a flow chart to help them with decision making on green products. They've written some performance specifications. They have incorporated contract terms and conditions regarding vendor responsibilities for waste reduction and pollution prevention. They've developed a sustainable procurement playbook for Cities. They were a participant in developing that and the City also received a Green California Leadership Award in 2010. There's more detail in the audit report on Page 13 of your packet. It has a more complete list of the accomplishments. The objective of this audit was to determine whether or not the – whether the City of Palo Alto complies with the applicable green purchasing requirements in its purchases. In Palo Alto, green purchasing

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includes areas such as goods and services, energy and gas purchases, green building materials, and use of pesticides. I'm going to turn it over to Lisa to talk a little bit about what she did and what she found during the audit.

Lisa Wehara, Performance Auditor: Lisa Wehara, Performance Auditor to and the audit focused on the Cities purchases of office supplies, cleaning supplies and computers. To assess whether purchases complied with the City's green purchasing policies. Mostly during the period of July 1<sup>st</sup>, 2014 thru June 30<sup>th</sup> of 2016. The audit shows that the City's green purchasing policies and goals were not fully achieved. Primarily because there are no consolidated formal written procedures to implement the environmental preferred purchasing policy, which is also known as the Green Purchasing Policy. There are other procedures not updated and there's a lack of awareness of policies and procedures. There's also a lack of a clear governance structure that clearly defines who is responsible for implementing various components of the Green Purchasing Policy. The City does not have adequate technical tools to track green purchases. Some examples of what we found are all of the \$1 million in computers, notebooks and monitors that the City purchased where electronic product environmental assessment tool or EPET certified In May 2016, the City received the 2016 EPET Sustainable Purchasing award, which recognizes excellences in sustainable electronics procurement. Only fifty-nine percent of staples and paper product purchases and only nineteen percent of paper product purchases from other office supply vendors met or most likely met the recycled content requirement. The City purchased and distributed drinking water in plastic bottles, which is against policy. Staff had identified this issue and took corrective action during the audit. We also found that the City's janitorial contractor that services most City facilities didn't always use green products or provide reports of bulk chemicals as defined by the contract. Nor did the City monitor the products to ensure that they were green. Public Works has not formally documented its assessment of the suitability of battery electric or plug-in hybrid vehicles during its review to the fleet replacement capital improvement plan in the annual budget process. We have some key recommendations up on the screen. The audit report includes eight recommendations, including the City's Manager's Office show clearly define the departments responsible for implementing green purchasing policies. Determine if additional Staffing and funding are needed to implement the policies and provide the responsible departments with the authority to implement green purchasing across the City. The responsible department should then consult with the attorney's office to align the Municipal code as needed with green purchasing policies. It should write and distribute consolidated procedures to implement green purchasing policies including the ten different areas in the environmentally Preferred Purchasing Policy and update existing policies and procedures to reflect current requirements, including recycled paper and procurement card

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guidance. Also, the responsible department should then evaluate if the new e-procurement system and proposed Enterprise Resource Planning System or other specialized software can help with tracking and reporting green purchases. Then as part of the plan, transition of the annual performance report to the City's Manager's Office to determine what green purchasing performance measure to track and report. Such as the number and percentage of green products purchased and their environmental benefits. The (inaudible) procurement playbook for Cities provides potential criteria for what to track and also, the City's Manager's Office and the departments, Public Works, administrative services and the Office of Sustainability agreed with all recommendations in our report and specified their corrective action plan in appendix two, which should be on Page 30 of the packet.

Ms. Richardson: Yeah, I wanted to – oops. I wanted to also point out that you have an At Places memo in front of you regarding this audit. Subsequent to the audit, one of the vendors that we looked at information from, revised information on its website so, on your Packet Page 19, the first paragraph says that cleaning supplies and paper products were not monitored to ensure that they were green. It states that about 7,600-ounces of the non-bulk cleaning chemicals and floor care products that the contractor used where not green sealed certified. That should say, now 6,300-ounces, which is seventy-three percent instead of eighty-eight percent. Then, we also forgot to label appendix two as appendix two so the City's Manger's response beginning Packet Page 30 should be labeled as Appendix 2. That completes our presentation and we are ready to answer any questions you have.

Chair Wolbach: I'll turn it over to my Colleagues. Tom or Lydia, do either...

Ms. Richardson: Also, we have representatives from several departments here too – available for questions.

Chair Wolbach: Excellent. Tom or Lydia, would (inaudible) kick us off on questions?

Council Member DuBois: Does all the City's purchasing go through the purchasing department?

David Ramberg, Assistant Director of Administrative Services: David Ramberg, Assistant Director of Administrative Services Department. The purchasing division is within the Administrative Services Department and we are a centralized purchasing operation for the City so all purchases do make their way through to – through the purchasing division, except for purchases

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that are made on p-card. Those are made at – individual – purchase card – Visa purchase card. Those are made by the individual purchases in departments, up to a level of a maximum of \$10,000 per purchase.

Council Member DuBois: Ok, thanks. I was just wondering in terms of awareness. If the Purchasing Department could kind of make people aware of the policy and also kind of enforce it I guess.

Mr. Ramberg: We can. Our primary – and we do. I think part of what this audit brings forward is possibly a more centralized effort for making the green purchasing requirements prevalent throughout the City. What we are – our primary mission in the purchasing division is to make sure that we're accomplishing the procurement of goods and services in a timely manner. To ensure that departments have the contracts to provide the services that they need through – to the community. We are operating to try to be as efficient as possible to put contracts in place. So, where we can and where we work in close collaboration with the rest of the sustainability team here at the City. We build in the green requirements as we can, into the contracts that have them appropriate. I think what this audit points to a better dissemination of the green purchasing requirements throughout all aspects of the purchases that go on throughout the City. That can be at the p-card level, for those individual purchasers who make purchases up to \$10,000, it can be through the contracting process, it can be in the RFP process, it can be in the specification process for when contracts are being put together at the department level.

