



POLICY AND SERVICES COMMITTEE FINAL MINUTES

Special Meeting
June 11, 2019

The Policy and Services Committee of the City of Palo Alto met on this date in the Community Meeting Room at 5:07 P.M.

Present: Kniss, Kou, Tanaka

Absent:

Oral Communications

None

Agenda Items

1. Staff Recommends the Policy and Services Committee Recommend the City Council Accept the Status Updates of the Audits of: 1) Citywide Cash Handling and Travel Expense; 2) Cable Franchise and PEG Fees; 3) Continuous Monitoring: Overtime; 4) Continuous Monitoring: Payments; and 4) Inventory Management.
2. Staff Recommends the Policy and Services Committee Recommend the City Council Accept the Status Updates on Recommendations From the Community Services Department Fee Schedule Audit.
3. Staff Recommends the Policy and Services Committee Recommend the City Council Accept the Green Purchasing Audit Status Update.
4. Staff Recommends the Policy and Services Committee Recommend the City Council Accept the Status Updates of the Audits on Recommendations From the 2016 Disability Rates and Workers' Compensation Audit.
5. Staff Recommends the Policy and Services Committee Recommend the City Council Accept the Status Updates of the Audits on Recommendations From the ERP Planning: Information Technology Data Governance Audit.

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6. Staff Recommends the Policy and Services Committee Recommend the City Council Accept the Status Updates on Recommendations From Audits of: 1) Water Meter Billing Accuracy; 2) Electric Substructure Contract Oversight; and 3) the Cross Bore Inspection Contract.
7. Staff Recommends the Policy and Services Committee Recommend the City Council Accept the Auditor's Office Quarterly Reports as of December 31, 2018 and March 31, 2019.

Items 1-7 were heard together.

Chair Kniss outlined the process by which the meeting was run.

Don Rhoads, Special Advisor to the Office of the City Auditor announced that there was a transition in the City Auditor's Office and Staff was working hard to catch up on audits and he introduced Auditor Staff that was present. He stated that at the beginning of the quarter there were 59 outstanding audit recommendations and Staff was able to clear 18 of those outstanding recommendations.

David Ramberg, Assistant Director of Administrative Services (ASD) presented to the Policy and Services Committee (Committee) a status update on the Overtime Audit, the Cable Audit, Cash Handling Audit, the Inventory Audit, and the Payments Audit. He explained that there were several recommendations still in progress that were linked to future upgrade of the Systems and Applications and Data Processing (SAP) Enterprise Resource Planning System (ERP), and a couple recommendations in the Cable Peg Fees that are linked to ongoing discussions with the Media Center.

Chair Kniss disclosed that Staff had made a recommendation to have a continuous monitoring process in order to receive more detailed information on overtime usage.

Mr. Ramberg stated there were two recommendations; the one regarding the future upgrade of SAP was on hold. In terms of continuous monitoring, Staff was looking to see if there was anything, they could prepare ahead of time in order to make the upgrade to SAP simpler.

Chair Kniss requested clarification on what Staff meant by workgroup.

Mr. Ramberg reported that Staff meant an inter-departmental team to explore how best to have SAP track Staff over time in the future.

Council Member Tanaka questioned if the Auditor's Office was supplying the reports or if the City Manager's Office was supplying the reports.

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Michelle Flaherty, Deputy City Manager explained that the report before the Committee listed the progress of each recommendation within each department.

Mr. Rhoads noted that once an audit was completed and had gone to the City Council (Council) for acceptance, then every 6-months after that the departments were to come back to the Committee with a status update pertaining to their department's audit recommendations.

Council Member Tanaka asked if other cities used the process of having the Auditor's Report go through the City Manager's Office first before going to Council.

Mr. Rhoads responded that the Auditor's Report went straight to Council first. Once a recommendation was made by Council, then the report went to the City Manager to implement those recommendations.

