



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

May 9, 2011

The Honorable City Council
Palo Alto, California

FINANCE COMMITTEE RECOMMENDATION TO ACCEPT THE REPORT ON THE STATUS OF AUDIT RECOMMENDATIONS (APRIL 2011)

Recommendation

We recommend the City Council accept the attached Report on the Status of Audit Recommendations (April 2011).

Summary

The Municipal Code requires the City Auditor to issue an annual follow-up report on the implementation status of recommendations from completed audits. Attachment A of this report summarizes the status of 82 open audit recommendations from 13 different audit reports. This includes 46 recommendations that were outstanding after our last status report as of June 30, 2009, and 36 new recommendations from audit reports issued during Fiscal Years 2010 and 2011. The report shows the original department response to the recommendation, and the City Auditor's update for subsequent years, based on information provided by City staff.

In October 2010, the City Auditor's Office presented a Report on the Status of Audit Recommendation as of June 30, 2010 to the Finance Committee. At that meeting, the Finance Committee requested that the City Auditor's Office return to the Finance Committee in midyear with a revised report that addressed long outstanding audit recommendations. In response to those suggestions, the City Auditor's Office has worked with the City Manager's Office and City staff to address these issues.

In addition, as a result of the April 2010 Audit of Fleet Utilization and Replacement, the Finance Committee directed the Public Works Department to return in January 2011 with an assessment of their implementation of the audit recommendations and requested the City Auditor's Office identify any audit recommendations staff was not adequately implementing. This report is also intended to respond to this request.

Significant Accomplishments

In 2008, there were 142 outstanding audit recommendations. During the last two years, the Auditor's Office has made a concerted effort to work with each department to identify challenges and next steps towards implementation. As a result, City staff completed or resolved 125 (88%) of these backlogged recommendations. Presently there are 32 recommendations that are in process, 24 of which are from audits issued since April 2010. In addition, there are nine recommendations related to the Infrastructure Report Card that the City Auditor's Office recommends be deferred until

June 2012 when the Infrastructure Blue Ribbon Commission (IBRC) completes its work and the City Council has had an opportunity to act on the IBRC's recommendations.

The City made substantial progress on several long-standing audit recommendations since October 2010, including completion of both a Fair Labor Standards Act and Fire Department Standards of Coverage study. Since our last update as of June 30, 2009, City staff has worked to completely implement all of the remaining recommendations on seven audit reports.

Following are highlights of the impact from implemented audit recommendations:

- **Improvements in City Telephone Rates and Charges**
In September 2009, the City Auditor's Office issued an Audit of Telephone Rates and Charges containing 3 recommendations. The Administrative Services Department (ASD) implemented all of the recommendations. Specifically, ASD obtained a telecommunications contract with competitive rates and coordinated with the City's service provider to consolidate over 30 billing accounts with different billing cycles, into 4 accounts on the same billing cycle. In addition, the City has already experienced savings from the lower rates and anticipates achieving the on-going annual savings of approximately \$235,000 identified in the audit report.
- **Improvements and Savings in Ambulance Billing and Revenue Collections**
In February 2009, the City Auditor's Office issued an Audit of Ambulance Billing and Revenue Collections containing 17 recommendations. The Fire Department and ASD implemented 11 of the 17 recommendations during FY 2009 and completed the remaining 6 recommendations during FY 2010. Implementation of the audit recommendations has led to significant decreases in the accounts receivable balance (\$600,000 decrease since the audit report), increased cash receipts (increase estimated at \$550,000 in FY 2009 and \$308,000 in FY 2010), and an additional \$45,000 in on-going contract savings through the negotiation of a lower commission rate.
- **Completion of the 2005 Street Maintenance Audit Recommendations**
The completion of the audit recommendations demonstrated the following improvements:
 - Public Works and ASD staff successfully correlated the City's Pavement Maintenance Management System scores with the Metropolitan Transportation Commission (MTC) Streetsaver system. As a result of this effort, MTC agreed to include the City's Pavement Condition Index (PCI) scores in their annual report, released for 2009. The report shows Palo Alto has a PCI score of 72, which is in the "Good" range.
 - Public Works implemented a policy to coordinate street work and minimize damage to newly surfaced streets and sidewalks.
 - Public Works increased funding for street maintenance to help address the street maintenance backlog.
- **Parks Maintenance Audit Recommendations**
Community Services Department (CSD) Parks Maintenance staff completed their evaluations of contracting out parks maintenance and identified \$251,000 in savings. These savings were incorporated into the FY 2011 Operating Budget.
- **Audit of Fleet Utilization and Replacement**
The City formed a Fleet Review Committee (FRC) consisting of Public Works Department (PWD) Fleet Management, ASD and the City Manager's Office to review size and utilization

issues and continue to evaluate fleet replacement decisions. The FRC has recommended 42 vehicles be removed from direct assignment to the departments. Of these 42 vehicles, 16 are being moved to a communal motor pool and 26 removed from fleet inventory, a reduction of over 10% of the non-safety fleet vehicles. Going forward, staff plan to adjust the pool mix while maintaining an appropriate level of vehicles.

- **Completion of FLSA Study**

The City completed a Citywide FLSA study that evaluated position classifications and overtime pay eligibility. This study resulted in the completion of 3 audit recommendations that had been outstanding since 2003 and will result in an annual cost savings to the City of more than \$50,000 from reduced overtime pay. In addition, the Human Resources Department made progress toward completing the remaining 3 audit recommendations for the Audit of Overtime Expenditures, which the Department anticipates completing by the end of calendar year 2011.

- **Completion of Standards of Coverage Study**

TriData and International City/County Management Association conducted a utilization and resource deployment analysis for the Fire Department that assessed the appropriateness of current Fire Department minimum staffing levels in the context of call volume, response times, use of overtime, deployment practices and employee safety. The study resulted in the completion of an audit recommendation outstanding since 2003. The consultants presented the report, which included recommendations, to the City Council in February 2011.

Outstanding Audit Recommendations to Note

- **Infrastructure Report Card Recommendation # 2 (page 43 of Attachment A)**

The report recommended that the City adopt Government Finance Officers Association's best practices by developing and maintaining a complete inventory of all capital assets, including engineering description, location, physical dimensions and condition, "as-built" documents, warranties, maintenance history, book value and replacement cost, and operating cost information.

The development and maintenance of a complete inventory of all capital assets is one of the highest priority outstanding recommendations. This inventory is essential to both the work of the IBRC and the completion of the other Infrastructure Report Card recommendations. Staff reported they are developing a comprehensive list of capital assets for the IBRC's use in analyzing infrastructure needs and anticipates completing this project in May 2011.

- **Audit of Employee Ethics Policies Recommendation # 7 (page 40-41 of Attachment A)**

The audit recommended the City Manager form a working group to (1) establish policies and procedures for handling employee complaints of waste, fraud, and abuse through normal supervisory channels; (2) establish and monitor a hotline for anonymously reporting fraud, waste and abuse; (3) develop procedures for reporting, investigating, handling, and following up on hotline reports; and (4) develop whistleblower policies and procedures.

In July 2010, the Policy and Services Committee recommended the City Council establish a fraud, waste, and abuse hotline organized under the City Auditor's Office. The Committee also recommended the hotline be for employees only and that policy and procedures be established prior to the hotline implementation. The City Auditor's Office will update the City Council in June 2011 on a proposed hotline implementation. The update will include the cost of a third party vendor and proposed protocols for receiving and responding to complaints received through the hotline. The Auditor's Office will work with the City

Manager's Office and the City Attorney to develop general protocols for receiving and responding to complaints.

Update on Audit of Fleet Utilization and Replacement Recommendations

City staff have made significant progress toward implementing many of the 22 recommendations related to the Audit of Fleet Utilization and Replacement. To date, 6 recommendations have been fully implemented or resolved and 14 are in process. As noted above, the City formed a FRC consisting of PWD Fleet Management, ASD and the City Manager's Office to review size and utilization issues and continue to evaluate fleet replacement decisions. The FRC has recommended 42 vehicles be removed from direct assignment to the departments. Of these 42 vehicles, 16 are being moved to a communal motor pool and 26 removed from fleet inventory; a reduction of over 10% of the non-safety fleet vehicles. Two recommendations, whose current status are outlined below, have not been started.

Recommendation # 14 (page 62 of Attachment A): The audit recommended PWD Fleet Management routinely review the database inventory for completeness and accuracy and develop necessary processes for departments to provide accurate and timely utilization data. PWD stated that staffing shortages have delayed the implementation of this recommendation, although they are currently in the process of recruiting a Fleet Services Coordinator, who should be hired by mid-April. The Fleet Services Coordinator's first assignment will be the database inventory review.

Recommendation #18 (pages 64-65 of Attachment A): The audit recommended PWD Fleet Management and the City Manager's Office develop a strategy to align future fleet replacement with the City's other strategies that promote Climate Protection Plan (CPP) goals. PWD reported that although a formal strategy has not yet been developed, the vehicle analysis/assessment form includes criteria for evaluating the suitability of available alternatively-fueled and hybrid vehicles, so that CPP goals will be considered during the purchase review and approval process. Staff stated they will work to develop a formal strategy to align fleet purchases with the CPP goals and include this strategy in the revised Vehicle/Equipment policy.

The City Auditor's Office would like to thank the City Manager's Office, the City Attorney's Office, and the Administrative Services, Community Services, Fire, Human Resources, Library, Police, Public Works, and Utilities departments for their assistance in compiling this report.

On April 19, 2011, the Finance Committee unanimously accepted the attached report and also recommended the City Auditor's Office return to the Finance Committee in 16 months with an updated report.

Respectfully submitted,



Michael Edmonds
Interim City Auditor

Attachment A: Finance Committee Meeting Minutes Excerpt (April 19, 2011)

Attachment B: Report on the Status of Audit Recommendations as of April 2011



FINANCE COMMITTEE – DRAFT EXCERPT

Regular Meeting
Tuesday, April 19, 2011

Chairperson Scharff called the meeting to order at 7:17 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Scharff (Chair), Schmid, Shepherd, Yeh

Absent: None

6. Report on Status of Audit Recommendations

Michael Edmonds, Interim City Auditor, stated this item was brought to the Finance Committee in October 2010, and the City Auditor's Office was directed to return to the Finance Committee with a follow-up report that addressed long outstanding audit recommendations, as well as making sure that the recommendations associated with the Fleet Utilization Audit were being adequately implemented.

Ian Hagerman, Senior Performance Auditor, provided background on the report, stating that in 2008, the City had approximately 142 outstanding audit recommendations; 88% of those were closed in the last two and a half years. Currently, there are 32 outstanding audit recommendations, and the City Auditor's Office is recommending 9 audit recommendations related to the Infrastructure Report Card be deferred until after the Infrastructure Blue Ribbon Commission (IBRC) completes its work. He stated the City recently completed a Fair Labor Standards Act (FLSA) study that resulted in the completion of three audit recommendations that were outstanding since 2003. The City also completed a Fire Department Standards of Coverage Study that resulted in completing another long-standing audit recommendation. He said staff had completely closed out recommendations from seven different audits since 2009. Some of the positive impacts that resulted from various audit recommendations include a cost savings of more than \$200,000 due to the Audit of Telephone Rates and Charges. We

have seen a cost savings of about a quarter million dollars by contracting out parks maintenance. The City is currently entering its third year of deferrals in fleet purchases; the economic benefit of the Fleet Audit continues to grow. He stated the City has likely received an economic benefit of more than \$7 million because of this audit. The City has established a Fleet Review Committee (FRC) to review size and utilization issues and continues to evaluate fleet replacement decisions. The FRC has recommended that 42 vehicles be removed from departments – 16 of those to be assigned to a centralized pool and the rest to be removed completely. This would constitute a reduction of over 10% of the non-safety fleet vehicles. He stated that in October 2010 the Finance Committee also requested that the City Auditor's Office prioritize outstanding audit recommendations. The City Auditor's Office has highlighted two recommendations in particular. One of those is related to the Infrastructure Report Card dealing with developing an inventory of all capital assets in the City. There have been various studies done throughout the years which have brought pieces of information together. Staff is projecting to have this recommendation completed in about a month. A second recommendation being highlighted is related to the Audit of Employee Ethics Policies. The audit recommended the City Manager form a working group to (1) establish policies and procedures for handling employee complaints of waste, fraud, and abuse through normal supervisory channels; (2) establish and monitor a hotline for anonymously reporting fraud, waste and abuse; (3) develop procedures for reporting, investigating, handling, and following up on hotline reports; and (4) develop whistleblower policies and procedures. The City Manager's Office has an ethics consultant who is working on a number of the recommendations pertaining to this audit. Their office is hoping to have these recommendations completed in about a year. In July 2010, the Policy and Services Committee recommended the City Council establish a fraud, waste, and abuse hotline organized under the City Auditor's Office. He stated the City Auditor's Office will update the City Council in June 2011 on a proposed hotline implementation. The update will include the cost of a third party vendor and proposed protocols for receiving and responding to complaints received through the hotline that the City Auditor's Office will work with the City Manager's Office and the City Attorney to develop. Of the 22 recommendations related to the Audit of Fleet Utilization and Replacement, 6 have been fully implemented or resolved and 14 are in process. He suggested that the City Auditor's Office follow up with an updated report in 2012 to get back on track on the June 30th schedule. If the City Auditor's Office returned in June

2011, the report would look identical to this one given the implementation timeline of the outstanding recommendations.

Mr. Edmonds said that in 2012, the IBRC's work will be done and can be better evaluated then.

Chair Scharff asked how many non-safety vehicles the City owns.

Mr. Hagerman answered 242 non-safety vehicles (sedans, vans and light trucks). The City has so far eliminated 26 from the fleet.

Chair Scharff said department heads may pushback on the issue of keeping vehicles and since the Committee is probably not coming back to this topic for a while, he asked if the City has done enough on this issue.

Lalo Perez, Director of Administrative Services, said Staff put certain vehicles on a watch list. We want to keep track of how many people use these vehicles, how often, etc. He explained the City may issue an RFP to have a rental car company manage our fleet. The City has contacted Santa Clara County (for feedback) which utilizes a rental car company.

Chair Scharff said we should just pay employees for mileage driven on their personal cars instead of maintaining an entire fleet.

Mr. Perez said there are plans to discuss internal service funds for vehicles with each department during budget hearings next month.

Council Member Yeh asked about the proceeds for the cars that were eliminated.

Mr. Perez responded that the credits/funds go back to departments during the budget process when we eliminate vehicles.

Mr. Edmonds added there has been a serious push from the Executive Leadership Team (ELT) to eliminate vehicles.

Council Member Yeh commended the City Auditor's Office for quickly closing so many open audits and appreciates the effort of staff.

Council Member Schmid said it is terrific to reach closure on the FLSA and Fire studies. He said that when one goes through the FLSA study, one must assume so much money was spent on it, especially since it

took eight years. The net impact is \$50,000. He was surprised that was the only savings. He said one area he followed closely was the Library Audit in 2007 – this also took quite a bit of time. He asked if this report gives us more staffing flexibility.

Mr. Perez responded that due to the current language in the SEIU labor contract, there are some limitations with the flexibility of scheduling staff, and at some point, that is something we will have to look at and address (in terms of consecutive worked days).

Council Member Schmid asked why we go through all these negotiations, and when the issue of libraries arises, we cannot extend hours. He asked why that wasn't part of the negotiations.

Mr. Perez answered that it is on our radar; it is something we need to address.

Mr. Hagerman stated that the FLSA study reflects issues regarding managers receiving overtime pay, management annual leave, etc. Much of the review examined job descriptions and compensation. The SEIU review is a little different, and still being reviewed.

Chair Scharff asserted the savings in the Management and Professionals Compensation Plan totaled more than \$50,000. He was also surprised that managers can use their Professional Development for gym memberships. He asked why that was not called out.

Mr. Hagerman said the focus was more on hours and salaries, but that issue can be looked at in the upcoming HR Benefits Audit.

MOTION: Council Member Yeh moved, seconded by Council Member Schmid, that the Finance Committee recommends the City Council accept the Report on the Status of Audit Recommendations (April 2011), accept staff's recommendation that the next follow-up report will be brought forth to the Finance Committee meeting in 16 months, and Public Works Department staff will provide additional information to the Finance Committee on fleet utilization during the FY 2012 budget process.

MOTION PASSED 4-0.

| Page Number | Report Title Issued | Date | Completed or resolved since last report | In process | Not Started | Deferred | Council Committee |
|--|---|----------|---|------------|-------------|----------|-------------------|
| 2 | Audit of Overtime Expenditures | 11/18/03 | 4 | 3 | | | Finance |
| 10 | Audit of Restructuring Efforts and Management Span of Control | 04/20/04 | | 1 | | | Finance |
| 12 | Audit of Contract Contingencies | 03/15/05 | 2 | | | | Finance |
| 14 | Audit of Parks Maintenance | 12/13/05 | 4 | | | | Finance |
| 22 | Audit of Street Maintenance | 03/21/06 | 7 | | | | Finance |
| 33 | Audit of Library Operations | 07/09/07 | 4 | | | | Finance |
| 37 | Audit of Employee Ethics Policies | 01/23/08 | 1 | 3 | | | Policy & Services |
| 42 | Infrastructure Report Card | 03/04/08 | | 1 | | 9 | Finance |
| 49 | Audit of Ambulance Billing and Revenue Collection | 02/02/09 | 6 | | | | Finance |
| 52 | Audit of the Police Investigative Fund | 07/21/09 | 1 | | | | Finance |
| AUDITS ISSUED SINCE LAST RECOMMENDATION STATUS REPORT: | | | | | | | |
| 52 | Auditor's Office Review of City Telephone Rates and Charges | 09/08/09 | 3 | | | | Finance |
| 54 | Audit of Fleet Utilization and Replacement | 04/14/10 | 6 | 14 | 2 | | Finance |
| 67 | Audit of Citywide Cash Handling and Travel Expenses | 09/15/10 | 1 | 10 | | | Finance |
| TOTAL | | | 39 | 32 | 2 | 9 | 82 |

| Audit report and recommendation | Department | Current status | Comments |
|--|------------|----------------|--|
| AUDIT OF OVERTIME EXPENDITURES (Issued 11/18/03) | | | Finance Committee |
| <p>The purpose of our review was to audit actual overtime usage, and identify opportunities to better control overtime expenditures. Of the 32 recommendations, 25 were previously completed, 4 were resolved/dropped, and 3 are in process.</p> | | | |
| <p>#2: The City should conduct a staffing study to assess the appropriateness of current Fire Department minimum staffing levels in the context of call volume, response times, and employee safety.</p> | Fire | Completed | <p>Original department response: Staff concurs and will conduct a “standards of coverage” study to determine the appropriateness of current staffing levels. Staff expects to complete the study by the end of the 4th quarter of the fiscal year with outside assistance.</p> <p>Auditor’s update as of Sep-2004: In process. The Department has received a proposal for a study from a consultant and is reviewing it. Action on it may be postponed pending the appointment of a new Fire Chief. Target date: Jan-2005.</p> <p>Auditor’s update as of Sep-2005: In process. Target date: TBD.</p> <p>Auditor’s update as of Oct-2006: In process. A contractor has been selected to begin a standards of coverage study in November following the end of the wildland fire season. Target date: TBD.</p> <p>Auditor’s update as of Oct-2007: In process. The standards of coverage study has been deferred. Target date: TBD.</p> <p>Auditor’s update as of Nov-2008: In process. With input from the new City Manager, staff will be evaluating how a comprehensive standards of coverage study should proceed for the Fire Department. This will be discussed in the context of the proposed Stanford projects. Staff will assess whether it will be possible to proceed with the study in time to request funds in the upcoming FY 2009-11 budget cycle.</p> <p>Auditor’s update as of Sept-2009: Not started. The Fire Department maintains minimum staffing levels as required in the Memorandum of Agreement with the International Association of Firefighters. In 2003, staff agreed with the audit recommendation to conduct a staffing study and planned to complete the study in 2004. Although prior responses indicate efforts to initiate a study, the study has not been completed</p> <p>In 2009, the Fire Department planned to incorporate a comprehensive standards of coverage study as part of a development agreement with the Stanford Hospital/Shopping Center expansion; however, this project did not precipitate. The City’s budget documents show that Fire Department overtime has not decreased since the 2003 overtime audit. In fiscal year 2002-03, overtime expenses were \$1.23 million. In fiscal year 2008-09, overtime expenses were \$1.6 million. The Fire Department attributes overtime costs primarily to backfilling for minimum staffing, Station 8, Medic-1, and the State wild land fires. Target date: TBD.</p> |

| Audit report and recommendation | Department | Current status | Comments |
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| <p>#13: Clarify the following contract provisions through use of specific examples:</p> <ul style="list-style-type: none"> • That call-out pay begins from the time of the call out and specify how much time the employee is allowed for travel. The Merit Rules should be revised to reflect the SEIU call-out provision; • The intent of the rest period provision and how an employee is paid: (a) for the eight-hour rest period, and (b) if the rest period overlaps the regular work schedule; and • The intent of the in-lieu meal provision and its relationship to the rest period. <p>Such clarification should be communicated to employees who are affected by the provisions as well as to timekeepers.</p> | Human Resources | In process | <p>Auditor's update as of July 2010: In process. According to the City Manager's Office, the staffing analysis and report are underway and should be completed by October 2010. Target date: Oct. 2010.</p> <p>Auditor's update as of March 2011: Completed. In January 2011, TriData and ICMA conducted a utilization and resource deployment analysis for the Fire Department that assessed the appropriateness of current Fire Department minimum staffing levels in the context of call volume, response times, use of overtime, deployment practices and employee safety. The consultants presented the report, which included recommendations, to the City Council in February 2011.</p> <p>Original department response: Staff concurs and HR will update the Merit System Rules and Regulations to correspond with the SEIU Memorandum of Understanding (MOU) provisions following contract negotiations in 2004 to clarify and remedy any inconsistencies between the two documents.</p> <p>Auditor's update as of Sep-2004: Not started. During the 2004 SEIU contract negotiations, no changes were made to nor examples added to the contract regarding call-out pay, the rest period, or the in-lieu meal provisions. The next opportunity to address this will be Feb-2005 when negotiations reopen for the current contract that expires in 2006. Target date: 2006.</p> <p>Auditor's update as of Sep-2005: Not started. This recommendation will be addressed when the SEIU contract is renegotiated in 2006. Target date: Jul-2006.</p> <p>Auditor's update as of Oct-2006: In process. The City has hired a consultant to assist with the revision of the Merit System Rules and Regulations to reflect call-out pay. In addition, 2006-09 SEIU MOA clarifies the meal relationship to rest periods. The City had proposed new language for hours of work and overtime, but was only successful with clarification for meals, overtime, and rest periods. Target date: TBD.</p> <p>Auditor's update as of Oct-2007: In process. HR advises that the only outstanding recommendation is the revision of the Merit Rules to reflect the SEIU call-out provision. HR further advises that the Merit Rules revision as been delayed due to ongoing employee contract negotiations but is scheduled to begin in 2008. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: In process. The HR department advises that the only outstanding recommendation is the revision of the Merit Rules to reflect the SEIU call-out provision. HR department further advises that the Merit Rules revision will begin in November 2008 and will occur in phases, with the first phase of the update targeted for completion in September 2009.</p> |

