



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 3, 2014

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommendation to Accept the Report on the Status of Audit Recommendations (June 2014)

The Municipal Code requires the City Auditor to issue an annual report to follow up on the implementation status of audit recommendations from completed audits. Our reporting summarizes the status of 86 audit recommendations from 10 completed audit reports. This includes 50 recommendations that were included in our last status report and 36 new audit recommendations from audit reports issued during this past fiscal year.

The City Auditor's Office recommends acceptance of the Report on the Status of Audit Recommendations (June 2014). At its meeting on September 23, 2014, the Policy and Services Committee approved and unanimously recommended the City Council accept the report. The Policy and Services Committee minutes are included in this packet. Also included in this packet is an updated excerpt (Attachment A) to the status of recommendation #14 from the Fleet Utilization and Replacement Audit as requested by the Policy and Services Committee.

Respectfully submitted,

Harriet Richardson, CPA, CIA, CGAP, CRMA
City Auditor

ATTACHMENTS:

- Attachment A: Updated Status (Recommendation 14) (PDF)
- Attachment B: Report on the Status of Audit Recommendations (June 2014) (PDF)
- Attachment C: Policy and Services Committee Meeting Minutes Excerpt (September 23, 2014) (PDF)

Department Head: Harriet Richardson, City Auditor

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
realized through right sizing the City's vehicle and equipment fleet.					calendar year. The draft policy will be presented to FRC in September/October for approval, followed by the City Auditor and finally to the City Manager for final approval and dissemination to City staff. 2013 Management Update: Individual policy sections are currently being developed but finalization will not occur until after the operational study recommendations are brought to Council by the end of the calendar year.
Finding 1: The City recently avoided spending about \$2.5 million in FY 2010 through a temporary freeze on non-urgent fleet replacements, but longer term efficiencies can be realized through right sizing the City's vehicle and equipment fleet.	14. Public Works Fleet Management should routinely review the database inventory for completeness and accuracy and develop necessary processes for departments to provide accurate and timely utilization data.	Public Works	Complete	Target Date Not Provided Staff shortages have delayed the implementation of this recommendation. Equipment Management is currently in the process of recruiting a Fleet Services Coordinator. Staff is currently meeting with the existing fleet management software vendor to schedule a system upgrade which includes a more user friendly interface and training for all fleet and administrative staff to ensure a higher level of accuracy within the inventory. Additionally staff will conduct a physical inventory to confirm the inventory is accurate.	N/A 2014 Management Update: Public Works has reviewed the database for accuracy. The upgrade of this existing software will include correction of minor discrepancies. Utilization data is now tracked by mileage, fuel use, preventative maintenance inspections, and data gathered from any vehicle break-downs. Department utilization was also considered in developing the 5-year replacement plan. 2013 Management Update: Staff recently entered into an amendment with AssetWorks, our fleet software vendor, and is working with Information Technology (IT) to develop an upgrade and training plan. Additionally IT is researching "cloud" based solutions which would benefit disaster recovery and allow accessibility for staff via the Internet.
Finding 3: Internal controls over fuel and parts inventory can be improved.	19. PWD Fleet Management should work with the Administrative Services Department and Utilities Department (for CNG) to develop a system to reconcile fuel purchases, balances, and consumption reports.	Public Works	Complete	Target Date Not Provided Staff is working with the Utilities Department to obtain the data necessary to begin periodic reconciliations of compressed natural gas (CNG). With the implementation of the software upgrade to FuelFocus, PWD will have better reporting capabilities for consumption.	N/A 2014 Management Update: The PWD has implemented the software upgrade of FuelFocus, a module within AssetWorks, which tracks fuel usage by individual vehicle and cost center and also secures the dispensing of fuel based on employee identification card access. This has increased the level of accuracy in the recording of purchases and consumption for reconciliation.



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

September 23, 2014

The Honorable City Council
Attention: Policy & Services Committee
Palo Alto, California

Report on the Status of Audit Recommendations (June 2014)

RECOMMENDATION

We recommend that the Policy and Services Committee review and recommend to the City Council acceptance of the attached Report on the Status of Audit Recommendations as of June 30, 2014.

BACKGROUND

The Palo Alto Municipal Code requires the City Auditor to prepare and issue an annual report on the implementation status of recommendations made in completed audits. This report summarizes the status of 86 recommendations from 10 completed audit reports. It includes 50 recommendations from our 2013 status report and 36 new recommendations from audits that we issued in FY 2014.

The attached report includes the audit findings, recommendations, City Manager's original response, original target date for implementation (when provided), the status from prior status reports, the current status, and the revised target date. When possible, we verified the status of recommendations shown as "complete" through interviews with appropriate City staff and reviews of relevant supporting documentation. The status for the open recommendations represents what was reported by City staff responsible for implementation of the recommendations.

SUMMARY

As of June 30, 2014:

- 38 of the 50 recommendations open as of June 30, 2013, were completed
- 4 of the 36 recommendations from audits issued in FY 2014 were completed
- 39 recommendations were in process
- 5 recommendations from an audit issued late in FY 2014 had not been started

All of the open recommendations are scheduled to be completed no later than June 30, 2015.