James Keene, City Manager: If I just might add to that? I think David hit this well but at the same time – I mean the Procurement Department really needs to be something of a safety net because a lot of the specs are developed in the departments so we've got to make sure that people are thinking about it at that level. Also, it's a lot to expect that everyone purchasing would be sort of experts in the environmental standards that we want to pursue so it is distributed.

Council Member DuBois: The policies, it's a preferred policy, right? Not a requirement. Are there situations where either for cost or speed that you would not make the environmental purchase?

Julie Weiss, Project Manager for Public Works: I'm Julie Weiss, I'm in our Public Works (inaudible) Protection Program and in the policy itself, the Green Purchasing Policy itself, it doesn't state that certain things are required but we have a number of other policies the City has adopted that say it is required. For example, we have a Mercury and Dioxide Reduction

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Policy that said that we need to purchase a certain type of lighting and paper that has less chemicals in them that we're concerned about that we see in San Francisco Bay. We have a less Toxic Management Policy that says that we're going to be doing things to purchase less toxic pesticides. We have a number – we have other policies like that. We have other policies that are attached to and relevant to the green purchasing policy.

Ms. Richardson: One thing that I would like to point out is that I think Julie is the one who did this. They've tried to pull together a lot of those policies on the City's internet more recently because they were kind of scattered and so I think it may be clear in the future to people what all those are policies are because they are grouped together now. There are quite a few separate policies.

Council Member DuBois: Great. Ok. Thank you and thank you for the audit.

Chair Wolbach: Lydia?

Council Member Kou: I'm new to all this so the p-card, can you give me a little bit more understanding of what it does and does it – is it the holder up to \$10,000 can order anything or does it go through the Procurement Department? How does that work?

Mr. Ramberg: Right, so a little history. We've had a purchase card – we use to be on the CAL-Card programs which was a State program through the State of California, it was called the Cal Card. About 5-years ago, we wanted to update our system so that we can have an online review of activity and so we switched over to a modern purchase card system through JP Morgan Chase. Part of that purchase card program – they are one of the leading providers of corporate purchase cards through -- in the Country and they have a massive system and we're able to get rebates. A rebate revenue as well so we get something in the neighborhood of about \$60,000 a year in terms of rebate revenue based on our spending. We have about \$6-\$7 million in spend right now on p-card. That's all what we call very small purchases, ok? Certainly under \$10,000, very few even get close to &10,000. These are -- a very typical purchase card purchase is buying office supplies through our Staples contract. We have a contract with Staples for office supplies and they are supposed to provide our office supplies at a very competitive rate that we've contracted for. We make all of our purchases from Staples on purchase cards – on Visa purchase cards. That's a classic example of how we use our p-card.

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Council Member Kou: So, what kind of products does the – what goes to the Procurement Department? I mean, do we – does the purchaser and the p-card check with the Procurement Department or the inventory list before they go out purchasing more? I mean, just how does it work?

Mr. Ramberg: That's a good question. The Municipal Code allows for small dollar purchases under \$10,000 to be purchased by an individual without a solicitation. That means that those do not need to go through the Procurement Department because there is no solicitation required but in many cases, the p-card is buying items that have already been contracted for at a contracted low price. In the case of offices supplies, we have a contract with Staples that is competitively bid for low price office supplies, compared to competitors and we make all the purchases on the p-card so that's one example. If an individual has an urgent need in a department, let's say in the Community Services Department and it's a summer camp and they need to go out and buy water because it's a very hot day. They can go down to the local store and buy water or buy whatever else is needed on their p-card and there would be no issues with that. It would be a small purchase and it would be appropriate for business use.

Chair Wolbach: Any other questions? I didn't have any additional questions beyond that. Does anyone want to off a Motion?

Council Member DuBois: I'll make a Motion that we accept the audit of Green Purchasing Practices. Though, I don't know, did you want to say something?

Chair Wolbach: Gil?

Gil Friend, Chief Sustainability Officer: Yeah, Council Member. Gill Friend, Chief Sustainability Officer. I just wanted to add an additional response to your question about whether this is a preferred policy or a required policy. The way the policy was original written, it encourages us to buy greener products where feasible or where not too expensive and so forth and this is a fairly typical approach for most Cities. A year ago, the City Manager suggested to the Staff or directed the Staff to default to green. In other words, to revise the priority and say let's buy the greener product as the basic assumption, except where it is not feasible, not practical, doesn't meet service requirements or is too expensive. It's a subtle change but it directs us to look in a different direction as we implement.

Chair Wolbach: So, I think you were trying your hands in a Motion. Do you want to finish it up and see if there's a second?

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**MOTION:** Council Member DuBois moved, seconded by Council Member Kou to recommend the City Council accept the Audit of Green Purchasing Practices.

Chair Wolbach: Alright, we have a motion by Council Member DuBois, seconded by Council Member Kou. Any other – anything you would like to say on speaking to the motion or second? Alright, all in favor? Aye. Passes unanimously with Council Member Kniss absent. Thank you very much for that one.

**MOTION PASSED:** 3-0 Kniss absent

2. Continuous Monitoring Audit: Payments.

Chair Wolbach: It looks like you're still on the docket Harriet for the next...

Harriet Richardson, City Auditor: Yeah, I'm on all night long.

Chair Wolbach: .....all evening. Alright, so let's move onto – thank you, everybody, for that one. As people get resettled, out next one also is another audit. The continuous monitoring audit payments, item two on tonight's agenda.

