



POLICY AND SERVICES COMMITTEE TRANSCRIPT

Special Meeting
August 22, 2017

Chairperson Wolbach called the meeting to order at 6:06 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present: DuBois, Kniss, Kou, Wolbach (Chair)

Absent:

Agenda Items

1. Policy and Services Committee Recommends the City Council Accept the Status Updates of the Audits for the Citywide Cash Handling and Travel Expense; and the Audit of Cable Franchise and Public, Education and Government (PEG) Fees.

Chair Wolbach: Alright so let's start this off with our first – actually, do we have any Oral Communications from the public?

Jessica Brettle, Assistant City Clerk: Not this evening, no.

Chair Wolbach: Ok and as far as Action items, we have three all related to audits so the first the City-wide cash handling and travel expense and the audit of cable franchise and public education and government PEG fees. So, I'll turn it over to the City Auditor to start us off.

Harriet Richardson, City Auditor: Thank you Mr. Chair and Members of the Committee; Harriet Richardson, City Auditor. I'm actually going to turn this item over to Ed Shikada, Deputy City Manager because they report the initial status and then if you have questions about our agreement I'll answer those.

Chair Wolbach: Ok, Assistant City Manager Shikada.

Ms. Richardson: Assistant City Manager, I get those – all those new titles, I have to get them right.

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Chair Wolbach: We're also joined by Deputy City Manager Rob De Geus who, for those who haven't heard, is now our main liaison from the City Manager's Office to this Committee but because of the Assistant City Manager running utilities, he's definitely here for this one.

Mr. Shikada, General Manager for Utilities: Yes, I'm wearing that hat primarily tonight so actually, I'm sorry, I wasn't prepared to report out on these items. I'm happy to answer questions and we do have Staff available here in terms of both the City-Wide cash handling, travel expenses, as well as our cable franchise PEG fee audit. We've got an action that's been ongoing on both of these elements or both of these audits and again, I'm happy to respond to any questions.

Chair Wolbach: Do we have any Staff Report on these – on this first one at all? Well, then I'll look to my colleagues and ask do you have any questions?

Council Member Kou: Actually, may I?

Chair Wolbach: Go ahead, Lydia.

Council Member Kou: I was reading this and is – you know being new to Council and so forth, is there – can you give me a briefing on how the cable joint powers and how they are all related over there and how the Media Center came about to be under all of this?

Mr. Shikada: Oh my, it's a lot of history.

Council Member Kou: I mean I don't know where cable comes in.

Mr. Shikada: Well, in terms of the City's role – perhaps the way – the best way to describe it is to follow the money and that with respect to the cable services that provide – that are provided by Comcast, AT&T or effectively cable services, there is a portion of the bills that's called the PEG Fees. So, the public education government fees that all subscribers pay and the City of Palo Alto receives that fee, it's remitted by the cable providers, and we have an agreement with the Media Center to provide the services – although the cable fees – I'm sorry, the PEG Fees themselves are restricted to capital expenditures. So, it's part of the mix in what goes into the actual provision of both our City Council meeting streaming and televising, as well as educational programs so that's kind of the relationship. The audit itself identified a number of issues related to the use of the PEG Fees and since the audit, we have been in negotiations and in consultation with the City

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Attorney's Office on how to go forward in terms of ensuring that the PEG Fees are used in a legally permissible manner while at the same time advancing the City's interest in the provision of the services so that negotiation has been ongoing. There has been some turnover and as I mentioned, in light of PEG programming and the eligibility uses of the funds are regulated actually at both the federal and State level. As a result of that, really then in consultation on an ongoing basis with the City's Attorney's Office with how we proceed. For the Media Center, they've actually got – had some turnover in Staff and that the long time Executive Director retired at the end of last year and so we have been restarting those negotiations with the new Staff so that's the ongoing work here.

Vice Mayor Kniss: Were you here when that became sort of a – let me think. A very large issue that filled the chambers?

Mr. Shikada: I believe so, yes.

Vice Mayor Kniss: So, you might give a little bit more background on that because it was very complicated and very much affected the citizens and the Center and so forth and it became heated is probably the best word. I think that's important because what you just said was we're limiting this to capital expenses and my recollection was that was the area we were going to explore carefully as to whether or not there could be another interpretation.

Mr. Shikada: Or a realignment of how the funds are used and that's really where our focus has been.

Ms. Richardson: I can probably address that. So when we did the audit, we had a lot of legal consultation on what the interpretation of that law was and our City Attorney actually contracted with an expert – a legal expert in communications who deals primarily with cable and franchise fees. The legal interpretation we got was based on his opinion, his input and actually, the attorneys who responded on behalf of the Media Center on that audit during a meeting we had with them, they actually told us – told the Media Center that they were incorrectly using the money. That it really was restricted to capital expenditures and the issue in the audit was that they were using the money for operating expenses. That became a big issue because it seemed like people interpreted the audit to mean that we were saying take away the money, close down the Media Center, and our recommendation wasn't that at all. It was really looking at options for how – whether to make that funding whole in some other way and that's really what the City's Manager's Office is looking at; how can they use the PEG Fees for capital expenditures in a way that doesn't financially hurt the Media Center. There was one

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footnote in the Audit that was misinterpreted and put out there as – to mean something that it didn't and people bought into that and that's what happened.

Vice Mayor Kniss: So, everything is (inaudible) at the moment?

Ms. Richardson: I think so.

Mr. Shikada: Yes, it is.

Ms. Richardson: I think the City Manager can answer that.

Mr. Shikada: Yes, that is correct. Since we are in conversation with the Media Center on again, trying to flush out the specifics of how the funding can be used in an eligible manner.

Vice Mayor Kniss: I'm just reflecting that it was a complicated and spirited discussion that night and...

Mr. Shikada: It's still complicated...

Vice Mayor Kniss: There many people there...

Mr. Shikada: ... and I think we've toned down the spirit.

Vice Mayor Kniss: ...and lots of discussion if you remember about the legality of it with two different sides; one side arguing one way and one side arguing the other way including someone who came in on the phone from New York as I recall.

Ms. Richardson: The person who came on the phone was the attorney who had advised us.

Vice Mayor Kniss: Thank you but Lydia had asked for more background. I think that's what they call providing the color.

Mr. Shikada: Yes, thank you.

Council Member Kou: Thank you.

Chair Wolbach: Tom.

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Council Member DuBois: So, I'll pick up on that so where's the discussion about trying to help them buy the building and how is that going to get resolved?

Mr. Shikada: So, that's kind of the essence of the conversation that's ongoing. With the turnover in Staff, we wanted to ensure that everyone was up to speed and that we had done our homework in – really consultation on our side to ensure that our proposal met the legal requirements for the use of the funds. At this point I think we're just about to restart the more active negotiations with the Media Center on – the basic outline was to use the PEG funds as pay down toward a purchase of the building that the Media Center owns. So, in that way maintain an eligible use and there is a number of operational restrictions that would then be placed on the building in order to be sure that it does meet it's or meets the requirements for the same limitations on the use of the dollars.

Council Member DuBois: Are they on board or is there disagreement?

Mr. Shikada: It's ongoing. We really haven't gotten to a point of disagreement yet so I think we're still discussing the specifics.

Council Member DuBois: Yeah, I mean to echo Liz, I think a lot of people came out to talk about the value the Media Center particularly and new technologies and I think the community appreciates it so we want to find a way to make it work. Also, I'm interested in the AT&T negotiation and I just – can you give a little color, I mean was that pretty easy or did it go back and forth?

Ms. Richardson: Want me to answer that one too? The AT&T negotiations were very easy. The City's Attorney's Office sent a demand letter and there was a brief conversation between them and they came to a quick settlement. It's the Comcast one that's still...

Council Member DuBois: Right, so can that settlement be used with Comcast? I mean now that we have a settlement with AT&T.

Ms. Richardson: No, Comcast has different concerns and one of them is the resolution of the PEG Fee issue before they will actually settle I think.

Council Member DuBois: What PEG Fee issue?

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Ms. Richardson: The one that – how the PEG fees were used and wanting some assurance that they are being used properly. So, one of the...

Council Member DuBois: So, Comcast is using that to refuse to pay the fee?