The following provides a brief summary of the status of recommendations for each audit report:

- **Employee Ethics Policies – Issued January 23, 2008**

The City Manager’s Office reported that the three open recommendations will be completed by October 31, 2014. Although they were not completed by June 30, 2014, sufficient work has been performed on these recommendations to support that they will likely be completed by the current target date. The Executive Leadership Team has already provided input/feedback on the draft Ethics Policy, which is currently being finalized.
- **Fleet Utilization and Replacement – Issued April 14, 2010**

The Public Works Department (PWD) completed five of its ten open recommendations, reported it will complete four of the in-process recommendations by the end of 2014 and the last in-process recommendation by June 30, 2015. PWD achieved the intent of some audit recommendations through an alternative implementation, which includes: 1) a vehicle pool system, 2) an internal review of the fleet’s minimum utilization standards, 3) an upgrade of the FuelFocus software, 4) monitoring of electronic fueling system data daily and weekly for accuracy, and 5) an annual and blind inventory counting system to manage parts inventories.
- **Citywide Cash Handling and Travel Expense – Issued September 15, 2010**

The Administrative Services Department (ASD) completed one recommendation and has target completion dates of October 31, 2014, for one recommendation), and April 1, 2015, for the last two recommendations. The revised Cash Handling Manual is posted online. ASD is continuing to review cash handling procedures for all cash handling facilities, working to improve progress toward meeting Payment Card Industry (PCI) standards, working on a technology solution to ensure taxable meals are reported as employee income, and working to revise the travel and meal reimbursement policy along with the new ethics policy.
- **SAP Security – Issued October 18, 2011**

The Information Technology (IT) Department completed six of the seven open recommendations and expects to complete the last one by the end of 2014. IT developed several policies and procedures to ensure SAP security, developed information privacy and password security policies, provided information and privacy information security awareness training, developed a roadmap and completed the deliverables to implement standards for ensuring security of the City’s key information systems, and implemented a “write-once” procedure. A consultant is currently conducting a formal risk assessment of the City’s information systems.
- **Contract Oversight: Office Supplies – Issued November 20, 2012**

The City Attorney’s Office completed both open recommendations by terminating the office supplies contract rather than accepting the company’s offer of future discounts in lieu of past discounts. The City now has a new office supplies vendor with better pricing.

- **Utilities Reserves – Issued December 4, 2012**

The Utilities Department completed all four open recommendations. They established formal and comprehensive policies and procedures for its utility reserves, as well as guidelines that the Council adopted in the Financial Plans in June 2014.
- **Employee Health Benefits Administration – Issued December 11, 2012**

The People Strategy and Operations Department completed all 20 of their open recommendations. They have: 1) developed several new standardized procedures, 2) identify and track adjustments, 3) organized employee and retiree health benefit information using an indexed system, 3) completed a review of existing retirees and their health tiers, 4) modified the contract with Employee Benefit Services (EBS), 5) reviewed and discussed with EBS issues identified in the monthly EBS reports, and 6) developed a privacy policy to protect employees' personally identifiable information (PII) from inappropriate disclosure.
- **Contract Oversight: Trenching and the Installation of the Electric Substructure – Issued October 30, 2013**

The Administrative Services and Utilities Departments completed four of the six open recommendations, and expect to complete the last two no later than June 30, 2015. They 1) implemented procedures to meet with the appropriate parties when there are large variances between the lowest and second lowest bid or the City's estimate, 2) established a process for verifying and ensuring consistency in figures reported in staff reports to Council, 3) issued a request for proposals for a hosted, web-based, E-procurement solution software system, and 4) developed a vendor evaluation form to address vendor performance, responsiveness, quality of work, change orders, delays, and issues prior to contract renewal.
- **Inventory Management – Issued December 31, 2013**

All of the recommendations are in process and are expected to be completed no later than December 31, 2014. The Administrative Services, Public Works, and Utilities Departments have held several meetings to develop a plan to strategically address the issues identified in the audit. ASD staff have developed a plan, as well as draft policies and procedures, to provide a roadmap for managing inventory in an organized and consistent manner throughout the City.
- **Solid Waste Program – Issued June 3, 2014**

PWD had already made progress on 11 of the 16 recommendations and had not yet started implementing 5 recommendations. PWD reported that it will complete 15 of the recommendations by the end of 2014. By June 30, 2015, they expect to complete the last recommendation, which requires more time because it involves working directly with GreenWaste of Palo Alto to develop a process for conducting route audits and correcting any errors identified as a result of the annual route audits.

The Office of the City Auditor would like to thank the City Manager's Office, the City Attorney's Office, and the Administrative Services, Information Technology, People Strategy and Operations, Public Works, and Utilities Departments for their assistance in compiling this report and for their efforts in completing 42 recommendations during the past year and committing to completing all of the remaining open recommendations during FY 2015.

Respectfully submitted,

A handwritten signature in cursive script that reads "Harriet Richardson".