| Audit report and recommendation | Department | Current status | Comments |
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| | | | <p>If the HR Department completes the merit rule revision with regard to call-out pay, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: Sept-2009.</p> <p>Auditor's update as of Sept- 2009: In process. HR reported that significant progress has been made to the Merit Rules update, including draft language for 6 of 13 chapters. Sections 510 to 515 address the overtime and call out pay issues. The project will continue in 2010, and will require discussions with all bargaining units. If the HR Department completes the merit rule revision with regard to call-out pay, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: Dec. 2010.</p> <p>Auditor's update as of July 2010: In process. HR reported they are nearing completion of the Merit Rule revisions and plan to present the revisions to City Council for approval in October 2010. The revisions include updates to the call out pay issues. Target date: Oct. 2010.</p> <p>Auditor's update as of March 2011: The draft revision to the Merit Rules, Chapter 5, Section 511, includes addition of language which addresses this update to the call out pay issues. These changes are expected to be approved by Council by the end of calendar year 2011. Target date: December 2011.</p> |
| <p>#15: The City should conduct a review of the FLSA designation of all positions. The review should consider the impact of proposed revisions to FLSA regulations.</p> | <p>Human Resources</p> | <p>Completed</p> | <p>Original department response: Staff concurs. HR began a formal review of FLSA descriptions for all management positions in March 2003 when the proposed FLSA revisions were published. The review has been expanded to include job descriptions and related HR policies and procedures. It is anticipated that the analysis with recommendations including updated job descriptions and policy and procedures will be completed in April 2004. The audit and subsequent recommendations will address all FLSA designations and any exceptions in current practice.</p> <p>Auditor's update as of Sep-2004: In process. HR's review of the FLSA designations of all City employees is in process. Target date: Jul-2005.</p> <p>Auditor's update as of Sep-2005: In process. Work on updating FLSA designations has been delayed due to budget and staffing constraints. Resources are now being identified to commence work in Jan-2006.</p> <p>Auditor's update as of Oct-2006: Project delayed. Target date: TBD.</p> <p>Auditor's update as of Oct-2007: Not started. HR advises that commencement of this project is scheduled at the completion of the Fox Lawson management classification study. HR advises that the tentative start date is March 2008. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: In process. HR advises the job</p> |

| Audit report and recommendation | Department | Current status | Comments |
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| #16: Human Resources should revise job descriptions and overtime policies and procedures to appropriately reflect the FLSA designation of each position. If within a single job classification, it is determined that some employees are exempt while others are non-exempt, then separate job descriptions/ classifications should be written. If the City determines that a particular employee meets the criteria to be deemed exempt for FLSA purposes but the City decides to pay that employee overtime, the job description, policies and procedures, other documentation, and the Lawson computer system should all clearly indicate that the position is exempt but that the City is paying overtime for the position. | Human Resources | In process | <p>descriptions have been revised for the management/professional group. The next step is to conduct the review of the FLSA status of each position in the management/professional group. HR advises that this step of the review will begin in March 2009, following adoption of the mid-year budget. Target date: TBD.</p> <p>Auditor's update as of Sept- 2009: In process. HR reports the City Attorney's Office has contracted with outside council to review the FLSA designation of 63 positions in the management/ professional group. Most of the positions have been reviewed. The remaining positions will be reviewed upon completion of the management classification & compensation study, currently underway. The Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process if the FLSA review is completed. Target date: Dec. 2010.</p> <p>Auditor's update as of July 2010: In process. According to HR, 93 positions within the management/professional group required FLSA review. HR completed job descriptions and finalized them from June 2009 through July 2010. HR reports that all 93 job descriptions were submitted to outside counsel for FLSA review, 78 have been completed and 15 are in-progress. Target date: Nov. 2010.</p> <p>Auditor's update as of March 2011: Completed. The FLSA study has been completed. Managers whose classifications were determined to be exempt will no longer receive overtime pay effective February 26, 2011. Managers whose classifications have been determined to be non-exempt will no longer receive management annual leave effective July 1, 2014.</p> <p>Original department response: Staff concurs. Following the completion of the Citywide FLSA review, HR will update job descriptions, policies and procedures, and other documentation as necessary.</p> <p>Auditor's update as of Sep-2004: Not started. HR plans to implement this recommendation when funds become available. Target date: Dec-2005.</p> <p>Auditor's update as of Sep-2005: Not started. Work on revising job descriptions has been delayed due to budget and staffing constraints. Resources are now being identified to commence work in Jan-2006.</p> <p>Auditor's update as of Oct-2006: The management classification study will result in new job descriptions. An FLSA audit will follow. Target date: TBD.</p> <p>Auditor's update as of Oct-2007: Not started. HR advises that commencement of this project is scheduled at the completion of the Fox Lawson management classification study. HR advises that the tentative</p> |

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| | | | <p>start date is March 2008. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: In process. HR advises the job descriptions have been revised for the management/professional group. The next step is to conduct the review of the FLSA status of each position in the management/professional group. HR advises that this step of the review will begin in March 2009, following adoption of the mid-year budget. Target date: TBD.</p> <p>Auditor's update as of Sept- 2009: In process. HR reports the City Attorney's Office has contracted with outside council to review the FLSA designation of 63 positions in the management/professional group. Most of the positions have been reviewed. The remaining positions will be reviewed upon completion of the management classification & compensation study, currently underway. The Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process if the FLSA review is completed and the appropriate processes and procedures are accordingly revised. Target date: Dec. 2010.</p> <p>Auditor's update as of July 2010: In process. According to HR, 93 positions within the management/professional group required FLSA review. HR completed job descriptions and finalized them from June 2009 through July 2010. HR reports that all 93 job descriptions were submitted to outside counsel for FLSA review, 78 have been completed and 15 are in-progress. Of the 78 completed FLSA reviews, 11 resulted in proposed changes to the FLSA status. Staff is currently reviewing the results to determine appropriate next steps for the proposed changes and to clearly document the results within the City's systems. Target date: Dec. 2010.</p> <p>Auditor's update as of March 2011: In process. After final review, FLSA designation changed for 10 classifications. The designations have been changed in the SAP system. HR has updated the FLSA designation on the job descriptions. HR will need to develop a new job description for a classification that was concluded to have one exempt employee and two non-exempt employees. In addition, the update to the overtime policy will be completed. Target date: September 2011.</p> |

| Audit report and recommendation | Department | Current status | Comments |
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| <p>#17: After a Citywide review of the FLSA status of positions is completed, Human Resources should work with employee representatives to update union contracts and compensation plans so that they are consistent with other documentation. The Management Compensation Plan should list the positions it covers. Both the Management Compensation Plan and the SEIU contract should distinguish between exempt and non-exempt positions and indicate whether any exempt positions may receive overtime pay.</p> | Human Resources | Completed | <p>Original department response: Staff concurs and upon completion of the FLSA study, HR will update compensation plans to include exempt/non-exempt status.</p> <p>Auditor's update as of Sep-2004: Not started. HR plans to implement this recommendation when funds become available. Target date: Dec-2005.</p> <p>Auditor's update as of Sep-2005: Not started. Target date: TBD.</p> <p>Auditor's update as of Oct-2006: Project delayed. Target date: TBD.</p> <p>Auditor's update as of Oct-2007: Not started. Commencement of this project is scheduled at the completion of the Fox Lawson management classification study. HR advises that the tentative start date is March 2008. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: In process. HR advises the job descriptions have been revised for the management/professional group. The next step is to conduct the review of the FLSA status of each position in the management/professional group. HR advises that this step of the review will begin in March 2009, following adoption of the mid-year budget. HR advises that the list of management positions is attached to the Compensation Plan. The SEIU salary sheets include the FLSA designation distinguishing between exempt and non-exempt. In addition, the SEIU contract also reflects when contract overtime shall be paid.</p> <p>The City Attorney's office advises the Management Compensation Plan should not be considered the master list for exempt, non-exempt and overtime positions. Therefore, upon completion of the FLSA study, HR should create and consider where to retain a master list of management positions that indicates which exempt positions receive overtime. Target date: TBD.</p> <p>Auditor's update as of Sept- 2009: In process. The Department advises that the FLSA status review was put on hold when the Management Compensation and Classification study was initiated in 2006. In 2009, the City Attorney's Office contracted with an outside law firm to initiate the FLSA study. The study will be conducted in three phases as job descriptions are finalized through the Management Compensation and Classification study. Phase I classifications (involving job descriptions in which duties and titles did not change) were sent to an outside attorney in May 2009. Phase II (involving only title changes) and Phase III (involving title and duty changes) are expected to be completed by January 2010.</p> <p>In addition, the City Attorney's Office worked with Human Resources and reports that a category will be added to the revised 2009</p> |

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| #18: Human Resources should establish a policy that management leave is granted "in lieu" of overtime pay, and include the policy in the Management Compensation Plan. After conducting a citywide FLSA review, Human Resources should determine how to fairly treat employees who currently receive both management leave and overtime pay. | Human Resources | Completed | <p>Management Compensation Plan Salary/classification tables to reflect FLSA exemption status. All SEIU positions were non-exempt until July 2008 when some exempt management positions were reclassified into the SEIU unit, so the SEIU list will also be updated to reflect FLSA status. FLSA review of the new job descriptions resulting from that study are planned to follow finalization of those formal job descriptions. If these steps are completed, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process. Target date: Dec. 2010.</p> <p>Auditor's update as of July 2010: In process. HR reports that the SEIU salary schedule and classification list has been updated and Council approved the updates on August 2, 2010 with the SEIU Memorandum of Agreement. HR anticipates the 2009 Management Compensation Plan Salary/classification tables will be revised to reflect the completed FLSA review by November 2010. Target date: Nov. 2010.</p> <p>Auditor's update as of March 2011: Completed. The FLSA study is complete. The 2010-11 Management and Professional Compensation Plan lists all of the job classifications and their FLSA designation and was approved by City Council in April 2011.</p> <p><i>Original department response:</i> HR will review and confer with management employees.</p> <p>Auditor's update as of Sep-2004: Not started. HR plans to implement this recommendation when funds become available. Target date: Dec-2005.</p> <p>Auditor's update as of Sep-2005: Not started. Target date: TBD.</p> <p>Auditor's update as of Oct-2006: Project delayed. Target date: TBD.</p> <p>Auditor's update as of Oct-2007: Not started. HR advises that the FLSA review will be conducted once the Fox Lawson classification study is completed. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: Not started. HR advises that it will propose such wording be added to the Management Compensation Plan when it is next updated. The Office of the City Auditor notes that after conducting a citywide FLSA review, HR will determine how to appropriately address this category of employees who receive both management leave and overtime pay. Target date: July-2009</p> <p>Auditor's update as of Sept. 2009: In process. The FLSA study is not yet completed. As a result, HR deferred implementing the recommended wording specifying that management leave is granted in lieu of overtime pay. The plan is to address the category of employees who receive both management leave and overtime pay. If the HR</p> |

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| | | | <p>Department is able to complete both of the audit recommendation requirements, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: Dec. 2010</p> <p>Auditor's update as of July 2010: In process. As the FLSA study is nearing completion, staff will be determining how to treat employees that currently receive both management leave and overtime pay. The recommended wording specifying that management leave is granted in lieu of overtime pay has not yet been finalized. Target date: Nov. 2010.</p> <p>Auditor's update as of March 2011: Completed. The FLSA study has been completed. Managers whose classifications were determined to be exempt will no longer receive overtime pay effective February 26, 2011. Managers whose classifications have been determined to be non-exempt will no longer receive management annual leave effective July 1, 2014 and will only be eligible to receive overtime time pay upon approval by their managers.</p> |
| #19: Human Resources should clarify, through a policy, union contracts and compensation plans, the appropriate uses of administrative leave and other additional paid time off that may be granted to employees. | Human Resources | In process | <p>Original department response: Staff concurs and will prepare additional language which will address administrative leave in future compensation plans.</p> <p>Auditor's update as of Sep-2004: Not started. HR plans to develop a new policy to clarify administrative leave and update all Union contracts and compensation plans. Target date: Dec-2005.</p> <p>Auditor's update as of Sep-2005: Not started. Target date: Jun-2006.</p> <p>Auditor's update as of Oct-2006: In process. The Merit Rules are being revised and will address this issue. Target date: TBD.</p> <p>Auditor's update as of Oct-2007: Not started. The HR Department advises that the Merit Rules revision is scheduled to begin in March 2008. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: In process. The HR Department advises that the appropriate uses of administrative leave will be clarified through the revision of the Merit Rules that will begin in November 2008. This revision will occur in phases, with the first phase of the update targeted for completion in September 2009.</p> <p>If the HR Department clarifies the appropriate uses of administrative leave in the Merit Rules and subsequently revises relevant policies, union contracts and compensation plans to reflect such clarification, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: TBD.</p> <p>Auditor's update as of Sep. 2009: In process. The HR Department reported progress in revising the Merit Rules update, and has drafted</p> |

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| | | | <p>language for 6 of 13 chapters. The HR Department anticipates the project will continue in 2010 and will require discussion with all bargaining units. Appropriate use of administrative leave is still under development and will be addressed in the upcoming revisions. The Office of the City Auditor will be able to consider this recommendation completed when these steps are implemented. Target date: Dec -2010.</p> <p>Auditor's update as of July 2010: In process. HR reported that they are nearing completion of the Merit Rule revisions and plan to present the revisions to City Council for approval in October 2010. The revisions include updates to Chapter 8, Section 808 to address administrative leave and paid leave of absences. Target date: Oct. 2010.</p> <p>Auditor's update as of March 2011: In process. The draft revision to the Merit Rules, Chapter 8, Section 808, includes the addition of language which states, "The reasons such leave is approved and deemed in the best interests of the City shall be documented on a Personnel Action Form with appropriate explanation and tracked in SAP." Changes are in the review process with bargaining groups. Target date: June 2011</p> |

AUDIT OF RESTRUCTURING EFFORTS AND MANAGEMENT SPAN OF CONTROL (Issued 4/20/04)

Finance Committee

The purpose of our review was to conduct an independent review of staffing changes and restructuring over the last two years, assess the feasibility of additional reductions through attrition, evaluate supervisory span of control, the ratio of managers to line staff, and the number of levels of management review. Of the 17 recommendations, 16 were previously completed, and 1 is in process.

#13: Human Resources should reconcile and correct discrepancies in job titles between the SAP and Lawson computer systems and the employees' job descriptions, position titles, compensation plans, the employee directory, organization charts, and the working titles that employees actually use.

HR

In process

Original department response: Staff concurs with this recommendation. This process is currently in progress.

Auditor's update as of Sep-2004: In process. As of Aug-2004, HR and ASD are reconciling all discrepancies as they are identified during the regular course of business. Discrepancies between SAP and Lawson were complicated by the fact that in Lawson, one position number was tied to multiple employees, whereas SAP requires a one-to-one relationship between positions and employees. This was a major shift in position control. With SAP position control, the City will have been reporting capabilities (vacancy reports and headcount reports). However, a comprehensive reconciliation of job titles has not been initiated. Discrepancies that are identified will be corrected in SAP and other documents on a go-forward basis. Target date: TBD.

Auditor's update as of Sep-2005: In process. A comprehensive reconciliation of job titles will be completed by the end of the year. Target date: Dec-2006.

Auditor's update as of Oct-2006: In process. The review is in process

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| | | | <p>and will be completed by the end of the year. The management classification study, currently underway, will also contribute to this effort.</p> <p>Auditor's update as of Oct-2007: In process. Target date: Jan-2008.</p> <p>Auditor's update of Nov-2008: In process. The Office of the City Auditor conducted limited testing of consistencies among SAP, job descriptions, and compensation plans and found that discrepancies remain. If, during the recommendation follow-up process in 2009, the Office of the City Auditor can again test a sample of positions and find that these issues have been resolved, then this recommendation would be considered completed.</p> <p>Auditor's update as of Sep. 2009: In process. HR reports there are 473 job titles within the City. HR also reports they have made progress in resolving discrepancies between SAP, the Management Compensation Plan, and the labor agreements. However, some discrepancies are still being resolved and others will require discussions with the different bargaining units. The discussion schedule is as follows: 2009 - SEIU; Management and Professional staff and 2010 – International Association of Fire Fighters; Palo Alto Police Officers Association; Fire Chiefs Association. The Office of the City Auditor observed a sample of the HR resolutions and confirmed many of the discrepancies were resolved and will be able to consider this recommendation completed when the remaining discrepancies are addressed. Target date: Dec. 2010</p> <p>Auditor's update as of July 2010: In process. HR reports that nineteen classification titles were updated in the Management and Professional Group in FY 2010. Classification titles for SEIU and safety personnel are scheduled to be updated in coordination with ongoing labor agreement negotiations in 2010 and 2011. As HR completes these updates, the Office of the City Auditor will review consistencies among SAP, job descriptions, and compensation plans. Target date: Sept. 2011.</p> <p>Auditor's update as of March 2011: In process. The classification titles in the SEIU Compensation Plan were completed in August 2010. The Management and Professional Compensation Plan revision will be approved by Council in April 2011. Labor negotiations with IAFF are in progress and soon to begin with FCA and PAPOA. Classification titles will be reviewed during those negotiations. Target date: Sept. 2011</p> |

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| AUDIT OF CONTRACT CONTINGENCIES (Issued 3/15/05) | | | Finance Committee |
| <p>The purpose of this audit was to evaluate the appropriateness of contingency levels, the approval process for using contingencies, and actual contingency usage. Of the 15 recommendations, 13 were previously completed, and 2 were completed this year.</p> | | | |
| <p>#3: Departments that receive resident requests for service should establish criteria for responding to such requests and incorporate those criteria into a Departmental construction manual (if applicable) and provide them to Purchasing for inclusion in the Purchasing Manual. The Purchasing Manual should also provide guidance on when it is appropriate to issue a change order to expand the scope of a contract versus amending the contract or issuing a new contract. Departments approving contingency spending should ensure that the work is within the scope of the original contract.</p> | <p>ASD</p> | <p>Completed</p> | <p>Original department response: Staff will collaborate to incorporate in the Construction and Purchasing Manuals criteria on processing requests for services based on the scope of the capital project and the contract. The manuals will include examples on when to do a change order or a contract amendment. Department heads or designees will approve contingency spending based on the established criteria. Target Completion Date: Fall 2005.</p> <p>Auditor's update as of Sep-2005: In process. Infrastructure project managers have been trained regarding the type of changes and additional work that is compliant with the contract scope. Any deviation from these changes or additional services will require approval by the appropriate authority. The Purchasing Manager will work with the Public Works Department to incorporate the necessary criteria into the Department Construction Manual that is scheduled to be revised (see also recommendation #9). Target completion date: Dec-2005.</p> <p>Auditor's update as of Oct-2006: In process. Purchasing Manual changes are complete. Public Works will incorporate the necessary criteria into its Construction Manual. Target date: Spring 2007.</p> <p>Auditor's update as of Oct-2007: In process. Staff advises that a Citywide Construction Manual is pending that will address resident requests, and clarify that the requested item would have to fall within the scope of the contract. Target date: Summer 2008.</p> <p>Auditor's update as of Nov-2008: In process. Public Works staff advises that such criteria for responding to resident requests will be incorporated into the Citywide Construction Manual which is expected to be completed by Fall 2009. Public Works staff further advises that they will review whether they could potentially develop and adopt such criteria sooner. The Purchasing Manual includes guidance on change orders and contract amendments.</p> <p>If the Public Works Department develops and adopts the criteria for responding to resident requests (either separately from the update of the Citywide Construction Manual or as a part of it), the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: Fall 2009.</p> <p>Auditor's update as of Sep. 2009: In process. The Public Works Department reports it has updated the invitation for bid (IFB) template that addresses contract contingencies, but has not incorporated the</p> |

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| #9: Departments should use the Public Works Construction Contract Administration Manual as a template for additional procedures regarding extra work authorizations, field orders, change orders, and authorization signatures, as needed. Departments should ensure that their procedures for contingency spending are consistent with the Purchasing Manual with regard to additional services spending. Departments should review their procedures with Purchasing to ensure conformance to Citywide standards. | ASD, Public Works, and Utilities | Completed | <p>changes into the Citywide Construction Manual. If the Manual is completed by the next follow-up, the Office of the City Auditor will be able to consider this recommendation completed. Target date: Fall 2010.</p> <p>Auditor's update as of July 2010: In process. Staff reports that they will work to incorporate additional guidance on change orders in the Citywide Purchasing Manual. If the City's Purchasing Manual is updated with criteria for evaluating the necessity of change orders, the Office of the City Auditor will be able to consider this recommendation completed. Target Date: June 2011.</p> <p>Auditor's update as of March 2011: Completed. ASD has incorporated additional guidance and criteria for evaluating the necessity of change orders into the City's Purchasing Manual.</p> <p>Original department response: Public Works will update the Construction Contract Administration Manual in collaboration with the Utilities Department and Purchasing Division Staff to ensure consistency with the Purchasing Manual and Citywide standards. Target Completion Date: Fall 2005.</p> <p>Auditor's update as of Sep-2005: The update of Public Works Construction Contract Administration Manual has not yet started. Target completion date: Winter 2005.</p> <p>Auditor's update as of Oct-2006: The update of the Public Works Construction Contract Administration Manual has not yet started. Target completion date: Jun-2007.</p> <p>Auditor's update as of Oct-2007: In process. Staff advises that a Citywide Construction manual is pending. Target date: Summer 2008.</p> <p>Auditor's update as of Nov-2008: In process. According to the Public Works Department, the Invitation for Bids Streamlining Committee is working on new templates for invitations for bids. Public Works staff is awaiting these templates and any associated new processes before revising the Citywide Construction Manual. Public Works staff advises that all updates will be consistent with Chapter 13 of the Purchasing Manual.</p> <p>If Public Works updates the manual and the Utilities department can provide documentation that procedures/templates for extra work authorizations, field orders, change orders and authorization signatures are consistent with the revised manual, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: Fall-2009.</p> <p>Auditor's update as of Sep. 2009: In process. The Public Works Department reports it has updated the invitation for bid (IFB) template that addresses contract contingencies, but has not incorporated the</p> |

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| | | | <p>changes into the Citywide Construction Manual. If the Manual is completed by the next follow-up, the Office of the City Auditor will be able to consider this recommendation completed. Target date: Fall 2010.</p> <p>Auditor's update as of July 2010: In process. Staff reports that they will work to incorporate additional guidance on change orders and extra work authorizations in the Citywide Purchasing Manual. If the City's Purchasing Manual is updated with this criteria, the Office of the City Auditor will be able to consider this recommendation completed. Target Date: June 2011.</p> <p>Auditor's update as of March 2011: Completed. ASD has incorporated additional guidance and criteria for evaluating the necessity of change orders into the City's Purchasing Manual.</p> |

AUDIT OF PARKS MAINTENANCE (Issued 12/13/05)

Finance Committee

The objective of this audit was to assess the cost-effectiveness of parks maintenance. Of the 22 recommendations, 18 were previously completed, and 4 were completed this year.