Ms. Richardson: This is our audit of continuous monitoring of payments. To start, it's probably helpful for me to define the terms of continuous monitoring, which is a process for proactively reviewing data or information at regular intervals. Often through an automated process that uses some sort of data analytic software and it helps identify errors or (inaudible) information or incomplete data or information in records. In this audit, we used data analytic software to see if it would help the City identify duplicate payment – vendor payments or vendor records, which can increase the risk for duplicate or fraudulent payments. It's also important to note that monitoring is one of the five components of an (inaudible) internal control system, which are the processes that an organization implements to provide reasonable assurance that it will achieve its operational reporting and compliance objectives. There really is an expectation to be monitoring what you're doing and taking corrective action as necessary. The audit had two findings, the first one is that implementing a continuous monitoring process can help the City identify duplicate invoice payment and vendor records. I want to give you a little bit of background on the process we went through because there was an article in Palo Alto online which I think slightly misstated what we actually found so I want to make sure that it's understood tonight what we – how we actually approached it and what we

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actually found. We started by identifying invoices that had the same invoice amount and invoice number, which identified about 1,400 potential duplicate payments out of the 44,000 invoices that the City paid from July 2013 – October 2015. We eliminated what's called a false positive, which are the records that the data analytic software identifies as potential duplicate payments but that we could confirm were not actually duplicate payments through some other piece of information. By starting with the same invoice number and same amount, we might realize that oh, there's a different date on them or it's a different vendor or it's a vendor that bills on monthly basis and it's a set amount and so it's not a duplicate payment. We eliminated all of those and by doing that, we narrowed the potential duplicate payments down to 295, which we sorted into about 174 invoice groups. Meaning that, you had your original due payment, your duplicate payment and in some cases, there was more than one duplicate payment on the same invoice. Those totaled to about \$820,000 and that's where the number that was in the news article came from. Of those 174, we randomly selected 113 of the invoice groups and we confirmed that the City had made 24 duplicate payments for a total of \$57,000. In working with ASD, we had confirmed that the City had recovered 17 of those 24 payments, totaling \$55,000 of the \$57,000 prior to the audit. ASD is here tonight, again, they'll be able to address later, the work they have done since the audit to address the remaining duplicate payments. As well as the ones that we didn't look at through our audit sample. Our seconding finding, because of the duplicate – some of the duplicate payments were the result of having more than one record in our SAP system for the same vendor. We did additional work on the vendor master file, which led to our second finding. That there are numerous vendor records in SAP that increased the risk of inappropriate and erroneous payments, as well as incorrect tax reporting. We again used the data analytic software to identify duplicate vendor records but we also found that by doing that, that the majority of the vendor records aren't even used anymore. Out of the 43,600 or so active vendor records in SAP, almost 41,000 hadn't been used since before 2015 and about 36,000 hadn't been used since before 2012. We also identified several errors in the vendor records, which increased the risk of incorrect tax reporting. Including making payments to different addresses for the same vendors and incomplete or inaccurately formatted vendor identification number. We identified one instance where this caused the City to under report \$30,000 of reportable payments for a vendor to the IRS. One of the main reasons for having duplicate vendor records is that the City use to separate – create two records for a vendor when they determined that some income was reportable to the IRS and some of it was not and they would make one payment, under one vendor number and one under the other. Since that time, more recently, ASD has corrected that practice and recognizing that it's up to the vendor to determine what they report to the IRS and not up to us. Since that change, that should reduce the creation of the duplicate



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vendor records in the future. The audit includes seven recommendations including building a continuous monitoring reporting process into the new Enterprise Resource Planning System, to search for potential duplicate vendor payments and vendor records at regular intervals. We recommended updating policies and procedures regarding how to correct duplicate payments and what is needed to create a complete and accurate vendor master record. We also recommended that they review the 121 duplicate invoice payment groups that we did not review and that they clean the City's vendor master file before the records get transferred into the new ERP system, once that is implemented. The City's Manager's Office agreed with six of the recommendations and partially agreed with one of the recommendations. That completes our presentation on that audit and I'm ready for questions.

Chair Wolbach: Thank you very much, Harriet and I'll turn it back to my colleagues. Lydia and Tom, do you have any questions that you want to start with? Lydia, go ahead.

Council Member Kou: Harriet, can you tell me why the manager's office partially went with that one last one that you said?

Ms. Richardson: Yes, so that recommendation had to do with requiring vendors to use unique invoice numbers and they said that they can't require – they can't direct vendors what to do as far as how they number their invoices. We did find some policies and procedures of other jurisdictions, where they actually do require that. I'm not quite sure how they get around that. Maybe they just don't do business with someone who won't comply with what their organization needs but it really had to do with how the organization submits their invoices.

Council Member Kou: Is there discussion of a resolution for that?

Ms. Richardson: We have not had an additional discussion about that since the audit.

Chair Wolbach: Tom?

Council Member DuBois: Yeah, just to pick up on that. So, is that the primary reason we get duplicates because the invoice numbers aren't unique?

Ms. Richardson: That's one of the reasons, invoice are not unique. Some it was that sometimes they would submit a duplicate invoice and we'd pay both of them. Sometimes an invoice would get paid – it would be paid because it was submitted from an electronic copy or end of the paper copy.

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There were various reasons why we got duplicate payments so I think just having a system where you can check on it regularly – right now, we have – they rely somewhat on the vendors to say we – you paid us twice. We'll give you a credit or something like that but having a program – an active process is really the best approach to identifying those rather than relying on the manual systems that they currently rely on to identify those.

Council Member DuBois: I'm just trying to understand. When you make a payment, don't you make it against an invoice so...

Ms. Richardson: Sometimes a vendor will submit a second invoice for the same (crosstalk)

Council Member DuBois: With a different number?

Ms. Richardson: It may have the same number. That's how – that's originally how we identified it. They had the same number. The same invoice number. There were some – there may be some other payments that there were no invoice numbers and so we couldn't match them up but the ones that we identified had that the same invoice number.

Council Member DuBois: It sounds like the total dollar amount was relatively low?

Ms. Richardson: In the end, it ended up being relatively low.

Council Member DuBois: Ok, and what's the status of the ERP system?

Ms. Richardson: They are planning to issue an RFP. They have finished identifying the technical requirements and they – the last I heard, they were in the process of confirming those with departments. They were having meetings and they were planning to issue an RFP late summer time frame or so. Somewhere around there, August or September.