Harriet Richardson, CPA, CIA, CGAP, CRMA
City Auditor

ATTACHMENTS:

- Attachment A: Status of Audit Recommendations as of June 30, 2014 (PDF)

Department Head: Harriet Richardson, City Auditor

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
1. Employee Ethics Policies, Issued 1/23/08					
<p>Finding 2: Existing rules and regulations are scattered and a centralized resource is needed.</p>	<p>3. The City should develop a section on the City's intranet site that links city employees to the City or State policy, procedure, law, or regulation that addresses each of the major requirements for avoiding conflicts of interest and for acceptable and ethical behavior.</p>	<p>City Manager</p>	<p>In Process</p>	<p>6/30/08 A link to relevant City and State policies, procedures, laws and regulations for conflict of interest and ethical behavior will be developed and implemented on the City's internal website by June 30, 2008.</p>	<p>10/31/14 2014 Management Update: The City's intranet site will include the new Code of Ethics and contain additional links as mentioned in the recommendation. 2013 Management Update: Link to the City's ethics and State conflict of interest code information will be added to the City's intranet site for employees by September 1, 2013. City Auditor's Note: In 2009, the City Manager's Office added the link, "Visit the Ethics Center," to the City's intranet site, which provided a matrix of City and State laws, codes, regulations, policies and procedures on conflicts of interest and ethical behavior; however, the link did not exist on the City's new intranet site as of June 2013. We subsequently reopened this recommendation.</p>
<p>Finding 3: The City should adopt an employee code of ethics and formalize its employee ethics program.</p>	<p>4. The City should develop a code of ethics that employees can use as a guidepost for avoiding conflicts of interest, for ethical behavior, for deciding what actions are needed when conflicts of interest occur, and for making decisions. Employees should be required to read and sign an acknowledgment of the policy.</p>	<p>City Manager</p>	<p>In Process</p>	<p>6/30/08 Staff will research what other cities have developed in terms of a comprehensive ethics policy and develop a policy for the City of Palo Alto by June 30, 2008.</p>	<p>10/31/14 2014 Management Update: The Code of Ethics will be completed and distributed to City Staff. It will also be included in New Employee Orientation. Prior Years' Management Updates (summarized): The City terminated the services of The Ethics Company because the consultant did not develop the City's code of conduct as outlined in its contract with the City. Due to cost, staff from the City's leadership team opted to complete the new ethics policy rather than engage a new consultant. First draft of the new policy will be completed in August 2013 for the City Manager's review and approval; rollout to all City staff will be immediately thereafter. The employee Intranet site will be updated once the ethics policy is complete.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
<p>Finding 3: The City should adopt an employee code of ethics and formalize its employee ethics program.</p>	<p>5. The City should formalize its policy on ethics training and ensure that employees attend periodic training updates.</p>	<p>City Manager</p>	<p>In Process</p>	<p>Next training season An ethics training program for all employees will be developed and for the next training season.</p>	<p>10/31/14 2014 Management Update: People Strategy & Operations along with the City Attorney's Office leads various training. The new ethics policy will be added to the schedule of trainings. Prior Years' Management Updates (summarized): The City terminated the services of The Ethics Company because the consultant did not develop the City's code of conduct as outlined in its contract with the City. Due to cost, staff from the City's leadership team opted to complete the new ethics policy rather than engage a new consultant. First draft of the new policy will be completed in August 2013 for the City Manager's review and approval; rollout to all City staff will be immediately thereafter. The employee Intranet site will be updated once the ethics policy is complete.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
2. Fleet Utilization and Replacement, Issued 4/14/10					
<p>Finding 1: The City recently avoided spending about \$2.5 million in FY 2010 through a temporary freeze on non-urgent fleet replacements, but longer term efficiencies can be realized through right sizing the City's vehicle and equipment fleet.</p>	<p>3. The Public Works Fleet Management should complete implementation of a centralized Citywide vehicle and equipment pool, and make the Citywide pool accessible to all departments.</p>	<p>Public Works</p>	<p>Complete</p>	<p>6/30/11 The existing automated pool vehicle management system located at the Municipal Services Center (MSC), Building B is being expanded and upgraded. Automated motor pools will be established at MSC, Building C, Civic Center, and the Utilities Department's Elwell Court locations. The pool vehicle management system will provide web-based or spontaneous vehicle reservation capability and automated vehicle key management. Also, the feasibility of contracting out pool vehicle management system with a third-party provider is being evaluated.</p>	<p>N/A 2014 Management Update: The Public Works Department (PWD) has implemented the centralized Citywide vehicle and equipment pool system. CIP VR-07001 was completed in FY2013, spending \$114,000 for the pilot program. At the end of the pilot period, the system was discontinued because of the lofty ongoing cost of the system and the vendor's inability to solve operational problems with the system during the pilot period. Despite the discontinuation of the automated pool system, the PWD has taken other measures to accomplish the intended goals, including:</p> <ul style="list-style-type: none"> • The implementation of 5 vehicle pools, at City Hall, MSC, Lucie Stern, Cubberley, and Elwell Court, totaling 19 pooled vehicles. • A pooled vehicle system was structured to allow for future growth and expansion as the need for pooled vehicles continues to increase. • The near completion of full implementation of the AssetWorks software will allow for improved tracking and monitoring of usage, making it simpler and more accurate to bill the client department. • Underutilized vehicles were reassigned to pooled vehicles and will continue to be monitored and analyzed. • All pooled vehicles are accessible to all staff/departments citywide. <p>2013 Management Update: The system has been installed and piloted at the MSC and a pilot began at the Civic Center on June 1, 2013 with a limited number of vehicles. Once the pilot proves to be bug free, the remaining pool cars will be added. It has been determined that a system at Elwell Ct. is not</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
					necessary due to the remote location and small number of users.
Finding 1: The City recently avoided spending about \$2.5 million in FY 2010 through a temporary freeze on non-urgent fleet replacements, but longer term efficiencies can be realized through right sizing the City's vehicle and equipment fleet.	4. The City Manager's Office and the Public Works Fleet Manager staff should review the fleet's minimum utilization standards and consider increasing the standards to more cost-effective levels.	Public Works	Complete	Target Date Not Provided Staff drafted revisions to the Vehicle/Equipment Policy, including revised utilization standards. Staff is currently reviewing proposals for Consultant Services for an operational study which will include a review of the City's utilization standards, evaluation of industry standards, other public agencies and recommendations for increasing Fleet operations efficiency and effectiveness.	N/A 2014 Management Update: The PWD has conducted an internal review of the fleet's minimum utilization standards and determined that a change to the current policy and procedures, specific to the City's minimum vehicle use requirement of 2,500 miles per year, is not necessary at this time. The PWD will continue to monitor and periodically evaluate the need for this change, including a utilization review of all vehicles conducted on an ongoing basis. Based on the completed consultant study, it is recommended that the PWD continue our utilization review also for larger trucks and equipment. Separate from the audit, the PWD will conduct this review as recommended. 2013 Management Update: The Consultant will issue the draft report by September 2013. PWD is currently recruiting for the Fleet Manager position with a target start date in September. The new Fleet Manager will review the operational study results and bring his/her recommendations to Council by end of the calendar year.
Finding 1: The City recently avoided spending about \$2.5 million in FY 2010 through a temporary freeze on non-urgent fleet replacements, but longer term efficiencies can be realized through right sizing the	8. Public Works Fleet Management should have the authority and responsibility to manage and operate the City fleet to ensure optimized use of fleet resources.	Public Works	In Process	Target Date Not Provided Staff and the Fleet review Committee (FRC) will revise the Vehicle/Equipment Policy to include a new description of PWD Fleet Management's authority and responsibility to manage and operate the City fleet.	12/31/14 2014 Management Update: Policy and Procedures (P&P) 4-01 gives the Fleet Manager the responsibility and authority to operate the fleet. In addition, the Fleet Review Committee oversees important fleet issues and provides direction to the Fleet Manager. The authority for vehicle use comes from the Fleet Review Committee who approves all vehicle replacements and acquisitions. The Fleet Review Committee's roles will be memorialized in the revised policy. A policy update and integration of new sections are in process and will be fully complete by