Ms. Richardson: At this point they had – they also have a concern about the accuracy so they are trying to separate the two issues but the issue regarding PEG Fees, what they – they want some assurance. So once the City negotiates a way -- for example, if they purchase the building, there's a period of time that the Media Center can go back and restate their financial statements to show that they used the money for other purposes – for capital purposes and the capital purpose would be part of the, I'm assuming the down payment for the building. So, they can then restate their financial statements to show that they didn't use it for operating expenses and that's what Comcast is waiting for.

Council Member DuBois: So, this is an issue that we brought up, Comcast didn't bring it up...

Ms. Richardson: Correct.

Council Member DuBois: ... and now we have a clock ticking that if we don't resolve it, we can't get that money?

Ms. Richardson: Once we identify it in the Audit the clock starts ticking as far as once we start the Audit, we can go back still for that period of time. So that was part of our legal advice on how far back we could go and once we started the audit then we could still – that part become the open period of time for which we could go back and collect.

Council Member DuBois: Right, that seems like a bigger deal. I mean is there no way we can separate these issues until the City is accepting this use and not make it a Comcast issue?

Ms. Richardson: There's been an ongoing discussion with Comcast so it's not just being ignored, there is an ongoing discussion with Comcast...

Council Member DuBois: Right, I'm just saying can we...

Ms. Richardson: ... primarily with Administrative Services Department (ASD) and the – our cable coordinator and Comcast and the City's Attorney's Office have been involved too.

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Council Member DuBois: I guess what I am asking the City Attorney is can we separate this issue of how the City applies the funds from whether Comcast owes money or not?

Terence Howzell, Principal Attorney: What I would suggest is in this – this is not the setting that I would necessarily want to disclose...

Council Member DuBois: The negotiations.

Mr. Howzell: ...our negotiation kind of position but in a different setting we could have that discussion.

Council Member DuBois: Ok, and it's relatively small amount of money?

Mr. Howzell: Yes.

Council Member DuBois: Then my last question – thank you – is on the meals. I mean so are we saying that if we provide meals to employees, that has to show up as income?

Ms. Richardson: That's an Internal Revenue Service (IRS) regulation, yes.

Council Member DuBois: So, is that...

Ms. Richardson: If it's not reimbursement like for a travel expense, there are some rules around meals and so the question is – for example, at a meeting like tonight where it's not a routine meal and the City reimburses for a meal, that's a taxable item according to IRS.

Council Member DuBois: So, is that different for public agencies and private companies?

Ms. Richardson: No.

Council Member DuBois: It seems like almost nobody does this, right? I mean companies provide meals for employees and it's not tracked. I mean is there another way this would...

Ms. Richardson: They impute an average -- input an imputed average income on their pay stub. For example, there are certain employee benefits that are taxable and that's one of them. Another example might be if they

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pay – if the employer offers a life insurance policy to employees and the employer pays any amount that exceeds \$50,000 that they would impute that income onto the employees pay stub so they are taxing it.

Council Member DuBois: I know. I'm pretty sure though that most Silicon Valley companies do not put it on the payroll so are we positive there's no way we can provide this as a benefit without it showing up as income?

Ms. Richardson: If we want to comply with IRS regulation then we should be showing it as income.

Council Member DuBois: So, you think most of these companies are just doing it wrong?

Ms. Richardson: I don't know what the companies are doing, I can only speak to what we should be doing.

Council Member DuBois: Alright.

Vice Mayor Kniss: What are we doing – I'm sorry, Tom can I just insert? What are we doing? We just ate a sandwich (inaudible)

Council Member DuBois: Well, it's going to show up on your paycheck Liz.

Ms. Richardson: There's – we're talking about that there are some things that are administratively burdensome and you can use that as a way saying it's not taxable but there are other ways. For example, some of the management professional compensation plan has a provision that employees can get reimbursed up to twenty dollars when -- that reimbursement would be taxable.

Council Member DuBois: I mean it's more of a concern that it's a benefit for working late or putting in extra effort or working over your lunch period so if you're not giving somebody a break – again, the business practices I've seen -I've never seen that tax and I just want to make sure that we're – we've got it covered and there's not any other exception in the law that – I mean it seems a shame to kind of take that away as a benefit for people working late hours.

Vice Mayor Kniss: (Inaudible) sandwiches right before the meeting?

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Council Member DuBois: Oh, you know during the day. I'm not worried about us, I'm more worried about Staff.

Ms. Richardson: I – it's a little bit different with Council when -- for example when you tax – it's administratively burdensome is the word that the IRS likes to use when you have to track oh, you ate a sandwich tonight, you didn't eat one tonight. That becomes a burden but when you have the receipts for reimbursement, they don't consider that administratively burdensome in the same way; that's when it becomes more of an issue.

Council Member DuBois: Well, I mean that's the issue of like a department head or somebody puts it on a P-Card for a whole bunch of people who are staying late. It does seem like a burden to break that down.

David Ramberg, Assistant Director of Administrative Services: Hi, my name is David Ramberg and I am the Assistant Director of Administrative Services. So, we've been working with Harriet and her team for – this is an audit as you can see that was first issued in 2010 so it's been – we've had a very lengthy discussion on this particular item. We've addressed many of the – virtually all of the other items on this audit so this is one that is kind of sticking points for us and it really comes – for the Administrative Services Department. We're responsible for employee reimbursements so when an employee travels there's a travel expense form that's filled out, signed by several layers of management and ultimately submitted to the accounts payable folks. We analyze and review the travel reimbursement and make sure it complies with our travel policy. As City Council Members, some of you have gone through that process through the Clerk's Office and we issue ultimately a reimbursement. What we are trying to do it tease out those reimbursements that would fall on the employee's paycheck and be taxable so that we can comply with the IRS requirements. There are very few dollars that we're talking about in the big scheme of things, it's – these aren't large dollars. These are very small dollars but we do have the electronic record in a lot of cases or we have the receipt of the transaction. What we don't have an integration of those receipts or those transactions into our ERP system so SAP is where we pay the – where we create the paycheck and issue the payment that is taxable for the employee. We don't currently have an efficient automated way to bring the very minute meal charges over to the paycheck right now. So, we're looking at a way to do that and Harriet has been flexible in allowing us to explore the best way to do that without having it be too time-consuming.

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Council Member DuBois: So, the amount is some minute in the cost to put other processes in place. Can't you just say that that's too burdensome from a tax perspective?

Ms. Richardson: It depends on how the IRS would look at it and we could ask the IRS for advice. I think we've been trying to resolve it without doing that but it depends – it really depends on if there's a process that can be managed. I think when the new ERP system comes in, it might be easier to handle but because they're more set up for – they are more set up with current practices which would incorporate current IRS practices and being able to update more regularly.

Council Member DuBois: Thank you.

Vice Mayor Kniss: Just a quick follow-up, how much money are we talking about roughly?

Mr. Ramberg: I don't have a number for you tonight – just—to put it in perspective, we process a handful of meal reimbursements a week so that's less than ten probably – typically and virtually all of those are for lunch at \$16 maximum; these are IRS – these are GSA limits that are set at the federal level that we apply here and most municipalities apply similar standards or a lot do. It's \$9 for breakfast, \$16 for lunch and \$29 maximum for dinner and most of these aren't dinners, most of these are lunches and so it's a relatively few dollars in the big scheme of things.

Vice Mayor Kniss: It seems it would probably cost more to keep track of it and pay back than it actually...

Ms. Richardson: There may come a point where the IRS looks at it that way. A few years back they use to require when an employer gave a cell phone to an employee to use, they use to require the employee to track their personal use versus their business use and to be tracked – to be taxed on their personal use. That really was a burden for employers but they did crack down on it at one point and there was a lot of input I would say, from employers about how difficult that was and IRS finally came around and dropped that rule. They realized that most cell phone service plans are lump sum anyway and they are not based on how many calls you make and they dropped that and they make – they are constantly updating laws so they may change that at some point.

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Vice Mayor Kniss: David, I think you're probably talking about \$6,000-\$7,000 a year total if my math is correct.