Council Member DuBois: Ok.

Ms. Richardson: It's going to be a staged implementation process and I don't know that they've gotten to the point of figuring all of that out yet.

Council Member DuBois: If we just look at the recommendation I guess, in the back, I guess all of your recommendations here are going to be worked on?

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Ms. Richardson: Yes. They agreed with all of them. They've given us an action plan on all of them except recommendation 1.2 and that's the one they partial agreed with but they actually gave us an implementation plan for how they will attempt to approach that.

Council Member DuBois: Ok. Since you stayed, do you want to add anything or make any comments?

David Ramberg, Assistant Director of Administrative Services: Yeah, I want to ...

Chair Wolbach: If you could just identify yourself again for the record.

Mr. Ramberg: Sorry, no problem.

Chair Wolbach: Thank you.

Mr. Ramberg: David Ramberg, Assistant Director of the Administrative Services Department. We oversee the accounts payable division and for – what we're – a couple comments. One, we – as you guys know, we run the SAP system here for the City's Enterprise Resource Planning System. We have a – the system is currently configured to identify when there might be an invoice that has the same number on it. The question that you were just asking and it's currently not a hard stop on the system, meaning it can be overwritten. In some of these instances that were found as duplicates, we had human error that had over – improperly overwritten an invoice, creating a duplicate invoice. In many of the instances where a duplicate was created, we caught it later on in the process before it was issued as payment. What we're doing now with SAP is within our current ability to configure SAP without any additional cost, we can put in a hard stop rather than a Staff override. That hard stop, what that will do is it will prevent that one individual – we only have three people that do this for the whole City so we can't have perfect segregation of duties but what we can do is we can create a hard stop and this is what we are configuring right now. So, probably the next update that we come back to you on this one, we'll have this done because it's in testing right now. Where a second – probably a supervisor will come over and review that hard stop and have to give an approval for it to go to the next stage and so we'll have a separate set of eyes on that potential duplicate that the system would flag.

Council Member DuBois: But what – maybe it's not in the SAP but it would be in the new system. When that invoice comes up, does it shows payments made against the invoice?

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Mr. Ramberg: There is a payment history for the vendor, yes. There would be – I haven't seen the screen myself but there would – I would presume there – depending on which – one of the issues with SAP is that there are lots of levels and so you have to dig down sometimes to get to the relevant information. In this case – I don't know, Harriet, if you guys know off hand but I think – depending on what screen you're at, you can certainly get to additional payment information but it may not be at that exact screen where you're seeing the possible duplicate. That part I just don't know right now.

Council Member DuBois: Ok.

Ms. Richardson: Right. We have to extract things from – that would appear on different screens to actually see the duplicate payments.

Mr. Ramberg: Right.

Council Member DuBois: And...

Mr. Ramberg: That sounds about right.

Council Member DuBois: ...I assume p-cards are – there's an expense report filed after the fact?

Mr. Ramberg: Correct, so the purchase card is actually in a separate system. The high-level dollar amounts come over into SAP so that every department knows how much they spent because SAP is our final depository of all spending activity but for the p-card system, the detailed spend activity is in the PJ Morgan cloud base hosted solution. Those – I don't think we found any duplicates there because that's...

Council Member DuBois: That was my question. Does this audit cover those payments?

Mr. Ramberg: Yeah, those are the – those are very much locked down on the Visa network and it's – I think it's – it would be very hard to duplicate those but in terms of review of those transactions – I didn't cover this before so this is probably salient. There's the purchase card holder, which is a Staff person. This purchase card holder has a supervisor so all the transactions of a purchase card holder are reviewed every month by a supervisor and approved to accounts payable. Accounts payable then looks at all transactions across the City and selects a population to audit every month and they audit transactions for appropriateness and for other adherences to policies and procedures. Sometimes around travel, sometimes around the appropriateness of other purchases including green purchases and

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sometimes we'll flag – if we find something that's out of policy, we'll flag that and we'll bring that to the attention of the cardholder and we'll have corrective action if needed.

Council Member DuBois: Thank you. My last question – I mean, there are a lot of inactive vendors in the system so is there an idea with the new ERP system that maybe have the system automatically deactivate a vendor if they are not used for a number of years because it seems like it would build up over time.

Mr. Ramberg: Yeah, that's exactly right. I think Harriet cited some figures about how old our vendor database is and the majority of them are quite old; prior to 2012 and the reason for that is that we did not do a cleaning of our vendor database prior to bringing our vendor database into SAP. Our prior legacy system was something called [IFES] back in the early – late 90's and early 2000s and when we went to SAP in, I think about 2003 or 2004, we just brought over all of those vendors. That's not good practice. We should have cleaned and cleansed the data more and that's the biggest reason for that large percentage. They have just been carried over but I think – Exactly. In the new system, what we want to do is a better practice, of course, is scrubbing – only bringing over active vendors. The ones that are actually part of active contracts or have had payments let's say, in the past 1-2-years or something like that. Coming up with criteria and then running some data tools against it to make sure that the vendor database is clean and then bringing over only 2,000-3,000 and I think that's what our current list of active vendors is.

Council Member DuBois: Yeah, so I mean that seems like a big part of it but then also – just a comment. If you can put in that automatics cleaning role kind of going forward so that not only do you clean it once but if you had some policy that a vendor deactivates if they are not used in 2-years that...

Mr. Ramberg: That's a really good point.

Council Member DuBois: Yeah, so thank you.

Chair Wolbach: Lydia?

Council Member Kou: Just so I'm clear when you transferred all the old vendors, it's still into the SAP system...

Mr. Ramberg: Correct.

Council Member Kou: ...or is it the ER – what is – the ERP or SAP?  
(Crosstalk)

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Ms. Richardson: SAP is in the ERP, correct.

Council Member Kou: SAP is in the ERP.

Ms. Richardson: It is an ERP. (Crosstalk) Enterprise Resource Planning system.