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
City's vehicle and equipment fleet.					<p>the end of the calendar year. The draft policy will be presented to FRC in September/October for approval, followed by the City Auditor and finally to the City Manager for final approval and dissemination to City staff.</p> <p>2013 Management Update: Individual policy sections are currently being developed but finalization will not occur until after the operational study recommendations are brought to Council by the end of the calendar year.</p>
<p>Finding 1: The City recently avoided spending about \$2.5 million in FY 2010 through a temporary freeze on non-urgent fleet replacements, but longer term efficiencies can be realized through right sizing the City's vehicle and equipment fleet.</p>	<p>10. PWD Fleet Management should revise the policy and procedures to clarify the take-home policy and conduct routine follow-ups with departments to document adherence to the policy.</p>	Public Works	In Process	<p>Target Date Not Provided</p> <p>Staff and the FRC are revising the Vehicle/Equipment Policy to include clarifications to the take-home policy and will require take-home vehicle users to provide documentation to ensure their adherence to the policy.</p>	<p>12/31/14</p> <p>2014 Management Update: The Vehicle Use policy is being rewritten. Changes to the existing policy, or adherence to the existing policy will be under direction from the Fleet Review Committee. A policy update and integration of new sections is in process and will be fully complete by the end of the calendar year. The draft policy will be presented to FRC in September/October for approval, followed by the City Auditor and finally to the City Manager for final approval and dissemination to City staff.</p> <p>2013 Management Update: Individual policy sections are currently being developed but finalization will not occur until after the operational study recommendations are brought to Council by the end of the calendar year.</p>
<p>Finding 1: The City recently avoided spending about \$2.5 million in FY 2010 through a temporary freeze on non-urgent fleet replacements, but longer term efficiencies can be</p>	<p>13. PWD Fleet Management should revise the policy and procedures to clarify the take-home policy and conduct routine follow-ups with departments to document adherence to the policy.</p>	Public Works	In Process	<p>Target Date Not Provided</p> <p>Staff and the FRC are revising the Vehicle/Equipment Policy to include new standards and criteria for assessing the need of non-rolling stock equipment.</p>	<p>12/31/14</p> <p>2014 Management Update: The written 5-year replacement plan addresses "non-rolling" stock. The factors used in assessing this type of equipment are engine hours, regulatory compliance, safety, obsolescence, and maintenance costs. The revised vehicle use policy will memorialize these factors. A policy update and integration of new sections is in process and will be fully complete by the end of the</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
realized through right sizing the City's vehicle and equipment fleet.					calendar year. The draft policy will be presented to FRC in September/October for approval, followed by the City Auditor and finally to the City Manager for final approval and dissemination to City staff. 2013 Management Update: Individual policy sections are currently being developed but finalization will not occur until after the operational study recommendations are brought to Council by the end of the calendar year.
Finding 1: The City recently avoided spending about \$2.5 million in FY 2010 through a temporary freeze on non-urgent fleet replacements, but longer term efficiencies can be realized through right sizing the City's vehicle and equipment fleet.	14. Public Works Fleet Management should routinely review the database inventory for completeness and accuracy and develop necessary processes for departments to provide accurate and timely utilization data.	Public Works	In Process	Target Date Not Provided Staff shortages have delayed the implementation of this recommendation. Equipment Management is currently in the process of recruiting a Fleet Services Coordinator. Staff is currently meeting with the existing fleet management software vendor to schedule a system upgrade which includes a more user friendly interface and training for all fleet and administrative staff to ensure a higher level of accuracy within the inventory. Additionally staff will conduct a physical inventory to confirm the inventory is accurate.	6/30/15 2014 Management Update: Public Works has reviewed the database for accuracy. The upgrade of this existing software will include correction of minor discrepancies. Utilization data is now tracked by mileage, fuel use, preventative maintenance inspections, and data gathered from any vehicle break-downs. Department utilization was also considered in developing the 5-year replacement plan. 2013 Management Update: Staff recently entered into an amendment with AssetWorks, our fleet software vendor, and is working with Information Technology (IT) to develop an upgrade and training plan. Additionally IT is researching "cloud" based solutions which would benefit disaster recovery and allow accessibility for staff via the Internet.
Finding 3: Internal controls over fuel and parts inventory can be improved.	19. PWD Fleet Management should work with the Administrative Services Department and Utilities Department (for CNG) to develop a system to reconcile fuel purchases, balances, and consumption reports.	Public Works	Complete	Target Date Not Provided Staff is working with the Utilities Department to obtain the data necessary to begin periodic reconciliations of compressed natural gas (CNG). With the implementation of the software upgrade to FuelFocus, PWD will have better reporting capabilities for consumption.	N/A 2014 Management Update: The PWD has implemented the software upgrade of FuelFocus, a module within AssetWorks, which tracks fuel usage by individual vehicle and cost center and also secures the dispensing of fuel based on employee identification card access. This has increased the level of accuracy in the recording of purchases and consumption for reconciliation.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