Mr. Ramberg: That might – it's probably more than that but if you did the math on kind of the numbers I laid out, I think what we also are having a trouble with is we have multiple systems that are collecting these charges and we don't have a nice aggregate way to report on them. SAP doesn't provide the detail when we have a reimbursement go through. Usually, we'll calculate a – we sometimes get asked for public records for this type of information so we'll calculate a sum at that point. Every department has an expense item which they stay within for this category expense so that might be a little bit more than that but it's still relatively small dollars I think, is that what you're...

Vice Mayor Kniss: So, let me get into the weeds for just a minute, so we've had a sandwich tonight. I'm going to presume that came out of our City Council allotment for this purpose. So, therefore – so now, after you have paid for it and then they are going to turn that over to you and then you are going to tax it? I think that's what I am hearing.

Mr. Ramberg: Well, we can't because this I think gets back – right now we can't do that and this gets back to I think the allowance that the IRS has, is that would be administratively burdensome for us to tax this type of meal setting because we would have to get each one of you and anyone else who ate a meal to log into a log. We would then need, I think a W-9 from you and then we would need to run it through the payroll process...

Vice Mayor Kniss: To buy a \$9 sandwich.

Mr. Ramberg: Yes, exactly so I think the IRS provides an allowance for that setting to have some flexibility. What they are talking about is where there's a bona fide employee who has a work – a non or a working lunch or otherwise a provided lunch, that is an instance that should be captured and taxed; is kind of what they are saying. There is a distinction between the different settings I think.

Vice Mayor Kniss: Thanks.

Mr. Ramberg: You're welcome.

Chair Wolbach: Any other questions? Any Motions?

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Vice Mayor Kniss: Do you want to move the recommendation? I so move.

Chair Wolbach: I'll second it. So, we have the Staff recommendation moved and seconded, any other discussion. Do you want to speak to your Motion? I don't need to speak to mine, any other discussion? Seeing none. All in favor? Alright, passes unanimously.

MOTION: Vice Mayor Kniss moved, seconded by Chair Wolbach to recommend the City Council accept the Status of Audit Recommendations for the Audit of Cable Franchise and Public, Education, and Government (PEG) Fees and the Audit of Citywide Cash Handling and Travel Expense.

MOTION PASSED: 4-0

2. Accuracy of Water Meter Billing Audit.

Chair Wolbach: Moving onto Item Number Two, the accuracy of water meter billing audit. Again, I'll look to the City Auditor to begin or to defer to another member of Staff.

Harriet Richardson, City Auditor: We will begin as soon as she gets that pulled up here.

Chair Wolbach: Take your time.

Ms. Richardson: Ok, there it is, ok.

Vice Mayor Kniss: I want to make sure we've got everything we need. Is the one marked number two have everything in it?

Chair Wolbach: (Inaudible)

Vice Mayor Kniss: Ok, good because it said there was another one coming and I don't know whether (inaudible)...

Ms. Richardson: It was in your Packet last week.

Vice Mayor Kniss: Ok, good. Great.

Ms. Richardson: And the Audit, do you have the Audit Report itself? Ok.

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Vice Mayor Kniss: Apparently, I'm all set.

Ms. Richardson: Ok.

Chair Wolbach: Go ahead and introduce yourself.

Ms. Richardson: Harriet Richardson, City Auditor and with me is Mimi Nguyen. She was the Senior Performance Auditor who worked on this audit, along with Deniz Tunc who has left our office. He accepted a Management Analyst position with the San Mateo County Sheriff's Office. So, I'll go ahead and start and then I will turn it over to Mimi. The objective of our audit was to determine if water utility customers were accurately billed for their water meter type, size, and related adjustments. We answered four questions to address the subject, the first one was -- are meters by their serial or badge number, size and type correctly billed to the customer? The second question was, are billing adjustments identified and adjusted correctly and the third question was, are the water meters used to measure consumption working effectively and according to standards? The fourth question was do utilities have a quality assurance quality control process to prevent, detect and correct billing errors from occurring. The American Water Works Association (AWWA) is -- establishes the guiding principles that we use to inform our audit. The AWWA is the largest organization of water supply professionals in the world and the authoritative resource on safe water. Its Standards Committee provides standards, manuals, and guides on selecting, installing, testing and maintaining water meters. They have three principle manners for -- that they say should be used to measure meter accuracy. The first is the physical accuracy of the meter as a flow measuring device. The second is the appropriate sizing of the meter to fit the customer's consumption profiles and the third is the appropriate type of meter to best record variations in the flow. This Audit should be used in conjunction with our prior Audit that we published in March 2015 and that was an audit of utility meters and it was the procurement inventory and retirement cycle. That audit focused on the importance of having accurate meter data to ensure accurate customer billings. This audit focused on verifying that actual billing errors and determining the root causes of data inconsistencies. There is a little bit of overlap between the audits -- the two audits as you'll see as Mimi gets into some of the discussion. We focused specifically on identifying billing errors that resulted in a discrepancy in the meter size records in any of five areas. The first was the purchasing record, the second was the inventory record, the third was the installation record, the fourth was the billing record and the fifth was the physical meter installed at the location. Running a report, Mimi identified 540 discrepancies that could potentially result in billing

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errors. So I'm going to turn it over to Mimi now and she'll talk about what she found when she did her work.

Mimi Nguyen, Senior Performance Auditor: Thank you. Mimi Nguyen, Senior Performance Auditor, we found three findings in our review here and the first finding that Utilities did not adequately prevent, detect, nor correct water billing errors. Finding 2, utilities did install 1,178 E-Meters throughout the City, however, the E-Meters do not have industry standards or testing standards and the accuracy in performance and reliability of these E-Meters are uncertain. The third finding was that the purchase of these E-Meters did not conform to standardization and sole source policies and the E-Meter expenditures were not monitored. For finding one, our next two slides show how we identified the data discrepancies and the actual billing errors in SAP by looking at those five areas that we identified in the background slide. In this slide here, it shows that the E-Meter was purchased and also received into inventory as a one inch meter. We know that the E-Meter is identified as a one inch meter because the material number that is assigned to it, which is 028802 is a one inch meter. The serial badge number assigned the meter is 58817 and this meter number lets us track this meter through its entire life cycle. On this next slide, as we tracked the meter number 58817 through SAP, this slide shows that the one inch meter was installed in May 2014 replacing a 5/8-inch meter. You can see this in the change in the material number in the last row of number three and in this specific example the reason for changing the meter from a 5/8-inch to a one inch might be valid. However, the change in the step number three did not trigger a change in the price class which would have affected the billing to the customer. So, it remained as the 5/8-inch billing rather than being changed to a 1-inch bill. The work flow process did not catch the upgraded meter size and there was no manual controls or oversight to identify and correct this type of error. So, there were other variations of errors like this example that resulted in meter size billing errors; this is just one example. In—after physically inspecting and reviewing the records of all of the 520 data discrepancies that we looked at, we found that 213 of them actually resulted in billing errors. These errors were across various meter sizes as shown in this table here and although the audit report says it's a two-point seven percent error rate, we were really unable to determine a true error rate due to the various types of discrepancies in the meter data records and the various types of billing errors. The audit really attempted to identify root causes for this single type of error, not just the data discrepancies itself. We looked at addressing systemic changes that need to be made to ensure that future errors of this type are reduced or completely eliminated. It also emphasizes the need to bill customers accurately, both for the service provided as well as the equipment that they are receiving. The map here shows the location of all the errors that were identified as the one, two and three sets in our report.