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| #9: The Parks Division should obtain bids for landscape maintenance work including mowing at Mitchell, Rinconada, and Greer Parks and should consider contracting for such work if it proves more cost beneficial. | CSD | Completed | <p>Original department response: Staff concurs and will conduct a comparative analysis of contracting vs. in-house crews, but that analysis must consider the service level provided by current staffing levels. Given existing contract obligations, implementation would be expected in July 2007.</p> <p>Auditor's update as of Oct-2006: Not started. Invitations for bids are expected to be issued in November or December. Bids would be received and reviewed in January or February. Results would be reported to the City Council in March or April as part of the annual budget process. Target date: Spring 2007.</p> <p>Auditor's update as of Oct-2007: In process. City staff continues to maintain these parks. CSD advises that bids were solicited in January and seven firms attended the pre-bid conference. Two landscape companies submitted bids for four of the six sections of work. The Community Services Department advises that on July 1, 2007, Loral Landscaping assumed responsibility for maintenance of all of the areas previously contracted by Gachina and Loral landscaping (2004-07).</p> <p>However, Community Services advises that it is still working with ASD to evaluate bid submittals for Mitchell, Rinconada and Greer. A recent analysis by ASD based on current bids estimated that by contracting out Mitchell, Rinconada, and Greer for the next five years, Community Services could save \$641,561.</p> <p>Community Services further advises that SEIU has asked for an opportunity to present a proposal to take back in-house some of the</p> |
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| | | | <p>contracted sites while keeping the staffing levels the same as at present. This proposal is under consideration. A decision on whether to contract out Mitchell, Rinconada and Greer has been delayed until after the SEIU proposal has been reviewed. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: In process. Parks staff advises that they met and conferred with SEIU in August 2007 regarding a proposal by SEIU to take back in-house some sites that are currently contracted out. However, after making the initial proposal, SEIU decided not to pursue it further.</p> <p>CSD staff further advises that the City is in the process of considering a requirement that state-mandated prevailing wages be paid for contracted work. CSD has advised that this would likely increase the cost of contracting out and negate potential savings. However, the Office of the City Auditor noted that for certain types of landscape work, the effect on the cost of contracted work would likely be minimal as the contractor's proposed salaries appear to be consistent with the State's current prevailing wages. A detailed analysis would be required, however, to determine which rates apply to Palo Alto.</p> <p>Additionally, CSD advises that although the bid proposals indicate the City could obtain savings through contracting out landscaping maintenance and mowing services, the department believes its level of service provides additional customer and intrinsic value. CSD has offered to evaluate its own operations to identify additional efficiencies and cost savings and will provide a plan to reduce its costs through the development of the 2009-10 budget. If CSD can complete their analysis and provide a reasonable cost savings plan that justifies keeping the services in-house, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process.</p> <p>Auditor's update as of Sept-2009: In process. CSD reports that the Public Works Department is conducting an evaluation of the impact of prevailing wage payment on construction and maintenance projects. This evaluation will occur over the next year with a report back to the Policy & Services Committee in the spring of 2010. Additionally, during the FY 2010 budget process, CSD identified \$23,040 in temporary salary reductions within the Open Space & Parks division budget. With recent retirements of park staff, CSD reports that it intends to take advantage of openings to convert regular positions to contract positions where possible, subject to the meet and confer process. Staff has identified two maintenance position vacancies that might allow contract maintenance options at Rinconada Park. If an additional position is vacated through attrition, CSD might be able to explore options to contract out turf mowing services at additional sites. The City Manager's FY 2010 Operating Budget identified the possible need to revisit additional reductions as a "Tier 2" list, which included \$123,000 in estimated savings for contracting out park maintenance at Mitchell and</p> |

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| #10: The Parks Division should obtain bids for landscape maintenance work including mowing at Baylands Athletic Center, El Camino Park, and the Bowling Green, and should consider contracting for such work. | CSD | Completed | <p>Rinconada Parks, along with mowing at some City facilities. Target date: July-2010</p> <p>Auditor's update as of July 2010: Completed. According to staff, during FY 2010 CSD took advantage of two recent retirements of park maintenance staff and contracted out the maintenance and grass mowing of Rinconada Park, the Lucie Stern Community Center landscaping and landscaping around the Junior Museum and Zoo.</p> <p>With the expiration of the three-year park and facility landscape maintenance contract with Loral Landscaping in June, 2010, Parks staff solicited bids for landscaping and park maintenance, including for Mitchell, Rinconada and Greer regional parks. In addition to accepting the bid for the existing maintenance of small parks, medians and facility landscaping, Parks recommended to Council that contract maintenance be expanded to include Rinconada Park, Mitchell Park and the Lucie Stern Center. By contracting out these areas four FTE will be reduced from the permanent staff and will result in a salary and benefits savings of \$251,200 in the first year. The low bid received for the maintenance of Greer Park in the amount of \$35,179 was comparable to current staff costs required for maintaining this particular park and therefore the contracting of this area was not recommended at this time.</p> <p>Original department response: Staff will collect and evaluate bid information as stated in recommendation #9.</p> <p>Auditor's update as of Oct-2006: Not started. Invitations for bids are expected to be issued in November or December. Bids would be received and reviewed in January or February. Results would be reported to the City Council in March or April as part of the annual budget process. Target date: Spring 2007.</p> <p>Auditor's update as of Oct-2007: In process. City staff continues to maintain these parks. The Department advises that bids were solicited in January. Seven firms attended the pre-bid conference. Bids were received from two landscape companies for four of the six sections of work. Bids were received, but have not yet been accepted, for the maintenance of the Baylands Athletic Center, El Camino Park (and playing fields), and the Lawn Bowling Green. A recent analysis by ASD based on current bids estimated that by contracting out El Camino Park and the Bowling Green for the next five years, Community Services could save \$327,855. Based on current bids, Baylands Athletic Center was estimated by ASD to lose about \$45,000 if contracted out.</p> <p>SEIU has asked for an opportunity to present a proposal to take back in-house some of the contracted sites while keeping the staffing levels the same as at present. This proposal is under consideration. A decision on whether to contract out Baylands Athletic Center, El Camino Park, and the Bowling Green has been delayed until after the SEIU proposal has</p> |

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| | | | <p>been reviewed. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: In process. Parks staff advises that they met and conferred with SEIU in August 2007 regarding a proposal by SEIU to take back in-house some sites that are currently contracted out. However, after making the initial proposal, SEIU decided not to pursue it further.</p> <p>CSD staff further advises that the City is in the process of considering a requirement that state-mandated prevailing wages be paid for contracted work. CSD has advised that this would likely increase the cost of contracting out and negate potential savings. However, the Office of the City Auditor noted that for certain types of landscape work, the effect on the cost of contracted work would likely be minimal as the contractor's proposed salaries appear to be consistent with the State's current prevailing wages. There may be other types of contracted park work, though, that would cost more if prevailing wage is adopted by the City. A detailed analysis would be required, however, to determine which rates apply to Palo Alto.</p> <p>Additionally, CSD advises that although the bid proposals indicate the City could obtain savings through contracting out landscaping maintenance and mowing services, the department believes its level of service provides additional customer and intrinsic value. CSD has offered to evaluate its own operations to identify additional efficiencies and cost savings and will provide a plan to reduce its costs through the development of the 2009-10 budget. If CSD can complete their analysis and provide a reasonable cost savings plan that justifies keeping the services in-house, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process.</p> <p>Auditor's update as of Sept. 2009: In process. As mentioned under recommendation #9, CSD plans to take advantage of staff openings caused by attrition to contract-out some park maintenance functions. CSD staff advises that maintenance of dedicated athletic facilities, such as the Baylands Athletic Center, El Camino Park and the Lawn Bowling Green demand higher levels of maintenance to ensure top quality play and special mowing schedules to accommodate user groups that may not be conducive to contracting out maintenance. Target date: July-2010</p> <p>Auditor's update as of July 2010: Completed. With the expiration of the three-year park and facility landscape maintenance contract with Loral Landscaping in June, 2010, Parks staff solicited bids for landscaping and park maintenance, including for the Baylands Athletic Center, El Camino Park and the Lawn Bowling Center. In addition to accepting the bid for the existing maintenance of small parks, medians and facility landscaping, Parks recommended to Council that contract maintenance be expanded to include the mowing and maintenance of</p> |

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| #18: The Parks Division and Public Works should consider how to increase the frequency of tree trimming in parks, and consider contracting for this work. | CSD | Completed | <p>the Lawn Bowling Center. By contracting out this sports facility one FTE will be reduced from the permanent staff and will result in a salary and benefits savings of \$62,800 in the first year. The low bid received for the maintenance of the Baylands Athletic Center in the amount of \$32,517 was higher than current staff costs required for maintaining this particular athletic facility (\$31,915) and therefore the contracting of this area was not recommended at this time. Although the low bid for the first year of mowing and maintenance services at El Camino Park of \$8,049 was significantly lower than the in-house staff cost of \$31,915 staff opted to continue to utilize in-house staff for this facility for a higher level of service and field maintenance for this heavily used sports facility.</p> <p>Original department response: Staff concurs, and will evaluate whether including parks in the Public Work's Area Tree Trimming program is an effective approach for parks tree maintenance. Public Works Operations Tree Maintenance Section annually obtains bids for tree maintenance in parks. The annual Area Tree Trimming contract provides for trimming of trees in Parks that are within the area scheduled for street tree trimming. Having the Parks staff obtain bids for tree trimming would potentially increase cost per tree for trimming, since the Area Tree Trimming contract involved a larger quantity of trees which usually means contractors bid lower prices. Staff will evaluate and implement a solution by December 2006.</p> <p>Auditor's update as of Oct-2006: Not started. This will be addressed by the City Manager's short term task force that is expected to convene in Fall 2006. Target date: Winter 2007.</p> <p>Auditor's update as of Oct-2007: CSD staff advises that they have been working closely with the newly-appointed manager of Street/Trees Operation to inspect and evaluate park trees on an "as-needed" basis. Staff continues to actively participate with the City Manager's Office in the development of an updated Urban Tree Master Plan. This updated plan is intended to include targets for tree inspections and pruning in park areas as well as along City streets. Target date: TBD.</p> <p>Auditor's update as of Nov-2008: In process. Parks staff advises that they have worked closely with Public Works Operations (Tree Maintenance) to coordinate tree work in Parks. Public Works Operations' staff advises that they are now using a hazard rating system that allows them to prioritize work.</p> <p>However, Public Works Operations advises that they are not able to inspect trees around play structures annually (as requested by Parks' staff) due to insufficient staffing. They advise that they are working on converting an existing vacant position to a tree inspector position.</p> <p>Parks' staff has recommended and the Office of the City Auditor agrees that the City Manager's Office should assist in addressing the staffing</p> |

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| | | | <p>shortage and identify ways to provide the appropriate levels of inspections to ensure public safety.</p> <p>If Parks and Public Works can provide documentation showing that the frequency of tree trimming has increased and that the trees near play structures are inspected at least annually, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: July-2009.</p> <p>Auditor's update as of Sept. 2009: In process. The Public Works Department reports it is conducting on-going and systemic tree inspection and maintenance of trees in parks and open space facilities, especially in areas near picnic, playground and recreational facilities. The Public Works Department will begin tracking tree inspections near playgrounds to document that trees near play structures are inspected at least annually.</p> <p>The City Manager's FY 2010 Operating Budget identified the possible need to revisit additional reductions as a "Tier 2" list, which included estimated savings of \$46,000 for contracting out tree trimming and reduction of 1 FTE.</p> <p>Auditor's update as of July 2010: In process. According to staff, CSD Park staff continues to work closely with Public Works tree staff to annually inspect and prune all trees in parks over playgrounds or picnic tables. Public Works reports that trees near play structures are inspected at least annually and will develop a mechanism to track these inspections during the upcoming months.</p> <p>CSD also notes that in addition to routine inspections by City arborists, park crews have made a concerted effort to report loose branches to the tree crew after storms or heavy winds. Of special note this year has been the coordinated response to falling branches from eucalyptus trees near a children's playground at the Eleanor Pardee Park. Since first being noted in March 2010, CSD staff worked with the City Manager's Office and Public Works Department to remove six trees, systematically prune ten additional trees, and to monitor the remaining trees for their safety. During the entire three-month period the health and pruning of the trees was evaluated, the children's playground and surrounding walkways were kept closed to the public for extra safety.</p> <p>No incidents or injuries related to trees or branches in any parks, playgrounds or picnic areas were reported during this period. Target date: June 2011.</p> <p>Auditor's update as of March 2011: Completed. Public Works assigned specific numbering to every tree in the parks that are near a playground or picnic facility. All trees surrounding play areas and/or tables were inspected in Spring/Summer 2010. Using the individual numbering system, Public Works will again inspect all of the trees in</p> |

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| <p>#21: Utilities should update the Landscape Water Efficiency Standards to:</p> <ol style="list-style-type: none"> (1) clearly assign responsibility for required tasks for City sites (e.g. who is responsible for performing irrigation audits); (2) clearly explain the purpose of the irrigation audits (e.g., to compare water usage before and after new system is installed) with regard to City sites; (3) clarify that medians are covered; and (4) make City sites subject to the maximum water allowance, if deemed appropriate. | Utilities | Completed | <p>2011 and will trim any trees that are observed needing attention. In future years, Public Works will continue to provide the inspections at least once each year. Public Works crews also work collaboratively with Community Services staff to address any tree related issues that arise during the year. Individual Inspections are performed within 10 days of any potential work requested and immediately if there is any safety concerns or significant deficiencies that are observed. Public Works provided trimming services in 25 City parks during FY 2011.</p> <p>Original department response: Utilities will be reviewing and making appropriate changes to <i>Landscape Standards</i>, once the new State AB 2717 is approved by the Governor.</p> <ol style="list-style-type: none"> (1) Each City project should have a project manager; this would be the person responsible for ensuring compliance with the <i>Landscape Standards</i>. (2) These audits will ensure the irrigation system was installed as planned by providing information on the systems distribution uniformity, sprinkler performance, system pressure, and irrigation scheduling. (3) As noted in the Auditor's report, the City is overseeing 26 acres of medians. Redesigning of individual medians would not trigger the <i>Landscape Standards</i>. Therefore, Parks staff should ensure water efficient practices are within the Contractor's scope of work or taken on by Parks staff for these small island projects. <p>These changes will be addressed in the revision process of the <i>Landscape Standards</i>.</p> <p>Auditor's update as of Oct-2006: Not started. AB 2717 passed in September 2004. It asked for a task force to determine recommendations on reducing outdoor water use throughout the state. In December 2005, the task force presented 43 recommendations to the Governor. AB 1881 is now in the process of updating the model water efficient landscape ordinance which incorporates the recommendations produced from AB 2717. The Department of Water Resources must finalize the updated model ordinance by January 31, 2009 and agencies must adopt the ordinance by January 10, 2010. Palo Alto's update would occur by January 2010. Target date: Jan-2010.</p> <p>Auditor's update as of Oct-2007: Not started. Utilities advises that DWR is still working on updating model ordinance. Target date: Jan-2010.</p> <p>Auditor's update as of Nov-2008: In process. Utilities advises that the DWR continues to work on updating the model ordinance and expects to adopt it in January or February of 2009. Utilities advises that as soon as it is adopted, the Palo Alto ordinance will then be updated. If the Utilities Department can provide documentation showing that the recommended updates have been incorporated into the Landscape Water Efficiency</p> |

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| | | | <p>Standards, the Office of the City Auditor will then be able to consider this recommendation completed during the next follow-up process. Target date: Spring 2009.</p> <p>Auditor's update as of Sept. 2009: In process. The Utilities Department advises that the State Department of Water Resources approved the updated Model Water Efficient Landscape Ordinance (MWELO) on September 10, 2009. This ordinance becomes effective on January 2010, unless an agency adopts a local model ordinance that is at least as effective as the State's efficiency requirements. The Utilities Department is working with BAWSCA to develop a regional template model ordinance which can be applied to the City of Palo Alto. It is anticipated that the local model ordinance will be complete and ready for adoption by March 2010.</p> <p>To update the City's Landscape Water Efficiency Standards, the Utilities Department plans to use the regional template model ordinance, and incorporate additional requirements to address the first and third elements of the audit recommendation (relating to assigning responsibility for the irrigation audits and clarifying median coverage). If the Utilities Department can provide documentation showing that the recommended updates have been incorporated into the City's Landscape Water Efficiency Standards, the Office of the City Auditor will then be able to consider this recommendation completed during the next follow-up process. Target date: March 2010.</p> <p>Auditor's update as of July 2010: Completed. Utilities Staff reports that the State Department of Water Resources passed a new CALGreen Green Building Code that included Water Efficiency Landscape Ordinance (WELO) requirements to address each element of the audit recommendation. The CALGreen Building Code becomes effective January 1, 2011 and the Utilities Department will be using these standards. Utilities Staff also notes that they are working with the Utilities Advisory Commission, Planning Commission, and Council on approval of a Palo Alto specific CALGreen Building Code, including WELO requirements.</p> |

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| AUDIT OF STREET MAINTENANCE (Issued 3/21/06) | | Finance Committee | |
| The objective of the audit was to review the criteria for prioritizing street repairs and to determine how well sub-surface work is coordinated. Of the 21 recommendations, 13 were previously completed, 1 was previously resolved/dropped, and 7 were completed this year. | | | |
| #1: Public Works and ASD should develop and propose a long-term resurfacing-reconstruction plan and funding strategy to address the street maintenance backlog | Public Works and ASD | Completed | <p>Original department response: Staff agrees with this recommendation and has made strides in reducing the backlog by increasing the lane miles maintained per year. The amount of lane miles maintained can vary every year depending on the amount of streets either receiving preventative or resurfacing/reconstruction pavement treatments. Sometimes the number of maintained lane miles is reduced when funds go towards improving street drainage by repairing damaged curb and gutter. The number of maintained lane miles increase when streets receive preventative maintenance such as slurry or cape seals, as less funds are then needed to make curb and gutter repairs. Preventative maintenance slows down deterioration of the streets, allowing staff to stretch dollars and increase lane miles maintained.</p> <p>Staff aggressively pursues additional federal, state and local funding for street maintenance to enhance the street program capital budget and has been very successful compared to other bay area cities. See Attachment A. This year alone, staff expects Surface Transportation (STP) funds for University Avenue, Embarcadero Road and Page Mill Road totaling an additional \$788,000. In addition, staff expects to receive Bicycle Transportation Account (BTA) program funds for Hanover Street and Porter Drive totaling an additional \$299,000. Federal, state and gas tax dollars are typically tied to selection criteria with priority on maintaining structural integrity.</p> <p>Auditor's update as of Oct-2006: In process. Public Works will develop plan to address the backlog and ASD will address the financial issues related to the plan. This will be part of the discussion on increased funding for infrastructure during the 2007-09 budget process. Target date: Jan-2007.</p> <p>Auditor's update as of Oct-2007: In process. The current 5-year capital improvement program includes a total of \$1.3 million more in funding for the Street CIP (PE-86070) than the previous 5-year CIP. In addition, Public Works has been notified that the City has received additional grant funding in the amount of \$1,959,956 to be expended by June 2011. Public Works will continue to seek additional funding to address the street maintenance backlog.</p> |

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| | | | <p>Auditor's update as of Nov-2008: In process. Public Works staff reports three improvements to address the backlog of streets in "poor" condition. First, it has budgeted \$2.195M each year in the 5-year CIP to fund street maintenance. The majority of these funds will be used to address streets in "poor" condition, with the residual being used to conduct preventative maintenance to help alleviate future backlogs. Second, Public Works is aggressively pursuing grant opportunities to augment the \$2.195M in annual funds. Third, Public Works has modified its contract structure to reduce mark-up costs and anticipates this new approach will save up to 15% in street resurfacing costs, thereby allowing the City to resurface more lane miles. Through these strategies, Public Works estimates it will reduce the backlog from 100 lane miles in 2008 (21.3% of total lane miles), to 68 lane miles in 2011 (14.6% of total lane miles). Additionally, it estimates the condition of "excellent" streets will increase from 180 lane miles to 208 lane miles. Overall, Public Works staff advises that the City will not be able to completely eliminate the backlog as it is an ever changing figure and funds are limited.</p> <p>As Public Works completes its implementation of the new PMMS system, it will be able to compare the above results with other jurisdictions to see if this plan adequately addresses the backlog. If Public Works completes the PMMS conversion and obtains data that shows the decreased backlog and funding strategy has improved street conditions to become comparable, if not better, than other jurisdictions, the Office of the City Auditor will be able to consider this recommendation completed.</p> <p>Auditor's update as of Sep 2009: In process. Public Works reports that due to anticipated reductions in gas tax revenues, the proposed appropriations for street maintenance projects were reduced by almost \$0.4 million when compared to prior year levels. Public works reports it will continue to pursue grants and stimulus funding to augment the \$1.8 million appropriated each year for the projects. ARRA stimulus funding for FY 2010 increased project funding by an additional \$1.3 million. Target date: TBD.</p> <p>Auditor's update as of July 2010: Completed. Public Works reports that the City budgeted an additional \$2 million annually to augment the \$1.8 million appropriated each year in the current 5-year capital improvement program. Staff states that the increased funding will be used to take advantage of the lower construction prices and will address the street maintenance backlog. Public Works reports that the infrastructure plan will be submitted to the Council appointed Infrastructure Blue Ribbon Task Force for further consideration. Public Works reports that staff will also continue to seek grant and stimulus funding to augment City budget.</p> |

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| <p>#7: The City Manager should require City departments and contractors (including Utilities) to obtain street work permits and the approval of the Public Works Director or his or her designee before cutting any street; require justification of emergency street cuts to the Public Works Director within 1 business day of the street cut; and consider imposing street work permit fees on City Utilities to cover the cost of permitting and inspection (the same as any other entity).</p> | <p>City Manager's Office</p> | <p>Completed</p> | <p>Original department response: Staff agrees with the overall objective to improve coordination, which is addressed in responses to recommendations 6 and 19. Permitting is not the most cost effective or efficient use of resources as most street cuts that occur after the repaving of a street are the result of new utility services and required system repairs to subsurface utilities. The imposition of a permit will not stop the work from occurring. The issuance of a permit will also increase costs for the residents by forcing them to pay additional fees for service and increasing the cost of utilities. Again, the additional procedural processes will not significantly impact the number of street cuts nor will they improve the quality of the street surface. In the last part of the recommendation a proposal is made to charge City Utilities a fee for permitting and inspection of facilities. Currently, Utilities pays the cost of Public Works inspections on CIP and in-house Projects through interdepartmental transfers from the Utility Fund to the General Fund. Staff recommends requiring notification of emergency street cuts on a quarterly basis.</p> <p>Staff already requires private development contractors to obtain street work permits. Staff recommends requiring notification of emergency street cuts by in-house crews and contractors to the Public Works Director on a quarterly basis instead of within one (1) business day of the street cut as this would be difficult to administer.</p> <p>Auditor's update as of Oct-2006: In process. ASD, Public Works and Utilities are developing a street work tracking system in GIS.</p> <p>Auditor's update as of Oct-2007: In process. As an alternative to the recommendation, Public Works and the Utilities staff continue to improve coordination efforts by requiring the Utilities Operations section to provide a quarterly report on all street cut locations (including date, location, size of street cut, and reason for the work) This allows Public Works to monitor reported street cuts retroactively. In our opinion, the weakness of this approach is that it does not facilitate proactive coordination, or coordinated data tracking in the City's GIS system. We will hold this recommendation "in process" while staff experiments with this approach.</p> <p>Auditor's update as of Nov-2008: In process. Public Works reports Utilities Operations attends monthly coordination meetings with Public Works and makes non-emergency repairs before streets are resurfaced. This meeting also coordinates Utilities Capital projects with the annual Street Maintenance projects to ensure all planned Utility CIP work is completed before streets are resurfaced. Utilities Operations and Utilities Engineering report they provide a quarterly report to the Public Works Department on all street cut locations. The report includes locations, dates, sizes of the street cuts and the</p> |