					<p>The PWD worked with the Utilities Department to clarify billing for CNG fuel purchase transactions, and to the extent possible, the PWD reviews the billing charged by the Utilities Department before the payment transfer is made by the Administrative Services Department.</p> <p>2013 Management Update: Staff recently entered into an amendment with AssetWorks, our fleet software vendor, and is working with IT to develop an upgrade and training plan. FuelFocus software is part of this implementation and once upgraded, PWD will have better reporting capabilities for consumption.</p>
<p>Finding 3: Internal controls over fuel and parts inventory can be improved.</p>	<p>20. PWD Fleet Management should complete implementation of the fueling system at all city pumps and evaluate its effectiveness at providing internal controls over fuel pump transactions.</p>	<p>Public Works</p>	<p>Complete</p>	<p>12/31/10</p> <p>Staff is in the final implementation stage of the new fuel management system.</p> <p>Staff is currently meeting with the existing fleet management software vendor to schedule a system upgrade which includes a more user friendly interface, training for all fleet and administrative staff to ensure a higher level of accuracy within the inventory. This upgrade will also include the FuelFocus module ensuring accurate data is collected for transaction control.</p>	<p>N/A</p> <p>2014 Management Update: The PWD has implemented the software upgrade of FuelFocus, a module within AssetWorks, which tracks fuel usage by individual vehicle and cost center and also secures the dispensing of fuel based on employee ID card access. The PWD fuel distribution at all sites is tracked by an electronic fueling system and the data is analyzed daily/weekly for accuracy.</p> <p>The PWD has also implemented other mitigating controls such as:</p> <ul style="list-style-type: none"> • The hiring of staff to regularly reconcile and monitor fuel transactions, and resolve discrepancies with fueling transactions and usage, and be an expert user in the FuelFocus system for analyzing data. • Fleet staff have also been trained to detect, identify, and report discrepancies. <p>2013 Management Update: Staff recently entered into an amendment with AssetWorks, our fleet software vendor, and is working with IT to develop an upgrade and training plan. FuelFocus software is part of this implementation and once upgraded PWD will</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
					have better reporting capabilities for consumption.
Finding 3: Internal controls over fuel and parts inventory can be improved.	21. PWD Fleet Management should include requirements for securing vehicles and equipment within the fleet policies and procedures.	Public Works	In Process	Target Date Not Provided Staff and the FRC are revising the Vehicle/Equipment Policy to incorporate requirements for securing vehicles and equipment.	12/31/14 2014 Management Update: Revisions to vehicle use policy (P&P 4-01) will include modification to section 1, item 2, "Safety". The existing language in that section will include the following language: "Employees are responsible for securing their vehicle at all times when the vehicle is unattended. Securing a vehicle includes not only locking the doors but also making sure tool boxes and any auxiliary equipment is locked." A policy update and integration of new sections is in process and will be fully complete by the end of the calendar year. The draft policy will be presented to FRC in September/October for approval, followed by the City Auditor and finally to the City Manager for final approval and dissemination to City staff. 2013 Management Update: Individual policy sections are currently being developed but finalization will not occur until after the operational study recommendations are brought to Council by the end of the calendar year.
Finding 3: Internal controls over fuel and parts inventory can be improved.	22. PWD Fleet Management should conduct regular inventories of auto parts, develop a system to ensure the parts database is accurate and complete, and secure access to the auto parts inventory.	Public Works	Complete	4/30/10 A newly constructed parts storeroom is complete. Equipment Management is working on surveying the existing parts and supply inventories, and finalizing a plan for conducting periodic inventory reconciliation. Staff is continuing to work toward more accurate parts inventory control; however due to staffing shortages and higher level priorities, staff has not defined a permanent inventory system or reconciliation process.	N/A 2014 Management Update: Fleet Management has completed two fiscal year-end parts inventories, one in June 2013 and one in June 2014. These inventories involved actual part-by-part physical count of every item in the parts room. The AssetWorks upgrade will make that process simpler, but complete inventories have now been done 2 years in a row. Blind inventories will be conducted annually and compared to the AssetWorks database. Also, the PWD has secured access to the auto parts inventory area. Access is granted by employee badge and is limited to the parts staff person and two supervisors.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
					<p>2013 Management Update: Staff recently entered into an amendment with AssetWorks, our fleet software vendor. Public Works and IT staff are working together to implement a system upgrade that includes a parts management/inventory system so that the City will have a fully integrated Fleet Management system. Once operational, staff will evaluate this module of the software to see if it fits the City's needs. Installation of this software is expected to be completed over the next few months and the system should be operational by the end of 2013. If the parts management module is the right fit, the next step will be to purchase the necessary hardware and to update the data in the new system.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
3. Citywide Cash Handling and Travel Expense, Issued 9/15/10					
Finding 1: Stronger controls are needed for cash handling.	1. ASD should update the Citywide Cash Handling policy and procedures to provide sufficient guidance on internal controls related to cash handling.	Administrative Services Department	Complete	<p>Target Date Not Provided</p> <p>Revenue Collections has a copy of the written procedures from 18 facilities. Along with updating the central Cash Handling Manual, staff will review these individual sites' procedures to ensure they are comprehensive, in compliance with best practices, and inclusive of the audit recommendations. ASD will provide a checklist to ensure each facility fulfills each of the procedural requirements.</p>	<p>N/A</p> <p>2014 Management Update:</p> <p>The revised Cash Handling Manual is posted online. ASD-Revenue Collections will continue to review and update daily operating procedures for all cash handling facilities to ensure requirements established by the Cash Handling Manual are incorporated into each facility's procedures. See Recommendation 4 below.</p> <p>Prior Years' Management Updates (summarized): A 1991 Administrative Instruction Manual has been updated to cover all areas of cash handling, including the three areas discussed in the Audit Report – segregation of duties, safeguarding of revenue, and proper documentation of all transactions. Staff also reviewed other jurisdictions' cash handling manuals to integrate the most effective parts of each.</p>