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You'll see that they are not isolated and they are not contained to any one area. The meter size errors are not only widespread by location throughout the City but also in the type of data inconsistencies and the causes. So, following the audit, the Utilities Department did find an additional 204 errors – same type of errors so not only do the billing errors need to be corrected but also the data, where possible, to ensure that accurate data is migrated when utilities implement its new customer information system. So, moving to findings two and three, we have it consolidated on this slide here. Utilities did not adequately evaluate, test and transition E-Meters into the City's water infrastructure and the purchase of the E-Meters did not conform to the City's Standardization and Sole Source Policies and E-Meter expenditures were not monitored. It's important to recognize that ninety-four percent of all City water meters are positive displacement meters. The utilities water – Gas, Waste, Water and Engineering Standards do cite the AWWA as the standard for this type of meter. The AWWA however, does not have standards for the E-Meters and they don't have standards for testing and they don't have the testing method that's independent of the manufacturer. The manufacturer does test each meter and they've claimed that the meters do pass within the tolerance level – the error tolerance level but the manufacturer does test the E-Meters on a displacement meter test bench that is modified. So, because there are neither industry standards for E-Meters for testing the accuracy and performance of the E-Meters, neither utilities nor any other third party vendor has a reliable method for verifying the accuracy of the City's E-Meters. Also, we do not have a way to verify the reliability of the manufacturer's modified test bench. For Findings 1 and 2, this slide summarizes 8 recommendations and you know the Utilities Department, based on these recommendations, it focuses the Utilities Department on improving the accuracy of water meter rate billings and ensuring the reliability of E-Meters prior to buying or installing any more of them. Utilities agrees with six of the recommendations and partially agrees with two of the recommendations, which are Recommendation Numbers 1.4 and 2.1 on Appendix 2, Pages 28 and 29. We question utilities partial agreement with those two recommendations because their response appears to be consistent with our recommendation and does not specifically say what in the recommendation they do not agree with. Regarding finding three, this slide summarizes three recommendations to the Administrative Services Department, specifically the Purchasing Division, that focuses on ensuring that the products go through the appropriate vetting process before being approved as a standardized item or sole source purchase and that sole source purchases are tracked to prevent overspending of approved amounts.

Ms. Richardson: So, we support the Utilities Action Plan and their targeted work to prevent, detect and correct water meter billing errors and we note that they have already started taking action to do so and also, to ensure

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that consumer confidence in the meter accuracy. We also support ASD's action plan to strengthen its procedures regarding sole source purchases and note that they also have already started taking action to implement those recommendations. We have a recommendation – a recommended motion that Policy and Services Committee recommends that the City Council accept the utilities accuracy of water meter billing audit and that concludes our presentation and we are able to answer any questions you might have.

Chair Wolbach: Any public speakers on this? Any questions or comments from my Colleagues? I have a couple but I will defer, go ahead, Tom.

Council Member DuBois: Just so I'm clear, so in the past when we detected this we – do we refund the money to the people who were overbilled and collect the money from people that were unbilled?

Mr. Shikada: Yes, we have a window of, I think it's three years, correct? For both, the refunds as well as back charges and in the case of where there's balance owed by the customer that we can work on a payment plan through which that can be done.

Council Member DuBois: So, are we consistently applying what we did then to these new ones?

Mr. Shikada: We have, one of the issues that we identify though is in specifically this capital project that was completed in 1994 where there were changes to the valve size based upon the capital project – the construction of a new water main. That we –at the time the differential between the price for a 5.8-inch valve and a 1-inch was fifty cents and so there were logical reasons to upsize the valve. Since that time though the differential in valve – in price – the fixed price on a monthly basis has increased to roughly \$17 per month. So, given how at the time the decision made sense but in hindsight, now 23–22-23-years later the differential as big as it is, we do want to take a look at that differential. So, that's an issue that we will be coming back to City Council with. As the Council Members know, our rates are set based on a pretty rigorous or extremely rigorous cost of service analysis that takes into account the various components of this system. So, we really want to ensure that as we bring back options for the Council, that we've looked at not creating more of an issue than exist in order to address on what appears to be a disparity; again, in hindsight.

Council Member DuBois: So, are you saying that for that one neighborhood, we would treat it differently than for areas found in other parts of the City?

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Mr. Shikada: That's where we're looking more deeply into it. Given that it looks like that capital project, the construction project was a one-time situation where a water main replacement actually resulted in a meter...

Council Member DuBois: That's the Southgate project?

Mr. Shikada: ...exchanges – yes, that's correct.

Council Member DuBois: But that's only a subset of the errors, right?

Mr. Shikada: Correct. So that's the one circumstance under which we want to look more closely at it and where it might be justifiable to do something different, such as come up with a special rate, given the circumstances that led to those meter change outs. Otherwise to your initial point, the back billing and the refunding would apply.

Council Member DuBois: Ok, then it looks like there's a little back and forth about whether it was mostly about that project. If there was a more systemic error, have you guys agreed on a path I guess moving forward?

Mr. Shikada: I think quite frankly, I will just speak for myself and behalf of the Utilities Department and City Administration. The issue that we really took issue with was the description of the concern as an equity issue and the decision for how the meter changes were made. From Staff perspective, we really don't see that as an equity issue. It was really again, justifiable at the point in time that the decision was made and so it was really more of the characterization than anything else. With respect to – and I think beyond that, it may either be a misinterpretation or miscommunication in terms of whether how that disagreement played out because again, to your point, we do believe that there are systemic issues with the potential for human error to just exist indefinitely. Once an error was made when the installation was done, since that time and really as a result of the audit so giving credit to the City's Auditor's Office, we've now implemented regular checks. So, we've now implemented monthly reconciliation of the installation with the billing records. Now that said, it is a highly labor-intensive process so as we're going through it, there's still the potential for human error to be a part of what we need to look for. So, all of that leads to the other recommendation which is as the new Customer Information System is part of the Enterprise Resource Planning System is put together, that we really need to maximize the automation and minimize the likelihood that human manual data entry leads to these errors that can't be corrected later.

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Ms. Richardson: I want to add something to that last comment. If you look back at Slide 4, those five different areas that we listed on Slide 4. The five different places where there could be a discrepancy, in SAP each of those are a manual point of entry and best practice is a single point of entry and that's what Ed was referring to when we're talking about the new Customer Information System. There would be a single point of entry, you enter it once and it carries through to all the different places where that meter number is used for billing and so you should automatically have a significant reduction in the error rate by only having to enter it once.

Council Member DuBois: So, I have some questions about E-meters. I assume we switched to E-Meters for a reason so what are the benefits of the E-Meters?

Mr. Shikada: Let me make sure I cover some of those, let's see. The decision was really made in 2013 and let me certainly acknowledge, as was pointed out in the audit, that there was a flawed process in how the decision was made to proceed with that. In mismatch between the initial approval and then what was purchased so the standardization and then implementing it as a new standard really wasn't – was not done correctly. With that said, the rationale for going to the E-Meters related to one, the lighter weight of the meters themselves so they are actually easier to install or remove the E-Meters. Part of for us would be worth going through is a bit of an understanding of the meters themselves. The suggestion E-Meters sounds very high tech...

Council Member DuBois: Is it like you can read the value remotely?

Mr. Shikada: Not in and of itself. The fundamentally – it's actually a brand name or a series of the types of meters that are labeled E-Meters. The primary difference is it's not mechanical in the way that it measures the water going through. It's ultrasonic so it does pings; effectively a little sonar system in there that allows the pinging to detect the rate of water flowing through the pipe. So that's the primary difference, it's the method by which (crosstalk) (inaudible)...

Council Member DuBois: Does it save us money in terms of reading water meters?

Mr. Shikada: It could in the long term. It sets it up for what would subsequently require the transmitter in order to remote read, as well as then to have the data collection. So, it's really – fundamentally it's simply the method by which the water measurement is taken as the primary difference.

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That said the – recognizing that we have had a history of injuries among the meter technicians who do the installations and removals, that going to the lighter weight, it is easier to handle a meter and that was a part of the decision. I'm not seeing my notes in terms of other rationale so if Staff wants to reinforce any other reasons for that. As well as, really, the expectation that because relative to the solid state, the – really experienced that mechanical meters have in that they slow down over time and that would not be an issue with the E-Meters. So that would allow for a more consistent recording going into the future and then the last piece is, to your point, that when we do implement smart meter technology overall, this model of the meter could be retrofitted for the purpose of the automated read.

Council Member DuBois: That's kind of my main concern, I guess the Report says that we're going to put them on hold but if we're going to move to smart meter scenarios, is it really worth putting them on hold if standards are really going to come out this year? Should we just continue to acknowledge that there's an issue there but continue to install E-Meters.

Mr. Shikada: The other option that we are looking at is simply not installing anymore and so...

Council Member DuBois: But I'm saying that if you did want to go back and add the transmitter, why install meters that can't be upgraded?