Council Member Kou: Ok.

Chair Wolbach: SAP is a vendor.

Ms. Richardson: Yes, and SAP is a vendor yes. (crosstalk)

Council Member Kou: I got it.

Ms. Richardson: The City is in the process of planning a new replacement financial system that would-be Enterprise Resource Planning system so when we talk about the new ERP system, we're talking about something that is currently in the planning stages that would replace SAP.

Chair Wolbach: Great. I will once again – you two have asked great questions and I don't have any questions that I think would be useful I think, to add at this point so I'll ask if anyone wants to make a Motion?

Council Member Kou: I'll make the motion to recommend that the City Council except for the continuous monitoring audit for payments.

Chair Wolbach: I'll second that. Would you like to speak to your Motion?

Council Member Kou: I think it's all said, thank you.

Chair Wolbach: Likewise. Ok, all in favor? Aye. That passed unanimously with Council Member Kniss absent. Thank you very much.

**MOTION:** Council Member Kou moved, seconded by Chair Wolbach to recommend the City Council accept the Continuous Monitoring Audit: Payments.

**MOTION PASSED:** 3-0 Kniss absent

Chair Wolbach:

3. Auditor's Office Quarterly Report as of March 31, 2017.

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Chair Wolbach: For Item Three, again, Harriet, convenient that we have you here. Item three on tonight's agenda is auditor's office quarterly report as of March 31<sup>st</sup>, 2017 and Harriet, once more.

Harriet Richardson, City Auditor: Then you, yes and I don't have a PowerPoint on this one. This is our quarterly report on the third quarter of Fiscal Year '17 ending in March. Some – so, three activity highlights for the quarter. We published the 2016 performance report, National Citizen Survey and citizen center report and presented those to the Council at their annual retreat on January 28<sup>th</sup>. We also presented the Community Services Department fee schedule audit to the Policy and Services Committee and that was on February 14<sup>th</sup>. On February 14<sup>th</sup>, we also discussed at Policy and Services the proposed changes to the fraud, waste and abuse hotline protocols. During this quarter, we completed two additional audits to – that we presented tonight that were the continuous monitoring of payments and the green purchasing audit and as I mentioned, the fees schedule's audit. We have several other audits in progress. One is the utilities water billing and accuracy audit – water billing accuracy audit. That one is in – the report is being drafted at this point. That says that – in this report, I say that we expect to present that at the June Policy and Services Committee meeting. As of today, it looks like we'll publish it before the end of June but it will probably be presented at the August meeting. There's some juggling going on with some things right now. The continuous monitoring and other continuous monitoring audit, this one is of overtime to look at whether or not a continuous monitoring process for overtime could improve the City's oversight and management of overtime. That one is also being drafted right now and it is scheduled to be presented at the June Policy and Services Committee meeting. We're also doing an audit of the hydro-max cross pore contract. That was to evaluate the work performed under a contract to see if the City took an appropriate approach to the work. Include whether it received appropriate inspection data from the effort and allocated an appropriate level of oversight over that contractor. That audit is also being drafted right now. It's almost completed and it's scheduled for the June Policy and Services Committee meeting. We also have been doing what we call a non-audit service, an Enterprise Resource Planning project and this is really an advisory service that we're doing where we're attending meetings, looking at what their finding as far as the requirements that are approached to planning the RFP. Then providing technical advice to them based on what we see. The main purpose of this is to identify issues up front so that we wouldn't – don't come back 3-years later and say oh, you should have done this instead of being more proactive and preventing things. During this quarter, one of my auditors attended twenty-seven system requirement validation session so those were meetings with individual departments where the consultant went over what they identified as the requirements for that specific department. Then she also attended three strategic and tactical

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team meetings and provided verbal advice during those meeting. We also issued a memo to the IT director that discusses what's going well with the project and some of the challenges we identified. I'm in the process of scheduling a meeting with him now so that we can discuss that memo in more detail. Each quarter, we're planning to issue a memo letting what we're seeing and what we're finding so as he goes to that, he can make some changes along the way and not end up with a failed project, which is common with government ERP systems. I already mentioned that we completed the National Citizen Survey and national performance – annual performance report. Throughout the year, we monitor the City's sale tax revenues and we identify – we look for businesses that – we have access to a database that allows us to see where there's changes in what a business has reported as their sale tax to the City or if there's a new business and we aren't seeing sales tax reported. We can report to the State Board of Equalization and they can look at that and say, did they under report or did they miss allocate their sale tax to another jurisdiction, which is sometimes common when they do business in more than one jurisdiction. During the third quarter, our office recovered about \$23 – well, just about \$3,000 in sale tax from our increase and we also contract with a consultant who recovered \$852. Year to date, we're recovered a total of \$277,000. There are quite a few requests out to the State Board of Equalization. Right now, 69 are waiting to be researched and processed. 26 of those are from our office and 43 are from the vendor. At the end of June, we receive sales tax information for the Stanford Hospital project and we'll report that information about what they City recovered under the special agreement we have for the City to get the sale tax on that project. We published the quarterly reports on our City website – on the City auditor website and I have a link there to that. We also participate in several advisory roles. We service as an advisory on the Utility Risk Oversight Committee, the Information Security Stirring Committee and the Information Technology Governance Review Board and as I already mentioned, we're also doing advisory – providing an advisory service on the ERP system. That completes the main part of the work that we've done this past quarter. We are getting ready because we have several audits wrapping up. We are getting ready to start some new audits on our – that are on our audit plan and so those will be listed on the next quarterly report. The status of audit recommendations, in 2014, the Council changed the way we do that so it uses to be that our office would ask the departments to provide us the status of their recommendations and we would report to the Council on that. In 2014, the Council decided that they wanted the departments to report directly and more often than once a year, which is what we were doing. We still track what's outstanding and we have nine audits on this list. The last one, the community services fee schedule audit, is not past due. The others are all past due and as you can see, the oldest one from 2010, has two open recommendations. Some of those others have not been reported on at all.