Finding 1: Stronger controls are needed for cash handling.	<p>4. ASD should:</p> <ul style="list-style-type: none"> • Work with the departments to immediately address weaknesses noted in the areas of safeguarding revenue, segregation of duties, and proper documentation and approval of certain types of transactions (e.g., voided transactions and issuance of receipts). • Ensure their list of approved revenue collection locations is 	Administrative Services Department	In Process	<p>Target Date Not Provided</p> <p>ASD believes that with more structured training and monitoring, the level of compliance among the departments will increase, but departments will also have to proactively step up their compliance with the proscribed procedures. The updated Cash Handling Manual will specify the documentation requirements for all transactions, and Revenue Collections will work with each facility to ensure their compliance.</p> <p>ASD would like to suggest that other controls, such as safeguarding of</p>	<p>4/1/15</p> <p>2014 Management Update:</p> <p>ASD-Revenue Collections is continuing to review cash handling procedures for all cash handling facilities and preparing a checklist to ensure each facility fulfills each of the procedural requirements. Revenue Collections is also working with the City's IT Security Manager to identify improvement opportunities related to Payment Card Industry (PCI) standards. Any recommendations resulting from this review will be incorporated as an addendum to each facility's cash handling procedures.</p> <p>Prior Years' Management Updates (summarized): ASD-Revenue Collections met with all facilities within 30 days after the recommendation was finalized to address areas of concerns. Extensive time was spent</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	complete and updated, and these locations have adequate procedures to safeguard revenue.			revenue and complete documentation, be emphasized to balance the relative weakness of the segregation of duties at Animal Services and Foothills Park, due to their particular space and staffing constraints.	with Animal Services addressing weaknesses identified in the audit and significant improvement has been made. The revised Cash Handling Manual contains an updated list of approved revenue collection locations. All authorized cash handling facilities are updating their cash handling procedures. Additionally, risk assessment and cost-benefit analysis will be performed to determine the level of controls implemented.
<p>Finding 2: Increased oversight and coordination can improve the employee travel expense process.</p>	<p>6. ASD should review the nighttime meeting reimbursement policy. If the City decides to maintain this practice, ASD should report the amounts as income on employee Form W-2s to conform to Internal Revenue Service requirements. In addition, ASD should review other types of meal expense to ensure any reportable amounts are included on employee Form W-2s.</p> <p>Auditor's Note: The City Auditor and Assistant Director from the Administrative Services Department will meet on September 17, 2014, to discuss changing the requirement for employees to provide meal receipts to use federal per diem rates, which is a best practice.</p>	Administrative Services Department	In Process	<p>Target Date Not Provided</p> <p>ASD has determined that handling such reimbursements through payroll would involve significant staff time. Staff is developing a process that will comply with the IRS regulation in the most economical and efficient fashion. Any change in reimbursements would be subject to meet-and-confer depending on the labor group.</p>	<p>4/1/15</p> <p>2014 Management Update:</p> <p>ASD staff is reviewing process changes coupled with search and reporting capabilities in the purchase card system that could make it feasible for the Accounts Payable and Payroll processes to sync up so that all taxable meal reimbursements would be included on employee paychecks to ensure proper handling of taxable meal pay to employees.</p> <p>Prior Years' Management Updates (summarized):</p> <p>ASD updated the travel policy, petty cash policy, and reimbursement form to ensure proper coding of meals. ASD also established a new general ledger account to capture taxable meals for inclusion on employee W-2 forms as compensation. It takes considerable staff time to track and record these taxable meals such as meals provided during one-day training and meals provided to employees during overtime. Given the small number of incidents and the low dollar amounts, probably in the few thousand dollars citywide in a given year, staff is looking at phasing out these types of meals. A further complication is that meals are sometimes purchased with a P-card and may be for several staff. There is currently no easy way to assign these charges to the appropriate person receiving the meal.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
<p>Finding 2: Increased oversight and coordination can improve the employee travel expense process.</p>	<p>8. The City Manager’s Office should include additional guidance to prevent gifts of public resources on the City’s Ethics Center intranet site.</p>	<p>City Manager</p>	<p>In Process</p>	<p>Target Date Not Provided The City Manager’s Office agrees with the recommendation and will update this section of the Intranet.</p>	<p>10/31/14 2014 Management Update: City Manager's Office will reissue travel and meal reimbursement policy along with new ethics policy. Prior Years’ Management Updates (summarized): The City terminated the services of The Ethics Company because they did not complete the work to develop the City's values-based ethics code of conduct as outlined in their contract with the City. Due to cost, staff from the City's leadership team have opted to finish writing the new ethics policy rather than engage a new consultant. First draft of the new policy will be completed in August 2013 for the City Manager's review and approval and rollout to all City staff. The employee Intranet site will be updated once the Ethics Policy is complete.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