Mr. Shikada: Right, so again we could just hold off on installing new meters. We do have a regular replacement schedule for meters that may be 20-years old as an example. So, in anticipation of the new standard coming out relatively quickly, we would put a hold on the routine replacement until the standard is complete. Assuming that's coming together in a timeframe that we believe makes sense and at the same time, we do place a very high priority on consumer confidence in the meters that are installed. While we're in this period before there's the independent methodology established and that we can implement that either in-house or through third party testing labs. For that reason, we believe that it would be prudent not to proceed with installing anymore.

Council Member DuBois: So, Staff is really comfortable with that?

Mr. Shikada: Yes.

Council Member DuBois: It's not a big deal to put these on hold?

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Mr. Shikada: Correct, correct. I think that given the relatively short timeframe in anticipation, that holding on installing new should be fine in terms of any risk associated. If there are mechanical problems with other meters, then since those would be a one off replacing those with mechanical meters would be the approach in the short term.

Council Member DuBois: Thank you and then – so I guess you’re just really asking us to accept this Motion not to – I guess there’s agreement on moving forward and we’re just accepting the Report tonight?

Ms. Richardson: That’s generally the approach, yes. I guess the one thing that I would ask us to look at is whether those partially agrees based on the response should be changed to agrees. The responses do read like they agree and I’m not sure what isn’t...

Council Member DuBois: Well, before we go there...

Mr. Shikada: Just objecting to the equity term.

Council Member DuBois: Before we go there, it looked like you had an update on E-Meter.

Mr. Shikada: Oh yes, just one other rationale for going to the E-Meters is that the technology has a better sensitivity to extremely low flow. So to the extent that our residents are implementing more and more water conservation, that it allows us to have a more accurate read out at that low end.

Council Member DuBois: Ok, thank you.

Mr. Shikada: There is a picture in the presentation – let me see.

Chair Wolbach: Yeah, Liz.

Vice Mayor Kniss: Yeah on Slide 10. If I may, I’m kind of looking for some show and tell here.

Ms. Richardson: (Crosstalk) Then the Executive Summary on...

Vice Chair Kniss: When we have meetings like this, is it possible to bring these devices with you?

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Mr. Shikada: Yes, we should have thought of that but did not, but we would be certainly happy to do that if that's desired at the full Council. Just to give you a sense of scale, the displacement meter as it's labeled here is the mechanical meter. It's about this big, we're talking about either a 5/8 or 1 inch.

Vice Mayor Kniss: That's the one that most residences have?

Mr. Shikada: Correct, it's either 5/8 or 1 inch; let's see, I remember the numbers – I think we have about – is it about 15,000 of the 5/8 -inch and about – is it 1,000 or less of the 1 inch? 1,000 of the 1 inch so relatively speaking there are a lot more of the 5/8-inch meters than the one inch. That's actually the test bench so that's the set up that exists on the municipal services center on the yard. So next year, we will make sure they put that on the tour so you can see where the meters are actually lined up and they're tested. They go through a low flow test, a moderate flow test, and a high flow test and we compare the reading on the meter to the measured quantity of water that goes through. Our standard procedure is to test ten percent as they come in. At the time that the majority of the errors happened, we actually did not have a functional test bench in place. There were some moves that were happening at the yard and as a result, it was not operational. I believe we might have also not had water meter techs at that time due to attrition or moving people to other positions. So, for a number of reasons, this was not done correctly and so we've now put the systems and people back in place although we still do have vacancies in the water meter tech classifications, as well as a couple of the key management positions that would be responsible for overall management of this as a program.

Vice Mayor Kniss: So less specific and more general, how many people do you get who call mentioning their water bill and how high it is and how awful? Is – I hear that a lot as a Council Member and people say, you can't believe what my water bill was, it was unbelievable.

Mr. Shikada: I know that (crosstalk)...

Vice Mayor Kniss: I usually tell them to call you, Ed.

Mr. Shikada: Absolutely and they do. Now that said, I'd like to say that there are at most a handful a year that actually have unusually high and by unusually high I'll say two or three 'x' of their normal monthly amount. There are, I'm sure more frequent complaints raised about smaller increases but we also have on an ongoing basis what's called an implausible check. So

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as the meter readers go out, they – whether it be through data entry, error or simply for some reason unusually high reads. The system does flag a read that just doesn't seem in range and so those will result in follow up from Staff to the customer.

Vice Mayor Kniss: Would there be any way to tell, I don't know how smart this E-Meter is if you are away – if you had gone somewhere and something overflows. Your washer overflows, which it just recently did with a friend, are there any indications that we get something is amiss in somebody's house or is that just you wait till you come home?

Mr. Shikada: Well, not the E-Meters do provide the ability to identify some unusual flow that suggests that there is a leak. We haven't implemented all of the features including the transmittal or transmission of the information so we're not there yet but that is the path we're on and where we would like to get. If nothing else, this does point out with your example, the potential that the technology and the automation have to improve not only the accuracy but also the quality of the services that are provided to catch leaks as an example. We do have a prior referral on the topics of leaks that Staff is working on and we hope to bring back to Council within the next month or two. At the same time, our issue with E-Meters points out that how we tackle and how we deal with the implementation of the technology is as important as the technology itself. So, both in terms of the issue of standards, how we do the procurement and the piece that wasn't discussed at all here is the communication to customers to ensure that – we learned from issues that Pacific Gas and Electric (PG&E) had when it rolled out smart meters and that communication is an integral part of how we would deal with the roll out.

Vice Mayor Kniss: It interesting that you have so few complaints so it must be that we get the complaints and then no one actually does anything about it.

Mr. Shikada: Well, I wouldn't say that. There's quite a bit of follow up.

Vice Mayor Kniss: I think probably they just look at their water – two or three people did it in the last week. I don't know whether we've done something different but have said my gosh, my water bill was and it was; they were astronomical numbers. Maybe people have relaxed and started watering in the summer because there was more water this year and suddenly they said we can water the yard, the lawn, the flowers, whatever it might be. Did you see any of those uptakes or upticks this summer?

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Mr. Shikada: Yes, we are actually – yes, we did and part of it is to your example, irrigation systems – sprinkler systems that hadn't been used either both over the winter or through the entire drought and so as a result, being turned back on and finding breaks. So those have definitely led to an uptick this year. I suspect this issue will lead to an uptick as well as there's more public awareness of this meter billing issue and so I, unfortunately, hate to say it but you may get more calls and emails as will we. We're absolutely endeavored to deal with those directly and as quickly as possible. Part – I'm sorry one last thing on the E-Meters that I do want to note that it is our plan expecting that some customers will simply say they don't want to have these E-Meters installed, that we will remove those at the utility's expense, not the customer's expense on request.

Vice Mayor Kniss: It's such a – it's so fascinating because you deal with such an absolutely essential item in our lives and in our budget and we have incredibly good water; I mean no question about that. There is a cost to that and I'm afraid we may have lost some of our drought awareness policies and I frankly, am sorry Jerry Brown decided to get rid of those for the reasons that were stated. It's too bad we didn't keep those in place and continue those good policies we had for four years, five years? For quite some time so that's just an editorial comment but I've often thought we were all on such a good path where we were going to have water resistance and take out our lawns and so forth and so on. In some places that actually happened but in many places, it didn't. That's it, that's my editorial comment.

Chair Wolbach: Lydia, do you have any questions or comments at this time?

Council Member Kou: Ed, when you said that the transmittal of the flow from the E-Meters, does that – can that be arranged to go to the customer or is that usually to utilities and then utilities has to communicate to the customer?

Mr. Shikada: Let's see, we did have a pilot program that was ongoing for some period of time that set up notifications that would allow a residence I believe to receive that directly. I think it's a question about how we can figure it when we go forward with the roll out of smart meter systems and I suspect that it should be able to be configured so that the customers themselves would receive that notice but we just haven't gotten to that point yet.

Council Member Kou: What are some of the reasons that they don't like – they don't want to have E-Meters installed?

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Mr. Shikada: Well, you know I think right now the issue is the testing and the availability of independent third-party testing and the standards through which those tests would be conducted. The – I'll say an unfortunate fact is that we do have some residences that are concerned about the technology and having that including the transmission capability be adjacent to their home, concerns about RF radiation as the case may be. So being sensitive to those, we do get requests or concerns that say just keep those smart meters away from my home.