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| #8: The City Manager should consider adopting and enforcing a 5-year moratorium on street cuts for newly resurfaced streets (with appropriate exceptions), and consider requiring streets to be resurfaced at least one lane width from a cut on a newly resurfaced street. | City Manager's Office | Completed | <p>reason for the work. Public Works is drafting formal policies and procedures for coordinating project planning. The Office of the City Auditor will continue to monitor the adequacy and success of these efforts.</p> <p>If the Public Works and Utilities Departments can provide formal, written policies and procedures for coordinating projects to minimize and/or prevent street cuts and can provide copies of meeting minutes for the coordinating committees, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process. Target date: Dec-2008.</p> <p>Auditor's update as of Sep. 2009: In process. Public Works reports it has drafted a new Street Work Coordination Policy and Procedure that is being reviewed by affected department heads before routing it to the City Manager's Office for adoption and inclusion in the Citywide Policy and Procedures Manual. If the policy is approved and implemented by the next follow-up, the City Auditor's Office will consider this completed. Target date: June 2010.</p> <p>Auditor's update as of July 2010: Completed. Public Works Staff completed the Work Coordination Policy and Procedure, which includes provisions to coordinate street work and minimize damage to newly surfaced streets and sidewalks. The Policy states that the Director of Public Works is responsible for entering street resurfacing, street improvement, storm drain and sidewalk repair plans into the Project Coordinator System.</p> <p>Original department response: Staff does not believe that a 5-year moratorium will significantly improve the quality of the pavement in Palo Alto but will consider imposing a penalty for cutting into a newly paved street. Most street cuts that occur after the repaving of a street are the result of private development requiring new utility services to customers and required system repairs to subsurface utilities. The moratorium will not stop these activities from occurring as the city can not impose a moratorium on private development, telephone companies, and other regulated entities. The other cities interviewed do not have comparably sized utility infrastructure work as compared to Palo Alto.</p> <p>Staff implements progressively higher fees for cuts into newly resurfaced streets. Collecting a fee and resurfacing a street when it is necessary is the easiest and most cost effective way to rectify pavement damage rather than require each project to resurface at least one lane width for a cut on a newly resurfaced street. Also, requiring Utilities to resurface at least one lane width would increase the cost of utility work which would need to be passed on to the rate payers in the form of increased utility rates.</p> |

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| | | | <p>Auditor's update as of Oct-2006: In process. An internal staff working group including representatives from Public Works and Utilities has been convened to further define emergency work for City Utilities and require justification for emergency work; consider imposing penalties for street cuts on newly paved streets; and consider increasing street cut fees.</p> <p>Auditor's update as of Oct-2007: In process. Public Works and Utilities are developing "targeted work zones" in neighborhoods that will encourage all utility work to be completed before the street is paved. The Public Works staff believes a moratorium will not be necessary as the coordination efforts improve. We will hold this recommendation "in process" while staff experiments with this approach.</p> <p>Auditor's update as of Nov-2008: In process. As stated in Recommendation #7, Public Works is drafting formal policies and procedures for coordinating project planning. Public Works states, due to its current coordination efforts, a moratorium is not necessary as in most cases streets are paved after all the utilities are installed. Targeted work zones (TWZs) in neighborhoods have also encouraged utility work to be completed before final paving. The Public Works Director is waiving street cut fees in the TWZ as an incentive to coordinate work. According to PWD, with these incentives, cutting a newly paved street should happen only in emergency work situations. The City Auditor will continue to monitor the success of this alternative.</p> <p>The Utilities Department reports it has adopted trenchless construction techniques that are greatly reducing the number of street cuts in Palo Alto. By using trenchless technologies in its CIP projects, Utilities reports it has reduced the square footage of its street cuts by nearly 60% over the past three years and projects trenchless construction techniques will significantly reduce future street cuts and help alleviate the street maintenance backlog. Utilities plans to purchase an additional directional boring machine for its crews to use on their maintenance projects. Utilities state that the use of this equipment should further reduce the size of the street cuts in their operations. If the Public Works and Utilities Departments can provide formal, written policies and procedures for coordinating projects to minimize and/or prevent street cuts and can provide copies of meeting minutes for the coordinating committees, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process.</p> <p>Target date: Dec-2008.</p> |

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| <p>#10: To facilitate coordination of surface and sub-surface street work, Public Works should consider dividing the City into at least 7 geographic zones with at least a 7-year planning horizon so that other divisions and entities also have a longer planning horizon.</p> | Public Works | Completed | <p>Auditor's update as of Sep. 2009: In process. Public Works reports it has drafted a new Street Work Coordination Policy and Procedure that is being reviewed by affected department heads before routing it to the City Manager's office for adoption and inclusion in the Citywide Policy and Procedures Manual. If the policy is approved and implemented by the next follow-up, the City Auditor will consider this completed. Target date: June 2010.</p> |
| | | | <p>Auditor's update as of July 2010: Completed. Public Works completed the Work Coordination Policy and Procedure, which includes provisions to coordinate street work and minimize damage to newly surfaced streets and sidewalks. Specifically, the Policy states that when developing Capital Improvement Projects, each department is responsible for observing the 5-year street cut moratorium on overlaid or reconstructed streets. In regards to "Unscheduled Work," the Policy states that consideration will be taken by Public Works to wait for the 1-year warranty period to expire before resurfacing if possible, and that street cuts will be logged into the GIS by utilities operations staff monthly and be available for review in a street based map.</p> |
| | | | <p>Original department response: This recommendation would be applicable in a situation where all of the streets were of homogenous state of age, condition, and type of construction. Unfortunately, that is not the case in Palo Alto. The streets vary greatly in these criteria, particularly in type of construction. Palo Alto has a mix of both asphalt and concrete (some of which have been overlaid with asphalt) streets. For asphalt streets, a slurry seal is applicable as a preventative maintenance measure, in order to keep water from penetrating the pavement. For concrete streets, water is not a primary issue and slurrysealing will not correct its primary issue of ride quality. Given limited resources, streets need to be prioritized on a case-by-case basis to make sure the most appropriate and cost effective type of maintenance treatment is being utilized for that specific street's age, condition and type of construction. This is demonstrated by the information shown in Attachment "D". In Palo Alto, street maintenance activities do not lend themselves to geographic district groupings.</p> <p>Furthermore, the infrastructure priorities for street paving and utility rehabilitation do not align into geographic zones. Utility infrastructure priorities differ in maintenance and lifecycle replacement needs. Forcing the street maintenance and Utility infrastructure work into geographic zones would add to the required maintenance and infrastructure work scheduled.</p> <p>Auditor's update as of Oct-2006: In process. In lieu of dividing the city into 7 or more geographic zones, Public Works and Utilities are</p> |

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| | | | <p>working together to rank, coordinate, and prioritize street maintenance and utility work in targeted geographical zones. The South of Forest Area (SOFA) is the first zone; Utility work is in process with Public Works repaving to follow in summer 2007.</p> <p>Auditor's update as of Oct-2007: In process. Public Works and Utilities are developing "targeted work zones" in neighborhoods that will encourage all utility work to be completed before the street is paved. Targeted work zones have been created for two neighborhoods, College Terrace and SOFA. These zones will require several years of planning. After Utilities completes its work, the streets will be resurfaced. We will hold this recommendation "in process" while staff experiments with this approach.</p> <p>Auditor's update as of Nov-2008: In process. Public Works is drafting formal policies and procedures for coordinating project planning. Public Works staff recommends using Targeted Work Zones (TWZs) as an alternative to 7 geographic zones. This has been implemented in three neighborhoods: College Terrace, South of Forest Avenue (SOFA) and Crescent Park including several streets such as California Avenue and Arastradero Road. These areas require several years of planning and implementation where resurfacing a street is the last step after all utilities requiring replacement are installed. We will continue to monitor the success of this initiative. If the Public Works and Utilities Departments can provide formal, written policies and procedures for coordinating projects to minimize and/or prevent street cuts and can provide copies of meeting minutes for the coordinating committees, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process. Target date: Dec-2008.</p> <p>Auditor's update as of Sep. 2009: In process. Public Works reports it has drafted a new Street Work Coordination Policy and Procedure that is being reviewed by affected department heads before routing it to the City Manager's Office for adoption and inclusion in the Citywide Policy and Procedures Manual. If the policy is approved and implemented by the next follow-up, the Office of the City Auditor will be able to consider this completed. Target date: June 2010.</p> <p>Auditor's update as of July 2010: Completed. Public Works completed the Work Coordination Policy and Procedure, which includes provisions to coordinate street work and minimize damage to newly surfaced streets and sidewalks. Specifically, the Policy states that "Targeted Work Zones" are to be designated by the Public Works Director and entered onto a City map in the GIS system and made available for viewing or plotting. The Policy also provides that the Utilities Department will evaluate infrastructure data in the Targeted Work Zone to determine if subsurface infrastructure maintenance repairs are required; a general schedule of the work to be completed</p> |

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| #12: The City Manager should consider centralizing street restoration resources, including crews and equipment, in the Public Works Department. | City Manager's Office | Completed | <p>will be developed by the combined group for each Targeted Work Zone that includes each department's estimated construction schedules.</p> <p>Original department response: Staff agrees to further review the concept of centralizing street restoration resources though it is important to note that this has been previously considered and rejected due to scheduling and efficiency constraints. Several discussions will need to occur between Utilities Department and Public Works Department to resolve many concerns, which were not pointed out nor discussed in the audit. Coordination between trench restoration (backfilling/compaction) and preparation for trench paving is critical to make sure resources are not wasted. Street restoration is an important aspect of a utilities project and complications will likely occur when pieces of a project are assigned to other departments.</p> <p>Auditor's update as of Oct-2006: In process. An internal working group has been convened to consider the cost/benefit of centralizing the City's maintenance crews for trench restoration, tightening trench restoration specifications, and increasing inspection resources.</p> <p>Auditor's update as of Oct-2007: In process. As an alternative to this recommendation, the Public Works and Utilities staff have issued new trench restoration specifications and are discussing where to store input, maintenance, and reference data. The staff is discussing how to increase inspection resources. We will hold this recommendation "in process" while staff experiments with this approach.</p> <p>Auditor's update as of Nov-2008: In process. Public Works reports that after reviewing this concept as discussed, it determined that centralizing street restoration would be costly and result in delays in completing street restoration work. As an alternative, Public Works implemented the Targeted Work Zone, ensured Utilities staff attended monthly coordination meetings with Public Works, and is using the GIS project coordinator module to plan and coordinate CIP projects.</p> <p>The Utilities Department reports it has adopted trenchless construction techniques that are greatly reducing the number of street cuts in Palo Alto. By using trenchless technologies in its CIP projects, Utilities reports it has reduced the square footage of its street cuts by nearly 60% over the past three years and projects trenchless construction techniques will significantly reduce future street cuts and help alleviate the street maintenance backlog. Utilities plans to purchase an additional directional boring machine for its crews to use on their maintenance projects. Utilities state the use of this equipment should further reduce the size of the street cuts in their operations.</p> <p>In addition, Public Works reports the new trench restoration</p> |

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| #20: Public Works should consider switching to the MTC Streetsaver system so that Palo Alto data will be compatible with the other cities in the Bay Area. If Public Works decides to keep PMMS, then it should revise the priority-setting algorithm, add a budget optimization component, review maintenance tables, review PCI breakpoints, and establish a process for reviewing future changes to tables and breakpoints. | Public Works | Completed | <p>specifications and better coordination among Public Works and Utilities inspectors have improved street restoration.</p> <p>Public Works is drafting formal policies and procedures for coordinating the alternative TWZ planning process. We will continue to monitor the effectiveness of the TWZ initiative. If the Public Works and Utilities Departments can provide formal, written policies and procedures for coordinating projects to minimize and/or prevent street cuts and can provide copies of meeting minutes for the coordinating committees, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process. Target date: Dec-2008.</p> <p>Auditor's update as of Sep. 2009: In process. Public Works reports it has drafted a new Street Work Coordination Policy and Procedure that is being reviewed by affected department heads before routing it to the City Manager's Office for adoption and inclusion in the Citywide Policy and Procedures Manual. Target date: June 2010.</p> <p>Auditor's update as of July 2010: Completed. Public Works Staff completed the Work Coordination Policy and Procedure, which includes provisions to coordinate street work and minimize damage to newly surfaced streets and sidewalks. Specifically, the Policy states that street work coordination will take place during routine monthly meeting, and that the Public Works Director is responsible for scheduling the meeting.</p> <p>Original department response: Staff will consider these recommendations and report back at the end of the year with the results of the City's PMMS and MTC's StreetSaver comparison and the appropriate application of MTC grant funds.</p> <p>Auditor's update as of Oct-2006: In process. The Public Works staff has applied for a grant to compare the City's PMMS and MTC's StreetSaver systems to determine how the City's pavement conditions can be compared with other cities in the Bay Area.</p> <p>Auditor's update as of Oct-2007: In process. A consultant was hired to evaluate the City's PMMS software and to compare the City's PMMS with the MTC Streetsaver software. A draft report is expected in Fall 2007.</p> <p>Auditor's update as of Nov-2008: In process. Public Works reported a consultant was hired to evaluate the MTC and City pavement software. The consultant developed a model and the City is in the process of beta testing it to determine if the City's pavement management system modifications correlate with pavement condition scores in the MTC Streetsaver system. Testing should be completed by December 2008. The final report will be available in February 2009</p> |

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| #21: Public Works should apply for an MTC grant either to upgrade its current PMMS system, or to switch to MTC StreetSaver, integrate StreetSaver into the City's GIS, and conduct a survey of street conditions. | Public Works | Completed | <p>and subsequently submitted to MTC for certification.</p> <p>If Public Works completes the PMMS conversion and can demonstrate system capabilities that are equal to or better than MTC Streetsaver qualities, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process.</p> <p>Auditor's update as of Sep. 2009: In process. Public Works reports it is continuing to work with a consultant to verify the modifications made to the City's PMMS to ensure the pavement condition scores correlate with the MTC Streetsaver system. Public Works reports a meeting is scheduled with the consultant for Oct. 2009.</p> <p>Public Works reports it is hopeful the PMMS modifications will be successful in duplicating MTC streetsaver pavement condition scores and will demonstrate capabilities that equal or exceed MTC Streetsaver qualities by providing a direct link to the City's GIS system.</p> <p>Auditor's update as of July 2010: Completed. Public Works Information Technology Staff worked with a consultant to demonstrate that the City's PMMS modifications resulted in correlating the City's pavement scores with the MTC's Streetsaver pavement condition scores. MTC included the City's pavement index scores in their annual report for 2009, and the report shows the City scored in the "Good" range, tying with Saratoga and Los Gatos. According to Public Works, the City will continue to correlate pavement scores while using the City's customized PMMS to take better advantage of the City's GIS applications.</p> <p>Original department response: Staff will consider these recommendations and report back at the end of the year with the results of the City's PMMS and MTC's StreetSaver comparison and the appropriate application of MTC grant funds.</p> <p>As in all pavement management and computer systems, the output of results is only one tool used to determine street selection and does not describe the entire process. This was evident in discussions with other cities. The purpose of this response is to educate and clarify the goals and efforts towards providing the best street quality, minimizing the use of city funds to accomplish street maintenance and staying competitive using the latest technology available.</p> <p>The goal of the annual street maintenance project is to reduce street deterioration, maintain the structural integrity, and ride quality in the most cost effective manner while coordinating with the public and other projects to ensure timely completion.</p> |

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| | | | <p>Auditor's update as of Oct-2006: In process. Public Works has applied for a grant to compare the PMMS system and MTC's Street Saver, with the goal of making PMMS compatible with MTC's StreetSaver while maintaining the PMMS link to the City's GIS system.</p> <p>Auditor's update as of Oct-2007: In process. A consultant was hired to evaluate the City's PMMS software and to compare the City's PMMS with the MTC Streetsaver software. The consultant is expected to identify software enhancements needed to make PMMS similar to MTC's software. A draft report is expected in late September 2007.</p> <p>Auditor's update as of Nov-2008: In process. Public Works reports a consultant was hired to evaluate the MTC and City pavement software and developed modifications to the PMMS system that the City is testing to determine if the modifications correlate with the MTC Streetsaver system pavement condition scores. Testing should be completed by December 2008. The final report will be available in February 2009 and submitted to MTC for certification.</p> <p>If Public Works completes the PMMS conversion and can demonstrate system capabilities that are equal to or better than MTC Streetsaver qualities, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process.</p> <p>Auditor's update as of Sep. 2009: In process. Public Works reports it is still working with a consultant to verify that the modifications to the City's PMMS are acceptable. Public Works staff report it used the PMMS modifications to perform a biannual pavement inspection and used the PCI scores to quantify the City's backlog of street projects. The results will be used to develop a new 5-year strategic plan for paving the City streets. Target date: July-2010</p> <p>Auditor's update as of July 2010: Completed. Public Works Information Technology Staff worked with a consultant to demonstrate that the City's PMMS modifications resulted in correlating the City's pavement scores with the MTC's Streetsaver pavement condition scores. MTC included the City's pavement index scores in their annual report for 2009, and the report shows the City scored in the "Good" range, tying with Saratoga and Los Gatos. According to Public Works, the City will continue to correlate pavement scores while using the City's customized PMMS to take better advantage of the City's GIS applications.</p> |

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| AUDIT OF LIBRARY OPERATIONS (Issued 7/9/07) | | | Finance Committee |
| The purpose of our review was to identify potential operating efficiencies. Of the 32 recommendations, 28 were previously completed, and 4 were completed/resolved this year. | | | |
| #3: The City should fund ongoing, routine replacement of outdated furniture, shelving and minor repairs in Library facilities. | Library | Completed | <p>Original department response: This recommendation is consistent with one of the recommendations in the Library Advisory Commission's LSMAR report. Staff concurs. This recommendation will be implemented as a request through the 2009-11 budget process.</p> <p>Auditor's update as of Nov-2008: In process. Library staff advises that the additional cost of routine replacement of furnishings and equipment for the three library bond measure projects was included as part of the estimated additional operating expenses for these facilities. The estimate is \$25,000 more than the Library's FY 2008-09 allocation of \$24,000. According to the Library, a funding proposal to address this recommendation will be developed as part of the Library's FY 2009-11 proposed budget. If the proposal is adopted, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: Jul-2009.</p> <p>Auditor's update as of Sept. 2009: In process. The Library Department reports that the economic climate and construction on 3 libraries precluded a FY 2010 budget request for this recommendation. The Library Department may consider submitting a budget request after construction is completed.</p> <p>Auditor's update as of July 2010: Completed. Although faced with Citywide FY 2011 budget cuts, the Library Department reports progress in developing alternative funding strategies for shelving, furniture and equipment. The Library Department's implementation of the Measure N Library Bond Measure will expand and renovate three of the five library branches. Part of the implementation plan includes a budget for furniture, fixtures and equipment (F,F&E). The F,F&E budget is not included in the bond proceeds; however, the Library Foundation is conducting significant fundraising efforts to support funding in this area. College Terrace Library will reopen in FY 2011, with some new shelving and furniture that will be funded with grants from the Friends of the Library. In addition, the Public Works Department's development of the City's Capital Improvement Plan includes funding for minor repairs at City facilities, and individual projects are considered each year. Library staff anticipates on-going annual operating costs estimated at \$1 million after the Library Bond Measure projects are completed; this estimate includes some funding for furniture and equipment.</p> |

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| #13: One goal of schedule changes should be to reduce or eliminate overtime pay on Sundays for full-time employees. | Library | Resolved | <p>Original department response: Staff will explore the feasibility of this recommendation and would be required to meet and confer with SEIU to make changes in the current practice. It has been the practice to pay overtime for Sunday work by full-time regular staff since 1979. The amount spent by the Library for overtime in a recent twelve-month period was \$45,500. This represented 1155 hours, or approximately 0.55 FTE, with 80% of the total hours worked on Sundays. Elimination of overtime pay on Sundays would result in a loss of approximately 0.4 FTE, and will require the establishment of alternative work schedules. The target completion date is the end of FY 2007-08 to complete feasibility study and establish need to meet and confer with SEIU.</p> <p>Auditor's update as of Nov-2008: In process. Library staff advises that the Library and Human Resources are reviewing this recommendation. Sundays are staffed with a combination of regular and hourly staff. It is Library policy to have regular staff assigned to work whenever a library is open as they are responsible for the safety of the public, overall operation of the facilities, and ensuring proper cash handling procedures. When full-time employees work on Sundays, it is in addition to their regular 40 hours per week schedule. The Library staff advises that to eliminate overtime pay for full-time employees would require a reduction in the number of hours that can be worked the rest of the week – typically 5 less hours for each full-time employee working on a Sunday. This would make it difficult to meet the City's standard work week of forty hours worked within five consecutive days, and on average, there would be 16 hours less per week available to staff all libraries Monday-Saturday. This recommendation will be evaluated along with Recommendation #14 since both involved scheduling. If the Library can demonstrate that it has analyzed schedules with serious consideration of how to reduce or eliminate overtime pay, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: June-09.</p> <p>Auditor's update as of Sept. 2009: In process. The Library Department reports that a team is studying this recommendation. The Library Department reports that it shifted staff between branches and beginning in FY 2010, it added 4 hours of weekly service at the Mitchell Park and Downtown branches. The Library staff decreased by approximately 3.5 FTE in FY 2010 so the possibilities for expanding hours at Mitchell Park may not occur. Target date: TBD</p> <p>Auditor's update as of July 2010: Resolved. Library Staff reports that the City's need to make budget reductions resulted in a</p> |

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| #17: The Library should propose a simplified job title structure and Human Resources should assist the Library with its implementation. | Library | Resolved | <p>recommendation to the City Council to reduce library hours in FY 2011. This and other service level reductions for FY 2011 resulted in a reduction of approximately 3.4 FTE (12 positions) from the Library's FY 2011 staffing levels. The elimination of Sunday overtime pay for full-time regular staff cannot be accommodated without additional hour reductions or reducing staff coverage on other days to unacceptable levels. Based on the Council Finance Committee's review of the proposal to close all libraries on Monday, it is clear that another alternative to achieving overtime savings – i.e. close libraries on Sundays – would not be acceptable. The Library Department recommends dropping this recommendation given the current staffing levels and service hour reductions that were implemented in July 2010.</p> <p>The Auditor's Office considered the Library Department's request and notes that the reduction in hours resulted in a budget savings of \$110,000 (more than the FY 2011 overtime budget of \$57,800). Although the savings resulted in fewer Library hours rather than a reduction of overtime expense, the Auditor's Office agrees the staffing impact involved in scheduling changes on Sundays would be difficult for the Library Department to absorb in addition to the recent service level reductions. If the service hours are restored in future budget, we would recommend the Library Department revisit this audit recommendation.</p> <p>Original department response: Library and Human Resources staff agrees to review library job titles towards the goals of simplifying the structure and having broader band pay ranges for some positions, while maintaining an adequate career path. As the Auditor points out, changes in job titles or job description will require the City to meet and confer with SEIU. The completion date is to be determined.</p> <p>Auditor's update as of Nov-2008: In process. Library and Human Resources staff have met to review the Library's job title structure. It was agreed that one library specific classification could be eliminated and that the job descriptions of two classifications should be reviewed and updated as needed. The City will meet and confer with SEIU to submit any proposed changes as part of the 2009-11 budget. If the Library can demonstrate the issues were addressed with SEIU and the decisions about simplifying the job title structure were made accordingly, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: Jan-2009.</p> <p>Auditor's update as of Sept. 2009: In process. During the 2009 mid-year budget process, the Library Department proposed to simplify its structure through the consolidation of two job titles (by reclassifying 5.5 Library Assistant positions to Library Specialist positions). This</p> |