4. SAP Security, Issued 10/18/11					
<p>Finding 2: ASD violated two critical security principles by not properly restricting access for all user accounts.</p>	<p>5. To ensure SAP user account administration functions are properly separated, ASD should:</p> <ul style="list-style-type: none"> • Segregate responsibilities for creating and maintaining roles/profiles, assignment of roles/profiles, and creating and maintaining user accounts, transportation of roles/profiles • Prohibit IT staff from maintaining Human Resources Department employee records. • Assign all SAP user administrators to a designated SAP user group, preventing them from managing their own (and other administrators) accounts and access levels, and designate an individual to manage the SAP user group. 	Information Technology	Complete	<p>6/30/12</p> <p>Staff concurs and recommends independent external security expert evaluation. Status: Open. Risk level assessment: Low (09/2011) to be further validated by independent external security expert. Segregation of duties is important but difficult to implement without additional resources.</p> <p>We have implemented a mitigation control in the SAP System Monitoring Policy and Procedures to review all user change logs done by the SAP user administrator. In addition, request to transfer maintenance of Employee records back to Human Resources Department (HR) has been initiated.</p>	<p>N/A</p> <p>2014 Management Update: In accordance with an SAP Segregation of Duties Operational (SOD) procedure, IT has separated the following roles:</p> <ol style="list-style-type: none"> 1. CPA_IT_BASIS_ADMIN [no user assignment, no user role admin] 2. CPA_HELPDESK [user creation, password reset] 3. CPA_HELPDESK_ASSIGN_USER [assignment role to user plus SU01D] 4. CPA_HELPDESK_CREATE_CHG_ROLE [SAP access role development] <p>In addition, SAP user administrators no longer have the ability or authority to manage their own user accounts.</p> <p>Prior Years' Management Updates (summarized): The SAP team has implemented a work order tracking tool to:</p> <ul style="list-style-type: none"> • Maintain roles and profiles (per role owner approval) • Assign roles and profiles (per role owner approval) • Create and maintain user accounts (automated program for new hires since Oct 2012) <p>In addition, SAP management has planned to segregate the following SAP basis roles:</p> <p>Role 1: Maintain roles and profiles Role 2: Assign roles and profiles Role 3: Create and maintain user accounts Role 4: Transport roles, profiles and user accounts into the production environment</p>
<p>Finding 4: The City needs to formally adopt and implement a recognized</p>	<p>12. ASD should adopt and implement the Payment Card Industry (PCI) Data Security Standard (DSS) and the National Institute</p>	Information Technology	Complete	<p>Target Date Not Provided</p> <p>Staff recommends external security expert evaluation. Status: Open. Risk level assessment: Low (09/2011) to be</p>	<p>N/A</p> <p>2014 Management Update: The City's Information Security Manager has developed a three-year roadmap to implement the ISO 27001 framework at</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
information systems control standard to ensure SAP security.	of Science and Technology (NIST) SP 800-53 information systems security control frameworks to help ensure security of the City's key information systems.			further validated by independent external security expert. PCI DSS contains six major categories and a total of 200 control points. NIST SP-53 contains a similar number of control points. Implementing both standards would require significant IT resources and business resources. Staff suggests a comprehensive security audit to determine the risk level and cost.	the City, which is consistent and aligned with NIST SP 800-53 and PCI-DSS standards. As of 6/30/2014, all ISO 27001 roadmap deliverables have been completed and are subject to ongoing improvements. Prior Years' Management Updates (summarized): The City's Information Security Manager has developed a three year roadmap to implement the ISO 27001 framework at the City, which is consistent and aligned with NIST SP 800-53 and PCI-DSS standards.
Finding 4: The City needs to formally adopt and implement a recognized information systems control standard to ensure SAP security.	13. ASD should develop and implement a formal and comprehensive security policy consistent with PCI DSS, NIST, the SAP Library, and other industry standards.	Information Technology	Complete	Pending on external security audit Staff recommends external security expert evaluation. Status: Open. Risk level assessment: Medium (09/2011) to be further validated by independent external security expert.	N/A 2014 Management Update: The City's Information Security Manager has already developed and enforced an information privacy security policy, password policy, and several information security procedures in conjunction with ISO 27001, NIST 800-53 and PCI DSS standards. The City's Information Security Manager has already developed and released an information privacy policy, password policy, and several information security procedures. The policies and procedures are based on the ISO 27001 framework, and begin to address the audit recommendation to implement a formal and comprehensive security policy consistent with PCI DSS, NIST, and the SAP Library.
Finding 4: The City needs to formally adopt and implement a recognized information systems control standard to ensure SAP security.	15. ASD should implement a formal security awareness and training program that meets minimum control standards stated in PCI DSS and NIST control frameworks. The program should include provisions to ensure SAP technical	Information Technology	Complete	Target Date Not Provided Staff recommends external security expert evaluation. Status: Open. Risk level assessment: Low (09/2011) to be further validated by external security expert.	N/A 2014 Management Update: The City's Information Security Manager has provided PCI DSS security awareness and information security awareness training to technical staff and functional staff associated with processing credit card transactions and data. In addition, the City's Information Security Manager has scheduled ongoing PCI DSS and general information security awareness training for all City

