



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

September 9, 2004

The Honorable City Council
Attn: Policy and Services Committee (September 14, 2004)
Finance Committee (September 21, 2004)
Palo Alto, California

REPORT ON THE STATUS OF AUDIT RECOMMENDATIONS

Recommendation

We recommend the Finance Committee and the Policy and Services Committee review and accept the attached report. As noted in the attached summary, the Policy and Services Committee is asked to review the status of recommendations from the audits of class registration, code enforcement, and the development review process. The Finance Committee is asked to review the status of recommendations from the audits of travel, purchase orders, utilities overtime, accounts payable, payroll, utility risk management, overtime expenditures, restructuring efforts, and the reviews of the long range financial plan, proposed animal shelter agreement, and the write-off policy for returned checks.

Background

The Municipal Code requires the City Auditor to issue an annual report on the implementation status of recommendations from recently completed audits. This report summarizes the status of 131 recommendations from 14 different audit reports and reviews. This includes 47 recommendations that were outstanding after our last status report as of June 30, 2003, and 84 new recommendations that were adopted this year. The report shows recommendations that have been completed since our last report and an agreed upon course of action for implementing other recommendations. We compiled this report based on interviews with appropriate City staff and reviewed its contents with them.

Summary of Results

Since our last report, City staff completed 48 recommendations. A total of 74 recommendations are in process or partly implemented. A total of 9 recommendations are not started.

Staff's cooperation in implementing audit recommendations demonstrates their commitment to improving the City's administrative processes. I would like to thank the City Manager's Office, the City Attorney's Office, and the Administrative Services, Community Services, Fire, Human Resources, Planning and Community Environment, Police, and Utilities Departments for their assistance in compiling this report.

Respectfully submitted,

Sharon W. Erickson
City Auditor

SUMMARY

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2004

The Municipal Code requires the City Auditor to issue an annual report on the status of recommendations from completed audits. This report summarizes the status of all open audit recommendations since our last review as of June 30, 2003. It shows those recommendations that have been completed or resolved, are in process, or should be dropped, and provides an agreed course of action to implement remaining recommendations.

Page Number	Report Title	Date Issued	Completed or resolved since last report	In process or partly completed	Not started	Council Committee
3	Audit of Travel Expense	4/27/98		8		Finance
8	Audit of Purchase Orders	11/9/98		2		Finance
10	Audit of Utilities Operations Overtime	11/98	1			Finance
11	Audit of Class Registration	6/21/99	2			Policy & Services
12	Audit of Accounts Payable	3/27/00	1	1		Finance
13	Audit of Payroll	7/2/01		1		Finance
14	Assessment of Utility Risk Management Procedures	7/3/02	7	5		Finance
20	Analysis of the Long Range Financial Plan	12/3/02		2		Finance
21	Animal Shelter	12/9/02	1			Finance
22	Audit of Code Enforcement	3/11/03	5	11		Policy & Services

AUDITS ISSUED SINCE LAST RECOMMENDATION STATUS REPORT:

Page Number	Report Title	Date Issued	Completed or resolved since last report	In process or partly completed	Not started	Council Committee
26	Audit of the Development Review Process	11/15/03	20	12	2	Policy & Services
37	Audit of Overtime Expenditures	11/18/03	10	15	7	Finance
47	Audit of Restructuring Efforts and Management Span of Control	4/20/04		17		Finance
51	Write-off Policy for Returned Checks less than \$25	6/1/04	1			Finance
TOTAL			48	74	9	131

Audit report and recommendation	Department	Current status	Comments
AUDIT OF TRAVEL EXPENSE (Issued 4/27/98)			Finance Committee
The objective of this audit was to evaluate internal controls over travel expenses paid by the City. Of the original 15 recommendations: 7 were previously completed/resolved and 8 are in process.			
#1: Distribute copies of the City's travel policies and procedures to all department managers, highlighting authorization, approval, and documentation requirements. This distribution should be accompanied by a transmittal letter to be signed by department managers as evidence of their review and understanding of these procedures. Signed letters should be returned to the Director of Administrative Services Department.	ASD	In process	<p>Nov-2001: In process. The update of the travel policy has been delayed due to staff turnover in the Accounting Division. Staff has met with the new City Auditor to review proposed changes to both the travel and petty cash policies. Staff will complete changes by the end of 2001-02.</p> <p>Sep-2002: In process. Staff has advised Executive Staff of planned changes to travel procedures, and is beginning a 6-month pilot program on 9/1/02. Written policies and procedures will be revised after completion of a 6-month pilot program and in conjunction with ERP implementation. Target date: Jul-2003.</p> <p>Oct-2003: In process. The pilot program is continuing, and staff is assessing changes to the process from implementation of Phase 1 and 2 of SAP. Revised target date: June 30, 2004.</p> <p>Current status: In process. The travel policy has been rewritten, and is currently under City Attorney and City Manager review. When the policy is approved, a memo highlighting significant policy changes and authorization requirements will be sent to all department heads and management employees with an email "voting block" indication for receipt and understanding. Target date: Sep-2004.</p>
#2: Provide signature blocks on the travel authorization forms and travel expense reports which require the signature of the department head or designee. The signature block should indicate that the approving party certifies that the employee's payment request complies with the City's travel policies and procedures.	ASD	In process	<p>Nov-2001: In process. To be completed as part of the updated policies and procedures in 2001-02.</p> <p>Sep-2002: In process. Revised forms are a component of the 6-month pilot program beginning Sep-2002. Forms will be finalized along with policies and procedures after completion of the 6-month pilot program and in conjunction with ERP implementation. Target date: Jul-2003.</p> <p>Oct-2003: In process. The pilot program is continuing, and staff is assessing changes to the process from implementation of Phase 1 and 2 of SAP. Revised target date: June 30, 2004.</p>

Audit report and recommendation	Department	Current status	Comments
<p>#3: Develop a comprehensive list of travel expenses which will not be paid by the City. This list should include hotel/meal charges for extended travel stays, hotel charges at double occupancy rates, and fees for social events, such as golf tournaments and sightseeing tours. This list should be distributed to all department heads and incorporated into the City's travel policies and procedures. Exceptions should be justified in writing by the traveler (in advance when possible) and should include supporting documentation. All exceptions should be approved by the City Manager.</p>	ASD	In process	<p>Current status: In process. Staff has revised the Pre-Travel Authorization and Travel Expense Report forms to include a signed statement from the department head or designee that certifies that the employee's request complies with the City's travel policies and procedures. However the Travel Policy and Procedures that is posted on the intranet has not been revised and contains the out-dated travel forms. A revised policy is being reviewed and will be posted (along with accompanying new forms) once finalized. Target date: Sep-2004.</p>
			<p>Nov-2001: In process. Staff developed a list of disallowed expenses that were included in the Accounts Payable Quick Reference Guide. Staff will include the list in the 2001-02 update of the travel policy.</p>
			<p>Sep-2002: In process. Staff is addressing the issue of allowable expenses in the revised pilot program procedures. Pre-authorization forms will include an "Other" category requiring pre-approval of unusual items (e.g. special events) by the department head, and documenting cost savings and pre-approval for an "Unrelated Weekend Stay-over". Policies and procedures will be finalized after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Target date: Jul-2003.</p>
			<p>Oct-2003: In process. The pilot program is continuing, and staff is assessing changes to the process from implementation of Phase 1 and 2 of SAP. Revised target date: June 30, 2004.</p>
			<p>Current status: In process. Staff has drafted a revised travel policy that clearly states expenses that are reimbursable (such as meeting registration, lodging for conference dates, transportation and meals), and provides specific examples of expenses that would <i>not</i> be reimbursable. Drafted pre-travel authorization and travel expense report forms require the employee to provide an explanation and supporting documents for any expenses outside of the normally reimbursable items. The forms will also require the department head or designee to certify that the employee's request complies with the City's travel policies and procedures. The revised policy is being reviewed and will be posted (along with accompanying forms) once finalized. Target date: Sep-2004.</p>
<p>#7: The City could save money if employees request government discount rates for hotels. Provide a block on both the Travel Expense Report and Request for Travel Authorization form requiring employees to indicate whether discounted</p>	ASD	In process	<p>Nov-2001: In process. Few transactions occur that do not have group rates set, and not all hotels offer government rates. However the form will be updated and language will be included in the revised travel</p>

Audit report and recommendation	Department	Current status	Comments
government hotel rates were obtained. Employees should provide justification when such rates are not obtained.			<p>policies and procedures to be completed in 2001-02.</p> <p>Sep-2002: In process. Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Pre-travel authorization forms will include "Conference or government rate" confirmation. Target date: Jul-2003.</p> <p>Oct-2003: In process. The pilot program is continuing, and staff is assessing changes to the process from implementation of Phase 1 and 2 of SAP. Revised target date: June 30, 2004.</p> <p>Current status: In process. The revised travel policy will require departments to <i>request</i> government rates for conference registrations and hotel reservations (note that not all local governments waive the TOT for other local government employees). The revised Pre-Travel Authorization and Travel Expense Report require the employee to indicate if government or conference rates were obtained for the hotel or conference, and requires department head approval. These forms are available online, and are in use by departments. However the Travel Policy and Procedures that is posted on the intranet has not been revised and contains the out-dated travel forms. A revised policy is being reviewed and will be posted (along with accompanying forms) once finalized. In addition, a standard letter stating that the employee is on City business and should not be required to pay TOT tax will be available on the City's online system for employees to take when they travel. Target date: Sep-2004.</p>
#8: Update the City's travel policies and procedures relating to obtaining discounted government rates and providing documentation requirements when discounted rates cannot be obtained.	ASD	In process	<p>Nov-2001: In process. To be completed in 2001-02.</p> <p>Sep-2002: In process. Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Pre-travel authorization forms will include "Conference or government rate" confirmation and department head approval. Target date: Jul-2003.</p> <p>Oct-2003: In process. The pilot program is continuing, and staff is assessing changes to the process from implementation of Phase 1 and 2 of SAP. Revised target date: June 30, 2004.</p> <p>Current status: In process. See recommendation #7.</p>

Audit report and recommendation	Department	Current status	Comments
#10: Ensure that the signature block for the travel authorization form (see recommendation #2) also states that the employee certifies that the expense report will be filed within the time frame established by the City's travel policies and procedures.	ASD	In process	<p>Nov-2001: In process. The form will be revised and this change will be included in the revised travel policies and procedures to be completed in 2001-02.</p> <p>Sep-2002: In process. Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Revised forms are a component of the pilot program and will specify that reports must be completed within 30 days of travel. Target date: Jul-2003.</p> <p>Oct-2003: In process. The pilot program is continuing, and staff is assessing changes to the process from implementation of Phase 1 and 2 of SAP. Revised target date: June 30, 2004.</p> <p>Current status: In process. On the revised Pre-Travel Authorization form, the employee will check a box certifying agreement to submit the expense report within 30 days as established in the Travel Policy and Procedures. These forms are available online and are in use by City staff. However the Travel Policy and Procedures that is posted on the intranet has not been revised and contains the out-dated travel forms. A revised policy is being reviewed and will be posted (along with accompanying forms) once finalized. Target date: Sep-2004.</p>
#12: Update the City's travel policies and procedures relating to obtaining and submitting evidence of attendance.	ASD	In process	<p>Nov-2001: In process. A list of required documentation was included in the Accounts Payable Quick Guide, and will be added to the revised travel policies and procedures update in 2001-02.</p> <p>Sep-2002: In process. Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. A copy of the agenda will satisfy as evidence of attendance. Target date: Jul-2003.</p> <p>Oct-2003: In process. The pilot program is continuing, and staff is assessing changes to the process from implementation of Phase 1 and 2 of SAP. Revised target date: June 30, 2004.</p> <p>Current status: In process. The revised travel policy will require that a copy of the meeting or conference agenda (if available) is attached to the Travel Expense Report as confirmation of employee attendance. The employee also must check a box on the Travel Expense Report certifying that all information and indicated expenses are correct, and that no part of compensation claimed was of a personal nature. The</p>

Audit report and recommendation	Department	Current status	Comments
#15: Review and update current written procedures to provide clear direction in processing travel advances and expense reimbursements. Departments could also benefit from more user-friendly procedures which provide step-by-step guidance in completing travel authorizations and expense reports. A bullet format or use of flowcharts could be very helpful. The procedures should also include a list of allowable expenses.	ASD	In process	revised policy is being reviewed, and will be posted (along with accompanying forms) once finalized. Target date: Sep-2004.
			Nov-2001: In process. Updated procedures were included in the Accounts Payable Quick Reference Guide and will also be included in the revised travel policies and procedures manual to be completed in 2001-02.
			Sep-2002: In process. Policies and procedures will be revised after completion of a 6-month pilot program (beginning 9/1/02) and in conjunction with ERP implementation. Target date: Jul-2003.
			Oct-2003: In process. The pilot program is continuing, and staff is assessing changes to the process from implementation of Phase 1 and 2 of SAP. Revised target date: June 30, 2004.
			Current status: In process. The pilot program covering changes to the Travel Policy and Procedures was completed and well received. Revisions to the policy and the associated forms provide clear directions for processing travel advances and expense reimbursements. Bullet points for the procedures are included in Quick Reference Guides incorporated into the new policy and procedures. The revised policy is being reviewed, and will be posted (along with accompanying forms) once finalized. Target date: Sep-2004.