Council Member Tanaka was concerned about the process in which the audits were processed through the City Manager's Office. He wanted to see in the report a statement stating that the Auditor's Office checked the recommendations and confirmed that those recommendations had been completed.

Mr. Rhoads reported that the status column in the report was the opinion of the City Auditor's Office on if a recommendation was completed, in progress, or not completed.

Council Member Tanaka asked what benchmarks Staff was trying to hit in terms of completed and closed out audits.

Ms. Flaherty responded that the answer to that depended on the recommendation.

Council Member Tanaka stated that he did not see when an audit recommendation was to be completed by in the report in terms of the Auditor's perspective.

Ms. Flaherty explained that there may be differencing views in terms of performance audits and it was up to Council and the City Manager to work through those together. Those types of audits would not have a timeframe.

Mr. Rhoads articulated that it was the City Manager's call on how long it should take things to be completed, not the City Auditor's Office.

Ms. Flaherty noted that when the Council first saw the Auditor's Report and accepts the report, the Council had essentially accepted the City Manager's

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Work Plan and timeline that was listed to complete those audit recommendations.

Chair Kniss walked through the process of a recommendation for the Committee.

Council Member Tanaka inquired if something went wrong when a recommendation did not hit its target date.

Mr. Rhoads specified that the Auditor's Report outlined past recommendations that were delayed or completed.

Council Member Tanaka asked what the purpose of the Committee's review was.

Chair Kniss answered that the purpose was that the Committee approved the audits. In terms of missed target dates, she explained that missed target dates were reanalyzed and reset in order to attempt to make that target date.

Council Member Tanaka announced that he would have liked to see the recommendations prioritized with the most important to be completed on top.

Chair Kniss stated that the Committee could and normally did prioritize recommendations that had missed their target completion date.

Ms. Flaherty agreed with Chair Kniss that the Committee could prioritize recommendations.

Chair Kniss questioned why there was a recommendation dating back to 2010 for ASD in the Citywide Cash Handling and Travel Expense Audit.

Mr. Ramberg noted that the recommendation was deemed low priority because it was very low dollars, it was low risk, and it had a very complicated solution. Staff had initiated a new meals policy to help to move towards completion of that recommendation.

Council Member Tanaka commented that recommendations that had target dates that were set way back to past years must be low priorities.

Ms. Flaherty stated that recommendations did not get completed because they were more complicated than what was originally estimated, sometimes priorities were shifted, and sometimes it was a loss of resources.

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Council Member Tanaka requested that the report show which recommendations the auditor's thought were most important to complete.

Chair Kniss advised that could be something that the Council and City Managers could convey to the new Auditor when one was hired.

Mr. Rhoads articulated that if the City Auditor's Office began to prioritize recommendations and place emphasis on target dates, that would be encroaching on the City Manager's Office's job. He noted that he would give it some thought and bring back some ideas to the Committee.

Ms. Flaherty suggested that the Council prioritize audit recommendations and the City Manager's Work Plan when the first City Auditor's Report came to Council for approval.

Chair Kniss stated that if an audit was completed, that would be reviewed by Council and if it was in progress it would not come before Council.

Ms. Flaherty clarified that the whole Staff report would go to the Council on the Consent Calendar.

Jazmin LeBlanc, Senior Management Analyst stated that the Community Services Department (CSD) had one audit; the Cost Recovery and Fee Schedule. The audit had three recommendations, two were completed, and one was still in progress. The in-progress recommendation was to either reconfigure SAP or include a requirement in the proposed ERP to better align cost centers with CSD's programs.

Council Member Tanaka questioned if there had to be SAP implementation to know cost recovery.

Ms. LeBlanc answered no. The Auditor's Office had a hard time clearly identifying the cost and revenue for specific programs. The department reviewed each cost center one by one to make sure that everything was in the right place in SAP.

Council Member Tanaka asked if the recommendation would be forever in progress if Staff had to keep updating it every year.