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The worker disability rates and worker's compensation and the cable franchise and peg fee audits have not had any reports. The other ones are all past due. In mid-March, we sent an email to all of the departments that are affected by these audits, saying that we need to get – start getting these going again. So, we're starting to get the responses to those and my Staff is validating the responses so that we can say to the Council when the departments present them that yes, we agree with the statues that they reported. In some cases, we're going back for more information but you should start seeing those coming to Policy and Services probably August/September on those agendas. I think – from what I'm hearing from my Staff, we're probably going to be able to clear out quite a few of these in the next few months. Then, the hotline is the last things on our report. We received and closed two hot line complaints during the third quarter. One of which was related to a previous case. So, at this point, we have no open hotline cases. They have all been closed. The two that came in this – during this quarter, both were unsubstantiated and I mentioned in here about the survey that we sent to other jurisdictions and that I had presented that as a discussion item at the March Policy and Services Committee meeting. That's all I have on that and I'm open for questions.

Chair Wolbach: Any questions? Tom.

Council Member DuBois: You don't have any audits right now in kind of the design or all the collections fees?

Ms. Richardson: We are just getting ready. We – I'm going to send down audit notice on the code enforcement audit this week so we are doing a little bit of work to get that one ready to start. Then these ones that are wrapping up, I'm going to have three auditors ready to start new audits in the next couple of weeks so we are going to start on those ERP audits that we have planned.

Council Member DuBois: What are the new ones?

Ms. Richardson: Code enforcement is definitely – that one – she's already doing a little bit of work but we haven't set out – sent out the audits start letter yet. Then we have three ERP planning audits so one is data reliability, which kind of goes back to the issue, for example, of the vendor master file. That's one example but what we're going to do is look at a variety of data sets that are in the SAP system and see where cleanup needs to be done before data gets transferred over to – into the new system. We've got on that we're calling link segregation of duties. That's audit jargon for when two people shouldn't do the same – have the ability – one person shouldn't have the ability to do too many tasks that could allow them to do bad things like

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commit fraud. So, looking at how the system is set up to make sure that they have the right separation of duties so that we can make sure that the City's protected. The third one is governance – IT governance and that's really looking at – as an example. Right now, when we do an audit and we want a data set and we go to a department and we ask for information about the data that they use, for example, say in utilities. What data goes into making a utility bill and they will say oh, I don't know. Go ask IT and IT will say no, go check with the department. The department is the data owner but a lot of times they have not had the training or they don't have the knowledge to know what is – goes on behind the screen that they see and so really looking at what that structure should be and what kind of training those people should get. So, that they know what their responsibilities are and that they – it reduces the chance for error when people know how the system works and how their reports are developed so really focusing a lot on that kind of thing.

Council Member DuBois: I think in past years, you've sent around a list of potential audits for prioritization. I mean, are we kind of at that time? It sounds like...

Ms. Richardson: We're getting close to that time. I will probably be bringing a list at the first Policy and Services Committee meeting after – so, I'll be sending an email out in the near future.

Council Member DuBois: Ok.

Ms. Richardson: I can probably do that – I can probably send that out next week and get that going.

Council Member DuBois: (Inaudible) to the whole Council.

Ms. Richardson: I do, I do.

Council Member DuBois: Ok. On National Citizen Survey, you did present at the retreat. We didn't really have a lot of time to talk about it. Did you feel like you covered everything that you wanted to cover?

Ms. Richardson: I think so. I think – one thing that really came out pretty clearly on that from the question that was asked was that there are certain areas that continuously rate low, like the built environment but that question is fairly broad. This year, what we're going to do –I've already talked to the Planning Director and the Community Services Director and we're going to sit down and develop some custom questions that will try and dig down

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deeper into what it is that causes people to think that the built environment is low. We're going to try and focus on just a couple of areas. Most of them tie directly to the Council priorities and develop our custom questions around those areas this year.

Council Member DuBois: I don't know what you guys think. I mean we might want to have a study session to actually talk about the survey a little bit deeper. I didn't really feel like we had a chance.

Chair Wolbach: Are you thinking something for Policy and Services or for the Council?

Council Member DuBois: No, I meant for the Council. Like a short study session at Council.

Chair Wolbach: Well, maybe that something that we can bring up with Jim and I'm not sure (inaudible) agenda item right now but I think we can definitely, as individuals, ask Jim and I'm sure Staff here will mention it. Let's – I'd be comfortable with that.

Council Member DuBois: Just going onto sale tax, so we had the vendor collect \$800. I'm just curious how much we paid the vendor to do that?

Ms. Richardson: We pay a percentage of what they collect so we pay twenty percent but you – I think it's also important to remember that although that was a small amount, they have quite a number of requests out to the State. They have 43 requests out to the State waiting to be processed and when you look at that large \$277,000 number that we've collected year-to-date. Most of that was from the vendor.

Council Member DuBois: Right, so I think the last couple of times it's been very low and we keep hearing it's delayed at the State. Is there anything we can do to unjam that?

Ms. Richardson: I don't think so. It's based on their Staffing and I do – I'm looking at, right now, -- so we have 69 outstanding – right, inquiries outstanding right now. A year ago, we had 56 at this time. The year before that we had 43 so that log seems to be growing.

Council Member DuBois: Two hundred and seventy-seven thousand sounds like a large number but my recollection is that it's usually over a million. It's quite large.

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Ms. Richardson: Not the part that we actually recover on the misallocations.

Council Member DuBois: Ok, there had been years where we recovered quite a bit.

Ms. Richardson: Not – never – no, actually I have a chart here that I've started looking—trying to track. Going back to 2007 and the highest year – actually, this \$277,000 puts us at the highest year and that was due to one really large recovery effort. Prior to that, the largest amount was \$169,000 and that was in 2014.

Council Member DuBois: Ok, alright. I stand corrected.

Ms. Richardson: Yeah, we've had it as low as \$24,000 and that was 2011.