AUDIT OF PURCHASE ORDERS (Issued 11/9/98)

Finance Committee

The objective of the audit was to evaluate internal controls and operating procedures surrounding blanket purchase orders and purchases under \$25,000. Of the original 25 recommendations: 23 were previously completed/resolved, and 2 are partly completed.

#23: Current price quote requirements for small dollar purchases are too restrictive.	ASD	Partly completed	Nov-2001: In process. Staff eliminated the requirement to obtain three price quotes for purchases under \$3,000. According to the 1999-2001 Purchasing Guide, purchases of \$3,000 and below require "only a sufficient number of bids... to insure the economic advantage of the City." Written quotes are now only required for purchases over
a. Purchasing should eliminate the requirement to obtain three price quotes for purchases under \$3,000, effective immediately.			

Audit report and recommendation	Department	Current status	Comments
<p>b. Purchasing should develop procedures which allow departments to handle purchases under \$3,000.</p> <p>c. Purchasing should incorporate these changes into the Purchasing Manual.</p>			<p>\$5,000. The Purchasing Guide is being changed to reflect this policy. Target date: TBD.</p> <p>Sep-2002: In process. Staff is incorporating the change regarding the requirements for quotes for purchases over \$5,000 into the revision to the Purchasing Manual. Staff will implement the recommendation that allows for department to handle purchases under \$3,000 as part of the ERP implementation. Staff will work with the Auditor's Office to ensure safeguards are set in place. In addition, training will be required, as well as an update of the purchasing manual. Target date: Mar-2003.</p> <p>Oct-2003: In process. The SAP system was configured to allow for the decentralization of purchases under \$5,000. Staff will work with the Attorney and Auditor's Office to ensure safeguards are set in place. Training will be required, as well as an update of the purchasing manual. Target date: April-2004.</p> <p>Current status: Partly completed. With staff focused on implementing SAP, the proposed decentralization has been delayed. Meanwhile, though, the expansion of the procurement card program is having a similar effect. In fiscal year 2003-04, as a result of the SAP conversion blackout period, ASD encouraged staff to request and use procurement cards, and use of procurement cards doubled. Staff is implementing a new online State of California Procurement Card program that will enhance review, authorization, accounting and tracking of activity. With better online controls and increase use, staff will concentrate on the new procurement card effort, prior to focusing on decentralizing the remaining items under \$5,000 that cannot be procured through a credit card. Part a is completed. Parts b and c are pending. The purchasing manual is being updated to include the purchasing ordinance changes that were approved by Council in May-2004. Target date: Spring 2005 (part b) and Sep-2004 (part c).</p>
<p>#24: Purchasing should expand and expedite the testing of procurement cards.</p> <p>a. The pilot program should be expanded to include issuance of cards to operating departments.</p> <p>b. A timetable for completion of the pilot program should be established. We found that other municipalities have completed the pilot program and subsequent evaluation in six to nine months.</p> <p>c. The City Auditor's Office should assist with evaluating the effectiveness and adequacy of internal controls of the program as part of the pilot</p>	ASD	Partly completed	<p>Nov-2001: In process. The Procurement Card pilot project will be completed by December 31, 2001.</p> <p>Sep-2002: In process. The Pilot Program has been completed and has been expanded to the operating departments. The expansion includes the use of P-cards for travel-related expenses. Staff has worked with the City Auditor in reviewing the expansion of the program and will implement changes based on the result of experiences of the pilot project. Target date: Mar-2003.</p>

Audit report and recommendation	Department	Current status	Comments
program.			<p>Oct-2003: In process. The current program has approximately 135 cardholders with combine current monthly expenditures of over \$200,000. The City will be transitioning to a new Cal-Card program to automate the review, approval and reconciliation using the SAP system. The new system will be more efficient and flexible in terms of vendor acceptance. It will be available to a limited number of users beginning in September 2003, with a full roll out in Spring 2004. This will provide staff time to verify and adjust the configuration. Staff has conferred with the Auditor's Office on the adequacy of internal controls, but testing will be required once the system is in place. Target date: Jul-2004.</p> <p>Current status: Partly completed. The existing Bank of America procurement card program, although successful, is not compatible with SAP. A number of California jurisdictions use the State of California's CAL-Card Procurement Card program. The City of Richmond has designed and built a software program that transmits CAL-Card transaction information to SAP on a weekly basis. In August, Purchasing will begin a pilot CAL-Card program with selected volunteers who are current procurement card users. The pilot program will allow Purchasing to fully test citywide control procedures for the Auditor's review before issuing CAL-Cards to all departments. Target date: Sep-2004.</p>

AUDIT OF UTILITIES OPERATIONS OVERTIME (Issued 11/98)

Finance Committee

The objective of this audit was to evaluate the internal controls and operating procedures surrounding overtime in the Utilities department. Of the original 4 recommendations: 3 were previously completed and 1 was completed this year.

#2: Overtime pay codes and hours were not always accurately entered into the timekeeping system. We recommend that Utilities Operations:	ASD	Completed	<p>Nov-2001: In process. According to staff, recommendations a, b, and c were completed, but an automated timekeeping system was needed to address recommendations d, e, and f, and to eliminate the TUP system. The new SAP system will integrate electronic timekeeping and reporting tools. Target date: TBD.</p> <p>Sep-2002: In process. The City's SAP project (RAFTS), Phase 1 is currently underway. Phase 2, which begins in May 2003 will include</p>
a. Ensure that <i>all</i> pay codes used by the sections for recording overtime are captured and reflected in the Timekeeping Utilities Program (TUP) system.			
b. Work with Payroll Division personnel to ensure that <i>all</i> pay codes in the TUP system are consistent with those in the payroll system.			

Audit report and recommendation	Department	Current status	Comments
<ul style="list-style-type: none"> c. Work with the Payroll Division to ensure that definitions of pay codes are consistent between the two systems. d. Payroll system access be assigned to Utilities administrative personnel. e. Administrative staff be assigned responsibility for timecard entry for Utilities Operations. f. Work with Payroll Division personnel to ensure that management reports, including information on overtime, are generated by the payroll system. 			<p>an automated timekeeping system. This new fully integrated electronic timekeeping system will eliminate all timekeeping sub-systems, including TUP. Target date: Jan-2004.</p> <p>Oct-2003: In Process. Phase 1 of the City's SAP system (RAFTS) is operational. Phase 2 will roll the existing time card system into RAFTS. The new RAFTS accounting codes are now in use. It should be noted that the Auditor's Office is currently auditing overtime citywide, and has been meeting with Utilities Operations to review business practices as part of that review. Target date: Jan-2004.</p>
			<p>Current status: Issues related to the TUP system have been resolved with the implementation of SAP. The necessary paycodes have been incorporated into the new system. Payroll reports have recently become available for management use. The Auditor's Office notes, however, that SAP has created some new timekeeping challenges for Utilities staff. Additional paycodes had to be developed due to certain limitations in SAP. Although the recommendation stated here has been implemented, we continue to have concerns regarding overtime timekeeping in Utilities. The complexity of the SEIU rules governing overtime and complications introduced by SAP, increase the potential for misinterpretation by employees. We urge the Department to ensure the intent of the rules is clear and that the intent and specific examples are conveyed to relevant employees.</p>

AUDIT OF CLASS REGISTRATION (Issued 6/21/99)

Policy & Services Committee

The objective of this audit was to evaluate internal controls and operating procedures and practices surrounding the City's class registration process. Of the original 13 recommendations: 11 were previously completed/resolved, and 2 were completed since our last report.

<p>#1: The City should consider additional methods for registering for classes.</p> <ul style="list-style-type: none"> a. Staff should establish procedures to accept registrations submitted by telephone. b. Staff should ensure that the recent procedures for accepting registrations submitted by FAX are reflected in the registration section of the course catalog. c. Staff should continue their efforts towards obtaining the necessary software to process registration through the Internet. While we understand that the initial CIP request was denied, we encourage Community Services to pursue this project in their efforts to improve processing efficiency and customer service. 	CSD	Completed	<p>Nov-2001: In process. Customers enjoy a variety of registration methods including having the Enjoy Catalog available on-line with fax-in registration, mail-in registration, drop-off registration, in-person registration, and soon will have fully interactive on-line registration. After much discussion, staff has recommended against implementing and maintaining a phone registration system that would require significant staff time and cost approximately \$20,000. However, drop boxes will be implemented by Jun-02, and staff continues to work with the IT division of ASD and the class registration system vendor to implement full-service, on-line Internet registration. Target date:</p>
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Audit report and recommendation	Department	Current status	Comments
d. Staff should consider establishing drop boxes at one or more registration sites to accommodate after hour receipts.			<p>TBD.</p> <p>Sep-2002: In process. The drop box project has been postponed as a cost-cutting measure, but will be re-evaluated during 2002-03. The Art Center and Junior Museum remain open on Saturdays and Sundays for working parents to drop off registration forms. On-line registration is currently being implemented. Target date: Dec-2002.</p> <p>Oct-2003: In process. Registration for class programs is now available online, over the Internet, and by fax, mail, and directly from four City facilities. Internet registration has become significantly popular in a short amount of time. Approximately 50% of registrations are taking place, interactively, over the Internet. Due the popularity and effectiveness of this Web mode of registration and the high cost and staff time involved in telephone registration systems, staff has concluded that the benefits of telephone registration, as compared with other methods, does not warrant implementing the service. Staff agrees that drop boxes would be advantageous, but has postponed the idea until funding becomes available.</p> <p>Current status: Completed. Staff reports that web registration has grown to nearly 50% of all registrations – a dramatic change in the way that people register for classes. Meanwhile, budget considerations continue to delay the installation of drop boxes.</p>
#12: We recommend that Community Services work with the City’s Budget Division to develop a reasonable methodology for determining the costs of classes. This can be used to determine the level of cost recovery in establishing fees charged to its customers.	CSD and ASD	Completed	<p>Nov-2001: In process. The Recreation Division is working with ASD to develop a cost methodology that will be a prototype for other divisions. Target date: Jun-02.</p> <p>Sep-2002: The Recreation Open Space & Sciences Division (ROSS) plans to adopt a cost recovery methodology as prescribed by the LERN Resources Network – a consulting firm that specializes in recreation program management. In partnership with the Budget Division, ROSS will incorporate the new methodology in the ROSS Marketing Plan. Target date: Oct-2002.</p> <p>Oct-2003: In process. The Recreation Division implemented a new methodology with ASD’s input. Over the next year, CSD plans to adopt this methodology in all operations responsible for class programming.</p> <p>Current status: Completed. With assistance from ASD, CSD has implemented a new fee setting model that incorporates fixed and</p>

Audit report and recommendation	Department	Current status	Comments
			variable costs, fee-reductions, and market factors. The model calculates a base fee for Palo Alto residents and a 15% surcharge for non-residents. The model is reviewed annually prior to establishing the next year's fees.

AUDIT OF ACCOUNTS PAYABLE – TOOLS FOR IMPROVEMENT (Issued 3/27/00) Finance Committee

The objective of this audit was to evaluate internal controls and operating procedures and practices surrounding the City's accounts payable process. Of the original 11 recommendations: 9 were previously completed, 1 was completed since our last report, and 1 is in process.

#10: A report which provides information regarding departmental delays in submitting invoices should be generated and reviewed by the Manager of Accounting.	ASD	Completed	<p>Nov-2001: In process. The current IFAS system does not have the capability to provide the needed report. In lieu of re-programming the current system, staff will implement additional reports as part of the new SAP system implementation. Target date: TBD.</p> <p>Sep-2002: Pending SAP system implementation. Target date: Jul-2003.</p> <p>Oct-2003: In process. The SAP system tracks transactions by user, time, and date. The A/P system requires the invoice date be entered separately for time tracking purposes. Due to the implementation transition and the learning curve, it is too early to review. Target date: Jul-2004.</p> <p>Current status: Completed. SAP allows this information to be viewed on-line where it is accessible by both departments and Accounts Payable (A/P) staff. According to ASD, A/P staff reminds departments to address delays that are detected as part of A/P's regular review.</p>
#11: Comprehensive written procedures should be developed immediately.	ASD	In process	<p>Nov-2001: In process. Staff is in the process of reviewing procedures and making several revisions to accounts payable and purchasing procedures. Travel and petty cash procedures are being addressed this fall. Revisions of the remaining procedures will be completed before the end of 2001-02.</p> <p>Sep-2002. In process. Policies and procedures will be revised in conjunction with ERP implementation. Target date: Jul-2003.</p>

Audit report and recommendation	Department	Current status	Comments
			<p>Oct-2003: In process. Staff has developed training manuals and internal business process procedures. Since we have new business processes, it is too soon to develop final policies and procedures as some “best business practices” are still being revised based on actual experience. Target date: Jul-2004.</p> <p>Current status: In process. Staff has drafted procedures, but will not be finalizing them until after year-end, after staff has direct experience with year-end processing. That way, findings during year-end that warrant changes to the business process, can be incorporated. Target date: Dec-2004.</p>

AUDIT OF PAYROLL (Issued 7/2/01)

Finance Committee

The objective of this audit was to evaluate internal controls, operating procedures and practices related to the City’s payroll process. Of the original 7 recommendations: 5 were previously completed/resolved, 1 was previously dropped, and 1 is in process.