Ms. LeBlanc answered yes but there were discussions between the department and the Auditor's Office to determine when the recommendation could be deemed completed.

Julie Weiss, Public Works Project Manager gave an overview of the Green Purchasing Audit. There had been progress on reducing packaging but due to Staffing issues, a lot of the recommendations had not been completed.

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Chair Kniss asked about the Procurement Card (PCard) and what changes Staff was anticipating making to the PCard.

Ms. Weiss stated that Staff had changed the training and the requirements on what could be purchased with a PCard.

Chair Kniss inquired when that change had been made.

Ms. Weiss answered about a year and a half ago.

Chair Kniss questioned who the new Chief Procurement Staff was.

Ms. Weiss responded Adrian Brown.

Council Member Tanaka asked what the PCard was.

Ms. Weiss explained that it was a credit card.

Chair Kniss disclosed that she was interested in it because there were no dollar limits on it.

Ms. Weiss clarified that there were individual purchase limits and monthly limits.

Mr. Ramberg gave a brief overview of the PCard.

Chair Kniss requested what was considered a small purchase.

Mr. Ramberg articulated anything from \$5 but the limit for the PCard was \$10,000 per single transaction. The monthly limit was \$15,000. All purchasing requirements were set in the Palo Alto (City) Municipal Code.

Council Member Tanaka wanted to know why the City let people charge items on their PCard and then did not expense it.

Ms. Flaherty interjected to say a PCard discussion was not agendized so Staff could only answer minimal questions.

Mr. Ramberg restated why City did not do reimbursement forms. He explained there were a lot of purchases made for business-related reasons and that would be too hard to track if every purchase had to have a reimbursement form to go along with it.

Council Member Tanaka disclosed that in terms of expense control, having a PCard to make unauthorized purchases was not the best practice.

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Ms. Weiss noted that each individual department had processes and procedures on how purchases were made.

Chair Kniss said that Staff was requesting a half time Staff position to help with the Green Purchasing Program.

Ms. Weiss stated that it had not been approved during the budget process.

Chair Kniss questioned what the plan moving forward was since the department did not receive extra Staff positions.

Ms. Weiss commented the department was trying to make as much progress with the Staff that was available.

Phil Bobel, Assistant Director of Public Works explained that when the two Staff vacancies were filled, the hope was to have those Staff members take on the Green Purchasing Program.

Chair Kniss announced that the next audits were Disability Rates and Workers Compensation.

Sandra Blanch, Assistant Director of Human Resources stated that there were two out of five recommendations that were outstanding for the Disabilities Rates and Workers Compensation. There were four recommendations out of fifteen to be completed. Staff had anticipated all recommendations to be completed by the time of the next update.

Council Member Kou asked if the SAP program had helped identify the corrections needed and she asked if that helped speed up the progress.

Ms. Blanch clarified that Staff was hoping that the ERP project would help with monitoring recommendations but because of the change in the ERP implementation it was not feasible to make the monitoring enhancement.

Chair Kniss stated that the Committee was to review the status updates for the audits and recommendations for ERP Planning: Information Technology Data Governance Audit.

Darren Numoto, Interim Director Information Technology (IT) reported that Staff had completed two of the four recommendations from the audit and the other two were in progress.

Ms. Flaherty articulated that Staff had sent an informational document to the Council regarding what the progress was for the new ERP system. The document had stated that a new system was not going to be purchased but an upgrade to the existing system was to be implemented.

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Mr. Numoto reported that adopting a standard IT Governance framework was in progress.

Chair Kniss wanted to know what the difference was between SAP and ERP.

Mr. Numoto answered ERP was a general term and SAP was a product that was an ERP. After reviewing a new system, Staff had determined it was better for the City to upgrade the existing ERP system to the newest platform than to purchase a whole new system.

Chair Kniss restated that the City used SAP.

Mr. Numoto confirmed that was correct. Staff planned to bring an update to the Council in August of 2019 on SAP.

Chair Kniss clarified that Staff would be getting the approval to upgrade SAP in August of 2019.