Council Member DuBois: Ok. I think I brought this up last time but it looks like the sale tax reports on the website are still like -- the most current one is June of 2016.

Ms. Richardson: There should be two more since then. I'll have to look. I know we have one pending that needs to go to – on the website and that should be going out – it's done, it just needs to be posted.

Council Member DuBois: If you could just check on that. It looks really out of date. Then, you know, we do this every quarter I guess and it comes back and we haven't had any implemented recommendations for a long time. You're saying next time we're going to be seeing a bunch.

Ms. Richardson: I think you'll – yeah, you'll start seeing some because we do have those emails out and we have started receiving responses to them.

Council Member DuBois: I'd like to make a request that next time this comes back, could you provide more detail on these 76 items.

Ms. Richardson: What they recommend...

Council Member DuBois: Maybe even – yeah, maybe even just attach a table of what they are.

Ms. Richardson: Ok.

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Council Member DuBois: If there's a status of either fixed or decided that we're never going to fix it or it's still outstanding, I think that would be really useful. Some of these are quite old, right?

Ms. Richardson: Right.

Council Member DuBois: (Inaudible)

Ms. Richardson: I think most of the ones that are here are ones that will be implemented. I have worked primarily with ASD on some of these where the recommendations – we looked – we went back and looked at them and said that they aren't really feasible at this point or they don't make sense anymore due to other operational changes.

Council Member DuBois: It would be really nice just to see that clearly and we could clear some of these out that are so old.

Ms. Richardson: I'm also trying to work closely with departments to make sure that when we make the recommendations up front, that they make sense.

Council Member DuBois: Great, ok, thank you.

Chair Wolbach: Any other questions? Lydia, quick question? Go for it.

Council Member Kou: Harriet, do you know – the food trucks, how the sale tax collected from those? They move all around.

Ms. Richardson: That's a good question. I don't know. I would have to check on that.

Council Member Kou: Ok. Alright. I always wondered so I thought...

Chair Wolbach: Ok, I'll move the Staff recommendation that we recommend to the City Council the acceptance of the auditor's office quarterly report as of March 31<sup>st</sup>, 2017.

Council Member DuBois: I'd like to propose that we make a very (inaudible) We suggest that there's a study session on the National Citizen Survey as part of the acceptance.

Chair Wolbach: I'm not sure it's really (inaudible) for this particular motion but I'm happy to have us discuss it and...

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Council Member DuBois: Yeah, I'm not saying that we do it. I'm saying we ask Staff to consider doing it basically.

Chair Wolbach: Right. What I am saying is I think that (crosstalk) (inaudible)

Council Member DuBois: (Inaudible) the National Citizen Survey and so it's up to use to say if we accept it or if we want to discuss it.

Chair Wolbach: Actually, let me look to the Staff for any thoughts on that.

Ms. Richardson: I'm not certain how that works. I would probably have to differ to the clerk or the City attorney.

Chair Wolbach: And City attorney, you are thinking that there's anything wrong with adding that to this motion from a legal standpoint?

Terence Howzell, Principal Attorney: (Inaudible) It would be a soft recommendation that we (inaudible) to put in on the Council's calendar for (inaudible)

Council Member DuBois: Yeah, exactly.

Chair Wolbach: I'd be fine with that Amendment. It will be to recommend that the City Council accept the auditor's office quarterly report as of March 31<sup>st</sup>, 2017 and also recommend scheduling a full Council study session regarding the National Citizen Survey.

Council Member DuBois: Great, thanks.

Chair Wolbach: Any other discussion? Alright, all in favor? Aye. Alright, passes unanimously with Council Member Kniss absent. Alright, thank you very much, Harriet.

**MOTION:** Chair Wolbach moved, seconded by Council Member DuBois to recommend the City Council accept the Auditor's Office Quarterly Report as of March 31, 2017, and to recommend the National Citizen Survey be discussed at a future City Council Study Session.

**MOTION PASSED:** 3-0 Kniss absent

## Future Meetings and Agendas

Chair Wolbach: I don't know if you want to stick around for our exciting last item, which is discussing future meetings and agendas. I think – did we all

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receive an At Places – I think we all did. Kind of tentative – actually, it's tilted tentative future items. A couple of things here and I'll look to the City Clerk for thoughts on this as well though we may not be able to resolve it today. The date that's currently tentatively scheduled for our next meeting, May 23<sup>rd</sup>, is going to be a very difficult meeting in time for Staff. I understand that is a budget meeting for the Finance Committee. I think it's the budget wrap up, which means that Jim and probably a lot of his Staff will have a really difficult time making that meeting for us. If there's a chance that we could reschedule that, possible for Wednesday the 24<sup>th</sup> or some other time. I'm happy to look at our calendars right now and/or have the City clerk poll for a date.

Jessica Brettle Assistant City Clerk: We can handle it both ways. Whatever you prefer, I'm happy to doodle or if we can find a date and time now, we can do it that way as well.

Chair Wolbach: Why don't we look at it tentatively. Lydia...

Council Member Kou: I (inaudible) be here on the 24<sup>th</sup>.

Chair Wolbach: On the 24<sup>th</sup>?

Council Member Kou: Yeah.

Chair Wolbach: Ok, well let's tentatively do that and maybe send around a doodle just to confirm and check with Council Member Kniss as well.

Ms. Brettle: Ok.

Chair Wolbach: I'm fine with currently rescheduling that for the 24<sup>th</sup>.

Ms. Brettle: Ok, great. Then as for the start time on that date, do we keep it at 7? (Inaudible)

Chair Wolbach: There's a lot happening there so that's the other question. I was wondering if you guys would be ok with starting as early as 6 or even 5 or 5:30 but that might be...

Council Member DuBois: (Inaudible) in my calendar at 6. (Inaudible)

Ms. Brettle: When I send out the doodle, I can put both times if you'd like. I can put 6 and 7 and see everybody's availability or?