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| | | | <p>was not approved since the reclassification would have increased budgeted costs by \$32,340. The Library Department will try to propose a simplified structure during the next budget cycle. Target date: July-2010</p> <p>Auditor's update as of July 2010: In process. The Library Department did not propose funding this simplified structure for FY 2011 as the cost to make these reclassifications was not aligned with the City's need to implement budget reductions. However, the Library Department intends to pursue this recommendation in the future. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Resolved. The Library Department submitted a proposed change to simplify its job title structure in the FY 2012 budget. This change was not recommended by ASD Budget and the Human Resources Department. According to staff, Human Resources performed a classification study and found that this reclass was inappropriate.</p> |
| #18: The Human Resources Department should complete as soon as possible the 2003 <i>Audit of Overtime Expenditures</i> recommendations #15 regarding an FLSA review of all City job titles and #18 regarding overtime pay to Management employees. | Human Resources | Completed | <p>Original department response: The Human Resources Department is currently conducting the first phase of the review by way of a Management Classification/Compensation Study. This study will be completed by December 2007 and will provide current job descriptions and a basis for determining the appropriate compensation method. Following the completion of the study, the HR Department in collaboration with the City Attorney will commission an FLSA audit using the data from the study to address and resolve this issue. Staff agrees to meet and confer with SEIU on this issue by the end of FY 2007-08 and address it through the next round of contract negotiations in 2009.</p> <p>Auditor's update as of Nov-2008: In process. With regard to overtime audit recommendation #15, Human Resources advises that management/professional job descriptions are now completed and the FLSA review will begin in March 2009. With regard to this recommendation #18, Human Resources advises that a statement related to management leave and overtime pay will be proposed as an addition to the next revision of the management compensation plan. Target date: for recommendation #15, TBD; for recommendation #18, July-2009.</p> <p>Auditor's update as of Sept. 2009: In process. With regard to overtime audit recommendation #15, Human Resources reports the City Attorney's Office has contracted with outside council to review the FLSA designation of 63 positions in the management/professional group. Remaining positions will be reviewed upon completion of the management classification & compensation study, currently</p> |

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| | | | <p>underway. With regard to recommendation #18, because the FLSA study is not yet completed, Human Resources deferred implementing the recommended wording specifying that management leave is granted in lieu of overtime pay, and has not yet determined how to address the category of employees who receive both management leave and overtime pay. If the HR Department is able to complete both of the audit recommendation requirements, the Office of the City Auditor will be able to consider this recommendation completed during the next follow-up process. Target date: Dec. 2010</p> <p>Auditor's update as of July 2010: In process. According to HR, progress has been made on Recommendation #15: 93 positions within the management/professional group required FLSA review. HR completed job descriptions and finalized them from June 2009 through July 2010. HR reports that all 93 job descriptions were submitted to outside counsel for FLSA review, 78 have been completed and 15 are in-progress.</p> <p>For Recommendation #18, once the FLSA study is completed, staff will be determining how to treat employees that currently receive both management leave and overtime pay. The recommended wording specifying that management leave is granted in lieu of overtime pay has not yet been finalized. Target date: Nov. 2010.</p> <p>Auditor's update as of March 2011: Completed. The FLSA study is complete. In conformance with the City's merit rules and regulations, overtime will only be paid to managers who were determined to remain non-exempt. Effective February 26, 2011, managers who were previously considered non-exempt and have now been determined to change to exempt status will no longer receive overtime pay.</p> |
| <p>AUDIT OF EMPLOYEE ETHICS POLICIES (Issued 1/23/08) Policy and Services Committee</p> <p>The objective of this audit was to review the City of Palo Alto's procedures for ascertaining and handling potential conflicts of interest among City employees, and to assess the need for an employee ethics policy. Of the 7 recommendations, 3 were previously completed, 1 was completed this year, and 3 are in process.</p> | | | |
| <p>#2: Department heads and supervisors of employees in designated positions should review, and initial, employee Form 700s before the forms are filed with the City Clerk.</p> | <p>City Manager's Office</p> | <p>Completed</p> | <p>Original department response: The City Attorney's Office will take the lead in developing and implementing a training program on employee form 700s. In conjunction with that training, a procedure requiring department head review prior to submission to the City Clerk will be developed and implemented. Development of the program will be accomplished by June 30, 2008.</p> |

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| | | | <p>Auditor's update as of Nov-2008: In process. The City Manager staff agreed to implement a process requiring department head and supervisor review of an employee's Form 700 if an employee has a reportable interest or on receipt of a complaint. Furthermore, staff has advised us that the City Clerk will include in the filing notification that employees are responsible for identifying and avoiding conflicts of interest. It will be the employee's responsibility to be aware of potential conflicts and to identify these on their Form 700 documents and to their supervisor as necessary. Supervisors should ensure that employees are not involved in a decision-making capacity with respect to any of their reportable interests. The ethics training incorporated in the Form 700 training will also address these issues.</p> <p>If the City Clerk's Office provides sample copies of Form 700s that show supervisory review and sign-off for those Form 700s with reportable interests, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process.</p> <p>Auditor's update as of Sep. 2009: In process. The Auditor's Office reviewed the Forms 700 on file with the City Clerk's Office and did not find evidence of supervisory review and sign-off for those Forms 700 with reportable interests. Based on our follow-up review, there were 71 individuals with reportable interests, and only 2 Form 700s indicated supervisory review.</p> <p>To provide better direction to employees and ensure the recommendation is implemented, we would recommend that the City Manager's Office lead the effort to develop a process requiring supervisory review and sign-off on Form 700s prior to employees filing with the City Clerk's Office. During our next follow-up, if the City Clerk's Office provides copies of Form 700s that show supervisory review and sign-off for those Form 700s with reportable interests, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process. Target date: June-2010</p> <p>Auditor's update as of July 2010: Completed. The City Manager's Office sent a memo to department directors requesting they review and initial employee Form 700s before the forms are filed with the City Clerk. The Auditor's Office reviewed the Form 700s on file with the City Clerk's Office and found evidence of supervisory review for the majority of employee forms with reportable interests (55 out of 75). The Auditor's Office provided this information to the City Manager's Office. The City Manager's Office reports that it will work with staff to ensure this practice is consistently implemented.</p> |

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| <p>#4: The City should develop a code of ethics that employees can use as a guidepost for avoiding conflicts of interest, for ethical behavior, for deciding what actions are needed when conflicts of interest occur, and for making decisions. Employees should be required to read and sign an acknowledgment of the policy.</p> | <p>City Manager's Office</p> | <p>In process</p> | <p>Original department response: Staff will research what other cities have developed in terms of a comprehensive ethics policy and develop a policy for the City of Palo Alto by June 30, 2008.</p> <p>Auditor's update as of Nov-2008: In process. City Manager staff reviewed the City Auditor's sample ethics codes along with codes of other California cities and recommended a positive, values-based versus rules-based code that is brief, easily understood, and designed to build public confidence. Over the next 6 months, the City Manager's Office will launch an effort to engage the organization in a series of conversations about ethical values and the development of a code of ethics. Further, the City Manager's Office plans to develop a code of ethics, a training plan on the code of ethics, and is committed to work on developing a mechanism for employees to acknowledge receipt of ethics training.</p> <p>If the City Manager's Office approves a formal copy of a code of ethics and implements a mechanism for employees to acknowledge receipt, the Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process.</p> <p>Auditor's update as of Sep-2009: Not started. The City Manager's Office reports that due to other priorities, implementation of this audit recommendation was delayed. Target date: TBD</p> <p>Auditor's update as of July 2010: In process. According to the City Manager's Office, they are in discussions with a consultant who designs and implements ethics policies and training programs for private and public agencies. If the consultant is hired, staff anticipates working over the next year to develop a Citywide code of ethics and ethics training program. Target date: March 2011.</p> <p>Auditor's update as of March 2011: In process. The City retained the services of Dr. Tom Shanks of The Ethics Company in November 2010 to assist with the development of the City's values based ethics code of conduct, policy development and implementation, employee interviews, training implementation program and first round of citywide training. Target date: Project will last approximately 12-18 months and will be fully completed by spring, 2012.</p> |
| <p>#5: The City should formalize its policy on ethics training and ensure that employees attend periodic training updates.</p> | <p>City Manager's Office</p> | <p>In process</p> | <p>Original department response: An ethics training program for all employees will be developed for the next training season.</p> <p>Auditor's update as of Nov-2008: In process. As soon as the code of ethics is developed through the implementation of Recommendation #4, the City Manager's Office and Human Resources will begin to implement an associated training policy and program.</p> |

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| <p>#7: The City Manager should form a working group to (1) establish policies and procedures for handling employee complaints of waste, fraud, and abuse through normal supervisory channels; (2) establish and monitor a hotline for anonymously reporting fraud, waste and abuse; (3) develop procedures for reporting, investigating, handling, and following-up on hotline reports; and (4) develop whistleblower policies and procedures.</p> | City Manager's Office | In process | <p>If the City Manager's Office develops and implements an ethics training program, provides copies of ethics class schedules, and copies of attendee lists, of the City Auditor will be able to consider this recommendation completed during our next follow-up process.</p> <p>Auditor's update as of Sep. 2009: Not started. The City Manager's Office reports that due to other priorities, implementation of this audit recommendation was delayed. Target date: TBD</p> <p>Auditor's update as of July 2010: In process. According to the City Manager's Office, they are in discussions with a consultant who designs and implements ethics policies and training programs for private and public agencies. If the consultant is hired, staff anticipates working over the next year to develop a Citywide code of ethics and ethics training program.</p> <p>The City Manager's Office also notes that the Human Resources Department offers ethics classes and webinars through New Employee Orientation, the International City/County Management Association and others. Target date: March 2011.</p> <p>Auditor's update as of March 2011: In process. The City retained the services of Dr. Tom Shanks of The Ethics Company in November 2010 to assist with the development of the City's values based ethics code of conduct, policy development and implementation, employee interviews, training implementation program and first round of citywide training. Target date: Project will last approximately 12-18 months and will be fully completed by Spring 2012.</p> <p>Original department response: The City will form a working group to develop a policy and procedure to ensure that employees have a way to report fraud, abuse, and waste, and that such complaints will be appropriately investigated and followed up on. Staff has a number of reservations about the Auditor's recommendation to create a hotline for complaints, and will take the opportunity to talk to other cities and professional organizations prior to making a final determination as to how to achieve the very appropriate goals that led to this recommendation.</p> <p>Auditor's update as of Nov-2008: In process. The City Manager's Office formed a working group and developed a policy for employees to report complaints of waste, fraud and abuse. The City Manager will also work with the City Auditor and City Attorney to implement a hotline that would enable community members to register complaints with the City by Spring 2009. These hotlines may be administered by third party vendors who review and categorize the complaints. The</p> |

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| | | | <p>City Auditor has expressed interest in the development of such a hotline, given recent changes with the State's passage of AB2001 that provided City Auditors with the ability to protect confidentiality of complainants.</p> <p>The Office of the City Auditor will be able to consider this recommendation completed during our next follow-up process if the City Manager works with the City Auditor and City Attorney to implement a community hotline to receive and review complaints of waste, fraud and abuse, and to implement the procedures and reports outlined in this audit recommendation.</p> <p>Auditor's update as of Sep. 2009: Not started. The City Manager's Office reports that due to other priorities, implementation of this audit recommendation was delayed. Currently, members of the public can contact the City Auditor or City Manager directly to report instances of potential fraud, waste, and abuse. The City Manager reports interest in evaluating mechanisms for incorporating a fraud, waste and abuse hotline within a larger customer service/request tracking system. The City Auditor's Office continues to express interest in the development of a dedicated fraud, waste, and abuse hotline and plans to report back to the Policy and Services Committee on this recommendation. Target date: TBD</p> <p>Auditor's update as of July 2010: In process. At the July 29, 2010 Policy & Services Committee meeting, the Committee recommended that the City Council establish a fraud, waste, and abuse hotline organized under the City Auditor's Office. The Committee also recommended the hotline be for employees only and that policy and procedures be established prior to the hotline implementation. The Policy & Services Committee recommendation will need to be reviewed with the City Council. The City Manager's Office is currently working on the development of the Ethics policy, procedures, and training program, as noted in Recommendations #4 and #5. Target date: March 2011.</p> <p>Auditor's update as of March 2011: In process. March 2011 Update: Per the direction of the Policy & Services Committee, the Acting City Auditor will update the City Council in June 2011, on a proposed hotline implementation. The update will include the cost of a third party vendor and proposed protocols for receiving and responding to complaints received through the hotline. The Auditor's Office will work with the City Manager's Office and the new City Attorney to develop general protocols for receiving and responding to complaints. Target date for completion: December 2011.</p> |

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| INFRASTRUCTURE REPORT CARD FOR PALO ALTO (Issued 3/4/08) | | | Finance Committee |
| <p>The purpose of our review was to assess the results of the increased capital spending, and to assess the impact of increased capital spending on the City's infrastructure including utilities – is the City making progress, losing ground, or just holding its own? Of the 10 recommendations, 1 is in process and 9 are deferred.</p> | | | |

Note from the Office of the City Auditor:

At the time of issuance, management did not provide a recommendation-by-recommendation response to this report as is the case for most audits. Instead, the City Manager's Office issued a statement that staff was in general agreement with the recommendations and would be providing a more detailed response at the March 18, 2008 Finance Committee Meeting. At the March 18 Finance Committee meeting, staff presented an update on the infrastructure backlog, however, no further responses were provided to address the audit report, presumably because the City Auditor position was vacant during this timeframe.

In November 2008, the City Manager's Office committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009. The City Manager's Office reports that due to other workload issues, it has not yet brought forth a comprehensive plan or status report to the Finance Committee. However, the City Manager gathered a team of ICMA government managers to evaluate the infrastructure challenges facing the City. The ICMA team was asked to develop a list of all infrastructure projects, evaluate funding mechanisms, and develop an engagement strategy. The ICMA team issued their report in September 2009, which confirmed the audit report's findings and recommendations. Additionally, the City incorporated \$2M in on-going infrastructure funding into the City's long-range financial plan as a "placeholder" until a strategic direction is more fully developed.

In March 2010, the Council considered a Colleagues' Memo requesting that the Council appoint an Infrastructure Blue Ribbon Commission (IBRC). The Policy & Services Committee ultimately made recommendations to Council about the scope and structure of this Commission and recruitment and selection of the Commission is underway. The City Manager's Office anticipates that many of the audit report recommendations will be addressed either directly by the IBRC or simultaneously with the work of the IBRC. The work of the Commission will continue until spring of 2011.

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| #1: The City should adopt the Government Finance Officers Association Recommended Practice "Capital Maintenance and Replacement" as City policy. | City Manager's Office | Deferred | <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> <p>Auditor's update as of Sep. 2009: Not started. Due to other workload issues, the City Manager's Office has delayed implementation.</p> <p>Auditor's update as of July 2010: In process. With the City Council's appointment of an Infrastructure Blue Ribbon Commission (IBRC), the City Manager's Office anticipates the IBRC's work will lead to a City policy that incorporates the GFOA's recommended practices for Capital Maintenance and Replacement.</p> <p>Auditor's update as of March 2011: Deferred. The IBRC is now fully operational and the City Manager's Office anticipates that the IBRC</p> |
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| <p>#2 (GFOA recommended practice): Develop and maintain a complete inventory of all capital assets. This inventory should contain essential information including engineering description, location, physical dimensions and condition, "as-built" documents, warranties, maintenance history, book value and replacement cost. Operating cost information could also be included. Database and geographic information technologies should be employed to assist in this task.</p> | City Manager's Office | In process | <p>work will lead to a policy recommendation to the City Council that incorporates GFOA recommended practices for Capital Maintenance and Replacement. The City Auditor's Office recommends that this recommendation be deferred until June 2012, when the IBRC completes it work and the City Council has had an opportunity to act on the IBRC's recommendations.</p> <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> <p>Auditor's update as of Sep-2009: In process. The Public Works Department formed a Capital Improvement Program Committee to develop a workplan for enhancing the current inventory system. The Utilities Department reported that it identified inventories of key individual assets stored in a variety of databases used to maintain and track assets.</p> <p>Auditor's update as of July 2010: In process. With the City Council's appointment of an Infrastructure Blue Ribbon Commission (IBRC), the City Manager's Office plans to convene a working group from the Public Works Department, Utilities Department, and Administrative Services Department. The working group will review the City's capital asset inventory to ensure it is complete and contains essential elements noted in the audit recommendation. Target date: July 2011.</p> <p>Auditor's update as of March 2011: In process. Staff is developing a comprehensive list of capital assets for IBRC's use in analyzing infrastructure needs. Staff will provide the Auditor's Office with this list when it is completed. Target date: May 2011.</p> |
| <p>#3 (GFOA recommended practice): Develop a policy to require periodic measurement of the physical condition of all existing capital assets. Document the established methods of condition assessment. Periodically evaluate the capital program using data driven analysis of asset condition as well as past expenditure levels.</p> | City Manager's Office | Deferred | <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> |

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| #4: The City should utilize the GIS system as a central coordinating tool and, to the extent feasible, an ongoing repository of infrastructure inventory and condition. | City Manager's Office | Deferred | <p>Auditor's update as of Sep-2009: Not started. Due to other workload issues, the City Manager's Office has delayed implementation. In the meantime, the Public Works and Utilities Departments have advised us they are using methods to identify the condition of their departmental inventories.</p> <p>Auditor's update as of July 2010: In process. Staff notes that the City has a capital replacement and maintenance program for capital inventory including electric, gas, water, and other assets. These current on-going efforts need to be coordinated and a policy developed to encompass all existing capital assets. The City Manager's Office advises that either the IBRC or a staff working group will be developing these efforts in the upcoming year. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Deferred. The IBRC is now fully operational and the City Manager's Office anticipates that the IBRC work will lead to a policy recommendation to the City Council that addresses this recommendation. The City Auditor's Office recommends that this recommendation be deferred until June 2012, when the IBRC completes its work and the City Council has had an opportunity to act on the IBRC's recommendations.</p> <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> <p>Auditor's update as of Sept-2009: In process. Although a plan to utilize the GIS system as a central coordinating tool for all of the City's infrastructure has yet to be developed, the Utilities Department is in the process of executing a contract to integrate the electric, water, gas, wastewater, fiber optic, traffic signal and street light utilities data (currently maintained in different databases or systems) into one geospatial design platform in the GIS database. The Utilities Department reports that this GIS database will serve as the sole repository of all Utilities infrastructure data and will allow querying and analysis capabilities.</p> <p>Auditor's update as of July 2010: Not started. As the Infrastructure Blue Ribbon Commission (IBRC), or staff working group implement Recommendation #3, the City Manager's advises that IT GIS staff will be evaluating the GIS system's current use and inventory. The IT GIS staff will work with departments to identify opportunities for expansions</p> |

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| #5 (GFOA recommended practice): Establish condition/functional performance standards to be maintained for each component of capital assets. Such standards may be dictated by mandated safety requirements, federal or state funding requirements or applicable professional standards. Use these standards and a current condition assessment as a basis for multi-year capital planning and annual budget funding allocations for capital asset maintenance and replacement. | City Manager's Office | Deferred | <p>and coordination of using the GIS system as a repository for infrastructure inventory and condition. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Deferred. Staff working with the Infrastructure Blue Ribbon Commission (IBRC) is developing an inventory of all General Fund infrastructure including City buildings, parks, open space, streets and sidewalks, parking lots, off-road pathways and bridges. This inventory will be assessed and cost estimates of maintenance requirements will be made as the IBRC works toward developing funding recommendations for Council consideration. The next step will be to develop and infrastructure asset management system that may be linked to the City GIS system. The asset management system would be used to track and update infrastructure maintenance needs on an ongoing basis to allow staff to keep-up with infrastructure backlog.</p> <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> <p>Auditor's update as of Sep-2009: Not started. Due to other workload issues, the City Manager's Office has delayed implementation.</p> <p>Auditor's update as of July 2010: In process. Staff notes that the City has a variety of standards for different components of the capital inventory. With the City Council's appointment of an Infrastructure Blue Ribbon Commission (IBRC), the City Manager's Office plans to convene a working group from the Public Works Department, Utilities Department, and Administrative Services Department. The working group will evaluate how standards can be coordinated, expanded and developed for us in multi-year infrastructure planning and budgeting. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Deferred. Staff notes that the City has a variety of standards for different components of the capital inventory. Now that the IBRC is fully operational, the City Manager's Office anticipates that IBRC will evaluate how standards can be coordinated, expanded, and developed for use multi-year planning and budgeting for infrastructure. The Auditor's Office recommends that this recommendation be deferred until June 2012, when the IBRC</p> |

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| #6 (GFOA recommended practice): Develop financing policies for capital maintenance/replacement which encourage a high priority for those capital programs whose goal is maintaining the quality of existing assets. Consider earmarking fees or other revenue sources to help achieve this goal. | City Manager's Office | Deferred | <p>has completed its work and the City Council has had an opportunity to act on the IBRC's recommendations.</p> <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> <p>Auditor's update as of Sep. 2009: In process. During our mid-year review, the departments reported that Council directed staff to fund the Infrastructure Reserve annually to ensure Capital expenditures maintain the quality of existing assets however, these transfers have been impacted by unprecedented downturns in the economy. Transfers from the general fund have been reduced and the possibility exists that further funds may not be transferred in the current and upcoming fiscal year. Staff is working on establishing new revenue to address the significant backlog and will readdress the plan once the general fund stabilizes from the current recession. Until then, the City incorporated \$2M in on-going infrastructure funding into the City's long-range financial plan as a "placeholder".</p> <p>Auditor's update as of July 2010: In process. With the City Council's appointment of an Infrastructure Blue Ribbon Commission (IBRC), staff anticipates the IBRC will provide recommendations to assist staff efforts related to this audit recommendation. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Deferred. The IBRC is now fully operational and fully engaged in analyzing the City's infrastructure backlog. The IBRC's work will address financing strategies for addressing the infrastructure backlog. The Auditor's Office recommends deferring this recommendation until June 2012, when the IBRC has completed its work and the City Council has had an opportunity to act on the IBRC's recommendations.</p> |
| #7 (GFOA recommended practice): Allocate sufficient funds in the multi-year capital plan and annual operations budget for routine maintenance, repair and replacement of capital assets in order to extend the useful life of these assets and promote a high level of performance throughout the target period. | City Manager's Office | Deferred | <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> |