Mr. Numoto answered that was correct. The City had been operating on an unsupported platform and by upgrading SAP the City would be running on a supported platform.

Council Member Tanaka announced that many Cities were moving away from SAP systems to hosted versions like Net Suite and others because it was cheaper to support and maintain.

Mr. Numoto explained that Net Suite and others did not respond to the Request for Proposal (RFP). Hosting on infrastructure outside of the City was an option that would be presented to Council. He added that in terms of the other in-progress audit recommendation, the IT Department had hired a contractor to start looking at SAP data and was reviewing the inconsistencies that were identified in the audit.

Chair Kniss asked for an explanation on what governance framework meant.

Ms. Flaherty explained that it meant Staff's practices and all departments had to agree to enter in data into the system the same way as all other City departments.

Mr. Numoto noted that also all standards that were agreed upon had to be applied to the existing data which would help make everything consistent.

Council Member Tanaka wanted to know if data governance covered open data.

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Mr. Numoto confirmed that was correct. A Staff member had already started working with surrounding Cities in terms of open data.

Council Member Tanaka stated that there was language in the Comprehensive Plan already about open data standards that helped the City compare metrics with different Cities.

Mr. Numoto noted he was not familiar with the new Comprehensive Plan and would return to the Committee with a better answer.

David Yuan, Utilities Strategic Business Manager gave an update on the three outstanding utility audits. He reported that ten of the thirteen outstanding recommendations had been completed. One recommendation regarding meter inspection was to begin in June or July of 2019.

Chair Kniss verified that the department was going to inspect all meters within the City.

Mr. Yuan confirmed that was correct. He continued to say that in terms of the other two outstanding recommendations, new Staff members were hired to review existing policies to help make things more streamlined.

Chair Kniss inquired about e-meters.

Mr. Yuan articulated that the department had decided not to use e-meters anymore.

Chair Kniss wanted to know what the advantage was to having an e-meter.

Mr. Yuan responded that they provide a lot more sensors, alarms, and more accuracy. The department was looking to implement smart meters Citywide soon.

Chair Kniss inquired when smart meters were expected to be implemented.

Mr. Yuan declared that Staff was hoping to have all the smart meters in the field by 2022.

Chair Kniss requested how much smart meters cost.

Mr. Yuan answered it was a \$19 million investment.

Council Member Kou stated that the \$19 million had already been approved by the Finance Department.

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Council Member Tanaka disclosed that a contractor came to a Council meeting and explained why contractors were not bidding on City RFPs. The speaker announced that there were impossible rules to follow with the contracts. When there were no bids Council did a direct award and removed all those rules to the contractor that was awarded that contract. He suggested that RFPs should be flexible in order to create a competitive bidding process for City projects.

Mr. Yuan commented that under the Municipal Code if there were no responses, Staff was able to go out and negotiate with specific vendors. Staff has tried to change RFPs in order to create a competitive bidding market.

Council Member Tanaka wanted to know if any changes made by the audits would help with power outages.

Mr. Yuan reported that once more infrastructure was in place, Staff could reduce the number of outages and shorten the restoration time.

Chair Kniss questioned if the outage was due to the heat.

Mr. Yuan answered yes but also equipment failure.

MOTION: Council Member Kou moved, seconded by Chair Kniss to recommend to the City Council to accept the City Auditor's report as of December 31, 2018 to March 31, 2019.

MOTION WITHDRAWN BY THE MAKER

Ms. Flaherty declared that the Motion would be to accept the audits and send them to Council.

Council Member Tanaka announced that Agenda Item Number One had the most outdated target dates and he was unsatisfied that they were not completed yet.

MOTION: Chair Kniss moved, seconded by Council Member Kou to recommend the City Council accept the status update of the audits for Agenda Item Number 1.

MOTION PASSED: 2-1 Tanaka no

Council Member Tanaka wanted to affirm this was the status from the Auditor's perspective.