<p>#1: Collect Human Resource (HR) and payroll data electronically. HR management should complete an evaluation of the net benefits and adequacy of controls of self-service software and prepare a timetable for implementation by the end of the third quarter 2001. If a significant new benefit or cost savings is realized before the projected installation of a complete HR and Payroll replacement, then HR management should work with the Administrative Services Division to install an interim self-service module.</p>	ASD	In process	<p>Nov-2001: In process. Staff fully supports the concept of employee self-service for human resource, payroll and timecard self-service through a web browser interface. Such applications are components of the ERP system that is expected to be procured in 2002-03. Therefore, staff does not recommend expending resources on a temporary solution at this time. Target date: TBD.</p> <p>Sep-2002: In process. Phase 2 of the City’s ERP project, which is scheduled to begin May 2003, fully supports employee self-service. The City’s selected vendor, SAP, has a fully integrated HRIS system that will provide employee self-service through a web browser interface. Target date: Jan-2004.</p> <p>Oct-2003: In process. ASD is considering a soft roll-out of some ESS functions. Target date: Jan-2004.</p> <p>Current status: In process. A pilot program was implemented with ASD employees to evaluate the Employee Self Service module. Areas of concern have been identified and staff is working on solutions prior to a wider group roll out. Target date: Fall 2004.</p>
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Audit report and recommendation	Department	Current status	Comments
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ASSESSMENT OF UTILITY RISK MANAGEMENT PROCEDURES (Issued 7/3/02)

Finance Committee

The purpose of our review was to assess the adequacy of utility risk management procedures, the appropriateness of designated scopes of authority and levels of management oversight, and the adequacy of management reporting. Of the original 24 recommendations, 12 are completed, 7 were completed since the last report, and 5 are in process.

#1: City of Palo Alto Utilities (CPAU) should continue to implement the Deloitte & Touche consultant recommendations and establish target dates for completing each recommendation.	Utilities	In process	<p>Original response: Most consultant recommendations to be completed by end of 2002. Some longer-term tasks to be completed by end of Spring 2003 and some are ongoing.</p> <p>Sep-2002: In process.</p> <p>Oct-2003: In process. The front and middle offices are implementing the recommendations, and the Risk Manager is monitoring the status of those recommendations. Target date: Dec-2003.</p> <p>Current status: In process. Most consultant recommendations have been completed. Staff is preparing new procedures to address the recommendation to separate back office and front office operations. Target date: Oct-2004.</p>
#2: CPAU should provide written justification and obtain approval from the Risk Oversight Committee (ROC) for any recommendations that are not implemented and provide written progress reports to the ROC and other oversight levels that detail the status and target date for implementing each Deloitte & Touche recommendation.	Utilities	In process	<p>Original response: Comprehensive work plan schedule was submitted to the ROC in June 2002. Monthly progress reporting begins July 2002.</p> <p>Sep-2002: In process.</p> <p>Oct-2003: In process. The front and middle offices are implementing the recommendations, and the Risk Manager is monitoring the status of those recommendations. Target date: Dec-2003.</p> <p>Current status: In process. Most consultant recommendations have been completed with input from and discussions with the ROC. Staff is preparing new procedures to address the recommendation to separate back office and front office operations. Target date: Oct-2004.</p>
#4: In lieu of allowing CPAU unlimited dollar authority, the City Council should award base contracts that: (a) specify not-to-exceed dollar amounts, duration and	Utilities	Completed	Original response: Revised draft RFI/RFP procurement process is under development with CPAU, ASD, and City Attorney, which

Audit report and recommendation	Department	Current status	Comments
volumes for electric and gas commodity transactions; and (b) clarify what types of business CPAU staff is allowed to transact under authority of each contract.			<p>proposes Council Approval of Master Agreements with pre-specified limits. Transactions and Authorities are clarified in Energy Risk Management (ERM) Policies. Detailed authorities to be spelled out in ERM Guidelines and ERM Procedures Manual. ERM Guidelines to be approved by ROC by end of 2002.</p> <p>Sep-2002: In process.</p> <p>Oct-2003: In process. Authorities for gas and electric purchases under base contracts will be set by City Council through the respective CMRs for Master Agreements. Staff is also working with the City Attorney's Office and ASD to clarify the authorities for energy commodity purchases in the purchasing chapter of the municipal code (2.30) as part of contract streamlining efforts. Target date: Dec-2003.</p> <p>Current status: Completed. The RFI/RFP procurement process developed in conformance with this recommendation has resulted in 9 Master Agreements with pre-specified limits. Authorized transactions and detailed authorities are clarified in the ERM Policies, Guidelines and Procedures Manual that were approved by the ROC in 2003. Authorities for gas and electric purchases under the base contracts were set by the City Council as outlined in the respective CMRs for the Master Agreements.</p>
#8: CPAU should provide the ROC with detailed transaction reports that provide assurance that commodity purchases are not in excess of forecasted demand.	Utilities	Completed	<p>Original response: Compliance reporting is summarized in ERM Policies, and will be included in ERM Guidelines and Procedures Manual. Regular transaction-level reporting to ROC by Fall 2002.</p> <p>Sep-2002: In process.</p> <p>Oct-2003: In process. Detailed transaction reports showing purchases and sales were presented to the ROC in Oct-2003. Reports showing open positions are forthcoming. Target date: Dec-2003.</p> <p>Current status: Completed. Compliance reporting requirements are summarized in the ERM Policies, Guidelines and Procedures Manual. The Front Office reports to the ROC monthly, and the Risk Manager attends all meetings and reports quarterly. The Risk Manager also reviews his Transaction Detail Report with the UAC on a quarterly basis, and provides this information to the City Council in informational memos. The detailed transaction reports shows purchases, sales, market values, and open positions that allows the oversight entities to ensure commodity purchases were not in excess of</p>

Audit report and recommendation	Department	Current status	Comments
#10: CPAU should prepare detailed financial and portfolio reports that show the financial results and performance of each transaction, as well as the summary results of all positions in the energy portfolio.	Utilities	Completed	<p>forecasted demand limits.</p> <p>Original response: Same timeline as recommendation 8 (Fall 2002).</p> <p>Sep-2002: In process.</p> <p>Oct-2003: In process. Reports of financial performance for the portfolio are completed. Detailed transaction reports showing purchases and sales were presented to the ROC in Oct-2003. Detailed reports showing financial results for each transaction are forthcoming. Target date: Dec-2003.</p> <p>Current status: Completed. Reports of financial performance for the portfolio are completed. Detailed transaction reports show purchases, sales, market values, and open positions that allow the ROC and other oversight bodies to monitor the financial results and performance of each transaction, as well as the summary results of all positions in the energy portfolio.</p>
#11: CPAU should restructure standard reports so as to provide each risk oversight body with data that is relevant to its roles, responsibilities, and authorities.	Utilities	Completed	<p>Original response: Described broadly in ERM Policies and will be detailed in ERM Guidelines and Procedures Manual. Initial UAC review in Fall 2002. Council review by Winter 2003.</p> <p>Sep-2002: In process.</p> <p>Oct-2003: In process. The Risk Manager provided the first bi-annual Risk Management report to UAC in May 2003. The Risk Manager to scheduled to present an updated report to the UAC in Fall of 2003, and will present the report to the City Council in conjunction with a study session on energy risk management. Target date Fall-2003.</p> <p>Current status: Completed. Reports of financial performance for the portfolio are completed. Detailed transaction reports show purchases, sales, market values, and open positions that allow the ROC and other oversight bodies to monitor the financial results and performance of each transaction, as well as the summary results of all positions in the energy portfolio. ERM Policies, Guidelines and Procedures Manual provide additional requirements for the reports. The Risk Manager provides Quarterly Risk Management Reports to the UAC and City Council within 6 weeks of the end of each quarter in the fiscal year.</p>
#13: The ROC and CPAU should segregate and clearly detail the roles,	Utilities	In process	Original response: Oversight roles described in ERM Policies and roles, responsibilities and authorities will be detailed in ERM

Audit report and recommendation	Department	Current status	Comments
responsibilities and authorities for the front, middle, and back office personnel.			<p>Guidelines and Procedures Manual. ERM Guidelines to be approved by ROC by end of 2002. Complete ERM Procedures Manual by Spring 2003.</p> <p>Sep-2002: Same.</p> <p>Oct-2003: In process. The front and middle offices are functioning independently. Back office functions are still shared with the front office, however SAP will strengthen internal controls over transactions and ensure transactions are transparent to front, middle, and back offices.</p> <p>Current status: In process. Oversight roles and responsibilities for the front and middle offices are described in ERM Policies, Guidelines and Procedures Manuals. The front and middle offices are functioning independently. However, back office roles, responsibilities, and functions are still shared with the front office. Staff is developing procedures that will ensure that adequate ASD back office review of the billing and payment cycle is carried out at a minimal cost to the City. Target date: Oct-2004.</p>
#15: The back office bookkeeping and accounting functions should be segregated from the front office to the extent possible and, where feasible, report to the Administrative Services Department.	Utilities	In process	<p>Original response: See recommendation 14.</p> <p>Sep-2002: In process.</p> <p>Oct-2003: In process. Separation, where feasible and appropriate, is identified in Guidelines and Procedures. Staff is exploring opportunities to streamline bookkeeping and accounting functions and make them more transparent by utilizing functions of the new SAP system.</p> <p>Current status: Roles and responsibilities are identified in the ERM Policies, Guidelines and Procedures manuals. The staff is exploring opportunities to make transactions more transparent (including regular, detailed reporting on payments). Staff is developing procedures that will ensure that adequate ASD back office review of the billing and payment cycle is carried out at a minimal cost to the City. Target date: Oct-2004.</p>
#16: CPAU should provide additional training in accounting for energy transactions to staff performing middle and back office functions.	Utilities	In process	<p>Original response: Staff is developing a comprehensive education and training plan. Training plan in place by end of Summer 2002. First round of training complete by end of Fall 2002. Training is ongoing.</p>

Audit report and recommendation	Department	Current status	Comments
#17: Written risk management procedures should clarify who is authorized to execute agreements on behalf of the City, require supervisory review of all transactions, and clarify procedures for handling different types of transactions.	Utilities	Completed	<p>Sep-2002: In process.</p> <p>Oct-2003: In process. Staff has attended settlements training, and the back office is being trained in conjunction with moving energy transaction accounting onto SAP. Ongoing training being carried out as required.</p> <p>Current status: In process. Staff implemented an education and training plan for the ASD accounting staff in June 2003. However, one person has since left the City and the remaining person only attended one half-day training session. Staff is preparing new procedures to address the recommendation to separate back office and front office operations, and clarify the role of ASD back office staff. Additional training will be provided to ASD back office staff. Target date: Sep-2004.</p>
			<p>Original response: Authorities are clarified in ERM Policies and will be detailed in ERM Guidelines. Supervisory review documentation already incorporated in transaction execution process. Revised Procedures Manual shall conform to authorities as reflected in ERM Policies and ERM Guidelines, and shall clarify review and tracking of different types of transactions. Complete ERM Procedures Manual approved by Middle Office by Spring 2003.</p> <p>Sep-2002: In process.</p> <p>Oct-2003: In process. Middle Office procedures are complete. Front Office procedures are in final draft. Back Office procedures are being revised to match the updated Front and Middle Office procedures.</p> <p>Current status: Completed. Authorities are clarified in the ERM Policies, Guidelines, and Procedures manuals. Procedures for Front, Middle, and Back office functions are complete. Supervisory review documentation has been incorporated into the transaction execution process. A sample of transactions tested revealed that the new procedures are implemented.</p>
#22: CPAU should conduct a peer study to provide the City Council with background information comparing CPAU commodity supply strategies with other municipal utilities.	Utilities	Completed	<p>Original response: Supports recommendations 20, 21. Included in goals plan for recommendation 20 (Winter 2002).</p> <p>Sep-2002: Not started.</p>

Audit report and recommendation	Department	Current status	Comments
#23: CPAU should develop a quality assurance program for testing, reviewing, and verifying the accuracy of data used in its energy models.	Utilities	Completed	<p>Oct-2003: In process. CPAU participated in an APGA (American Power and Gas) risk management survey. In addition, the Middle Office is actively participating in NCPA and CMUA (California Municipal Utilities Association) risk management associations to ensure leading practices are being carried out. Target date: TBD.</p> <p>Current status: Completed. A peer study of nearby and comparable cities was completed in 2004. The results are being used to provide information about comparison jurisdictions in staff and city manager reports.</p>
			<p>Original response: Part of systems/planning models enhancements work plan and Middle Office procedure development. Complete ERM Procedures Manual approved by Middle Office by Spring 2003. Complete systems modifications by Summer 2003. Quality assurance and systems improvements are ongoing.</p>
			<p>Sep-2002: In process.</p>
			<p>Oct-2003: In process.</p>
			<p>Current status: Completed. Documentation for the electric portfolio model and a checklist for the electric model assumptions were completed in June 2004. Documentation for the gas model and a checklist for the gas model assumptions were developed in June 2004. Quality assurance and systems improvements for both commodities are on-going.</p>

ANALYSIS OF THE LONG RANGE FINANCIAL PLAN (Issued 12/3/02)

Finance Committee

The purpose of this review was to provide an independent assessment of the feasibility and completeness of the long range financial plan. Of the 3 recommendations, 1 was previously completed, and 2 are in process.