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| <p>#8 (<i>GFOA recommended practice</i>): At least annually, report on capital infrastructure, including:</p> <ul style="list-style-type: none"> • Condition ratings jurisdiction-wide • Condition ratings by geographical area, asset class, and other relevant factors • Indirect condition data (e.g. water main breaks, sewer back-up complaints) • Replacement life cycle(s) by infrastructure type • Year-to-year changes in net infrastructure asset value • Actual expenditures and performance data on capital maintenance compared to budgeted expenditures performance data (e.g. budgeted street miles reconstructed compared to actual). | City Manager's Office | Deferred | <p>Auditor's update as of Sep. 2009: In process. On a case-by-case basis, funds are allocated in the 5-year CIP and in departmental operating budgets to provide repair and replacement of capital assets in order to extend the useful life of assets as revenues allow. The Utilities Department reports that it currently has sufficient funds for the capital program. Additional funds may be necessary in the future to meet maintenance and operations functions due to regulatory requirements.</p> <p>The allocation of sufficient funds for the City's Infrastructure inventory will depend on the development of a long-term infrastructure funding plan.</p> <p>Auditor's update as of July 2010: In process. With the City Council's appointment of an Infrastructure Blue Ribbon Commission (IBRC), staff anticipates the IBRC will provide recommendations to assist staff efforts related to this audit recommendation. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Deferred. The IBRC is now fully operational and fully engaged in analyzing the City's infrastructure needs. The IBRC's work will address funding for ongoing maintenance to extend the useful life of the City's capital assets. The Auditor's Office recommends deferring this recommendation until June 2012, when the IBRC has completed its work and the City Council has had an opportunity to act on the IBRC's recommendations.</p> <hr/> <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> <p>Auditor's notes: Mid-Year status notes that other Auditor recommendations as they relate to assets are developed, the Capital Improvement Program Committee will review and determine the resource level required to meet this recommendation.</p> <p>Utilities tracks many of these in required reports to regulating bodies. Some of the data is tracked on an as needed basis. This could be done annually if required.</p> <p>Auditor's update as of Sep. 2009: Not started. Due to other workload issues, the City Manager's Office has delayed implementation.</p> |

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| <p>#9 (<i>GFOA recommended practice</i>): Report trends in infrastructure spending and accomplishments in the jurisdiction's Capital Improvements Program including trends in spending, replacement cycle, and other important factors for each major infrastructure category.</p> | City Manager's Office | Deferred | <p>Auditor's update as of July 2010: In process. With the City Council's appointment of an Infrastructure Blue Ribbon Commission (IBRC), staff anticipates the IBRC will provide recommendations to assist staff efforts related to this audit recommendation. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Deferred. With the IBRC is now fully operational, staff anticipates that the IBRC will provide recommendations to address this audit recommendation. The Auditor's Office recommends deferring this recommendation until June 2012, when the IBRC has completed its work and the City Council has had an opportunity to act on the IBRC's recommendations.</p> <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> <p>Auditor's update as of Sep. 2009: Not started. Due to other workload issues, the City Manager's Office has delayed implementation.</p> <p>Auditor's update as of July 2010: In process. With the City Council's appointment of an Infrastructure Blue Ribbon Commission (IBRC), staff anticipates the IBRC will provide recommendations to assist staff efforts related to this audit recommendation. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Deferred. With the IBRC is now fully operational, staff anticipates that the IBRC will provide recommendations to address this audit recommendation. The Auditor's Office recommends deferring this recommendation until June 2012, when the IBRC has completed its work and the City Council has had an opportunity to act on the IBRC's recommendations.</p> |
| <p>#10: Staff should propose and the City Council should consider a sustainable capital budget that:</p> <ul style="list-style-type: none"> Provides additional funding for critical needs that have been identified in the infrastructure condition assessments, including construction cost inflation. Lists all other unfunded needs that were identified in those assessments in the annual capital budget document. | City Manager's Office | Deferred | <p>Original department response: Staff is in general agreement with the audit recommendations.</p> <p>Auditor's update as of Nov-2008: Not started. Due to subsequent staff transitions in the City Manager's Office, staff has not yet developed a comprehensive approach to implement the audit recommendation. The City Manager's Office has committed to bring forth a comprehensive plan and status report to the Finance Committee by the end of January 2009.</p> |

| Audit report and recommendation | Department | Current status | Comments |
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| | | | <p>Auditor's update as of Sep. 2009: In process. The City incorporated \$2M in on-going infrastructure funding into the long-range financial plan as a "placeholder" until a strategic funding plan is developed. The Infrastructure backlog was discussed during the development of the City's 2010 Capital Budget, and the budget documents identify the amount of infrastructure backlog. The City Manager's Office is working on developing a strategy for a sustainable infrastructure budget.</p> <p>Auditor's update as of July 2010: In process. With the City Council's appointment of an Infrastructure Blue Ribbon Commission (IBRC), staff anticipates the IBRC will provide recommendations to assist staff efforts related to this audit recommendation. Target date: July 2011.</p> <p>Auditor's update as of March 2011: Deferred. With the IBRC is now fully operational, staff anticipates that the IBRC will provide recommendations to address this audit recommendation. The Auditor's Office recommends deferring this recommendation until June 2012, when the IBRC has completed its work and the City Council has had an opportunity to act on the IBRC's recommendations.</p> |

AUDIT OF AMBULANCE BILLING AND REVENUE COLLECTION (Issued 02/02/09)

Finance Committee

The objective of the audit was to assess the overall efficiency and cost effectiveness of ambulance billing and collections. We also reviewed the City's contract for ambulance billing services and evaluated the contractor's compliance with key contract terms. Of the 17 recommendations, 11 were previously completed and 6 were completed this year.

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| <p>#7: The Fire Department should develop a written process for conducting spot checks of billed ambulance services to help ensure consistent billings</p> | <p>Fire</p> | <p>Completed</p> | <p>Original department response: Staff agrees that a written policy will be developed and the Fire Department will confer with the Auditor's Office to recommend the parameters for conducting the "spot " checks.</p> <p>Auditor's update as of Sep. 2009: In process. The Fire Department reports that it is conducting joint spot checks and follow-up with the contractor and ASD. The Fire Department plans to formalize this joint process through a written policy. Once this policy is completed and implemented, the Auditor's Office will be able to consider the recommendation completed. Target date: June-2010</p> <p>Auditor's update as of July 2010: Completed. According to Staff, ASD and the Fire Department are conducting spot checks of accounts in different stages of billing. Staff also follows-up with the contractor during monthly meetings.</p> |
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| #9: Revenue Collections should work with the City Attorney's Office to clarify the applicable statute of limitations for billing patients for ambulance service. | ASD | Completed | <p>Original department response: Staff agrees and has already initiated the process. Revenue Collections has had conversations with the Attorney's Office and a meeting has been scheduled for follow-up. Revenue Collections will request annual reviews of the procedures to determine if changes are necessary.</p> <p>Auditor's update as of Sep. 2009: In process. ASD reports that it is in the process of updating written procedures to provide better clarification of the applicable statute of limitation time periods. ASD will forward the procedures to the City Attorney's Office for review and also plans to review them annually to determine if changes are necessary. Target date: June-2010.</p> <p>Auditor's update as of July 2010: Completed. According to Staff, ASD met with the City Attorney's Office to clarify the applicable statute of limitations for ambulance service, which allows for two years for oral contracts and three years for written contracts. Due to the operational difficulty of identifying the type of contract for each ambulance service transaction, Staff decided to implement the two-year limit for ambulance services and revised their procedures accordingly.</p> |
| #10: After completing recommendation #8, Revenue Collections should revise write-off procedures for ambulance billing revenue. The revised procedures should reflect actual practices and should cite the criteria used in deciding whether to write off accounts. | ASD | Completed | <p>Original department response: Staff agrees and will work to revise current procedures to reflect the recommendations and guidelines provided by the City Attorney's Office.</p> <p>Auditor's update as of Sep. 2009: In process. In conjunction with the written procedures for recommendation #9, ASD's Revenue Collections is also revising the written procedures for ambulance billing write-offs. Target date: June-2010.</p> <p>Auditor's update as of July 2010: Completed. ASD Revenue Collections revised the portion of the write-off procedures pertaining to ambulance billing and the City Attorney approved the revisions.</p> |
| #11: The City Manager's Office should work with the Fire Department and the Administrative Services Department to identify key roles related to ambulance billing and to clarify in writing (with a table or matrix) specifically who is responsible for which roles. | City Manager's Office | Completed | <p>Original department response: Staff agrees regarding the importance of this issue. ASD and Fire will work with the City Manager's Office to clearly define the necessary roles and responsibilities to achieve this goal.</p> <p>Auditor's update as of Sep. 2009: In process. The Fire Department and ASD report that they have been working together to identify key roles and responsibilities related to ambulance billing. Once these roles are finalized, the departments intend to submit a matrix to the City Manager's Office for review and approval. Target date: June-2010.</p> |

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| #13: The Fire department should take a lead role in monitoring the accuracy of invoices from the ambulance billing contractor. This should include verifying the accuracy of the invoice by reviewing supporting documentation if necessary, to understand how the amount was calculated. | Fire | Completed | <p>Auditor's update as of July 2010: Completed. ASD and the Fire Department worked together to develop a matrix identifying the key roles and responsibilities related to ambulance billing. In addition, ASD and the Fire Department meet routinely with each other and the contractor to coordinate ambulance billing follow-up.</p> <p>Original department response: Staff agrees and the Fire Department will work to provide the necessary resources to satisfy this recommendation through reallocation of existing duties or other means.</p> <p>Auditor's update as of Sep. 2009: In process. The Fire Department reports that it is implementing a new procedure to monitor the accuracy of ambulance billing invoices and to review supporting data. Target date: June-2010</p> |
| #14: The Fire department should work with the Accounting Division in ASD to ensure the ambulance billing contractor's commission adjustment related to refunds, is correct. | Fire/ASD | Completed | <p>Auditor's update as of July 2010: Completed. The Fire Department developed a monitoring program to review invoices to identify missing information and ensure billing accuracy. The Fire Department incorporated the monitoring program into its update of General Orders under "Ambulance Audit Process."</p> <p>Original department response: Staff agrees and will work with ASD to provide a mechanism for adjustments that is accurate.</p> <p>Auditor's update as of Sep. 2009: In process. The Fire Department and ASD report that they are currently monitoring the contractor's commissions and have established a process to review each monthly invoice for accuracy. They are planning to develop a written procedure to complete the audit recommendation. Target date: June-2010.</p> <p>Auditor's update as of July 2010: Completed. According to Staff, ASD Accounting reviews refunds and forwards them to Revenue Collections for review and approval. During monthly meetings with the contractor, ASD and Fire review the refunded payments and check for accuracy of the invoice.</p> |

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| <p>AUDIT OF POLICE INVESTIGATIVE FUND (Issued 07/21/09) Finance Committee</p> <p>The purpose of our audit was to verify the accuracy of the reported cash on hand and assess controls over the use of the funds. The audit scope included a review of transactions since the prior audit in April 2007 through April 2009. Of the 3 recommendations, 2 were completed last year and 1 was completed this year.</p> | | | |
| <p>#1: In our opinion, the Police Department should continue its update of the Police Investigative Fund procedures. We recommend that the Police Department update the PIF procedures to reflect actual practices including integration of the PIF procedures into the Department's approved policies.</p> | <p>City Manager's Office</p> | <p>Completed</p> | <p>Original department response: Staff agrees with the recommendation.</p> <p>Auditor's update as of Sept.-2009: In process. The Police Department reports that updated procedures have been submitted to the Human Resources Department and should be included in the Police Department's next updated policy manual. Target date: June 2010.</p> <p>Auditor's update as of July 2010: Completed. The Police Department reports that the procedures were updated and approved.</p> |
| <p>AUDITOR'S OFFICE REVIEW OF CITY TELEPHONE RATES AND CHARGES (issued 09/08/09) Finance Committee</p> <p>The objective of this review was to assess the overall cost effectiveness of the City's landline telephone rates and charges. This review does not include cellular telephone rates and charges. The scope of our review covered local and long distance billing and call accounting data for the period of January through April 2009. We also reviewed telephone charges for fiscal years 2004-2009 to evaluate historical trends in telephone charges. We selected a sample of telephone calls from the City's internal call accounting system and compared those calls to the City's actual bills to ensure the call accounting system reports were appropriately generated. Of the 3 recommendations, 3 were completed this year.</p> | | | |
| <p>#1: ASD should obtain a phone service contract with competitive billing rates.</p> | <p>ASD</p> | <p>Completed</p> | <p>Original department response: Staff agrees with the recommendation.</p> <p>Auditor's update as of Sept.-2009: In process. Staff expects to have the CALNET 2 contract on the Council agenda by October 2009.</p> <p>Auditor's update as of July 2010: Completed. On November 16, 2009, City Council approved the State of California CALNET 2 contract to order telecommunication services through SBC Global Services, Inc. dba AT&T Global Services for City-wide telecommunication services through January 2012.</p> <p>According to ASD, all of the lines and services were transitioned in 4 months and accounts were retroactive to the date of the signed contract, resulting in \$120,000 in retroactive savings credits. In addition, under the new CALNET 2 contract, the City has decreased</p> |

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| #2: ASD should obtain consolidated billing from the selected provider and develop a process to review bill payments for accuracy and appropriateness. | ASD | Completed | its monthly charges by approximately 40% and anticipates achieving the on-going annual savings of approximately \$235,000 identified in the audit report. Original department response: Staff agrees with the recommendation. Auditor's update as of Sept.-2009: Staff is working with AT&T to develop an appropriate billing structure for the municipal services in the State CALNET 2 contract. Auditor's update as of July 2010: Completed. After executing the CALNET 2 contract, staff coordinated with AT&T to consolidate over 30 accounts into 4 accounts. This consolidation saves staff time and results in only 4 monthly invoices to process. Staff also reported the following under the consolidated billing: <ul style="list-style-type: none"> · Accounts/invoices are broken down by the following types of service: circuits, measured business lines, PBX, and Public Safety lines. · All 4 invoices are now on the same bill cycle. · Invoice processing time has decreased significantly due to processing only 4 invoices and bill cycles being the same. · Prior to implementation of the audit recommendation, in fiscal year 2009, over 152 checks were processed for AT&T. With the audit recommendation implemented, staff expects no more than 48 checks will be processed annually. · IT Staff now has on-line access to all accounts to review charges and rates. |
| #3: ASD should review the current telephone oversight policies and procedures and ensure that employees are provided with accurate information when they reimburse the City of personal calls. | City Manager's Office | Completed | Original department response: Staff agrees with the recommendation. Auditor's update as of Sept. 2009: Completed. The Police Department added a section in the procedures to reflect that Revenue Collections will complete a random, annual cash count of the PIF. The PIF will also be subject to random audits from the external financial auditors and City Auditor's Office. Revenue Collections reports that it is aware of this recommendation and will complete the random cash counts at times of their choosing. Auditor's update as of July 2010: In process. IT Staff is currently revising policies and procedures for processing reimbursements. In addition, IT Staff is working with a third party vendor to obtain accurate call detail in the call accounting system. According to Staff, AT&T cannot provide call details because the City has a PBX system, and therefore continued use of a call accounting system is required. The CALNET 2 rates are currently being uploaded and IT staff is in the process of verifying the uploaded rates are accurate. IT Staff is |

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| | | | <p>prepared to provide call details to departments on a monthly basis. Target date: Oct. 2010.</p> <p>Auditor's update as of March 2011: IT Staff worked with the third-party vendor to update the call accounting system with the new CALNET 2 rates. In addition, IT Staff met with representatives from each department to review the telephone (landline) policy, departmental responsibilities, employee responsibilities, and how to access telephone reports. Reports are available in a PDF format, as well as an on-line report application, built by IT Staff. The on-line application allows for individual staff members to review their own call details. In addition, the application allows select departmental representatives to report on department or division details, as well as perform exception reporting for high call usage or high call amounts.</p> |
| <p>AUDIT OF FLEET UTILIZATION AND REPLACEMENT (Issued 04/14/10)</p> <p>Audit of Fleet Utilization and Replacement: Report analyzes the City's fleet utilization and replacement policies and practices; database completeness and accuracy; adequacy of internal controls; and strategy for promoting climate protection goals. Report identifies about \$2.5 million in avoided expenditures for fleet replacements; long term efficiencies totaling \$396,000 in potential annual cost avoidances; and \$123,000 in alternative fuel revenue recoveries. Report recommends better and stable funding for the fleet and improved internal controls over fuel and parts inventories. Of the 22 recommendations, 5 were completed this year and 14 are in process, and 3 are not started.</p> | | | <p>Finance Committee</p> |
| <p>#1: Public Works Department fleet management should continue to freeze replacement of non-urgent vehicles and equipment until it can reduce the size of the fleet and increase utilization.</p> | <p>Public Works</p> | <p>In process</p> | <p>Original department response: Staff agrees with the recommendation. Typically PWD Equipment Management submits vehicle and equipment replacement schedules with the Capital Improvement Program plan. These schedules prescribe purchases averaging \$3M annually. In FY 2010 PWD Equipment Management did not submit a replacement schedule, and limited fleet purchases to urgently-needed vehicles and equipment only. This was done as a proactive step towards implementing the proposed audit recommendations.</p> <p>PWD Fleet Management will work collaboratively with the Administrative Services Department and the City Manager via a newly created Fleet Review Committee (FRC) to make fleet size and replacement decisions.</p> <p>Auditor's update as of July 2010: In process. The FY 2011 Equipment Management Division Budget does not include a Vehicle Replacement CIP. Public Works Staff advises that until this recommendation is implemented, all vehicle replacements will be handled on an as-needed basis and any purchases will be made only after review and approval from the Fleet Review Committee (FRC). Target Date: May 2011.</p> |

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| #2: PWD Fleet Management should develop an action plan for increasing fleet utilization and identify an optimal fleet size and composition that includes eliminating or re-assigning underutilized vehicles, exploring opportunities to rent specialized equipment or seasonal use of equipment, not replacing vehicles, utilizing mileage reimbursement, rotating vehicles, and placing underutilized vehicles and equipment in a central motor pool. | Public Works | In process | <p>Auditor's update as of March 2011: In FY 2012 Equipment Management Division proposed budget does not include a Vehicle Replacement CIP. Public Works Staff advises that until this recommendation is implemented, all vehicle replacements will be handled on an as-needed basis and any purchases will be made only after review and approval from the Fleet Review Committee (FRC).</p> <p>The FRC communicated their reduction recommendations for underutilized vehicles to the departments allowing further discussion if necessary. The FRC has met with Planning, Community Services, Utilities, and Police. As a result of these discussions, 42 vehicles have already been removed or are currently being coordinated to be removed from direct assignment to the departments. Of these 42 vehicles, 16 are being moved to a communal motor pool and 26 removed from fleet inventory. Going forward staff will continue to adjust the pool mix while maintaining an appropriate level of vehicles. The fleet is comprised of 242 non-safety vehicles (sedans, vans and light trucks) and the elimination of these 26 vehicles from inventory represents a reduction of over 10%. Target Date: December 2011.</p> <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management initiated a review of underutilized vehicles which resulted in four vehicles being voluntarily returned by the departments. Staff will continue to evaluate transport vehicles already identified as underutilized, and will follow with an assessment of metered equipment. The City's vehicle policy will be revised to detail a more stringent review and approval process.</p> <p>Due to timing and existing workload in PWD Equipment Management and the Administrative Services Department, staff plans to seek outside assistance to compile, analyze and report out on recommendations relative to vehicle assignment, rotation, and utilization; the outsourcing of specialized equipment needs; motor pool options; mileage reimbursement, and pool car alternatives. This goal of this effort will be to maximize the utilization of fleet resources, and to improve the cost-effectiveness of the City Fleet in support of City programs; while assuring reliable service delivery.</p> <p>Auditor's update as of July 2010: Not started. According to Staff, Public Works plans to develop an action plan to increase fleet utilization and identify an optimal fleet size and composition by first evaluating underutilized transport vehicles. Public Works has already begun to evaluate underutilized vehicles and is beginning to schedule meetings with the Departments where underutilized vehicles are assigned. After completion of the underutilized passenger vehicles, Public Works Staff will evaluate underutilized equipment. The results of these reviews will help inform the development of an optimal fleet size and options including eliminating or re-assigning underutilized</p> |

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| #3: The Public Works Fleet Management should complete implementation of a centralized Citywide vehicle and equipment pool, and make the Citywide pool accessible to all departments. | Public Works | In process | <p>vehicles, exploring opportunities to rent specialized equipment or seasonal use of equipment, not replacing vehicles, utilizing mileage reimbursement, rotating vehicles, and placing underutilized vehicles and equipment in a central motor pool. Target date: May 2011.</p> <p>Auditor's update as of March 2011: In process.</p> <p>Public Works will develop an action plan to increase fleet utilization and identify an optimal fleet size and composition by first evaluating underutilized transport vehicles. Public Works and the FRC have begun the process of evaluating underutilized transport vehicles, meeting with affected Departments, and working on an implementation plan to reassign vehicles or remove them from the fleet.</p> <p>The results of this review will comprise the first phase in the development of an optimal fleet composition. After the optimization of the transport fleet is completed, Public Works Staff and the FRC will begin the evaluation of specialized vehicles and equipment.</p> <p>The optimization options being considered include but are not limited to: eliminating or re-assigning underutilized vehicles, exploring opportunities to rent specialized equipment or seasonal use equipment, not replacing vehicles, utilizing mileage reimbursement, rotating vehicles, and placing underutilized vehicles and equipment in a central motor pool. Target date: December 2013.</p> <p>Original department response: Staff agrees with the recommendation. Staff has already commenced the implementation of a centralized, automated pool vehicle reservation system, beginning with existing pool vehicles located at located at the Municipal Service Center. This phase is scheduled for completion by summer 2010. The next phase will involve the addition of existing Civic Center pool vehicles to the automated system, and is scheduled for completion by June 20 11. In order to include other City facilities such as Lucie Stern, Elwell Court, and the libraries in the automated system, additional funding may be necessary. Staff will discuss the inclusion of additional funding with the Administrative Services Department as we prepare the FY 2012 budget.</p> <p>Auditor's update as of July 2010: In process. According to Public Works Staff, they are in the process of upgrading the pool located at the Municipal Services Center (MSC), Building B to provide automated key releases and vehicle reservations. Staff anticipates the system upgrades will be implemented by December 2010. Public Works plans to rollout a similar reservation and pool system Citywide. Target date: April 2011.</p> |

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| #4: The City Manager's Office and the Public Works Fleet Manager staff should review the fleet's minimum utilization standards and consider increasing the standards to more cost-effective levels. | Public Works | In process | <p>Auditor's update as of March 2011: In process. Public Works is in the process of expanding and upgrading the existing automated pool vehicle management system located at the Municipal Services Center (MSC), Building B. Automated motor pools will be established at MSC, Building C; Civic Center, and the Utilities Department's Elwell Court location. The pool vehicle management system will provide web-based or spontaneous vehicle reservation capability, and automated vehicle key management. In addition PWD staff is evaluating the feasibility of contracting out pool vehicles with a third-party provider. Target date: December 2011.</p> <p>Original department response: Staff agrees with the recommendation and will review current utilization standards in conjunction with the Fleet Review Committee (FRC). These standards include thresholds for mileage, engine hours, and days used dependent upon the type of equipment. It should be noted that utilization guidelines, in order to be successful, be driven not only by cost comparisons with other agencies and the private sector; but also with the understanding that the City must own certain types of vehicles and equipment in order to provide timely services to the public as well as to fulfill its emergency response obligations.</p> <p>Auditor's update as of July 2010: In process. According to Public Works Staff, they have started to revise the Vehicle/Equipment Policy and will be reviewing utilization standards to incorporate into the revisions. Target date: April 2011.</p> <p>Auditor's update as of March 2011: In process. Staff has begun drafting revisions to the Vehicle/Equipment Policy. Utilization standards will be revised and included in the updated policy. Target date: September 2011.</p> |
| #5: The City Manager's Office should establish a Vehicle Equipment Review Committee with representatives from Public Works Fleet Management, Administrative Services Department's budget staff, and the City Manager's Office to review vehicle and equipment replacements and exemption requests to the utilization requirements. | Public Works | Completed | <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management will work collaboratively with the Administrative Services Department and the City Manager via a newly created Fleet Review Committee (FRC) to make fleet size and replacement decisions. The FRC is comprised of the Fleet Manager, Budget Manager, and a representative from the City Manager's Office. The FRC will review utilization, and conduct programmatic analysis applying the revised guidelines and vehicle policy to ensure efficiency and cost effectiveness of fleet replacements and purchases.</p> <p>Auditor's update as of July 2010: According to Public Works, the FRC has been established and meets once a month. Recently, the Committee has met more frequently to review underutilized vehicles. Public Works Staff advises that it will include language in the revised Vehicle/Equipment Policy describing the FRC's role, process and</p> |