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MOTION: Council Member Kou moved, seconded by Chair Kniss to recommend the City Council approve and to affirm that the City Auditor's Office has reviewed the audits for Agenda Item Numbers 2-6.

Ms. Flaherty recommended a Motion to accept the status update on the audit's reports.

MOTION WITHDRAWN BY THE MAKER

Mr. Rhoads announced that he was committed to writing in the report that the Auditor's Office did confirm the completion of recommendations.

Ms. Flaherty restated that it was not the Auditor's job to reframe the whole report, that was the City Manager's job.

MOTION: Council Member Kou moved, seconded by Council Member Tanaka to recommend the City Council accept the status updates for Agenda Item Numbers 2-6.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER that the Auditor's Office affirms that the status update is in line with what the Auditor's Office reviewed.

INCORPORATION RESTATED that the Auditor's Office confirms the audit status of each report on this Agenda.

MOTION AS AMENDED RESTATED: Council Member Kou moved, seconded by Council Member Tanaka:

- A. To recommend the City Council accept the status update for Agenda Item Numbers 2-6; and
- B. The Auditor's Office confirms the status of every audit status report on this Agenda.

MOTION AS AMENDED PASSED: 3-0

Mr. Rhoads reported that for Agenda Item Number Seven, every quarter the City Auditor's Office prepared a report for the Committee and the Council to show what has happened in the office that quarter. He reported not much had changed between December 2018 and March of 2019. Staff expected to bring back the Business Registry Audit to the Committee at the August 13, 2019 meeting. The Data Standardization and Separation of Duties was to be on the Consent Calendar for the Council on June 24, 2019. Since most backlogged audits had been moved forward, he planned to start working on current audits. The Non-Profit Service Agreements Audit was expected to be

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presented to the Committee at the August 2019 meeting. Staff had provided informational documents to Council regarding the quarterly reports for the sales tax for June, September, and December of 2018. For the quarterly report, no new recommendations were added.

Chair Kniss clarified that Mr. Rhoads was on a 6-month contract with the City and she voiced her gratitude to all the work that he had been able to accomplish.

Council Member Tanaka asked Mr. Rhoads what he thought the City should be doing in regards to the Auditor's Office that was not being done.

Mr. Rhoads announced that the Auditor's Office was very robust and complete.

Council Member Tanaka wanted to know if it was clear in the Auditor's Office what the priorities were in terms of audits and their completion dates.

Mr. Rhoads stated that what was approved in the Auditor's Office Work Plan was the priority. Moving the National Citizen Survey and the Performance Measure process to the City Manager's Office was very beneficial to the Auditor's Office.

Council Member Tanaka noted that moving the Performance Measure Report to the City Manager's Office was a bit odd.

Ms. Flaherty clarified that it was not an audit of the performance metrics.

Council Member Tanaka pushed to see more metrics comparing the City to surrounding Cities.

Ms. Flaherty disclosed that the City Manager's Office agreed with Council Member Tanaka and the City Manager did want to improve the City's metrics. There had been voiced support from other Council Members requesting benchmarks against other surrounding Cities.

Chair Kniss requested that Council Member Tanaka hold his discussion until a permanent Auditor was hired. Also, Staff needed to know if surrounding Cities had enough data to even compare to.

Mr. Rhoads suggested to include in the Auditor's Work Plan for 2020 benchmarks of surrounding Cities.

Chair Kniss announced that a discussion could happen at the August 13, 2019 Committee meeting regarding comparing data with surrounding Cities.

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MOTION: Council Member Kou moved, seconded by Chair Kniss to recommend the City Council accept the Auditor's Office Quarterly Reports as of December 31, 2018 and March 31, 2019.

MOTION PASSED: 3-0

Future Meetings and Agendas

Chair Kniss reported that the next Policy and Services Committee meeting was to be held on August 13, 2019.

Adjournment: This meeting was adjourned at 7:29 P.M.