Council Member Kou: Will Utilities do testing of those to prove – to show – have data to show that there isn't electric-magnetic fields or any of those sorts of stuff in order to help...

Mr. Shikada: I think we'll provide as much information as we can when we're ready to go with the full roll out. I suspect that there will be some residents who are not convinced in any case and I think we should be able to provide allowance for that; at least in the short term to accommodate their preferences.

Council Member Kou: Thank you.

Chair Wolbach: I have a couple questions, just first on those two recommendations where the response from Staff was partially agreed; 1.4 and 2.1 on Pages 28 and 29 that are summarized in the audit. Just any more clarity that City Auditor Staff can provide about that – about those two – about 1.4 and 2.1? Where the – we're hearing slightly different takes here and I wanted to bring it back to the Auditor Staff having heard from the City Manager Staff.

Ms. Richardson: Correct, so in 1.4 if you look at our recommendation and you look at the second part up their response, the first part is really commentary, the second part of what are they going to do and it's really directly addressing the recommendation. So, that's why we – well, if you are agreeing to look at that differential, why do you partially agree instead of just agree so that was really our concern with that one.

Chair Wolbach: So, take let's take that for a moment and turn back to City Manager's Staff and Utilities Staff and ask do you – also a question about moving forward. Is there an interest in resolving the disagreement or further communication before this comes to full Council?

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Mr. Shikada: I think we could certainly have further discussion of it and not to negotiate on the record here but my suggestion...

Chair Wolbach: Right, I don't want to do that here but I want to ask – I like that there is maybe room for further discussion. I'm wondering procedurally if that can be done between this meeting and this coming to Council and whether we need to put that in a motion or whether Staff can do that? I'm also looking at the City Attorney's Staff for direction and guidance on the procedure?

Terence Howzell, Principal Attorney: There – I think that could be done at a later time but they were maybe – is there negotiating happening right now?

Ms. Richardson: No, no, no...

Mr. Shikada: Just a suggestion.

Ms. Richardson: We have actually done that on a previous audit and I believe it was the Workers Compensation Audit, where there was a little bit – Policy and Services actually asked us to go back and before it went to Council they had an updated response to those questions.

Mr. Howzell: That's my recollection as well, there was some harmonizing that done prior to it going to Council.

Chair Wolbach: So, when it comes times for motion, I think we may include this suggestion that be attempted. Then...

Council Member DuBois: Could you repeat...

Chair Wolbach: Well, I haven't made a Motion yet. My concern is that there is, I'm about to turn to the second one just to see if it's the same issue, on recommendation 1.4 City Staff says that they partially agree in the report, City Auditor looks at the response and says, my read of it is, you guys aren't just partially agreeing but you're totally agreeing so what's the issue? So, in order to have greater clarity and have everybody on the same page when this comes to full Council when it comes time for a motion, I'd like us to provide direction that allows the Auditor's Staff and City Manager's Staff to collaborate and try to find the resolution of that area of potential disagreement. Let's turn then to 2.1 and I want to again turn back to the City Auditor and do you think this is another area where there maybe – is there anything more we can say about this one? Is this another where you

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feel that you are actually on the same page or is there a true disagreement here?

Ms. Richardson: I think we are somewhat on the same page. I think maybe the differences are informational and we're thinking a little bit more like making Council more aware than just in an informational report. What we're looking at is ok, if you're going to make a significant change to infrastructure by going from displacement meters to some sort of an electronic meter, that would be something that Council would want to – it's a major infrastructure change to us and that Council would want to be aware and have some discussion. I think that they are saying that they do inform Council but they are saying that it's more informational so there may be a little bit of a disagreement on how it's done but I think the general concept of informing Council is the same.

Chair Wolbach: Any other response to that, which just again, your take on what we're looking at here and how these are categorized as agree or partially agree from the City Manager Staff.

Mr. Shikada: I would just echo what the City Auditor said in terms of the distinction is really the recommendation states pretty explicitly to bring it forward to Council for approval. From Staff's standpoint the definition or sort of the threshold at which it changes is significant or systemic. On a daily basis, it can be a variety of interpretations so that's where we would prefer not to lock into the requirement for approval without a clear definition of where that threshold for significances is.

Chair Wolbach: Are you worried about setting a precedent essentially?

Mr. Shikada: Or quite frankly an ongoing audit finding that doesn't close, which does happen; no offense.

Chair Wolbach: I understand the desire for clarity and being able to have identifiable problems and action plans for resolving them. I think we would all agree you don't want something that can't be resolved for which there's no clear path towards resolution. Moving on, I guess more commentary than a question unless there's any more that anyone on Staff – City Manager Staff or the City Auditor's Office about finding three. I'll just say that this is one that I found pretty concerning but I appreciate that it's been discussed, been identified, I appreciate that there's no – there seems to be no disagreement here about a path forward and that we're looking to get this resolved within the next seven months.

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Ms. Richardson: I would say that I would agree that they are already working towards that and have already started making some changes so I think that one's on a path already to be completed as their schedule indicates.

Chair Wolbach: In general, I had some questions or heard enough concerns raised about purchasing and procurement etc. in the City and so I think that this is a step in the right direction. I do appreciate, again the work is done from the Auditor's team and the City Manager's team to really address this and resolve it expeditiously. With that actually, since I was suggesting a tweak to the Motion, if it's alright with my Colleagues I'd like to try my hand at a Motion on this one which is...

Vice Mayor Kniss: Before you do that, can I just one general question?

Chair Wolbach: Please.

Vice Mayor Kniss: Do we – in situations where they have been overcharged, do we give a credit or do we actually give a refund?

Mr. Shikada: It is typically a credit.

Vice Mayor Kniss: Ok, so it just goes onto the next bill...

Mr. Shikada: Correct.

Vice Mayor Kniss: ...and they are charged less. I think that must be fair more effective than...

Mr. Shikada: It's certainly far more efficient.

Vice Mayor Kniss: ...than sending money back.

Mr. Shikada: Believe it or not we have cut checks for less than a dollar and it's been odd.

Vice Mayor Kniss: So, our practice is credit them for the next time. Thanks.

Chair Wolbach: Alright, so as for attempting a Motion, I'll move the Staff recommendation with a slight change and that would be that Policy and Services Committee recommend that the City Council accept the utilities

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accuracy of water meter billing audit and that between this meeting and this coming to full City Council, that the City Auditor's Office and the City Manager's Office attempt to resolve disagreements on recommendations 1.4 and 2.1, if possible.

Vice Mayor Kniss: Second.

MOTION: Chair Wolbach moved, seconded by Vice Mayor Kniss to recommend the City Council accept the accuracy of Water Meter Billing Audit and direct the City Auditor's Office and City Manager's Office to attempt to resolve the disagreements on recommendations 1.4 and 2.1 before this goes to the City Council.

Chair Wolbach: I think I've spoken to my Motion if anyone has questions feel free to ask me to clarify but otherwise I'll forgo further comments at this time. Would you like to speak to your second?

Vice Mayor Kniss: I only think that this is a really good conversation and I'm glad that we've had it. I'm glad that we did this audit and Ed, I'm pleased that you're in the role that you're in; I feel comfortable about it. I just think our water is so precious and we sometimes don't pay enough attention to it and how it's dispersed and tracked and so forth. I really appreciate your presentation tonight and thank you and I've forgotten your first name.

Ms. Nguyen: Mimi.

Vice Mayor Kniss: Mimi, thanks, Mimi.

Chair Wolbach: Any other questions or comments on the Motion? Seeing none. Alright, all in favor? Alright, that passes unanimously. Thank you.