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| <p>#6: Public Works Fleet Management should develop written standards, forms, and assessment criteria for the Vehicle Equipment Review Committee in their evaluations of fleet utilization such as: number of similar units in the fleet, average annual miles hours of similar units, consideration and description of special uses, cost-benefit of retaining the item in terms of program efficiency and service delivery, and mechanical condition.</p> | Public Works | In process | <p>criteria used to assess fleet replacements, additions, and requests for utilization exemptions.</p> <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management and the Administrative Services Department will seek outside assistance to compile, analyze, and report out on recommendations relative to vehicle assignment, rotation, and utilization; the outsourcing of specialized equipment needs; motor pool options; mileage reimbursement, and pool car alternatives.</p> <p>The goal of this effort will be to maximize the utilization of fleet resources, and to improve the cost effectiveness of the City Fleet in support of City programs; while assuring reliable service delivery.</p> <p>Once findings are complete the City's Vehicle Policy will be revised and will include standards, forms, and assessment criteria to be utilized by the Fleet Review Committee.</p> <p>Auditor's update as of July 2010: In process. Public Works Staff drafted a comprehensive form that will facilitate the analysis and assessment of vehicle utilization, replacements, and requests for additions to the fleet. Staff advises that standards and criteria will be incorporated and evaluations conducted in accordance with the revised Vehicle/Equipment Policy.</p> <p>The Auditor's Office will be able to consider the recommendation completed once the form is finalized, implemented, and the Policy update is completed to include the written standards and assessment criteria. Target date: April 2011.</p> <p>Auditor's update as of March 2011: In process. A comprehensive analysis/assessment form has been completed, reviewed by the Auditor and is currently being utilized by staff and the FRC. Staff has begun revising the Vehicle/Equipment Policy and will incorporate the new forms and standards into the revised policy. Target date: September 2011.</p> |
| <p>#7: Public Works Fleet Management should conduct routine annual utilization assessments to identify vehicles and equipment for retirement, redeployment, or inclusion into a centralized vehicle and equipment pool. PWD Fleet Management should provide this information for the Vehicle Equipment Review Committee to review the appropriateness of vehicle and equipment exemptions based on established criteria from Recommendation #6 (above).</p> | Public Works | In process | <p>Original department response: Staff agrees with the recommendation. Fleet utilization and requests for exemption or additions will be reviewed by the Fleet Review Committee (FRC) as part of the annual budget process and creation of the five-year CIP plan.</p> <p>Auditor's update as of July 2010: In process. Public Works Staff advises that they have conducted an annual review of the fleet and identified underutilized vehicles and equipment, in accordance with the Vehicle/Equipment Policy. The FRC will first review underutilized passenger vehicles and anticipates this will be completed in</p> |

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| #8: Public Works Fleet Management should have the authority and responsibility to manage and operate the City fleet to ensure optimized use of fleet resources. | Public Works | In process | <p>November 2010. Public Works and the FRC will conduct a similar assessment for underutilized equipment and anticipate this will be completed by June 2011. Target date: June 2011.</p> <p>Auditor's update as of March 2011: In process. Public Works and the FRC have already evaluated underutilized transport vehicles, have met with affected departments and are working on an implementation plan to reassign vehicles or remove them from the fleet. Comprehensive vehicle analysis/assessment forms have been completed, reviewed by the Auditor and are being utilized by staff and the FRC in their evaluations. Utilization standards will be reviewed and revised as part of a comprehensive update to the Vehicle/Equipment Policy. Target date: September 2011.</p> |
| # 9: PWD Fleet Management should improve the replacement evaluation process through the following: revise the written policies to clarify replacement criteria, re-instate mechanical evaluations as part of the evaluation criteria for replacing vehicles (e.g. vehicles requiring cost prohibitive repairs vs. those in good mechanical condition); and incorporate utilization requirements as part of the evaluation criteria to help ensure underutilized vehicles are not replaced. | Public Works | Completed | <p>Original department response: Staff agrees with the recommendation. Per City Municipal Code 2.08.190 (11) the responsibility of the Equipment Management division of the Public Works Department, is defined as follows: "To coordinate the needs of the city departments in their requirements for motorized equipment, to operate the city garage, actively supervise a preventative maintenance program, keep the operating records of all motorized equipment used or operated by the city, monitor the use of pool cars, and maintain fuel sites at city facilities;". Staff will restate this authority and responsibility within the revised Vehicle Policy. In addition, the FRC will lend a Citywide perspective and a greater level of authority to decisions regarding the management of fleet resources.</p> <p>Auditor's update as of July 2010: In process. According to Public Works Staff, they have started to revise the Vehicle/Equipment Policy and will incorporate a description of PWD Fleet Management's authority and responsibility to manage and operate the City fleet. Target date: April 2011.</p> <p>Auditor's update as of March 2011: Staff has begun revising the Vehicle/Equipment Policy; the revisions will include a new description of PWD Fleet Management's authority and responsibility to manage and operate the City fleet. Target date: September 2011.</p> <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management will include/clarify replacement criteria within the revised Vehicle Policy. This criteria will include the reinstatement of formal mechanical evaluations as part of the replacement analysis.</p> <p>Auditor's update as of July 2010: In process. According to Public Works Staff, revisions to the written policies to clarify replacement criteria will be completed as part of an overall revision of the Vehicle/Equipment Policy. Staff advises that PWD is working on how</p> |

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| #10: PWD Fleet Management should revise the policy and procedures to clarify the take-home policy and conduct routine follow-ups with departments to document adherence to the policy. | Public Works | In process | <p>the mechanical evaluations will be specifically incorporated into the replacement guidelines contained in the Vehicle/Equipment Policy.</p> <p>Staff states that mechanical evaluations have been reinstated, and will be incorporated with the new vehicle analysis/assessment form (Recommendation #6). In addition, Public Works Staff advises that utilization is a component of the overall assessment, and utilization criteria are included in the new vehicle analysis/assessment form (Recommendation #6). Target date: April 2011.</p> <p>Auditor's update as of March 2011: Completed. Mechanical evaluations have been reinstated, and have been incorporated with the new vehicle analysis/assessment form (Recommendation #6). In addition, Public Works Staff are evaluating utilization as a component of the overall assessment. Utilization criteria are included in the new vehicle analysis/assessment form (Recommendation #6) used by the FRC.</p> |
| #11: PWD Fleet Management should establish a process to approve and evaluate requests to add to the City fleet. These requests should identify the budget impact of the addition and funding for on-going maintenance and replacement costs, the need for the addition including utilization of similar units, and the feasibility of other alternatives such as mileage reimbursement, rental, pooling, or sharing of similar units. | Public Works | Completed | <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management did revise the Vehicle Policy to include new take-home guidelines in January 2008. The draft was submitted to the City Manager's office for review and approval. Due to staffing changes, staffing shortages and higher priorities the review of the revised policy has been placed on hold. PWD Fleet Management will withdraw this submittal and incorporate this revision in the overall revision of the Vehicle Policy. The new take-home policy will include a form for departments to use to document their compliance with the policy.</p> <p>Auditor's update as of July 2010: In process. According to Public Works Staff, they have started to revise the Vehicle/Equipment Policy and will incorporate clarifications to the take-home policy and require take-home vehicle users to provide documentation to insure their adherence to the policy. Target date: April 2011.</p> <p>Auditor's update as of March 2011: Staff has begun revising the Vehicle/Equipment Policy. The revisions will include clarifications to the take-home policy and will require take-home vehicle users to provide documentation to insure their adherence to the policy. Target date: September 2011.</p> <p>Original department response: Staff agrees with the recommendation. The newly created Fleet Review Committee (FRC) will make fleet size and replacement decisions, review utilization, and conduct programmatic analysis applying the revised guidelines and vehicle policy to ensure efficiency and cost effectiveness of fleet replacements and purchases. Newly created forms used in this review process will include budgetary impact information.</p> |

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| #12: Public Works Fleet Management should maximize use of Police Department patrol sedans and motorcycles, and Fire Department fire engines, by rotating vehicle assignments between lower and higher use areas. | Public Works | Completed | <p>Auditor's update as of July 2010: In process. According to Public Works Staff, the vehicle analysis/assessment form (Recommendation #6) includes this criteria, and will be the primary tool utilized by the FRC during the approval process. Staff has started to revise the Vehicle/Equipment Policy that will include a process and criteria to approve and evaluate requests to add to the City fleet, per the audit recommendation. Target date: April 2011.</p> <p>Auditor's update as of March 2011: Complete – A comprehensive analysis/assessment form has been developed that includes all of the factors listed in this recommendation. The form is complete; has been reviewed by the Auditor and is currently being utilized by staff and the FRC.</p> |
| # 13: Public Works Fleet Management should develop written criteria for assessing the need of non-rolling stock equipment. | Public Works | In process | <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management will continue to provide usage data to the Police and Fire Departments to enable staff to analyze vehicle assignments within their departments and develop rotation plans.</p> <p>Auditor's update as of July 2010: Not started. Public Works Staff states that PWD Equipment Management will provide vehicle mileage reports to the Police and Fire Departments on a quarterly basis, and will work with department staff to insure vehicle rotation is conducted in accordance with this recommendation. Staff advises that PWD will discuss this with the Police and Fire Departments and request that they provide supporting documentation that periodic review and rotation of vehicles is occurring.</p> <p>Auditor's update as of March 2011: Completed - PWD Equipment Management is providing vehicle mileage reports to the Police and Fire Departments on a quarterly basis, and is working with department staff to implement vehicle rotation in accordance with this recommendation. Police and Fire Departments provided supporting documentation to show that periodic review and rotation of vehicles is occurring.</p> <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management will include/clarify non-rolling stock guidelines within the revised Vehicle Policy. This criteria will include the reinstatement of formal mechanical evaluations as part of the replacement analysis.</p> <p>Auditor's update as of July 2010: Not started. According to Public Works Staff, revisions to the Vehicle/Equipment Policy will incorporate standards and criteria for assessing the need of non-rolling stock equipment. Target date: April 2011.</p> |

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| #14: Public Works Fleet Management should routinely review the database inventory for completeness and accuracy and develop necessary processes for departments to provide accurate and timely utilization data. | Public Works | Not started | <p>Auditor's update as of March 2011: Staff has begun revising the Vehicle/Equipment Policy. The revisions will include new standards and criteria for assessing the need of non-rolling stock equipment. Target date: September 2011.</p> <p>Original department response: Staff agrees with the recommendation. For the last two years, staffing shortages have prevented timely update and review of some types of fleet data. Now that Equipment Management is nearing full staff, our usual update and review process will be reinstated.</p> <p>Auditor's update as of July 2010: Not started. Public Works Staff advises that the implementation of the new fuel management system will provide a degree of automation that will greatly improve the accuracy and timeliness of utilization data. In addition, Fleet Management plans to develop internal policies to ensure ongoing review and accuracy of the database information. Target date: April 2011.</p> <p>Auditor's update as of March 2011: Not started. Staffing shortages have delayed the implementation of this recommendation. Equipment Management is currently in the process of recruiting a Fleet Services Coordinator; the position should be filled by mid-April. The Fleet Services Coordinator's first assignment will be the database inventory review. Target date: July 2011.</p> |
| #15: PWD Fleet Management and ASD Budget should revise the methodology for charging user departments to include the total cost of operating the City fleet, and project CIP budget needs over the five-year CIP cycle. | ASD/Public Works | In process | <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management and ASD staff have been working collaboratively on restructuring Fleet's SAP cost center structure so that it more accurately reflects the way cost categories are organized within the fleet database. Division activities such as in-house maintenance, contract maintenance, parts operations, fueling and motor pool operations have been segregated in SAP to facilitate the ready and accurate capture of expenditure information. The new methodology has been applied to the departmental allocations submitted to ASD Budget for the FY 2011 budget. In addition PWD Equipment Management developed a five-year projection which is included in the FY 2011 CIP.</p> <p>Auditor's update as of July 2010: In process. Staff advises that a new five-year vehicle replacement CIP was developed for inclusion in the 2010-12 budget; however, this CIP was held back in order to comply with Recommendation #1. According to PWD and ASD Staff, the budget structure for the Equipment Management Division was revised in SAP to more accurately reflect the organization of activities within the division. Discrete activities (administration, in-house maintenance, contract maintenance, parts operations, fueling operations and motor pool operations) are now associated with</p> |

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| #16: ASD Budget Division and PWD Fleet Management should revise the budget process to show fleet costs within each department's line item budget. | ASD/Public Works | Resolved | <p>individual cost centers so that all costs related to those activities (including internal and external overhead) can be captured. Staff states that the cost data generated by the restructuring process was used to develop a new shop labor rate, and surcharges for parts, fuel, and contract maintenance. In addition, an overhead charge for vehicle replacement projects will be included the calculation of ongoing replacement charges. Staff states that these new rates and surcharges were made effective as of July 1, 2010. The City Auditor's Office will be able to consider this recommendation completed once the new rates and surcharges have been implemented and reviewed to ensure the new methodology is capturing the total cost of operating the City fleet. Target date: Jan. 2011.</p> <p>Auditor's update as of March 2011: Staff reviewed the revenues that were being received as a result of the new rate and cost accounting structure at mid-year, and found that revenues were keeping pace with expenditures. Staff will perform a complete review once a full year of expenditures and revenue are booked. Departmental allocations will be adjusted as necessary going forward. Target Date: September 2011.</p> <p>Original department response: Staff agrees with the recommendation. The ASD Budget Division currently budgets for fleet costs in each department's line item budget as allocated charges from the Vehicle Replacement and Maintenance fund, which is an Internal Service Fund. As with other allocated charges in the City's budget, fleet costs are distributed to each department based on an allocation formula. This formula takes into account the cost of replacing and maintaining the vehicles assigned to each department. This is similar to the distribution of allocated charges for computer replacement and maintenance and printing and mailing costs. Allocated charges currently appear in SAP financial reports and will continue to appear in the budget detail within individual department budgets. During the development of the annual budget, a committee of ASD and PW staff will review department fleet requests in relation to other options including mileage reimbursement. During the budget process departmental requests for additions to the fleet will be evaluated with other department requests to ensure that the department has considered the budget tradeoffs. The goal of this step will be to limit the overall increase in departmental budgets due to vehicle requests.</p> <p>Auditor's update as of July 2010: Not started. ASD Budget staff will be evaluating systems to reformat portions of the City's budget to provide more details. As part of this overall effort, ASD will also evaluate options to show allocated fleet costs within departmental budgets. Target date: June 2011</p> |

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| #17: Requests for fleet purchases should identify and budget an amount for on-going maintenance, operation, and replacement costs. | Public Works | Completed | <p>Auditor's update as of March 2011: Resolved. ASD staff stated the FRC's on-going fleet reviews and active consideration of mileage reimbursement as an alternative to fleet additions and utilization meets the spirit of this recommendation which was to reduce fleet costs through increased mileage reimbursement. The City Auditor's Office agrees with ASD's approach to this recommendation and considers the recommendation resolved.</p> <p>Original department response: Staff agrees with the recommendation. It is staff's general rule, with some minimal exceptions, to budget for on-going maintenance, operation, and replacement costs. An example of an exception is in the case of unique equipment like the Police Mobile Command Vehicle, which was acquired with grant funding, however there is no replacement charge budgeted. In addition, in past years where the General Fund could not sustain increases the allocation were not fully charge.</p> <p>Auditor's update as of July 2010: Completed. According to Public Works Staff, the vehicle analysis/assessment form (Recommendation #6) includes ongoing cost and resource impact information. Staff advises that the analysis/assessment form will be the primary tool utilized by the FRC during the purchase approval process. This process has already been used in one instance for the FRC's review of a CSD Van. We reviewed the usage of the form for the CSD Van evaluation and concluded that it appears adequately implemented for the purposes of this recommendation.</p> |
| #18: PWD Fleet Management and the City Manager's Office should develop a strategy to align future fleet replacements with the City's other strategies that promote CPP goals. | Public Works | Not started | <p>Original department response: Staff agrees with the recommendation. As the City further refines its Climate Protection goals and strategies, staff will review this recommendation and determine opportunities for incorporating a recommended strategy.</p> <p>Auditor's update as of July 2010: Not started. Although a strategy has not yet been developed, staff advises that the vehicle analysis/assessment form (#6) includes information regarding available alternatively-fueled and hybrid vehicles, so an evaluation of the alignment with CPP goals can be performed during the purchase review and approval process. Staff will work to develop a strategy to align fleet purchases with the CPP goals. Target date: June 2011.</p> <p>Auditor's update as of March 2011: Not started. Although a formal strategy has not yet been developed, staff advises that the vehicle analysis/assessment form (#6) includes criteria for evaluating the suitability of available alternatively-fueled and hybrid vehicles, so that CPP goals will be considered during the purchase review and approval process. Staff will work to develop a formal strategy to align fleet purchases with the CPP goals. This strategy will be included in the revised Vehicle/Equipment policy. Target date: December 2011.</p> |

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| #19: PWD Fleet Management should work with the Administrative Services Department and Utilities Department (for CNG) to develop a system to reconcile fuel purchases, balances, and consumption reports. | Public Works | In process | <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management will develop a process for reconciliation of fuel purchases, balances and consumption for submittal to ASD. Staff has begun working with Utilities to develop commodity cost methodologies for CNG sales to City and externally.</p> <p>Auditor's update as of July 2010: In process. Public Works reports that after the new fuel management system is fully implemented (December 2010), daily reconciliation reports will be prepared, reviewed and compiled into an annual summary that will be provided to ASD at the end of each fiscal year. Target date: June 2011.</p> <p>Auditor's update as of March 2011: Daily and weekly reconciliations are currently being performed for all liquid fuels. These reconciliations are not being performed for CNG. Staff is working with the Utilities Department to obtain the data necessary to begin periodic reconciliations of CNG. Target Date: June 2011</p> |
| #20: PWD Fleet Management should complete implementation of the fueling system at all city pumps and evaluate its effectiveness at providing internal controls over fuel Pump transactions. | Public Works | In process | <p>Original department response: Staff agrees with the recommendation. PWD Equipment Management is currently installing an electronic fueling transaction management system (FuelFocus) which will be fully implemented by December 2010. The FuelFocus system will replace an existing system that has become increasingly inaccurate and unreliable.</p> <p>Auditor's update as of July 2010: In process. According to Staff, PWD Equipment Management recently completed the implementation of the new fuel management system on the Landfill's fuel tanker. Staff advises that the next phase of the implementation (installations at MSC and Fire Station One) is scheduled for completion by December 2010. Final implementation at the remaining pumps is planned, subject to available funding. Until such a time that funding is available for the final phase weekly manual reconciliations are being conducted. Target date: Dec. 2011.</p> <p>Auditor's update as of March 2011: In process. The hardware and software necessary for final implementation has been purchased, and staff has begun preparing the affected fuel sites for installation. Until the implementation is completed, manual daily and weekly reconciliations are being conducted. Target date: December 2011.</p> |
| #21: PWD Fleet Management should include requirements for securing vehicles and equipment within the fleet policies and procedures. | Public Works | In process | <p>Original department response: Staff agrees with the recommendation. The revised Vehicle Policy will include clear guidelines regarding securing of vehicles and equipment.</p> <p>Auditor's update as of July 2010: Not started. According to Public Works Staff, revisions to the Vehicle/Equipment Policy will incorporate</p> |

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| #22: PWD Fleet Management should conduct regular inventories of auto parts, develop a system to ensure the parts database is accurate and complete, and secure access to the auto parts inventory. | Public Works | In process | <p>requirements for securing vehicles and equipment. Target date: April 2011.</p> <p>Auditor's update as of March 2011: Staff has begun revising the Vehicle/Equipment Policy. The revised policy will incorporate requirements for securing vehicles and equipment. Target date: Sept. 2011.</p> <p>Original department response: Staff agrees with the recommendation. In 2006, the existing parts storeroom was moved to a temporary location so that the mezzanine storage areas in the existing parts room could be replaced with structures that met seismic code requirements. The new mezzanines were completed in 2007; however, due to earlier mentioned staffing shortages, PWD equipment Management has only recently been able to commence moving the inventory into the new secure, dedicated parts storeroom. All parts and supplies will be surveyed,, inventoried and moved to their new location by December 2010. After the initial inventory reconciliation is complete, PWD Equipment Management will reinstitute quarterly inventory counts in accordance with Division policy.</p> <p>Auditor's update as of July 2010: In process. According to Staff, Public Works is in the process of surveying all parts and supplies, which will be inventoried and moved to a newly constructed parts storeroom by December 2010. Staff advises that after the initial inventory reconciliation is complete, PWD Equipment Management will reinstitute quarterly inventory counts in accordance with Division policy. Target date: April 2011.</p> <p>Auditor's update as of March 2011: In process. Equipment Management has not completed the survey of the existing parts and supply inventories, nor have they finalized a plan for conducting periodic inventory reconciliations. However with the addition of the new Fleet Services Coordinator, staff should complete these tasks sometime in Fall 2011. Target Date: Dec. 2011</p> |

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| AUDIT OF CITYWIDE CASH HANDLING AND TRAVEL EXPENSES (Issued 09/15/2010) | | | Finance |
| <p>Audit of Citywide Cash Handling and Travel Expenses: Report analyzes Citywide cash handling and travel expenses and oversight procedures. With revenue processed at over 20 cash handling locations, it is important for the City to implement strong cash handling controls. Improvements can be made to strengthen controls especially in the areas of safeguarding revenue and approving and documenting all types of transactions. In addition, the City's Cash Handling policy should be updated to ensure important internal control elements are adequately addressed. Increased coordination and oversight can also improve the employee travel expense process. The City currently has five different payment methods to process travel payments, with varying degrees of oversight. The audit recommends coordinating and consolidating the travel expense payment process and revising the City's travel policy. The audit also recommends reorganizing existing budgetary accounts related to travel and meetings to assist in tracking of taxable activities. Of the 11 recommendations, 1 was completed this year, and 10 are in process.</p> | | | |

#1 ASD should update the Citywide Cash Handling policy and procedures to provide sufficient guidance on internal controls related to cash handling.

ASD

In process

Original department response: Staff agrees with this recommendation.

A 1991 Administrative Instruction Manual was written for Revenue Collections staff, and was used as a starting point for individual sites to develop their own cash handling procedures. It covers items such as issuing receipts, safeguarding the cash drawer, identifying counterfeit currency, making correct change, and, in the case of Revenue Collections, performing collections on unpaid bills. Staff agrees that this manual needs revision to make sure it covers all areas of cash handling, including the three areas discussed in the Audit Report – segregation of duties, safeguarding of revenue, and proper documentation of all transaction. An initial update of the Policy and Procedures section on Cash Handling was completed in early 2010, but staff held off on finalizing this until after this Audit was completed, so as to be able to incorporate relevant recommendations. In addition, staff has begun reviewing other jurisdictions' cash handling manuals and intends to integrate the most effective parts of each.