#2: To simplify tracking infrastructure funds, we recommend staff assess the feasibility of (1) moving the Infrastructure Reserve from the General Fund to the Capital Projects Fund, and (2) retaining unspent project funds in the Capital	ASD	In process	<p>Oct-2003: In process. Staff estimates the General Fund will accrue about \$2 million per year in interest on Infrastructure Reserve balances. Because of the financial condition of the General Fund, staff did not propose moving the Infrastructure Reserve during the 2003-05</p>
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Audit report and recommendation	Department	Current status	Comments
Projects Fund.			budget process. Unspent project funds will continue to return to the Infrastructure Reserve in the General Fund. Staff will re-evaluate the feasibility of this recommendation during the interim 2004-05 budget process (Jun-2004).
			Current status: In process. The proposed 2004-05 budget moves the Infrastructure Reserve (and associated interest earnings) from the General Fund to the Capital Projects Fund. Actual results will be reflected at the completion of the fiscal year. Target date: Jun-2005.
#3: To facilitate City Council discussion of long-term infrastructure priorities, we recommend that during the upcoming budget process staff provides the City Council with a list of the identified infrastructure Management Plan (IMP) projects including estimated, budgeted, and actual costs for each project.	ASD	In process	Oct-2003: In process. On September 16, 2003, the Finance Committee reviewed an Infrastructure Management Plan (IMP) budget summary spreadsheet and a detailed listing of all IMP projects (budgeted expenditures, actual expenditures and encumbrances, and planned and estimated future project expenditure amounts). As part of the 2004-05 budget process, staff will distribute an updated listing of proposed IMP projects in Jan-2004. The IMP summary will be incorporated into the CIP document in Jun-2004. Staff will also distribute to the City Council, on a quarterly basis, a City Works Project Snapshot that is a graphical chart depicting each of the IMP projects and the current phase of the project (i.e. pre-design, design, bid and contract, construction, and post construction). Target date: Jun-2004.
			Current status: In process. Staff has provided periodic reports to Council and is planning to update the original Adamson study to ensure that the infrastructure plan reflects current cost estimates for renovation and repair. The Auditor's Office continues to recommend that a complete list of identified projects be provided at budget time. Target date: Jun-2005.

COMMENTS ON PROPOSED SERVICE AGREEMENT WITH THE CITY OF SUNNYVALE TO PROVIDE ANIMAL SHELTERING AND ASSOCIATED SERVICES (Issued 12/9/02) Finance Committee

At the request of the City Manager, the City Auditor's Office evaluated and provided comments on the proposal. Our review included one recommendation which is completed.

#1: During contract negotiations, staff should (1) allocate sheltering costs on the	ASD	Completed	October 2003. In process. Contract negotiations are in process. Target
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Audit report and recommendation	Department	Current status	Comments
basis of domestic animals handled and allocate animal control costs on the basis of total animals handled (including wildlife), (2) charge Sunnyvale a host fee, and (3) confirm that Sunnyvale will underwrite and subsidize the needed capital improvements upfront.			date: Oct-2003. Current status: Completed. Staff incorporated most of our recommendations into the new long-term Animal Services agreements between Palo Alto and the cities of Los Altos, Los Altos Hills, Mountain View, and Sunnyvale (CMR:516:03). Staff estimates the City will save more than \$1 million over the life of the contracts.

AUDIT OF CODE ENFORCEMENT (Issued 3/11/03)

Policy & Services Committee

The objective of this audit was to assess the program's timeliness, responsiveness, and consistency of enforcement. Of the 17 recommendations, 1 was previously completed, 5 were completed this year, and 11 are in process.

#1: In accordance with Planning Division guidelines, the code enforcement officers should provide feedback to complainants regarding the status or results of their complaints through phone calls or other communications.	Planning	In process	Oct-2003: In process. Code Enforcement officers are making follow-up phone calls to complainants. The Division will revise its procedures to prescribe follow-up calls, and will note follow-up phone calls in the code enforcement database (ACCELA) once it becomes operational. Target date: Jun-2004. Current status: In process. According to Code Enforcement staff, follow-up phone calls are being made for all cases that are closed even when the call does not result in an official complaint. These phone calls are input into the Accela database. The goal is for Accela to produce a letter or post card to complainants when cases are closed notifying them of the outcome. The department is considering assigning clerical support in the meantime. Target date: Dec-2004.
#2: The Code Enforcement Division, with the support of the City Attorney's Office, should streamline its code enforcement process by increasing the use of Administrative Citation Warnings and reduce use of its alternative procedures for issuing administrative letters.	Planning	Completed	Original response: The increased use of Administrative Citation warnings will streamline the code enforcement process and reduce the need for repeated warning letters. Planning staff will be implementing that recommendation immediately. Oct-2003: In process. Citations remove one step in the code enforcement process. Code Enforcement will outline the warning citation process in its procedures manual, and will specify that warning citations should be tracked in the ACCELA database (once it is operational). Target date: Jun-2004. Current status: Completed. Code Enforcement officers are issuing

Audit report and recommendation	Department	Current status	Comments
#3: Code Enforcement should clarify its written guidelines and procedures regarding the prioritization of complaints (e.g. level of risk to the health and safety of occupants and/or the public), timeliness requirements for compliance, circumstances under which alternative procedures and personal letters are appropriate, and guidelines for escalating from warning to citation and/or to compliance order.	Planning	In process	Administrative Citation Warnings, and tracking them in the Accela database. According to Code Enforcement, the use of Administrative Citation Warnings has significantly decreased their paperwork. Original response: Planning staff has begun to clarify written guidelines and procedures and will be continuing that effort over the next several months. Oct-2003: Not started. Staff plans to begin work on guidelines and procedures once the second Code Enforcement Officer position is filled in Nov-03 (the position has been vacant during summer 2003 due to the resignation of a code enforcement officer). Current status: In process. Draft of written policies is being prepared. Target date: Dec-2004.
#4: Where appropriate, Code Enforcement should increase its efforts to enlist the support of other departments, agencies, or non-profit service groups, to assist property owners with cleaning up their property.	Planning	Completed	Oct-2003: Not started. A list of resources will be prepared and distributed to code enforcement staff. Target date: January 31, 2004. Current status: Completed. The Citywide Code Enforcement Coordinating Committee is coordinating support from other departments and divisions. Code Enforcement staff has worked with the Santa Clara County Social Services Agency and Stanford Hospital to abate substandard and dangerous residences, coordinated efforts with the Police Department in some cases, and worked with residents, the county, and other entities on lead paint and mold issues.
#5: The City Attorney's Office should, to the extent possible, expedite processing of cases referred by Code Enforcement so that code enforcement officers can properly handle repeat complaints and monitor the status of these cases during their re-inspections.	Attorney	In process	Original response: The City Attorney's Office recently received additional funding to increase the FTEs devoted to code prosecution. Most recent cases have been handled much more quickly due to these additional resources. Oct-2003: In process. The Attorney's Office is working with Code Enforcement on an on-going basis. The Attorney's Office is revising its referral system to allow better tracking of open code enforcement cases. Current status: In process. According to the Code Enforcement staff, the City Attorney's Office adopted a performance measure to <i>assign</i> all referred cases within 48 hours. The Auditor's Office notes that improvements are still needed in <i>resolving</i> problem cases. Target date: Dec-2004.

Audit report and recommendation	Department	Current status	Comments
#6: The City Attorney's Office should provide copies of its case status reports to Code Enforcement so that they can stay informed as to the current status of cases referred to the City Attorney's Office.	Attorney	In process	<p>Original response: The Attorney's Office will make its case status reports available to Code Enforcement on a regular basis.</p> <p>Oct-2003: In process. The Attorney's Office provides case status reports at regular weekly meetings.</p> <p>Current status: In process. The City Attorney's Office provides some case reports and e-mails to the Code Enforcement Officer involved. Coordination would be improved through use of the Accela database to track contacts and case status. Target date: Dec-2004.</p>
#8: The City's hearing officer should expedite the hearing process by reducing the number of hearings per case where possible.	Attorney	Completed	<p>Original response: Staff will prepare written guidelines that define the general grounds and durations of continuances.</p> <p>Oct-2003: Not started. Target date: TBD.</p> <p>Current status: Completed. The hearing officer will not schedule continuances unless absolutely necessary (e.g. when mistakes are found in public notices, or due to illness). Since Oct-2003, the hearing officer has not continued any hearings.</p>
#9: Using the information provided here, the City Manager should review departmental policies regarding assessment and collection of penalties to ensure appropriate penalties are being assessed and collected.	Planning and Attorney	In process	<p>Oct-2003: In process. The City Attorney and Code Enforcement staffs are developing standard procedures for assigning fees and penalties, and will coordinate collection procedures with ASD. Target date: Mar-2004.</p> <p>Current status: The citywide penalty schedule was updated and distributed to all departments/divisions responsible for code enforcement. All citations are routed to ASD for collections, and problem cases are discussed at the citywide Code Enforcement Coordinating Committee meetings. Written policies are being developed to ensure consistency. Target date: Dec-2004.</p>
#10: Code Enforcement and the City Attorney should consider additional strategies to encourage the assessment of all appropriate penalties and administrative costs.	Planning and Attorney	In process	<p>Original response: The City Attorney's Office will work with Code Enforcement to document and provide to the hearing officer additional justification for its recommendations regarding the assessment of administrative penalties and costs.</p> <p>Oct-2003: In process. The City Attorney and Code Enforcement staffs are developing standard procedures for code enforcement to assessing penalties and fees. Some changes may be incorporated into the proposed fee schedule. In addition, the Attorney's Office will develop</p>

Audit report and recommendation	Department	Current status	Comments
			<p>a standard protocol for imposing liens. Target date: January 31, 2004.</p> <p>Current status: In process. According to the Code Enforcement staff, the City Attorney and Code Enforcement Office prepare an hourly cost report for the Hearing Officer to consider as part of each penalty assessment. Development of a standard protocol for imposing liens is in process. Target date: Dec-2004.</p>
<p>#11: The Administrative Services Department should notify the City Attorney of amounts past due, and the City Attorney should file liens against real properties or use other means to collect amounts that are outstanding over six months. [Language in bold added at the Policy and Services Committee meeting March 11, 2003.]</p>	ASD and Attorney	In process	<p>Original response: The Attorney's Office will use a variety of means to collect amounts due, including liens, small-claims court, and criminal complaints.</p> <p>Oct-2003: In process. The Administrative Services Department is working with the Attorney's Office to coordinate collection procedures. Target date: TBD.</p> <p>Current status: In process. Written procedures are being drafted. The City is in the process of imposing one lien, and will be developing a standard protocol for imposing liens. Target date: Dec-2004.</p>
<p>#12: Code Enforcement should work with the Budget Office to determine an appropriate hourly rate for all administrative costs that are to be reimbursed.</p>	ASD and Planning	Completed	<p>Oct-2003: In process. Code Enforcement staff reviewed their hourly costs (including benefits), and informed the hearing officer. Code Enforcement will work with the Budget Office to develop a standardized rate sheet for Code Enforcement staff. Target date: TBD.</p> <p>Current status: Completed. Using SAP to accumulate data, ASD developed activity type hourly rates for various cost centers. The Budget Office provided Code Enforcement staff with a dollar figure of \$52 per hour.</p>
<p>#13: The City Manager should establish a code enforcement council for coordinating code enforcement policies, practices, plans, and procedures, and mandate that all departments with code enforcement responsibilities attend the code enforcement coordinating council meetings and share information on cases.</p>	City Manager	Completed	<p>Oct-2003: In process. A citywide committee has been formed and is meeting monthly to discuss code enforcement responsibilities and overlap. Target date: TBD.</p> <p>Current status: Completed. A cross-departmental Code Enforcement Coordinating Committee has been formed and meets quarterly to discuss issues, and develop formal code enforcement strategies, polices, and procedures.</p>
<p>#14: Using the information provided in this report, the City Manager should consider consolidating as many code enforcement responsibilities under one</p>	City Manager	In process	<p>Oct-2003: In process. The Planning and Police Departments have initiated discussion about possible restructuring or consolidations of</p>

Audit report and recommendation	Department	Current status	Comments
department as is feasible.			code enforcement responsibilities. Target date: Spr-2004. Current status: In process. Restructuring has been proposed whereby Code Enforcement Officers would move from Planning to the Police Department. Target date: Jun-2005.
#15: Code Enforcement should clarify and formalize its strategy, mission, priorities, and policies for ensuring the effectiveness of the City's code enforcement function.	City Manager	In process	Oct-2003: In process. This is being done through the Citywide committee. Mission statement to be completed by Dec. 2003. Current status: In process. The cross-departmental Code Enforcement Coordinating Committee will be developing formal code enforcement strategies, policies, and procedures. Target date: Dec-2004.
#16: The Planning Division's code enforcement program, in conjunction with other offices and departments, should continue to develop proactive products such as web pages, leaflets, and brochures that will help residents to comply with Municipal Code requirements.	Planning	In process	Oct-2003: In process. Draft web page and brochures are being reviewed internally. Target date: January 31, 2004. Current status: In process. According to Code Enforcement staff, draft leaflets and brochures have been completed and are being reviewed internally before being published on the web. Target date: Dec-2004.
#17: The ACCELA project manager should involve all code enforcement staff from various departments, particularly in the Planning Division, and the City Attorney's Office in the activation of the ACCELA code enforcement module.	ASD	In process	Oct-2003: In process. "Go Live" target date for ACCELA in Code Enforcement is November 1, 2003. The Police, Fire, and Public Works Departments are also interested in obtaining access to the system once it is operational. Current status: In process. Accela software is up and running for code enforcement staff. Report writing capabilities are being developed, and other departments with code enforcement responsibilities will be added later. Target date: Dec-2004.