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Chair Wolbach: I was going to suggest actually a little bit early. Even at 5:30 if you guys can make it.

Ms. Brettle: Ok.

Chair Wolbach: Any thoughts on that?

Council Member Kou: Can we do 6?

Council Member DuBois: Six is best for me.

Chair Wolbach: Ok, let's do it at 6 then.

Council Member Kou: 6 o'clock.

Chair Wolbach: That will be probably a busy meeting and I just wanted to point out that one of the tentative items that would be led by the City's Manager's office would be airplane noise. I just wanted to speak to that briefly. I've spoken with the Mayor and also with the City Manager and I think there's a lot of interest in the community and among the City organization on having a – some Council discussion. Particularly around whether and how to provide additional feedback to our federal representatives and the FAA about the recommendations, which they are currently studying. I discussed with the Mayor and also with the City Manager and with Cash [Allee], what – if we wanted to do that as a City. I think everybody agreed that that would be a good idea to at least consider and so the question was raised well, what would be the best avenue for having that conversation. The recommendation that I heard and I thought was also ok was to do it here at Policy and Services so unless there's any objection, that's kind of the gist of where we'd be heading with that. It would an opportunity for members of the public to come and talk about that issue in the new context that we're dealing with FAA. Looking at those current recommendations and updating and clarifying our City's position in light of that upcoming FAA rule.

Council Member DuBois: It's going to be before the FAA response?

Chair Wolbach: Right, so that would be the (inaudible). As the FAA is looking at the – I think it's 108 recommendations. Some from the Select Committee, some from the SFO Round Table, they would have the benefit potentially, of having an updated message from Palo Alto about what our priorities are among those recommendations or any clarity among them. In the absences



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of an updated City Policy, there's been some confusion and maybe even missing information out there about what Palo Alto's priorities are. But we could – since this is not agendized, I don't want to have too long of a discussion about it tonight. Just so that you guys have an (inaudible)(crosstalk)

Council Member Kou: I just wanted to make sure that will the City Manager also have information on how we can be part of the [ADHOC] Committee at that Policy and Services when he comes back? I think that's an important discussion to have.

Chair Wolbach: I think that the future of an [ADHOC] Committee, whether it happens, when it happens and how we can be part of it is definitely an important part of that discussion. That's another – I appreciate you mentioning that. That's another reason why I wanted to see it discussed among the Council body but unless there's any objection, I think we'll move forward with doing it here at P&S. Great. On June 23<sup>rd</sup> – the 13<sup>th</sup>, right? So, the 13<sup>th</sup> of June, the one recommendation that I had for the City Manager was that we just change the order – this is, of course, all tentative, that we do the Data Collection and Privacy Policy prior to Cubberley just because it was the last item on the agenda when it was discussed by this committee in December and I want to make sure that it had an earlier time on the agenda for this time. Not to sideline Cubberley but (inaudible)(crosstalk)

Council Member DuBois: Well, I'm wondering if we should actually move one and two to the end and do Data Collection and Cubberley.

Chair Wolbach: I'd be ok with that but I think the only that I would say is that if Harriet's ok, we can move those to the end. On the other hand, as Harriet has proven, we can sometimes get through these audits pretty quick and knock them out. That way Harriet can...

Harriet Richardson, City Auditor: The hydro max may take longer.

Chair Wolbach: Gotcha, ok. If you're ok with moving that towards later in the meeting, I would be ok with that too.

Council Member DuBois: Or we can just see how many people show up on Cubberley and decide.

Chair Wolbach: Ok and before we wrap up, are there any other items or any concerns or thoughts about a tentative future agenda?

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Council Member Kou: Just the – so, I have a few items that I haven't see come up. The neighborhood Town Hall meetings, is that something that we're supposed to be looking at?

Chair Wolbach: Yeah, actually thank you for mentioning that. I think Tom and I both had an interest in the discussion sooner rather than later so they just don't end up getting stacked at the end of the year. Thanks for mentioning that.

Council Member Kou: Exactly. I'd like to see them spread out a little bit more and not rushed through. Also, another one is the know your neighborhood grants. Does that come through Policy and Services each year or is that just re-continued? I haven't seen it this year.

Chair Wolbach: Tom, do you remember or does Staff remembers on that one?

Council Member DuBois: It doesn't come to us. It's (inaudible)...

Chair Wolbach: I didn't think so.

Council Member DuBois: ...(inaudible). People just apply and...

Chair Wolbach: Oh, don't forget your mic.

Council Member DuBois: It would only come to us if we were going to change it in some way, I think.

Council Member Kou: OK, so I think that the Council all saw Tom's, through the City's Clerk's office, the AirBnB regulations that had the other method of shortening the time or something of distribution. I wonder if that needs to come to us to discuss in terms of ensuring that AirBnB doesn't go any shorter than 30-days and we do have some rules in place. Just to kind of bring it up and make sure...

Chair Wolbach: Yeah, I had heard actually that at least one Council Member was potentially looking at colleague's memo on this but if it – it may come to us sooner than that but I'm fine –I'll check in with Staff and if that's currently something we're planning on discussing either at Council or at the Committee and see if that colleague's memo was moving forward.

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Council Member DuBois: Then I brought it up multiple times on the progress we made on the Magical Bridge playground. I just think it would be useful to have them come in and hear about the County money that's available.

Chair Wolbach: Ok. Do you – is that one time sensitive or do you think we might be able to do that one in late summer or early fall? I was just looking at our next couple of meetings are getting pretty backed up.

Council Member DuBois: (Inaudible)

Chair Wolbach: That's a good idea. Great, so let's look to maybe scheduling that one in – maybe in September.

Ms. Richardson: I sent a list to Cash today of all of these open audits so that he knows that he's going to need to fit those in somewhere.

Chair Wolbach: Ok, great. Alright, well with that, this meeting is adjourned. Thank you.

ADJOURNMENT: Meeting was adjourned at 8:04 P.M.