In recent years, the cash handling focus by ASD staff has shifted towards the development of individualized cash handling procedures for each facility, reflecting their individual business needs but still covering common procedures and requirements. Revenue Collections has a copy of the written procedures from 18 facilities – this translates to all of the facilities covered by the Report, plus others such as Cubberley and the Development Center which were not in the scope of this Audit. Along with updating the central Cash Handling Manual, staff will review these individual sites' procedures to ensure they are comprehensive, in compliance with best practices, and inclusive of the audit recommendations. ASD will provide a checklist to ensure each facility fulfills each of the procedural requirements.

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| #2 ASD should improve its cash handling oversight program to include: 1) cash handling and internal controls training for employees who handle revenue and 2) routine visits and surprise cash reviews for revenue collection locations based on ASD's risk assessment | ASD | In process | <p>Auditor's update as of March 2011: The cash handling manual has been revised and the draft version has been forwarded to the City Auditor's Office for review and comment. If changes are recommended, they will be incorporated into the draft for final approval. Once the manual receives final approval, it will be distributed to all facilities for reference. Daily operating procedures for all facilities will be updated to ensure all directions in the manual are incorporated. The revised cash handling manual is anticipated to be completed by May 2011.</p> <p>Original department response: Staff agrees overall with this recommendation. The current oversight program is proactive and includes informal employee training with periodic cash reviews, and feedback when issues arise; yet the program could be more structured and robust.</p> <p>All of the City's cash handling facilities – of which 20 were enumerated in the Audit Report - have differing business processes. While all financial data are integrated into SAP, each business area has unique needs that are best met by specialized software. Specifically, Libraries use Horizon library circulation system software; Animal Services uses the Chameleon animal shelter management system; CSD employs the CLASS class registration and point of sale system; the Palo Alto Landfill uses the Acme Scales landfill operation program; the Development employs the Accela permit issuance and billing program; the Children's Theater uses WINTIX ticket sales program, and Revenue Collections uses the CORE point of sale system. Due to the many different programs, Revenue Collections relies on each department to provide some of the training and instruction in their respective systems.</p> <p>ASD Revenue Collections is in regular contact will the facilities and conducts frequent site visits. Over the past fiscal year Revenue Collections staff documented eighteen site visits, of which some were "surprise" and others scheduled. Commonly en route to or from site visits, staff will stop at one or two other sites; yet these "tertiary" site visits are not formally documented. Therefore, well over eighteen site visits were completed in the past year. Staff will maintain records of the visits and business conducted, including any issues or new recommendations.</p> <p>In addition, there is ongoing telephone and email contact, as well as meetings at City Hall between Revenue Collections staff and staff from the various facilities.</p> <p>Lastly, Revenue Collections works closely with the Accounting Division to identify and resolve any deposit and documentation</p> |

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| | | | <p>discrepancies. The Accounting Division monitors daily bank deposits, comparing documentation submitted by each facility. Discrepancies are communicated to each facility and to Revenue Collections. The issue is then monitored by both Accounting and Revenue Collections until the issue is resolved.</p> <p>In recent years, the mode of payments has shifted towards online, debit and credit card payments and away from checks and currency. At the same time, great advances have been made in protecting checking accounts from fraudulent transactions, and it has become easier and faster to track down the flow of check transactions. Both trends have reduced the risk of loss of cash.</p> <p>However, human errors, collusion, or embezzlement are still possible, and any site that handles funds in any form is vulnerable to losses at some point. Recent research released by the Association of Certified Fraud Examiners shows that employee education is the key to preventing and detecting occupational fraud.</p> <p>Therefore, ASD's current oversight program, while proactive, could be stronger. For example, surprise cash counts could be readily added to the site visits. Also, ASD could plan its schedule of site visits more strategically, based upon its risk assessment of the sites. Lastly, once the Cash Handling Manual is updated, ASD may adopt a technique used in some other jurisdictions: once employees are trained in the new manual, they sign off on their commitment to abide by its procedures once annually.</p> <p>On the other hand, strengthening the oversight program presents a challenge given already-reduced staff resources. The existing program described above was largely implemented prior to the July 1, 2010 reduction of 1.5 FTE in Revenue Collections staff. With fewer FTE, maintaining the existing oversight efforts will be a stretch, not to mention further structuring and documenting the oversight and monitoring of revenue collection sites. In addition, in the accounting division 2.5 FTE have been eliminated since 2005 further reducing the staffing available to increase the review of procurement cards and travel expenses.</p> <p>For example, were ASD to implement a training class in basic cash handling for all department staff involved in cash handling (which ASD thinks is an excellent suggestion), additional staff resources would be needed from Revenue Collections as well as from the collection sites attending the trainings, presumably in addition to the informal training they already receive during Revenue Collection's site visits and other meetings.</p> |

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| #3 ASD should develop procedures for processing on-line revenue (e.g. PayPal) to help ensure proper segregation of duties, safeguarding of revenue and proper authorization and approval of transactions | ASD | In process | <p>A work plan with recommended levels of cash validations and on-going training will need to be developed in order to assess the resources needed to address the recommendations. ASD plans to complete this work plan and resources analysis in the coming months and determine a course of action based on the risk assessment.</p> <p>Auditor's update as of March 2011: ASD-Revenue Collections is in the process of developing a more robust oversight program. Revenue Collections has conducted 14 "meetings" with seven (7) facilities over the last three months. These meetings have included site visits, cash reviews and minor training. Additionally, there has been ongoing telephone and e-mail contact with cash handling facilities.</p> <p>The audit resulted in the identification of several deficiencies for Animal Services related to segregation of duties, safeguarding of revenue and proper documentation. The major oversight focus has been directed to this facility and includes a redesign of the office area to improve the safeguarding of revenue. Additionally, procedures are being revised to address this and other issues.</p> <p>The initial round of site visits and audits is anticipated to be completed by June 30, 2011. Site visits and surprise cash reviews will continue permanently on an annual basis beginning FY11-12. Additionally training will be scheduled as needed.</p> <p>Original department response: Staff agrees that these procedures need to be more centrally documented and well distributed.</p> <p>Revenue Collections has already implemented a number of alternative payment methods. Customers can now pay parking citation fees on-line, and BLING (a payment option utilizing customer's PayPal account) was implemented in August 2010. ASD also provided support for Utilities' on-line payment process and has begun researching options for on-line payment of parking permits. ASD staff visited the City of Monterey for a demo of their permit system, and also met recently with representatives from the City of Inglewood regarding their on-line permit system.</p> <p>Several facilities also accept on-line payments such as Community Services (class registration), City libraries (fees) and the Development Center (permits). The handling of revenue from these sources is already documented for the sites that handle these transactions, but once again this has not been incorporated into a centralized document. Revenue Collections is prepared to include those instructions into the Cash Handling Manual along with the suggested update of that document.</p> <p>The Police Department's Project Safety Net/Track Watch program, which is mentioned in the report as an online payment-processing</p> |

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| | | | <p>program, is a new program to the City, having gone live in December 2009. The Police Department, along with the City Manager's Office, created the program in compliance with the City's Policy and Procedure #1-18 on Gifts to the City.</p> <p>Within this program, the City Manager's Office monitors the PayPal donations, while all checks are processed by Revenue Collections. Previously, the City's web site instructed donors to send checks to the Police Department, which recorded the donations and delivered the checks to Revenue Collections for processing. The Police Department has since initiated a process to change this procedure, and all check donations will now be sent directly to Revenue Collections.</p> <p>Auditor's update as of March 2011: Procedures for accepting on-line payments have been incorporated into the draft of the revised cash handling manual. As stated in response #1, the draft of the revised cash handling manual has been submitted to the City Auditor's Office for comment and review. As stated in Response #1, the revised cash handling manual is anticipated to be completed by May 2011</p> |
| <p>#4 ASD should:</p> <ul style="list-style-type: none"> • Work with the departments to immediately address weaknesses noted in the areas of safeguarding revenue, segregation of duties, and proper documentation and approval of certain types of transactions (e.g. voided transactions and issuance of receipts). • Ensure their list of approved revenue collection locations is complete and updated, and these locations have adequate procedures to safeguard revenue. | ASD | In process | <p>Original department response: Staff agrees with this recommendation, yet wishes to point out that some sites have significant space and resource constraints; therefore flexibility and some creativity will be necessary to implement adequate safeguards.</p> <p>The specific operational weaknesses identified in the Auditor's report are addressed below:</p> <p><i>1. Some locations lacked appropriate cash handling procedures and sufficient oversight.</i></p> <p>Three "revenue collection locations" are cited as not having approved cash handling procedures in place. Two of those locations – Human Resource's COBRA program and Utilities Customer Service - are described as being in the process of working with Revenue Collections to develop appropriate procedures. The third – Project Safety Net – is discussed above under Recommendation #3.</p> <p>The Human Resources Department's COBRA program has not, to ASD's knowledge, been considered an independent cash handling facility. Revenue Collections is nonetheless working with Human Resources to develop appropriate procedures, and has ordered an endorsement stamp so checks can be immediately and restrictively endorsed. This program's procedures will include a strict time frame for updating HR records and delivering the checks to ASD Revenue</p> |

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| | | | <p>Collections for processing and deposit.</p> <p><i>2. Most site visit locations insufficiently safeguarded revenue.</i></p> <p>This issue will receive high-priority attention from ASD staff.</p> <p>As the report mentions on page 14-15, "Some of the issues are the result of locations not following their own department's procedures." For example, the Landfill operation's written procedures specify "[t]he safe combination must be changed when an employee with knowledge of the combination terminates employment." Yet the Audit Report notes that the site did so only after being reminded by Revenue Collections. Indeed, this emphasizes the critical need for interdepartmental cooperation in successful implementation of these procedures. ASD believes that with more structured training and monitoring, the level of compliance among the departments will increase, but departments will also have to proactively step up their compliance with the proscribed procedures.</p> <p><i>3. Cash discrepancy and deposit slip errors</i></p> <p>The Auditor's report identified two instances of discrepancies in the \$5 range. These discrepancies were in the site's working fund balance. ASD will work carefully with all sites to address the process errors which led to this.</p> <p>In a third instance, the Audit Report noted that the site "processed an incorrect deposit slip". The location did not identify the discrepancy; however, ASD's Accounting group later identified and corrected the error."</p> <p><i>4. Most locations appropriately segregate duties</i></p> <p>The report indicates "most locations appropriately segregate duties," but two specific locations – Animal Services and Foothills Park - were noted exceptions. Revenue Collections is aware that at these two locations, there is incomplete segregation of duties, due to the particular space and staffing constraints of the facilities. For example, if an area has limited staffing it may be difficult to completely segregate duties and it very possible that the staff member who processed the transaction may also have to process the void transaction. Therefore, ASD would like to suggest that other controls, such as safeguarding of revenue and complete documentation, be emphasized to balance the relative weakness of the segregation of duties at these sites.</p> <p>On the summary table on page 13, the Audit Report lists the individual sites with their annual revenue processing volumes, indicating which areas are adequate and which need attention. Another component of</p> |

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| | | | <p>this risk assessment is looking at the actual cash volume brought in by each site.</p> <p>Foothills Park deposited \$1,132 in cash in the month of June, and about \$13,000 in all forms of payment per year – a mere 0.2% of the Citywide total of \$6.57 million in revenue processed per year. Beefing up their controls beyond the basic training and monitoring levels would not be as beneficial as focusing on other sites with larger currency transactions, such as the Landfill, and/or larger-volume sites with identified areas of concern, such as Animal Services.</p> <p>5. Several locations lacked adequate procedures for documentation and approval of certain types of transactions.</p> <p>As previously mentioned, Revenue Collections has set up specific site cash handling procedures and their last update is noted in the table above. The updated Cash Handling Manual will specify the documentation requirements for all transactions, and Revenue Collections will work with each facility to ensure their compliance. Although receipt issuance is among the more straightforward processes to implement (and therefore these two instances should be relatively easy to correct), others may present challenges due to staffing constraints. For example, it may not always be possible for a supervisor to approve a voided transaction in a timely manner for a customer, and it may be necessary to allow for flexibility and have the transaction approved later in the day.</p> <p>Auditor's update as of March 2011: ASD-Revenue Collections began immediate contact with facilities to address areas listed above. For example, four site visits have been conducted with Animal Services and the Landfill to address issues related to the internal control weaknesses identified by the audit.</p> <p>The list for approved revenue collection locations has been updated and ASD-Revenue Collections will continue to work with these locations to address weaknesses and ensure adequate procedures are in place to safeguard revenue.</p> <p>ASD-Revenue Collections will work with all facilities beginning in May 2011 to update procedures to incorporate guidelines established by the revised cash handling manual. Due to the number of facilities this process will be lengthy. Seventeen facilities have been identified for revised procedures and this does not include procedures for special events such as the Chili Cook Off or the Senior Day Bash. Additionally all library locations have been counted as one facility. The anticipated completion date is June 30, 2012.</p> |

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| <p>#5 ASD should ensure all travel payments are adequately and uniformly documented with appropriate oversight by: 1) requiring consistent documentation of travel expenses, including: receipts or other supporting documentation, appropriate travel forms, and explanation of the business purpose of expense, 2) performing spot checks of travel expenses.</p> | ASD | In process | <p>Original department response: ASD agrees with this recommendation</p> <p>The current City travel policy is confusing, and an employee seeking reimbursement may follow incorrect information if they do not read the entire policy. ASD will rewrite the travel policy, review the Petty Cash policy and offer training to employees.</p> <p>In addition, since travel reimbursements take many forms, such as payments to the employee, payments to vendors, and use of the Cal-card, Executive Staff (ES) card, petty cash and professional development funds, details of travel reimbursements are not always centralized and may be in multiple files.</p> <p>Exceptions found in the Auditor's Report for check reimbursements comprised 6% of the total exceptions. The majority of these exceptions related to a missing statement of business purpose or proof of attendance. The Accounts Payable (A/P) Manager will emphasize importance of IRS required documentation with A/P staff and during training of City staff .</p> <p>Nighttime meeting meal reimbursements comprised about 10% of the total exceptions. Most of these exceptions were for nighttime meal reimbursements at the flat rate of \$20 without receipts. The current Petty Cash policy does not require receipts for these meals. Revenue Collections staff has been adhering to the Petty Cash policy. ASD staff will be updating the Travel and Petty Cash policies to be in agreement as part of the Auditor's recommended review of the travel reimbursement and nighttime meeting policies. The travel policy should have been updated to reflect no receipt required.</p> <p>This and any other Petty Cash-related changes resulting from this review will be incorporated into the Petty Cash program, and ASD Revenue Collections will reimburse under the new guidelines. In addition, ASD will remind all staff of the Petty Cash documentation requirements.</p> <p>The greatest share--58%--of exceptions were found in the use of the Executive Staff (ES) card. The majority of these exceptions were missing travel forms, although the receipts were always included in back-up documentation. Missing business purpose, location, name of attendees, as well as checking the pre-travel box were common exceptions. Payments for ES and Cal-cards are made directly to the bank and not to the employee, and are therefore not possible to "catch" before payment. However, ASD staff will be more diligent on follow-up with ES staff for documentation, including any emails</p> |

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| #6 ASD should review the nighttime meeting reimbursement policy. If the City decides to maintain this practice, ASD should report the amounts as income on employee Form W-2s to conform to IRS requirements. In addition, ASD should review other types of meal expense to ensure any reportable amounts are included on employee Form W-2s. | ASD | In process | <p>requesting additional documentation. ASD director will also discuss the requirements with Executive Staff.</p> <p>Cal-card exceptions are 12% of total exceptions. Employees failed to note business purpose, location and date when making travel arrangement and payment to a conference, hotel or transportation. In more than half the exceptions, the employee failed to check the box on pre-travel form, as well as not turning in a travel form even though they included receipts. ASD staff will review the layout of the pre-travel authorization form and travel expense report form and try to combine into one form (see Recommendation #9 below). The updated forms will be discussed as part of employee training and in the updated travel policy.</p> <p>Professional Development forms comprised 9% of the total exceptions. HR staff administers Professional Development. The two areas of omission are completion of the checkbox on pre-travel or authorization and checking the box relating to requesting government rates. As stated above, ASD staff will rewrite travel policy and revise forms. ASD staff will include HR staff in employee training.</p> <p>As for recommended spot-checks, ASD supports this idea. A/P staff currently reviews all employee travel reimbursement paid via check and spot checks other areas. Many of the exceptions occurred prior to the hiring of the current A/P Manager or during a hiring freeze when the position was open. The A/P Manager is also working with her staff to review audit exceptions and incorporate improved checking procedures.</p> <p>Auditor's update as of March 2011: In process. ASD has drafted policies and procedures that address the audit recommendations and clarify and simplify procedures. Travel forms have also been updated but will remain as two separate forms. Prior to finalizing these procedures, ASD will review them with the City Auditor's Office. Target date: June 2011.</p> <p>Original department response: ASD agrees with the City Auditor's recommendation. ASD learned earlier in 2010 that a case ruling in late 2009 dictated that reimbursements that did not have an overnight stay were to be considered taxable income. For the past several months, ASD has been discussing the issue of how to handle these nighttime meal reimbursements and has determined that handling such reimbursements through payroll would involve significant staff time. Staff is developing a process that will comply with the IRS regulation in the most economical and efficient fashion. Any change in reimbursements would be subject to meet-and-confer depending on the labor group.</p> |

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| #7 ASD should consolidate the Executive Staff credit card program into the existing CAL-Card program. | ASD | Resolved | <p>Auditor's update as of March 2011: Nighttime meeting reimbursement will be maintained. ASD has established new G/L numbers to capture taxable and non-taxable meals. Budget for the G/L numbers will be included in the FY 2012 budget. ASD has discussed changes needed by Purchasing staff for use of Calcards. Budget and Purchasing changes will be made before implementation date of 7/1/2011. Taxable meals will be captured in a specific G/L account and added to the employees W2 for CY 2011. In addition, updated P&P and forms (A/P & Petty cash) will reflect specific coding for taxable meals. ASD also plans to have City-wide training once ELT approves draft P&P.</p> <p>Original department response: Staff agrees in concept, but needs to verify that potential restrictions in the Cal Card program would not interfere with the intended use of the ES card.</p> <p>Executive Cards were instituted many years ago so the most senior level management staff would have a method of payment available in case of a City emergency. Only 15 of the over 1,000 employees are authorized to use Executive Cards and not all of them are issued a card. Previous procurement card programs had significant limitations that would have impeded some procurements in an emergency (e.g., floods, power outages, etc.). Staff will review the Cal Card program to see if the limitations associated are minor and would not interfere with such procurements.</p> <p>Auditor's update as of March 2011: Resolved. The ASD Director believes that there is a need to continue the Executive Staff credit card program rather than combine it into the existing CAL-Card program. ASD Director's rationale for continuing the Executive Staff credit card program is to allow access to cash in case of an emergency. While the City's CAL-Card program does not permit cash advances, it can accommodate nearly all other legitimate business needs of City employees. Continuing the Executive Staff credit card program does not have a significant cost impact, although there is a small financial incentive for CAL-Card participation. Therefore, we consider this issue resolved.</p> |
| #8 The City Manager's Office should include additional guidance to prevent gifts of public resources on the City's Ethics Center intranet site. | City Manager | In process | <p>Original department response: The City Manager's Office agrees with the recommendation and will update this section of the Intranet.</p> <p>Auditor's update as of March 2011: The City retained the services of Dr. Tom Shanks of The Ethics Company in November 2010 to assist with the development of the City's values based ethics code of conduct, policy development and implementation, employee interviews, training implementation program and first round of citywide training.</p> |

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| <p>#9 ASD should coordinate and improve the travel payment process through the following:</p> <ul style="list-style-type: none"> • Update the City's Travel Policy and integrate the pre-travel authorization form and travel expense report into one travel report form to document supervisory approval, business purpose of the trip, an accounting of actual expenses, and requirement for employees to certify they did not receive reimbursement from any other source. • Implement the City's policy requirement to file travel expense forms with ASD Accounts Payable. <p>Alternately, ASD could consider activating the travel expense management capabilities of SAP.</p> | ASD | In process | <p>Target date: Project will last approximately 12-18 months and will be fully completed by spring, 2012.</p> <p>Original department response: <i>City's Travel Policy.</i> ASD agrees. The current forms and process were developed to comply with a prior City Auditor's recommendation. However, the exceptions discussed above illustrate the potentially confusing nature of having two separate forms. ASD will update and combine the pre-travel authorization form and travel expense report into one travel report form. ASD will also add a box for employees to check to certify that they have not received reimbursement from any other source.</p> <p><i>Filing travel reimbursement forms with A/P:</i> ASD agrees and will clearly state in the updated policy that it is the department's responsibility to send ASD complete forms with all supporting receipts regardless of the payment method.</p> <p><i>Use of SAP for travel expense management:</i> ASD will consider this alternative for the future. To implement a new SAP module requires funding and staff time. Given the City's continued strain on resources, a cost benefit analysis must be considered. For FY 2010, A/P staff reviewed and processed 33,977 transactions for a payment amount of \$18.4 million. Of this, 1,695 transactions, or 3%, totaling \$530,000, were related to travel</p> <p>Auditor's update as of March 2011: In process. ASD has drafted policies and procedures that address the audit recommendations and clarify and simplify procedures. Travel forms have also been updated but will remain as two separate forms. Prior to finalizing these procedures, ASD will review them with the City Auditor's Office. Target date: June 2011.</p> |
| <p>#10 ASD should revise the City's Travel Policy to help ensure employees select the most economical means of travel, including restricting the use of hotels during local travel and authorization for extended travel times.</p> | ASD | In process | <p>Original department response: ASD agrees and will emphasize in the Travel Policy that employees should always select the most economical means of travel. The prior audit of travel reimbursement processes instituted several check points to ensure employees took advantage of least-expensive opportunities. ASD will always encourage the use of the most economical means of travel, but it can only encourage the direction; it cannot ensure that employees comply. If it is evident that employees are not seeking such savings, ASD staff will bring it to the attention of the department head to address. ASD agrees that there should be a limitation to overnight stays within a certain distance of home or office. The policy will have exception for stays that require long days or early starts.</p> <p>Auditor's update as of March 2011: In process. ASD has drafted policies and procedures that address the audit recommendations and clarify and simplify procedures. Travel forms have also been updated but will remain as two separate forms. Prior to finalizing these</p> |

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| #11 ASD should reorganize the existing budgetary travel-related accounts into a "Travel and Training" account for professional development and a "Meetings" account for tracking taxable forms of reimbursement, such as nighttime meeting meal expenses. | ASD | In process | <p>procedures, ASD will review them with the City Auditor's Office. Target date: June 2011.</p> <p>Original department response: ASD agrees. ASD staff will update the chart of accounts, change the City Travel policy, update forms and discuss during City training.</p> <p>Auditor's update as of March 2011: ASD has established new G/L accounts, changed title of existing G/L account and eliminated use of one G/L account. Budget will reallocate budget to new G/L accounts for FY 2012 budget. Purchasing staff will update Calcards to accept charges for new G/L accounts. Budget & Purchasing changes will be ready for 7/1/2011 implementation. A/P and Petty Cash forms will be updated once ELT approves draft P&P, ASD Director will present draft to ELT for input by end of FY 2011. ASD will provide Citywide training once P&P is finalized.</p> |