AUDIT OF THE DEVELOPMENT REVIEW PROCESS (Issued 11/15/03) **Policy & Services Committee**

The objective of this audit was to determine if development review processes were effective and efficient; actions were timely, responsive, and consistent; and processes could be improved. Of the 34 recommendations, 18 were completed this year, 1 was implemented subject to review in one year, 1 is dropped (no longer applicable), 1 is partly implemented, 5 are partly implemented subject to follow-up review next year, 6 are in process, 1 is not implemented subject to follow-up review next year, and 1 is not started.

Audit report and recommendation	Department	Current status	Comments
#1: The Planning Division should establish turnaround times that meet or beat California Permit Streamlining Act requirements.	Planning	Completed	<p>Original response: Planning will investigate Permit Tracking System (Accela) to verify compliance with State Law.</p> <p>Current status: Completed. The Chief Planning Official clarified turnaround times for staff and the ARB at meetings in Oct-2003 and Jan-2004. In Mar-2004, she issued a cross-departmental memorandum outlining timeframes for turning around planning applications. In Jun-2004, the City Council approved revisions to the Municipal Code that simplified processes and established clear timeliness requirements. These timeframes satisfy the California Permit Streamlining Act requirements for determining whether an application is complete, and for approving or disapproving the application.</p>
#2: All project-specific staff reports should note application dates, dates the applications was deemed complete, hearing dates, CEQA or environmental impact report dates, State and City mandated approval dates, and actual approval dates.	Planning	Completed	<p>Original response: In process.</p> <p>Current status: Completed. The “timeline” section of Planning Division staff reports includes application date, date the application was deemed complete, hearing dates, and other decision dates. It will be important for the Planning Division to self-police the writing of staff reports to ensure that timelines continue to be included.</p>
#3: The Planning Department should establish performance standards for the timeliness of development reviews, monitor the timelines, and alert management if timelines are not being met.	Planning	Partly implemented	<p>Original response: Department agrees and will begin to develop performance measures and tracking timelines.</p> <p>Current status: Partly implemented. The Chief Planning Official established new performance standards for the Planning Division including specific timeframes for turning around planning applications. Turnaround times are improving. Our review of current Planning Division statistics reveals that some planners have shortened processing times by as much as 30 percent. However, preliminary workload reports from the IPT database contain errors and reveal some delays. Revised reporting facilitates identification of old cases. The Planning Division is converting its records to the Accela database. Accela reporting formats will need to be established to facilitate monitoring of timeliness standards. Target date: TBD.</p>
#4: The Planning Division should simplify and reduce the number of development review processes to no more than 5 standard processes and incorporate the revised processes and time requirements into the Municipal Code.	Planning and Attorney	Completed	<p>Original response: Requires code amendment. Will work with the Policy and Services Committee and the City Attorney via the Zoning Code update.</p> <p>Current status: Completed. In Jun-2004, the City Council approved changes to the Municipal Code that simplify and standardize processes</p>

Audit report and recommendation	Department	Current status	Comments
#5: Establish one standard and simple process for appeals, and establish timeliness requirements.	Planning and Attorney	Completed	<p>and time requirements. The City Council approved the revisions on June 7, 2004. The new procedures are effective July 7, 2004, and are currently being implemented.</p> <p>Original response: Requires code amendment. Will work with the Policy and Services Committee and the City Attorney.</p> <p>Current status: Completed. Chapter 18.78 of the Municipal Code was revised to incorporate a standard and simple appeals process with timeliness requirements. The City Council approved the revisions on June 7, 2004. The new procedures are effective July 7, 2004, and are currently being implemented.</p>
#6: Revise the zoning ordinance for single family residential to address massing and scale, streetscape, and privacy subject to the same administrative/ministerial approval process as other minor projects.	Planning	In process	<p>Original response: Staff preparing second annual status report of Individual Review Processes for the Planning and Transportation Commission and City Council and will consider ministerial changes.</p> <p>Current status: In process. The Planning Commission reviewed IR process in Dec-03, and did <i>not</i> recommend pursuing a ministerial process for Individual Review at that time. The Zoning Ordinance Update for single family residential including individual review and home improvement exceptions has been reviewed by the Planning Commission, and will be presented to the City Council in the Fall. Target date: Fall-2004.</p>
#7: The Planning Director should reform the Development Review Committee membership to include everyone who will be making decisions related to the project, and should consider including all planners (even when their assigned projects are not being discussed) in order to promote consistency.	Planning	Partly implemented subject to review in one year	<p>Original response: Staff will evaluate the best use of Development Review Committee and other regular staff meetings.</p> <p>Current status: Partly implemented (subject to review in one year). Weekly development review committee (DRC) meetings have been implemented, including expanded department and applicant representation, and advance routing of plans. Agendas are distributed in advance; the planners assigned on those projects are required to attend. The DRC clarified its mission (“<i>to coordinate the review of development proposals, to ensure interdepartmental coordination, and facilitate project review in a timely and consistent manner</i>”) and objectives. The department considered, but does not recommend that all planners attend the meetings. However, only projects with obvious cross-departmental implications are being referred to the DRC (not <i>all</i> projects, as we recommended), and that only those planners who are assigned to projects on the agenda are required to attend (not <i>all</i> planners, which we had recommended for purposes of promoting consistency). The Auditor’s Office will review the effectiveness of the</p>

Audit report and recommendation	Department	Current status	Comments
#8: The Development Review Committee should meet weekly and should review all projects that are submitted for approval. After the meeting, staff should consolidate and prioritize staff's comments, and send a written communication to the applicant outlining what steps will be required to get the project processed and completed.	Planning, Public Works, Fire, and Utilities	Partly implemented subject to review in one year	<p>partial implementation in one year. Target date: TBD.</p> <p>Original response: Staff agrees and will evaluate expanded use of Development Review Committee.</p> <p>Current status: Partly implemented (subject to review in one year). Weekly development review committee (DRC) meetings have been implemented, including expanded department and applicant representation, and advance routing of plans. DRC meeting results are communicated to applicants in the form of letters that (1) indicate the application is complete, or (2) include all relevant department comments that tell the applicant what is needed to complete the application. The letters are sent out within 2 weeks of the DRC meetings. However, only a limited number of projects (those with obvious cross-departmental implications) are being referred to the DRC – not <i>all</i> projects, as we recommended. The Auditor's Office will review the effectiveness of the partial implementation in one year. Target date: TBD.</p>
#9: The Planning Department should use the Development Review Committee meetings to ensure the applications are handled consistently and correctly, and that decisions are consistent with past precedents and decisions.	Planning	Partly implemented subject to review in one year	<p>Original response: See responses #7 and #8 above.</p> <p>Current status: Partly implemented (subject to review in one year). Planners are using the DRC meetings to ensure applications are handled consistently, correctly, and that decisions are consistent with past decisions. However, only a limited number of projects (those with cross-departmental implications) are being referred to the DRC, and only the planners working on those projects are attending. The Auditor's Office will review the effectiveness of the partial implementation in one year. Target date: TBD.</p>
#10: For each new application received, as appropriate, assign a single point of contact from the Planning or Building Division.	Planning	Partly implemented subject to review in one year	<p>Original response: Staff agrees and will expand use of project managers.</p> <p>Current status: Partly implemented (subject to review in one year). Applications are assigned to specific planners in the Planning Division who serve as the applicant's single point of contact with the Planning Division (the first stage of the development review process). Also, planners have been assigned to planning districts, with district maps published on the website, facilitating assignment and routing of projects.</p> <p>In addition, the Building Division assigns a single point of contact for building plan checks (the first stage of the permitting process), and</p>

Audit report and recommendation	Department	Current status	Comments
			<p>applicants can track the status of their permit application at any time via the City's website. Applicants are advised to contact the Chief Building Official directly regarding any problems with permit processing.</p> <p>Applicants are advised to contact the approving department directly regarding any problems with approvals by the Utilities, Public Works, or Fire Departments. So depending on the complexity of the project, an applicant may still have a number of reviewers that are not, to date, coordinated by a single project manager. The implementation of the Accela database and the "virtual development center" should help improve communications between departments and with applicants. The Auditor's Office will review the effectiveness of the partial implementation in one year. Target date: TBD.</p>
#11: Staff should review and approve minor projects at a staff level.	Planning and Attorney	Completed	<p>Original response: Requires code change and will work with the City Attorney and the Policy and Services Committee to implement.</p> <p>Current status: Completed. Planning Department staff has been making staff decisions on minor ARB, IR, and HIE projects. This is helping reduce turnaround times on new applications. Target date: TBD.</p>
#12: The Planning Director should establish a policy to expedite scheduling of hearings on current applications, and limit the number a continuances and re-hearings to the maximum extent feasible.	Planning	Completed	<p>Original response: See response #11 above.</p> <p>Current status: Completed. In Feb-2004, the Chief Planning Official established new performance standards for the Planning Division that require scheduling public hearings within 30 to 45 days, and making Director decisions within 60 days of the notice of completion for ARB applications.</p> <p>Limitations on the number of continuances and re-hearings were included in the Municipal Code revisions that were approved by the City Council in May-2004 (CMR: 261:04). A one-continuance policy was discussed with the planning staff and the ARB (at its Oct-2003 and Feb-2004 retreats). The planning director formalized the policy in Feb-2004 and incorporated the policy in the application submittal checklists.</p>
#13: The City Council should modify the Municipal Code so that, in the absence of a timely ARB recommendation, the Planning Director would be authorized to	Planning	Completed	Original response: See response #11 above.

Audit report and recommendation	Department	Current status	Comments
approve, approve with conditions, deny, or refer to the City Council, the application for a major project in conformance with the California Permit Streamlining Act and the Municipal Code's timeline requirements.			Current status: Approved by City Council as part of the Municipal Code update in Jun- 2004. Those changes became effective July 7, 2004. Staff is implementing the change.
#14: The Planning Department should clarify the advisory role of the ARB and focus ARB resources on major, controversial, and/or complex projects.	Planning	Completed	Original response: Staff will work with ARB to clarify roles. Current status: Municipal Code section 18.76.020 revised the definition of ARB authorities, and Municipal Code section 18.77.070 allows the Planning Director to make a decision if the ARB continues a minor project more than once, or a major project more than two times. In addition, staff held retreats in Oct-2003, Jan-2004, and Jul-2004. At these retreats, the ARB discussed roles, responsibilities, ordinance changes, projects, appeal procedures, review standards, design elements, and other changes.
#15: The City Council should consider delegating to the Planning Commission primary responsibility for consideration of all those items considered "quasi-judicial". If, in the opinion of the City Attorney, the Planning Commission's recommendations need to be ratified by the City Council. Those items should be placed on the City Council's consent calendar where they can be ratified by a majority vote of the Council.	Planning and Attorney	Completed	Original response: May require Charter Amendment. Current status: The City Council adopted Municipal Code changes implementing this recommendation in Jun-2004 (effective Jul-2004). Under the revised procedures for variances, conditional use permits, neighborhood preservation exceptions, and other permits and approvals for which a review process is required (Municipal Code section 18.77.060), hearings will be held at the Planning Commission, and the Planning Commission's recommendation will be placed on the City Council's consent calendar within 30 days to be ratified by a majority vote of the Council. Removal from the consent calendar requires four votes.
#16: The Planning Department should prepare orientation materials for Planning Commissioners and ARB members, and provide periodic training sessions to members on their roles and responsibilities.	Planning	Completed	Original response: In process. Staff will evaluate improvements. Current status: Completed. Orientation materials were prepared, indexed, and assembled for Planning Commission and ARB members. Periodic training is included in bi-annual retreats scheduled for Planning Commission and ARB Board members.
#17: The Planning Department should continue to include source documents in Board and Commission packets but, to the extent possible, replace staff reports with 2 page summaries that focus on the questions to be answered, decisions to be made, and discuss the substantive issues related to the project.	Planning	Completed	Original response: Staff will review report format with appropriate Boards and Commissions. Current status: Completed Staff reports include a summary of key