MOTION PASSED: 4-0

3. Auditor's Office Quarterly Report as of June 30, 2017.

Chair Wolbach: Let's move onto our third and final Action Item of the night. Auditor's Office Quarterly Report as of June 30, 2017, so again, Harriet to present. Go ahead

Harriet Richardson, City Auditor: Thank you. This is our standard Quarterly Report but I do have a couple format changes in here that I will talk about as we go through. One of them was a request at our last presentation of our

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third quarter – at the presentation of our third quarter quarterly report; get that straight. This is our fourth quarter update for April through June 2017 and a few highlights are we published and presented the auditor of the Cross Bore Inspection Contract. We published and presented the continuous monitoring of payments audits and we published and presented the audit of green purchasing practices. We had four of my Audit Staff who participated in a three-day onsite training on performance Auditor and I gave a presentation along with Senior Performance Auditor Houman Boussina at our Local Bay Area, Local Government Auditors' Association of our cable franchise and PEG Fees Audit. The Senior Performance Auditor Houman Boussina participated on the peer review team for Multnomah County, Oregon. The next section is our audit and project work so one little difference here is I've usually put the audits that we completed in there with just a little comment that it was completed but since I also put in the activity highlights, I've decided to stop putting it in the project works since it's kind of redundant. The first one -- remembering that this is of the end of June so there's a little bit of a lag in time from presenting what happens than through what's happening now. The first one was that the audit you just heard was still in process and was undergoing final review so the next quarterly report will give the update that it's completed. The continuous monitoring audit of overtime is in the final stages of reporting. It's scheduled for presentation at the September Policy and Services Committee. We have started an audit of Enterprise Resource Planning (ERP), we actually have several ERP planning audits on our audit plan. The first one is data and system governance and security and the purpose of that audit is really to look at the overarching governance policy regarding our IT systems and data. So, this audit we expect to complete before the end of the calendar year. It's – we have some planning work that's being done right now but it's going to be –field work is going to be pretty quick so this will be a very quick audit to get done and we have some very good criteria to help us with that audit. We are also doing an ERP planning audit of data reliability and integrity so one of the things on this audit is we originally started thinking this would be one audit but it's become –as we started, we realized that this really needs to be a series of audit reports to help the City to be able to move along quicker as it starts getting ready to implement a new ERP system. The idea of this is to try to prevent garbage out from becoming garbage in in the new ERP system and making sure that the data is consistent and reliable. One example of that is the meter audit you just heard and so that we get to exclude from this audit because we already did the data reliability piece on the meters. Another example was the vendor master file which we did in our continuous monitoring audit of payments. So those two are out of the way but in working with ASD and trying to identify which would be more – what would be most helpful for them, we decided to do a data standardization audit first as part of this and that's really looking

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at data that is used throughout different sets of tables, they call them tables, that collect data on different types of things in the system to make sure it's entered consistently. A good example of that is addresses where someone might spell out the street, another person might put St, another person might put St., someone else might put Str. and that happens with a lot of different types of data. Even like with the meters, we'd see meters spelled out, we'd see it mtr, and those kinds of things make it difficult when you are trying to do reports and find similarities and do trends and all sorts of different things that you can do for data analysis if you don't have consistency. So, we're going to come up with some data standardization guidelines that will help them with an implementation that they can implement before they transition the data over. The next sets of those audits will look more at specific data sets similar to what we just did on the meter audit. We're expecting the data standardization piece to be done by the end of this calendar year. The next audit is segregation of duties and that is also for ERP planning and that's to help to make sure that when the new ERP system is set up, that it's set up so that there's a concept called Concept of Least Privilege which means that an employee only has access to those tasks in the system that they need to do their job and no more. That prevents people from doing things that they shouldn't do that could compromise the City's assets in some way. So we are doing that and will be giving a sort of different levels of security. The ideal would be the best – there will probably be an intermediate layer and then a very basic level and then we'll identify mitigating controls that the City would need to implement if they can't do the highest level and they have to notch down on each of those. We're again, expecting that one by the end of this calendar year. We've also started our code enforcement audit and that one is wrapping up the planning phase and getting into field work and as part of that, the Council approved a \$20,000 budget for a custom survey that focuses on code enforcement and some, a little bit of the built environment. That survey as of June was still being drafted but that is with the NRC and will start being mailed to residents next week. That will be used to help inform our recommendations in the audit.

Vice Mayor Kniss: What was the amount?

Ms. Richardson: Twenty thousand dollars. Then our – we're also doing an ERP non-audit service where one of our auditors is sitting on – in on our information – IT has a series of meetings with departments. They are strategic planning meetings and there are technical planning meetings and so our auditor is sitting in on those meetings and providing advice as she sees things that are maybe not – that could impair a successful implementation of the system – the new ERP system if they aren't implemented – caught earlier so it's really a preventive tool that we're

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providing to IT. We – during this last quarter she attended 27 ERP system validations sessions and three strategic and – I can't speak here – tactical team meetings and provided both verbal and written advice. So, we provided some written memos to the IT Director with some recommendations. They don't have the same weight as our audit recommendations in that they don't have to respond to them in the same way that they would in an audit. That's an ongoing project that will – we expect to just continue throughout the planning and design and implementation phase of the ERP system. I also have on here the custom citizen survey because it does – I put it as a separate item because this is the one that I just mentioned that includes the code enforcement questions but I put it as separate because it's also a little bit broader and that includes questions about the built environment and a little bit about housing. As I said, that was in draft format at the end of June but it is finalized and going out in the mail next week. I've started collecting input for custom questions on our National Citizen Survey. I'm hoping to wrap that up this week and get that out in the – over to the National Research Center to start mailing out – it will be about mid-September when that goes out but it was – I was just gathering input on the questions as of the end of June. Then we also do our ongoing sales and use tax reviews and so for the fourth quarter, total tax recoveries were \$54,538 from our – my office's inquiries and another \$48,387 from vendor inquiries for a total of \$380,290 year to date. There are still sixty potential misallocations waiting to be processed – researched and processed at the State Board of Equalization; eighteen of those are from our inquiries and forty-two are from our consulting vendor. This quarter is the quarter each year that we also report on the tax – the sales tax that we receive as a result of the Development Agreement with Stanford Medicine regarding the hospital construction. So, for this year it was \$879,000 and it included \$883,000 for this past calendar year but it was a reduction of – in prior year adjustments because some adjustments that they had to make were some things were misallocated. From -- since 2011 we've received \$2.9 million dollars by having this agreement in place. Then we continue to do our advisory roles; sitting in on the Utilities Risk Oversight Committee meetings, the Information Security Steering Committees and the Information Technology Governance Review Board meetings as needed. So, this next section is the status of audit recommendations and this is one where I've made quite a change and I'm hoping the format works for you given the size of the paper here; where I can press some columns together but last time I was asked not to just put the number of open recommendations but also to put a list of some of what those recommendations were. I'll go through the numbers and not read all of these to you but if you have questions about any of them, feel free to ask; again, remembering that these were as of the end of June. So, the Citywide cash handling, we did receive – even though it was just presented tonight,

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we did receive the status of that as of the end of June and so we have one recommendation left open which we discussed earlier tonight and there was one that was implemented during the quarter. On the utility meters, procurement inventory and retirement audit that has 15 recommendations. They reported that 14 of those were closed and one was still open but we did not have a chance to validate some of those. Some of those tie back to the first set of meter discrepancies that we identified in finding one in the Audit that we presented tonight so I think that we will – we separated those out in the graph that we have attached here because we still feel like there may be some that we disagree with. So, I put them kind of in a not yet validated category and we'll come back later and say whether they are or not validated. We have the Animal Services Audit, that still has all eight recommendations open but there is an update coming to Council very soon. I've seen it on an agenda but I'm not sure if it's the next meeting or the one after that but there is an update coming to Council soon. It was last night, ok, so – but those recommendations as of June were not implemented. The Parking Funds Audit, that one had 8 recommendations and that one is scheduled to come to Council in October – actually to Policy and Services in October we all – did already receive the update on that and there are four open recommendations and four that were implemented during the quarter. The Disability Rates and Workers Compensation Audit, that one is also scheduled for October and that one has 15 recommendations and those are all still open and there has not been an update provided yet. Just a kind of quick comment on those, the updates on these – there was kind of a – there was a restructuring of how these updates were done and so it was hard getting that practice – that protocol for that established so now I think we're on a good schedule for how they're all scheduled to be presented. So, the departments are working on these and I think as you are starting to see, some of these are getting implemented where they were just sitting for a little while because we didn't have our protocols set up for that transition but you'll start seeing more of them when we get closed as the year goes on. The Cable Franchise and PEG Fees Audit, as of June and as presented tonight, there were nine recommendations with seven open and two implemented during the quarter. The Community Services Department Fee Schedule Audit, that had 3 recommendations, three of them are still open and that one is due for its first update in October but I think it may not be scheduled until November. I would have to go back and look but that one is the first update, it's not past due. The continuous monitoring payments that had 7 recommendations and 7 were still open. It's not scheduled for its first update until February. Green Purchasing Practices Audit, that also had 8 recommendations and is not scheduled for a status report until February and then same with utilities cross bore inspection contract audit for recommendations due for that first status update in February. Then we have a little graph here that shows what were implemented during the

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quarter so this is where you can start seeing some action happening after got our protocols in place, it's your Packet Page 27, where 9 of them were implemented during the quarter and then the not yet verified are the 26 that we have received but haven't had a chance to go back and look at in detail. The number of open recommendations has declined quite a bit, so it's down to 38 from prior fiscal years, 22 from the current Fiscal Year. So that number had been up to about 70 and so it has come down quite a bit from where it was a year ago. Then on the last page our fraud, waste and abuse hotline, we did not receive any complaints or allegations during this year – this quarter and all of the prior complaints have been closed. That completes my presentation and I'll answer any questions.