Audit report and recommendation	Department	Current status	Comments
#18: The Planning Department should lower the current building permit due dates for regular plan checks from 8 weeks to 4 weeks, reduce the turnaround time for rechecks, and establish progressively shorter timelines for second, third, and fourth rechecks.	Planning	Implemented subject to review in one year	<p>issues, timeline, staff recommendations, and attachments.</p> <p>Original response: Staff agrees and will prepare implementation plans. Staff will also work with other Development Center Departments to improve turnaround times.</p> <p>Current status: Implemented (subject to review in one year). Effective November 2003, the Chief Building Official lowered plan check building permit due dates to 4 weeks. Turnaround times for rechecks and follow-on rechecks were lowered to 2 weeks, and major projects were set at 8 weeks. Our analysis of building permit data shows that the Building Division has improved its 4-week plan check processing from 58% (June 2003) to 98% (June 2004), and the Planning Division has improved its 4-week plan check for building permits from 44% (June 2003) to 76% (June 2004). Our analysis also showed that Building Division 2-week rechecks also improved from 69% in Jun-2003 to 88% in Jun-2004. Planning Division 2-week rechecks also improved from 86% in Jun-2003 to 93% in Jun-2004.</p> <p>But other departments (i.e. Fire, Electric, WGW, and Water Quality) are taking longer to complete plan checks. For example: Electric Utilities 4-week plan checks has declined from 86% to 62%; WGW Utilities 4 week plan checks have improved slightly from 35% to 40%, but still has a long way to improve; Water Quality 4 week plan checks improved slightly from 60% to 63%; and Fire Department 4-week plan checks have declined from 100% to 65%.</p> <p>As a result, in spite of improvement in the Planning Department, the time for issuing building permits may not have significantly improved from the customer's perspective. Thus, although the Planning Department has implemented its part of this recommendation, more work remains to be done. This data is a snapshot, month-to-month comparison. The Auditor's Office will hold this recommendation open and review timeliness in one year.</p>
#19: The Planning Department should augment the Building Division staff with contract plan checkers as needed to achieve the 4 week due dates.	Planning	Completed	<p>Original response: See response #18 above.</p> <p>Current status: The Planning Department requested and received a budget increase for contract plan checkers. The Building Division is increasing its use of outside plan checkers, and revised its policies to accept the results of outside plan checkers. As shown above (recommendation #18), our analysis of building permit data shows that the Building Division has improved its 4-week plan check processing</p>

Audit report and recommendation	Department	Current status	Comments
#20: The Planning Department should require building permit applicants to highlight items intended to satisfy conditions of approval on construction plans, when applicable.	Planning	Completed	from 58% in Jun-2003 to 98% in Jun-2004. Original response: Staff agrees and will begin implementation. Current status: Completed. Applicants are now required to print the conditions of approval on the drawings and key plans that they submit to the Building Division.
#21: To the extent feasible, consolidate staff at the Development Center under the supervision of the Director of the Development Center.	City Manager and Planning	Partly implemented subject to review in one year	Original response: Staff agrees. The recommendation will be pursued with all affected departments. Current status: Partly implemented (subject to review in one year). A cross-departmental team reviewed and clarified each department's respective roles in the development review process, and recommended establishing a "virtual development center" instead of changing the reporting structure. The goal of the "virtual development center" is to provide residents and businesses a centralized location to obtain information regarding all aspects of services the Development Center provides. This required staff to think of the Development Center in terms of the services it provides, not necessarily the Department that provides them. While the "virtual development center" will provide a coordinated source of information, it does not address the lack of supervisory coordination of staff from various departments at the Development Center. Given that the timeliness of reviews is apparently not yet resolved (see recommendations 18 and 19), we will hold this recommendation open and review its status one year from now.
#22: The Planning Department should work with the Administrative Services Department to accelerate implementation for the Accela system for the Planning Division.	Planning and ASD	Completed	Original response: Staff agrees and will work with Information Services to implement data solutions ASAP. Current status: The Planning Division module of the Accela system went live on August 30, 2004.
#23: Pending implementation of the Accela system, the Planning Division should require all planners to enter basic information such as application submitted dates, deemed completion dates, CEQA determinations, hearing dates, Board/Commission recommendation, final action, action date and effectives dates into the interim IPT system and immediately begin producing weekly reports showing status of current cases.	Planning	Drop (no longer applicable)	Original response: See response #22. Current status: The Planning Division utilized the interim IPT system until the Planning Division module of the Accela system went live on August 30, 2004. The Auditor's Office notes that as late as Jul-2004, obsolete information was appearing on IPT workload reports that may need to be corrected in Accela. Target date: Aug-2004.

Audit report and recommendation	Department	Current status	Comments
#24: The Planning Division should compile statistics and develop management reports to quantify and summarize workloads and activities weekly and monthly that quantify the time and costs planners expend on various types of projects.	Planning	In process	Original response: See response #22. Current status: In process. A variety of workload reports were developed in IPT including project status and timeliness by planner, lapsed time by project, open applications, and the status of projects where at least one component had been finalized. However, as of Aug-2004, IPT database listings of current projects showed projects assigned to former employees and inactive contract planners, and applications that may have lapsed. The Division went live with the Accela database on August 30, 2004. New reports are being developed. Target date: TBD.
#25: The Planning Division should work with the Administrative Services Department to replace BODS with an electronic filing system that works.	Planning and ASD	In process	Original response: See response #22. Current status: In process. ASD and Planning have decided that information can be more easily stored in the City's GIS system, than in the BODS system. Staff has developed a new scanning and indexing system (DOX) that utilizes GIS parcel information as an index. According to staff, scanned documents in the new system will be viewed via GIS or Windows. Staff expects to use DOX for both Planning and Building documents. Testing of the new system began in Jul-2004. Target date: TBD.
#26: Pending replacement of BODS, the Planning Division should invest resources in properly indexing BODS records for easy retrieval, or discontinuing the BODS system and requiring that all documents in the official files and administrative records be microfilmed or digitized on CDs so that documents in the official files, administrative records, and conditions of approval will be available for future use.	Planning	Not started	Original response: See response #22. Current status: According to staff, if the GIS pilot program cited above is successful, this may not be necessary. Target date: TBD.
#27: The Planning Division should work with the Administrative Services Department to assess the feasibility of adopting a computer standard that allows electronic submission of plans.	Planning and ASD	Completed	Original response: See response #22. Current status: Staff assessed the feasibility of adopting computer standards to allow electronic submission of plans, and implemented electronic submission for many types of small projects that require building permits. Other types of electronic submittals can be implemented through the Accela system. Plans call for using Adobe Acrobat software for ARB applications, and providing on-line access to plans through the City website. However, staff has determined that large electronic files would be inadvisable at this time. ASD staff is available to assist the Division if they decide to go forward.
#28: The Planning Department should keep a log or manual of interpretations and	Planning	Completed	Original response: Log currently exists. Staff will organize it to make

Audit report and recommendation	Department	Current status	Comments
precedents that can be used to assist future decision-making. The log should be readily available to all planning staff, possibly in electronic format.			<p>it more accessible.</p> <p>Current status: Completed. The City Attorney's Office completed reviewing and indexing previous decisions in May 2004. The index is also electronically available to the Planning Department staff.</p>
#29: The Planning Division should develop written policies and procedures for staff handling of the development review process.	Planning	In process	<p>Original response: Staff will update existing policies and procedures, including ongoing changes.</p> <p>Current status: After a number of discussions with the Planning Commission and the City Council, and much hard work on the part of staff in the Planning Department and City Attorney's Office, the City Council adopted streamlined procedures that became effective July 7, 2004. The Planning Division is currently developing new internal policies and procedures that incorporate the newly revised Code requirements. Target date for completing new policy and procedures: Aug-2004.</p>
#30: Re-establish a single Zoning Administrator position to ensure consistency in decision-making. Consider making the position independent of supervisory responsibilities in order to function as a hearing officer.	Planning	Not implemented subject to follow-up review in one year	<p>Original response: Staff will evaluate personnel options to implement.</p> <p>Current status: Not implemented (subject to follow-up review in one year). Funding for a Zoning Administrator was included in the FY 04-05 budget request, but the request was not approved for inclusion in the final budget. The Auditor's Office will hold this recommendation open for another year to assess the effect of all the other changes that the Planning Department is making. Target date: TBD.</p>
#31: To the extent possible, limit the operational workload of Planning Division managers in order to provide supervision and support to Planning Division staff.	Planning	Completed	<p>Original response: Staff agrees.</p> <p>Current status: All Planning Division managers prepare periodic itemized reports of their workload and, as needed, their workload is prioritized in order to provide adequate supervision and support to their staff. The Auditor's Office remains concerned about the high workloads of Planning Division managers, but recognizes this is a management issue and that additional staffing may not be the answer.</p>
#32: The Planning Division should develop a formal training program that provides planners training in laws, regulations, interpretation of the Municipal Code, policies and procedures, and other subjects related to the development review process. The training should be documented in formal training records.	Planning	Completed	<p>Original response: Staff agrees.</p> <p>Current status: Complete. The Planning Division has developed a one-year training schedule for planners including monthly training in technical subjects such as department documents and programs, design and legal issues, code enforcement, transportation, and other planning subjects. The program began in Dec-2003. Planners are documenting</p>

Audit report and recommendation	Department	Current status	Comments
#33: The Planning Department should provide customer service training for staff in the Planning and Building Divisions.	Planning	In process	their attendance with sign-in sheets. Original response: Staff will continue to provide regular customer service training. Current status: The Building Division has established a generic training program for plan checkers and inspectors that provides technical and customer service training. The Planning Division has also developed a detailed, specific technical training program. The Auditor's Office continues to recommend additional emphasis be placed on customer service training. Target date: TBD.
#34: The Planning Department should develop a clear statement of its customer service performance standards, including specific goals and objectives for timely processing of applications, meeting set schedules for approving projects, responding to inquiries within 24 hours, monitoring the completeness of first reviews, and holding staff accountable for their actions and decisions.	Planning	In process	Original response: Staff agrees and will include in its development of new performance measures. Current status: In process. In Feb-2004, the Chief Planning Official established new performance standards for the Planning Division that require determining whether an application is complete within 30 days of submittal, scheduling public hearings within 30 to 45 days, and making Director decisions within 60 days of the notice of completion for ARB applications. Limitations on the number of continuances and re-hearings were included in the revised zoning code that was submitted to the City Council on 5/24/04 (CMR: 261:04). A one-continuance policy was discussed with the planning staff and the ARB (at its Oct-2003 and Feb-2004 retreats). The planning director formalized the policy in Feb-2004 and incorporated the policy in the application submittal checklists. Customer service and other recommended standards are under development in both the Planning and Building Divisions. Target date: TBD.

AUDIT OF OVERTIME EXPENDITURES (Issued 11/18/03)

Finance Committee

The purpose of our review was to audit actual overtime usage, and identify opportunities to better control overtime expenditures. Of the 32 recommendations, 9 were completed this year, 1 was implemented subject to review in one year, 15 are in process, and 7 are not started.

Audit report and recommendation	Department	Current status	Comments
#1: In the quarterly budget-to-actual report, show overtime expenditures separately by Department or at the appropriate level of detail to show variances. Departments should explain and be held accountable for differences.	ASD	Completed	<p>Original response: Staff concurs and will provide explanation of significant budget-to-actual variances as part of the quarterly reports. However, it is unlikely that a significant variance would appear until the 3rd or 4th quarter of the fiscal year.</p> <p>Current status: Completed. Staff is preparing quarterly financial reports for the Finance Committee that incorporate a quarterly update on overtime expenditures by department, with explanations for variances (for example CMR:285:04).</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.	Fire	In process	<p>Original 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>Current status: 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>
#3: The Fire Department should closely monitor whether overfill relief or regular overtime is less expensive. The Department should use a formula that considers the classification and step of employees who are expected to work the relief or the overtime.	Fire	In process	<p>Original response: Staff concurs and will work closely with ASD and the Auditor’s Office to evaluate the annual variance between overtime costs and overfill relief. Staff will utilize whichever is less expensive to the degree that it does not compromise firefighter safety.</p> <p>Current status: In process. The Department is waiting for a full year’s data from FY 2003-04 to analyze the costs of overfill relief versus regular overtime. Target date: Oct-2004</p>
#4: The City should propose a revision to the Palo Alto Professional Firefighters contract that minimizes the frequency in which higher rank employees work overtime in lower rank positions.	HR	Not started	<p>Original response: Staff concurs and will propose a revision to the Palo Alto Professional Firefighters contract that minimizes the frequency in which higher rank employees work overtime in lower rank positions.</p> <p>Current status: The Palo Alto Professional Firefighters' contract was recently renegotiated and the current terms extended until June 30, 2006. Human Resources decided that it was not in the best interest of the City to try to negotiate the recommended changes during these recent negotiations because of need to settle the contract quickly and amicably so that the City could focus on the SEIU contract, which was also recently renegotiated. Target date: 2006.</p>

Audit report and recommendation	Department	Current status	Comments
#5: The Fire Department should track the daily instances of a higher rank employee working for a lower rank, and use this information to assess the cost of this practice.	Fire	In process	<p>Original response: Staff concurs and will track the daily instances of higher-ranking employees working at a lower rank to assess the cost. Staff will work with Human Resources to negotiate changes, as appropriate.</p> <p>Current status: As part of daily staffing data, the Fire Department keeps information on higher rank working for lower. This information, however, does not have cost data attached and is not in a format easily conducive to compilation and cost assessment. The Department will begin later in FY 2004-05 to compile data in such a format. Department will also retrospectively compile data for FY 2003-04. Target date: Oct-2004.</p>
#6: The Police Department should continue to closely monitor the impact of the 4/11 schedule to determine the impact of the schedule change and ensure that overtime does not increase. In addition to FLSA and training considerations, the Department should monitor overtime hours in the context of staffing levels, call volume, disabilities, and sick leave.	Police	In process	<p>Original response: Staff concurs and will continue to closely monitor the 4/11 schedule in Patrol and its impact on overtime expenditures.</p> <p>Current status: The Police Department compiles data on the reasons for overtime usage (sickness, disabilities, etc.) in the Field Services and Investigations divisions. SAP reports have recently become available that will allow the Department to review overtime hours worked by employee. These two data sources combined will assist the Department in monitoring and managing overtime. The Department will use this data to analyze FY 2003-04 overtime usage to determine if the 4/11 schedule continues to result in less overtime than the 4/10 schedule.</p> <p>The Department also plans to implement a 2-year pilot 4/11 schedule for its Communications employees in Jul-2005. The Department will assess the impact of the schedule change on overtime usage throughout the pilot project. Target date: Jul-2007.</p>
#7: The Police Department should prepare policies and procedures for monitoring training bank hours to ensure all of the 78 training hours are worked, and that total hours do not exceed 171 in an FLSA work period (triggering additional overtime costs). In addition, Payroll should alert the Police Department when training bank hours exceed 171 for employees with training bank hours.	ASD and Police	In process	<p>Original response: General guidelines in the use of training bank hours for mandated training and flexible training are outlined in the current Memorandum of Agreement (MOA) with the Police Officers Association (POA). Staff concurs with this recommendation and has begun preparing policies and procedures for monitoring training bank hours. The Police Department has initiated a process that requires the supervisor to check a log of remaining training bank hours prior to approving an employee's request for a training class to ensure the minimum use of overtime. Once the SAP Payroll module is implemented, employees and their supervisors will have online real-time access to training bank balances, which will further ensure that all training hours are worked and that overtime costs are not incurred for</p>

Audit report and recommendation	Department	Current status	Comments
			<p>non-essential training courses.</p> <p>Current status: The draft of the revised Overtime Authorization Policy for Patrol employees (see Recommendation #8) includes procedures for monitoring training bank hours. Patrol Lieutenants review all submitted training bank request forms to ensure employees do not submit more than 17 hours of training bank usage in any 28-day cycle. Department timekeepers reviews each form prior to entering time into SAP and notifies the supervisor of any discrepancies. In addition, Lieutenants evaluate training bank folders on a weekly basis to ensure employees are meeting their required flexible training hours and training balances are listed on employees' pay stubs. ASD staff started tracking the training balances in SAP in the first pay period of fiscal year 2004-05 (July 2004). Supervisors and employees can run reports to view training balances at any time as long as they have access to the system. Target date: Dec-2004.</p>
<p>#8: The Police Department should update the Field Services Division overtime policy to reflect the 4/11 schedule, and implement an overtime policy in the Investigative Services Division. Both policies should establish clear criteria about when it is appropriate to work overtime for:</p> <ul style="list-style-type: none"> • Shift related issues such as follow-up/investigative work and writing casework/reports. • Training and the appropriate use of overtime for training; the policy should identify state and Federal mandated training as opposed to Department-mandated training and stipulate the criteria for allowing them on overtime. • Field officer training and the determining criteria of when overtime should be worked for such training • Holding meetings on overtime • Officers working overtime in Communications. 	HR and Police	In process	<p>Original response: Staff concurs that written overtime policies in the Field Services and Investigative Services Divisions need to be updated to reflect the 4/11 schedule and current practices in the Investigative Division for the identified tasks in the recommendation. It is important to note that Communications has updated and implemented an overtime policy to provide full staffing for the safety of the public and to control overtime costs. In an effort to further minimize overtime costs, limitations on worn officers working overtime in the Dispatch Center have been put into practice and will be included in the updated overtime policy in Communications. Additionally, Human Resources will work in conjunction with Police Executive Management to prepare overtime recommendations based on FLSA requirements and update policies. This change will require a meet and confer process, but the new policy will address the criteria to be used in determining when it is appropriate for employees to work overtime.</p> <p>Current status: The Department has revised and is reviewing draft overtime policies for the Field Services Division and the Investigative Division. The new policies will reflect the 4/11 schedule and will provide specific guidance to employees regarding the use of overtime for shift-related work, training (including field officer training), meetings and working in Communications. In addition, Watch Commanders are now required to sign off on overtime forms at the conclusion of the shift as well as the preauthorization of the overtime. Target date: Dec-2004.</p>

Audit report and recommendation	Department	Current status	Comments
#9: The Police Department should update the overtime documentation form to conform to the criteria specified in the revised overtime policy so that Police Department employees will indicate which criteria were met when documenting overtime hours.	Police	In process	Original response: Staff concurs and will update the overtime documentation to conform to the revised overtime policy. Current status: The overtime documentation form will be revised following the implementation of recommendation #8. Target date: Dec-2004.
#10: During contract negotiations, ASD should provide cost estimates of salient contract provisions to the negotiating team based on available data.	ASD	Completed	Original response: Staff concurs. It is current practice that the negotiations team includes either the ASD Director of the Budget Manager. Current status: The Assistant Director of ASD participated in the SEIU negotiations to provide support and cost estimates. The Budget Manager participated in the IAFF (Fire) negotiations, and the ASD Deputy Director participated in the Management and Professional discussion, and the Fire Battalion Chiefs negotiations with similar roles.
#11: Clarify in the SEIU agreement that four hours or more of overtime work beyond the regular shift is paid at the double-time rate.	HR	Not started	Original response: Staff concurs and Human Resources will clarify in the SEIU agreement commencing with 2004, all overtime provisions including the provision that four hours or more of overtime work beyond the regular shift is paid at the double time rate. Current status: The revised SEIU agreement does not include wording any different from the prior agreement with regard to when double time pay begins. The next opportunity to address this will be in Feb-2005 when contract negotiations reopen for the current contract that expires in 2006.
#12: The City should confer with SEIU with the goal of clarifying and simplifying meal provisions, promoting consistency between departments and reducing administrative paperwork. Consideration should be given to simplifying the circumstances under which an employee is entitled to a meal (e.g. after working overtime a fixed number of hours whether held over or called back) and establishing standard reimbursement rates for meals. Considerations should be given to combining provisions for meals for Public Safety Dispatchers with provisions for all employees.	HR	In process	Original response: Staff concurs and Human Resources will confer with SEIU in 2004 to clarify and simplify meal provisions during the next contract negotiations to provide for consistency between departments and the reduction of administrative paperwork. Current status: During the 2004 SEIU contract negotiations, standard reimbursement rates for meals were established (\$10 for breakfast; \$15 for lunch and \$20 for dinner). However, no other changes were made to clarify the meal provisions. The next opportunity to address this will be in Feb-2005 when negotiations begin for the current contract that expires in 2006. Target date: 2006.
#13: Clarify the following contract provisions through use of specific examples:	HR	Not started	Original response: Staff concurs and Human Resources will update the

Audit report and recommendation	Department	Current status	Comments
<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>			<p>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>Current status: 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>#14: Consider the value of the level of detail currently tracked with regard to SEIU overtime and whether it is justified given the administrative work it creates. If it is not justified, management should work with Payroll and SEIU to identify opportunities to simplify tracking and timekeeping.</p>	HR and ASD	In process	<p>Original response: Human Resources will work with ASD to clarify FLSA documentation requirements for SEIU overtime and look for opportunities to simplify tracking and timekeeping records.</p> <p>Current status: The SAP system is now implemented and operational for timekeeping. While this has centralized and, in some respects, simplified timekeeping, the Auditor's Office still has concerns about the complexity of overtime timekeeping for SEIU, particularly in the Utilities department. The significant number of paycodes and the lack of clarification for staff about the meaning of those paycodes creates opportunity for error and inconsistencies. We believe ASD needs to work with Utilities to clarify the understanding of certain paycodes and to determine if such detailed timekeeping and such a large number of paycodes are truly necessary. If not, the next opportunity to address this will be Feb-2005, when negotiations reopen for the current contract that expires in 2005. Target date: 2006.</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>	HR	In process	<p>Original response: Staff concurs. Human Resources 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 Human Resources 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>Current status: Human Resources' review of the FLSA designations of all City employees is in process. Target date: Jul-2005.</p>

Audit report and recommendation	Department	Current status	Comments
#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.	HR	Not started	Original response: Staff concurs. Following the completion of the citywide FLSA review, HR will update job descriptions, policies and procedures, and other documentation as necessary. Current status: Human Resources plans to implement this recommendation when funds become available. Target date: Dec-2005.
#17: After a citywide review of the FLSA status of positions is completed, HR 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.	HR	Not started	Original response: Staff concurs and upon completion of the FLSA study, HR will update compensation plans to include exempt/non-exempt status. Current status: Human Resources plans to implement this recommendation when funds become available. Target date: Dec-2005.
#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, HR should determine how to fairly treat employees who currently receive both management leave and overtime pay.	HR	Not started	Original response: HR will review and confer with management employees. Current status: Human Resources plans to implement this recommendation when funds become available. Target date: Dec-2005.
#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.	HR	Not started	Original response: Staff concurs and will prepare additional language which will address administrative leave in future compensation plans. Current status: Human Resources plans to develop a new policy to clarify administrative leave and update all Union contracts and compensation plans. Target date: Dec-2005.
#20. The Fire Department should assess whether it is necessary to track the minimum staffing project codes on both employee timecards and the daily master log. If it is not necessary for both sources to include the codes, the Department should not require employees to enter it on their timecards. If the Department determines it is necessary, management should ensure that project codes are correct on both the timecards and the daily log.	Fire	Completed.	Original response: Staff will evaluate the necessity of using both sources. Staff will coordinate with ASD on timekeeping improvements available for this purpose with the new online timekeeping system. Current status: Completed. With implementation of SAP, the Fire Department determined that it is not necessary to continue tracking the project codes on both the timecards and the daily master log.
#21. Allocate Fire Suppression hours on timecards based on averages.	Fire	Completed	Original response: The new online timekeeping system will correct the need for pre-allocation of hours.

Audit report and recommendation	Department	Current status	Comments
#22: As part of daily log preparation, the Fire Department should compile data on minimum staffing overtime hours and leave hours into a spreadsheet so that this data is easily available for subsequent analysis. The Fire Department should use this data to proactively manage overtime costs.	Fire	In process	<p>Current status: Completed. SAP timekeeping system automatically allocates hours.</p> <p>Original response: Staff concurs and will compile the data in an electronic format to allow for subsequent analysis and use by managers.</p> <p>Current status: As part of daily staffing data, the Fire Department keeps information on minimum staffing overtime hours and leave hours. This information, however, does not have cost data attached and is not in a format easily conducive to compilation and cost assessment. Department will begin later in FY 2004-05 to compile data in such a format. Department will also retrospectively compile data for FY 2003-04. Target date: Oct-2004.</p>
#23. The Utilities Department should develop and implement timekeeping procedures to improve controls over overtime documentation and ensure consistent application of timekeeping practices and accuracy in completion of timecards.	Utilities	In process	<p>Original response: Staff concurs. See item #26.</p> <p>Current status: In process. The Department is in the process of developing timekeeping procedures based on the new SAP system. They estimate that their work is about 90% complete. Target date: Dec-2004.</p>
#24: Ensure through the conversion to SAP that payroll costs are allocated to the appropriate expense account in the accounting system.	ASD	Completed	<p>Original response: Staff concurs. As part of the SAP Payroll implementation, General Ledger accounts are configured with the system and all manual pays are posted automatically with SAP.</p> <p>Current status: Completed. Implementation of the SAP Payroll module in December 2003 established appropriate expense account allocation of payroll costs in the accounting system.</p>
#25: Utilities management should determine whether the current additional paycodes for tracking overtime are a necessary management tool. If so determined, they should be added to the SAP Payroll module so that the Department does not create an internal system in addition to SAP to capture this data.	Utilities and ASD	Implemented subject to review in one year	<p>Original response: Staff concurs. All paycodes have been reviewed as part of the SAP Payroll module implementation.</p> <p>Current status: Implemented subject to review in one year. During the SAP conversion, the necessary Utilities paycodes were added to the SAP Payroll module. However, the Auditor's Office notes that SAP has required the creation of additional, new paycodes to compensate for the inability of SAP to accept certain timecard entries. As noted previously in Recommendation #14, the Auditor's Office continues to be concerned about the complexity of Utilities overtime tracking, and</p>

Audit report and recommendation	Department	Current status	Comments
			will review the status of this recommendation in one year.
#26: Ensure that the SAP Payroll module includes controls to route timecards to an appropriate alternate supervisor if needed.	ASD	Completed	<p>Original response: Staff concurs. The timekeeping portion of the SAP Payroll module will standardize the time entry process. Eventually, all employees will be responsible for entering their time into an electronic timecard application (CATS). This application will verify time entered, accruals, pay codes, and accounting entries. Once the timecard is entered correctly, it will be routed automatically to the approving supervisor and then once approved routed to Payroll.</p> <p>Current status: Completed. The SAP system allows for any authorized approvers to be able to access timecards for employees within their department by using variants. An audit trail of information entered is created to track any system entry.</p>
#27: Management should use the SAP Payroll module roll-out as an opportunity to promote consistency citywide with regard to the roles and responsibilities of timekeepers.	ASD	In process	<p>Original response: Staff concurs. See item #26.</p> <p>Current status: During SAP implementation, centralized timekeeper roles have been created throughout the organization with specific system roles, controls and authorizations. ASD should write and distribute a policy and procedures that clearly stipulate the responsibilities of the timekeepers under the new SAP system. Target date: TBD.</p>
#28: Management should establish a citywide minimum standard for documenting overtime use and approval in SAP.	ASD	Completed	<p>Original response: Staff concurs. In the SAP Payroll module overtime will be fully documented.</p> <p>Current status: The SAP system has a comment field for overtime explanations, and staff has been trained to enter information in that field and supervisors to review that explanation prior to approval. This requirement is also stated in the training manuals.</p>
#29: Management should use the SAP Payroll module roll-out as an opportunity to generate meaningful reports to monitor overtime use.	ASD	Completed	<p>Original response: Staff concurs. All payroll reports will be evaluated for usefulness and new reports created to allow management to fully utilize the SAP Payroll module.</p> <p>Current status: The SAP system has overtime reports available for departments to generate and review as needed.</p>
#30: The Administrative Services Department, in conjunction with the Attorney's Office, should write a policy on timecard and overtime documentation records retention that clearly identifies the roles and retention periods for Payroll and for	ASD	In process	<p>Original response: There is current retention schedule for timecards. As part of the conversion to the SAP Payroll module, all timecards will be completed by the individual staff member and routed to the appropriate person for supervisor approval. This will be completed in</p>