Chair Wolbach: Any questions or comments from my Colleagues?

Vice Mayor Kniss: That's exhausting.

Council Member DuBois: I just want to say thank you for the format change, I find that useful.

Ms. Richardson: Ok, thank you.

Chair Wolbach: I'll agree with that. Anyone else? Any Motions? Alright, does anyone want to move the Staff recommendation?

Vice Mayor Kniss: I maybe – I'll move that. Go right ahead.

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

MOTION: Vice Mayor Kniss moved, seconded by Chair Wolbach to recommend the City Council accept the Auditor's Office Quarterly Report as of June 30, 2017.

Vice Mayor Kniss: I just have one question, one of the things that we used to do – oh I'm sorry. We used to list what was going to come up in what month and I can – I mean I can put it together but figuring out what month you said it's going to come up in but for example, what comes up in September at 7 o'clock at Policy and Services on the 12th?

Ms. Richardson: We have – so the parking...

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Vice Mayor Kniss: Am I missing the table?

Ms. Richardson: That date is changing.

Vice Mayor Kniss: It was where? Oh, At Places. Well, then...

Chair Wolbach: (Inaudible)

Vice Mayor Kniss: Maybe I just didn't see that one among all of the other papers. So, we've got one that says...(crosstalk)

Chair Wolbach: Did we all get this or did just I get a copy of this?

Jessica Brettle, Assistant City Clerk: Yes Liz, you should have received a copy. Here, you can use mine for right now.

Vice Mayor Kniss: Thanks.

Ms. Brettle: You're welcome.

Vice Mayor Kniss: It's probably at the bottom of the bucket here. So, this is very helpful, I hadn't seen this before so thanks. That takes care of my issue.

Chair Wolbach: Alright, I don't need to speak to my second and anyone else questions or comments before we vote? Alright, all in favor of the Motion which is recommend to the City Council acceptance of the Auditor's Office Quarterly Report as of June 30, 2017. All in favor? Alright, that passes unanimously. Thank you very much, City Auditor for sticking with us for all these and providing all these report updates.

MOTION PASSED: 4-0

Future Meetings and Agendas

Chair Wolbach: That moves us to the last item of the evening, which is future meetings and agendas. So, here I'll turn to City Clerk but also Rob de Geus who is now our Policy and Services liaison. Also since a lot of these are audits, Harriet if you want to stick around while we discuss this. So, everybody – I don't know if everybody has found it but we did get this At Places and it looks like everybody on the Committee has one. Is everybody

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comfortable with this tentative work plan? Are there things which are missing which you would like to see? Tom.

Council Member DuBois: I've requested a couple times, I think it would be interesting to get an update from the Magical Bridge crew. I mean they are opening a new one...

Rob de Geus: Yeah, we certainly can do that, absolutely and by the way, I'm glad to be here, it's good to see you Council Members.

Chair Wolbach: Glad to have you as our point person to the City's Manager's Office, thank you for staffing us. These are of course tentative and things may come up between now and the end of the year. There are a couple of civil rights issues that people in the City are exploring. They have been mentioned in the past or recently; one is one that I have mentioned in the past which is the potential for Palo Alto to become a CEDAW City. That's the convention against all forms of discrimination against women and I think we're still waiting to hear from Human Relations Commission with their recommendations following on our December 2016 resolution about being a protective and inclusive and welcoming community. As those recommendations come back from the Human Relations Commission, some of them may be referring back to Policy and Services or...

Mr. de Geus: Yeah and the Human Relations Commission are actively looking at the Resolution and wanting to come back with some recommendations. They have a Study Session planned with the full Council coming up in the next couple of months and that will be the main topic of discussion.

Chair Wolbach: Another one that I think our City Manager and Mayor may be looking at is something that a number of Cities in the Santa Clara County is looking at in collaboration with the Anti-Defamation League but that's kind of a recent thing. If there's a need, those or related or similar items that may come to Policy and Services this year or at the start of the year, the Mayor indicated and I think we were supportive of this Committee being a possible place for discussion of those types of topics. Again, we'll leave this open and are there any other that people would like to mention before we wrap up that they would really like to see that aren't on this list?

Mr. De Geus: Chair Wolbach, just on the Animal Services, since it was a significant update with the letter of intent. It might be better to have an update in a couple months or three months after we're further along with the campaign feasibility study.

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Chair Wolbach: I think that's an excellent idea so let's push off item three from the tentative September date and actually, the other thing let's...

Vice Mayor Kniss: Item 3?

Chair Wolbach: Yeah so let's – Item 3, the Audit status report for Palo Alto Animal Services, yeah let's push that off unless the City Auditor objects because we did just talk about it last night and there might be some big changes over the next couple of months.

Ms. Richardson: Yeah, I'm fine with moving it; the difference of that update doesn't directly address each recommendation and this would address each recommendation and where it is. So, I'm not sure how it ties into the...

Mr. de Geus: There's no surprise that there weren't any updates in the Audit report. I'll have to check with (inaudible) we're probably behind in giving you that but there's been movement on a number of those eight recommendations and that was defined in the Staff Report in the letter of intent. In any case, I think we'll provide a better presentation if we put it out a couple months and I'll consult with (inaudible) on this.

Ms. Richardson: So, we'll just move – you'll – we'll decide what to – ok, can't be December; it has to October, November or move to January.

Chair Wolbach: Great and for September because of a – we recently scheduled a discussion about CAO's or Council Appointed Officers. We have to move our date for the September meeting. City Clerk here has suggested either the 20th or the 21st. If everyone could pull out their calendars and if we could lock on of those down tonight, I think that would help all of us including the City Clerk.

Jessica Brettle, Assistant City Clerk: Yes, thank you.

Vice Mayor Kniss: Did you just say why?

Chair Wolbach: Yeah because an additional meeting for the Council regarding Council Appointed Officers will have to be scheduled on the date when we originally planned to have our September meeting. That's right, which means this Committee will have to reschedule. So, instead of the 12th, we're now looking at the...

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Ms. Brettle: The 20th or the 21st, which is a Wednesday and a Thursday in the evening so it would start at 6 P.M.

Chair Wolbach: I am comfortable with either of those. Does anyone else on the Committee have any conflicts on the 20th or the 21st of September?

Vice Mayor Kniss: I have conflicts on the 21st.

Chair Wolbach: Ok, well let's look at the 20th. Does anyone have a conflict on the 20th at 6 o'clock?

Terence Howzell, Principal Attorney: I would only note that is the first day/night of Rosh Hashanah and I don't to what extent the Committee's take that into consideration but I would just note that as a calendaring matter.

Ms. Brettle: Thank you, Terence. We can tentatively schedule it for the 20th and then consider that in our – in finalizing that date.

Chair Wolbach: Let's do that.

Ms. Brettle: Ok, no problem. September 20th at 6?

Council Member DuBois: I have a conflict on the 21st as well.

Ms. Brettle: Ok, I'll talk to the City Clerk and we can confirm. Thank you, Terence, that was good.

Chair Wolbach: Great and if that's it, this meeting is adjourned, thanks.

ADJOURNMENT: Meeting was adjourned at 7:41 P.M.