Audit report and recommendation	Department	Current status	Comments
Departments.			<p>an electronic paperless environment. These electronic records will be maintained according to the current retention schedule.</p> <p>Current status: In process. This is part of the financial document retention schedule and in addition, most records are now stored in the SAP system. ASD needs to prepare a written policy that defines roles and retention periods for electronic payroll records and the supporting records that departments retain. Target date: TBD.</p>
<p>#31: The Utilities Department should reanalyze the rates charges for contractor-caused damage to determine if costs are fully recovered given lost productivity, direct and indirect overtime that may be incurred. The Department should also consider whether it is appropriate to charge an overtime rate during regular business hours if overtime can reasonably be expected to occur as a result of work delayed by the contractor-caused damage.</p>	Utilities	In process	<p>Original response: Staff agrees with the recommendation. The current fees were increased 16% last year to recover all direct labor, material, vehicle, and indirect overhead costs. The auditor has suggested some additional cost components such as lost productivity that should be considered for inclusion in the fee. Utilities staff will move forward to ascertain the legality of including such costs. If such indirect costs meets applicable legal and accounting standards and can be reasonably calculated, staff will include these additional fees as part of the 2004-05 budget.</p> <p>Current status: Utilities staff is pursuing additional study that may further identify costs related to contractor damage that can be quantified, billed and recovered. These may include Fire safety services, Utilities dispatch services, and invoice processing. The Utilities Department will review these areas and, if appropriate, propose revisions for cost recovery of contractor damage. Target date: Jan-2005.</p>
<p>#32: The Administrative Services Department and the City Manager’s Office should direct all Departments to review the appropriateness and completeness of the rates charged to outside parties for services provided on overtime.</p>	ASD and City Manager	Completed	<p>Original response: Staff concurs this is part of the annual budget process for departments to review costs related to cost recovery where Council has an established cost recovery level. Staff will begin the process of reviewing all current cost recovery levels to determine if they are appropriate.</p> <p>Current status: Completed. Staff developed “activity types” within each cost center as part of the Phase II implementation of SAP (Dec-2003). These activity type hourly rates are determined by all salary/benefit expense in each cost center plus a 10% overhead (non-salary & allocated expense). This rate is also calculated for regular overtime and double time for each cost center citywide. These rates are updated annually after the budget is adopted.</p>

Audit report and recommendation	Department	Current status	Comments
<p>(Issued 4/20/04)</p> <p>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. All 17 recommendations are in process.</p>			
<p>#1: The City Manager should provide additional guidance to ESAC including targets for reducing personnel costs so that the ESAC is better able to take full advantage of vacancies.</p>	<p>City Manager</p>	<p>In process</p>	<p>Original response: Staff concurs with this recommendation. More formal guidelines will be established to clearly provide the ESAC the authority to approve/disapprove positions to achieve organizational restructuring efforts.</p> <p>Current status: The ESAC Committee established guidelines and has expanded the review to include hourly position requests. In addition, request forms were revised to include more detailed justifications and a summary report was created for the City Manager to review. To our knowledge, overall reduction targets have not been determined to be necessary and have not been established for the current budget year (the second year of a two year budget cycle). We suggest holding this recommendation open pending biennial budget discussions for FY 2005-07. Target date: Jun-2005.</p>
<p>#2: Restructuring efforts should focus on identifying work that could be streamlined, and consolidating duplicative processes and functions. Restructuring proposals should carefully consider the full cost of staffing changes that may be involved, and the potential for alternative service delivery through outsourcing and public-private partnerships.</p>	<p>City Manager</p>	<p>In process</p>	<p>Original response: Staff concurs with this recommendation. Restructuring efforts are focused on reviewing pending retirements/vacancies as well as reviewing City processes and procedures that could be streamlined. In addition, staff will be reviewing city services by analyzing service delivery and service levels.</p> <p>Current status: This effort is ongoing. Current examples of restructuring efforts can be found in CSD and ASD. Staff will continue to look for opportunities through the ESAC process. Target date: TBD.</p>
<p>#3: The City Manager should set clear definitions, guidelines, goals and targets that result in expanding the supervisory span of control and decreasing the ratio of supervisors to line staff.</p>	<p>City Manager</p>	<p>In process</p>	<p>Original response: Staff concurs with the recommendation. However, there are several factors that must be considered when establishing definitions, guidelines, goals and targets for span of control. Consideration should be given to the type of function, safety, risk levels, and levels of authority. In certain positions, expanding the span of control may increase the risk of loss or liability that far exceed the savings generated by the reduced span of control.</p>

Audit report and recommendation	Department	Current status	Comments
#4: The City Manager should establish an identifier in SAP for supervisors to improve its ability to monitor and analyze restructuring efforts, and track progress towards reducing supervisory spans of control.	HR and ASD	In progress	<p>Current status: This effort is ongoing. Examples can be found in CSD's recent restructuring that decreased the ratio of supervisors to line staff. Target date: TBD.</p> <p>Original response: Staff concurs with this recommendation.</p> <p>Current status: In process. Staff is working on expanding position control reports to include identifiers for reporting relationships. In the mean time, updated organizational charts can be used. Target date: Winter 2004.</p>
#5: The City Manager should establish guidelines, goals and targets for reducing the layers of management.	City Manager	In process	<p>Original response: See response #3.</p> <p>Current status: same as #3 above. Target date: TBD.</p>
#6: The City Manager should assign responsibility for maintaining and updating organizational charts.	City Manager	In process	<p>Original response: Staff concurs with this recommendation. This task has been assigned and staff is working towards establishing a uniform methodology for developing and maintaining organizational charts.</p> <p>Current status: In process. The Auditor's Office posted the organization charts that we prepared as part of our report on a share drive for use by Administrative Assistants. In addition, Budget staff included organizational charts showing a personnel listing by division in the 2004-05 Adopted Budget. We will hold this recommendation open pending biennial budget discussion for FY 2005-07. Target date: Jun-2005.</p>
#7: The City Manager should use organization charts to actively manage the City's organizational structure, increase spans of control and reduce layers of management through on-going restructuring efforts.	City Manager	In process	<p>Original response: Staff concurs with this recommendation.</p> <p>Current status: In process. Organizational charts listing positions by division were included in the budget document and are available to review organizational structure, span of control, and position requests. We suggest holding this recommendation open pending biennial budget discussions in 2005-07. Target date: Jun-2005.</p>
#8: Human Resources should conduct a position-by-position review of SAP and Lawson data to verify that positions filled by lower and higher level job codes (i.e. overfills and underfills) are correctly identified.	HR and ASD	In process	<p>Original response: Staff concurs with this recommendation. As part of the SAP business process review, staff has begun developing detailed business procedures for this process.</p> <p>Current status: In process. Staff completed a review and reconciliation as of June 30, 2004 and will perform at least regular review of positions compared to the table of organization. HR is</p>

Audit report and recommendation	Department	Current status	Comments
#9: Human Resources, in consultation with Administrative Services, should establish a policy regarding underfills, and should propose reclassifying all positions that have been underfilled for more than one year, unless the department can justify retaining the higher-level classification.	HR and ASD	In progress	reviewing underfills and overfills for regular positions within SAP to ensure they are properly identified. Target date: Nov-2004. Original response: Staff concurs with this recommendation. As part of the budget process all underfills will be reviewed to determine if the job classification should be downgraded. Current status: In process. According to staff, a policy has been established that positions can be underfilled, but not for consecutive budget years, unless approved by the City Manager. Review of underfilled positions will occur during the budget request process. HR is developing a written policy, and ASD staff will include direction on underfills in the budget guidelines and will conduct an analysis of underfills during the budget request review process. Target date: Winter 2004.
#10: Human Resources, in consultation with Administrative Services, should establish formal policies that address the allowability of overfills and their term. The policy should require Budget Office approval for all future overfills, and should require departments to annually justify each overfill.	HR and ASD	In progress	Original response: Staff concurs with this recommendation. However, the ASD Director does not believe that the current position control and budgetary system allow for overfills. This policy will be reviewed as part of the new SAP business process to determine if overfilling a position is acceptable. Current status: HR is also developing a written policy, and ASD staff will include direction on overfills in the budget guidelines and will conduct an analysis during the budget request review process. Target date: Fall 2004.
#11: Human Resources, in consultation with Administrative Services, should recommend to the City Council a formal policy regarding the allowability of overstrength positions.	HR and ASD	In progress	Original response: Staff concurs with this recommendation. Any overstrength positions would need to be approved as part of the budget process. The positions would also need to be established in the table of organization and the position control file. Current status: According to staff, they have added five positions slots to address organizational needs in special circumstances for a short period of time. The additions are only administrative and not to be used for permanent staffing. Staff is working on a formal policy recommendation to present to Council. Target date: Fall 2004.
#12: Human Resources and Administrative Services should conduct a comprehensive review of current positions to ensure they match the City Council approved Table of Organization.	HR and ASD	In process	Original response: Staff concurs with this recommendation. This process is currently in progress. Current status: ASD has completed a review of SAP positions, and HR is conducting a comprehensive review of all positions in the Table

Audit report and recommendation	Department	Current status	Comments
#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	<p>of Organization. Target date: Fall 2004.</p> <p>Original response: See #12 above.</p> <p>Current status: 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.</p>
#14: Human Resources and ASD should establish policies regarding position controls for temporary employees using the SAP system to track the total number of temporary employees, and estimated and actual hours worked. Temporary FTE reported in the Operating Budget should be based on actual hours worked.	HR and ASD	In process	<p>Current status: A committee comprised of key Executive Staff is working on an updated policy for temporary employees and methodology for controlling the use of temporary personnel. Once these steps are completed, staff will redesign position control for temporary employees to comply with the recommendation and business needs. Target date: Jan-2005.</p>
#15: The Administrative Services Department should closely monitor temporary salary budgets and require departments to stay within those budgets.	ASD	In process	<p>Original response: Staff concurs with this recommendation. However, as per the PAMC 2.28.050, budgetary control has been established at the category or classification of expenditure level. This means that budget monitoring is at the Salaries and Benefits total, not at the individual budget line item. Palo Alto does not have a line item budget. As part of the SAP system, it is much easier for management staff to monitor and report on individual expenditure items.</p> <p>Current status: In process. ASD staff reviews temporary salaries on a regular basis and will make recommendation for changes during the midyear reporting or go directly to Council, if necessary. The Auditor's Office will monitor this recommendation through year-end. Target date: Jun-2005.</p>
#16: Human Resources should clarify City policies regarding the appropriate uses of hourly employees, and establish standard definitions and procedures for hiring and monitoring temporary employees.	HR	In process	<p>Original response: Staff concurs with this recommendation. This review is currently in progress.</p> <p>Current status: A committee was established with members of Executive Staff and Human Resources to establish standard definitions and procedures for hiring and monitoring temporary employees. Target</p>

Audit report and recommendation	Department	Current status	Comments
#17: The Human Resources Department should review the status of temporary hourly employees on a continuous basis to ensure that allowable terms of employment are not exceeded.	HR	In progress	<p>date: Feb-2005.</p> <p>Original response: Staff concurs with this recommendation. This review is currently in progress.</p> <p>Current status: After cross-referencing employee personnel records with SAP and Lawson, HR staff identified a number of technical field issues and data entry issues that caused errors in temporary employee reporting. Those issues are being resolved. HR also identified a number of temporary employees whose work status was dormant. In addition, HR is reviewing the status of all temporary personnel on the City's payroll list to ensure they are within their authorized employment hours. ESAC approval is now required for new temporary employees, and for temporary employees who exceed their estimated term of employment. HR will continue to monitor temporary employment hours and length of assignment on a quarterly basis. Target date: Jun-2005.</p>

WRITE-OFF POLICY FOR RETURNED CHECKS LESS THAN \$25 (Issued 6/1/04)

Finance Committee

The purpose of our review was to provide advice on the advisability of writing-off returned checks less than \$25. We made one recommendation which was implemented.

#1: Propose an increase to the returned check fee as part of the next revision of the fees and charges report.	ASD	Completed	<p>Current status: The fee was revised in the 2004-05 Municipal Fee Schedule. Subsequently, the Attorney's Office informed us that California Civil Code Section 1719(a)(1) states that a returned check charge can't exceed \$25 for the first bad check by a payee, but the second and subsequent bad checks passed on by the payee may be subject to a not-to-exceed \$35 fee. As a result, staff will be returning to the City Council with a change to the fee schedule.</p>
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