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	staff is trained on current SAP security controls and practices.				employees, as appropriate. Prior Years' Management Updates (summarized): The City's information security manager has already provided PCI DSS security awareness and information security awareness training to technical staff and functional staff associated with processing credit card transactions and data. In addition, the City's Information Security Manager has planned to provide information security awareness training to all the employees of the City.
Finding 4: The City needs to formally adopt and implement a recognized information systems control standard to ensure SAP security.	16. ASD should implement a formal risk assessment process that meets minimum standards stated in PCI DSS and NIST SP 800-53 to ensure key information system threats and vulnerabilities are routinely (at least annually) and effectively identified, ranked, and addressed.	Information Technology	In Process	Pending on external security audit. Staff recommends external security expert evaluation. Status: Open. Risk level assessment: Medium (09/2011) to be further validated by independent external security expert.	12/31/14 2014 Management Update: The City's IT Department has hired an external firm (CoalFire) to conduct a formal risk assessment to ensure key information system threats and vulnerabilities are assessed, effectively identified, and ranked in conjunction with the risk categorization. The IT Department has confirmed that the Information Security Risk Assessment (ISRA) will be completed by December 31, 2014. Prior Years' Management Updates (summarized): The City's Chief Information Officer (CIO) has hired an Information Security Manager (ISM) to manage risk at the City. In 2012, the ISM conducted a PCI-DSS security assessment to identify areas of improvement. The ISM has initiated an "Information Security Risk Assessment" project to conduct a comprehensive IT risk assessment [per ISO 27001/2 Information Security Management Systems (ISMS) standards] by June 2014 to identify all of the possible risks to the City's IT department, the delivery of IT services and the accuracy and integrity of the City's financial and personnel data. The risk assessment will also include network penetration testing to ascertain the vulnerabilities of the City's computer network from hacking attempts.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
<p>Finding 4: The City needs to formally adopt and implement a recognized information systems control standard to ensure SAP security.</p>	<p>18. ASD should ensure access to SAP system parameters is restricted to only authorized staff, and that policies and procedures incorporate change controls stated in NIST SP 800-53 to ensure all changes are properly planned, authorized, executed, and monitored.</p>	<p>Information Technology</p>	<p>Complete</p>	<p>Target Date Not Provided Staff recommends independent external security expert evaluation. Status: Open. Risk level assessment: Low (09/2011) to be further validated by external security expert</p>	<p>N/A 2014 Management Update: The City's IT Department has implemented a Network Access Request (NAR) procedure to grant access to non-employee (consultants/contractors) to SAP's production environment. Prior Years' Management Updates (summarized): The SAP system parameter change authorization process was implemented in September 2012. Roles providing authorization in SAP to change system parameters are restricted to only authorized SAP Basis staff, and the role assignment is reviewed by the role owner semiannually. The SAP team is following the formal Request for Change (RFC) process to execute any changes to SAP system parameters and is in the process of implementing and automating scripts to monitor changes in SAP parameters. The SAP Project Management Office is implementing a new process (through TRACK-IT) to identify all SAP system parameter changes. In addition, the IT Department has implemented an exception procedure to grant access to non-employee (consultants/contractors) to SAP's production environment.</p>
<p>Finding 4: The City needs to formally adopt and implement a recognized information systems control standard to ensure SAP security.</p>	<p>19. ASD should develop policies and procedures and implement minimum NIST SP 800-53 and PCI DSS controls applicable to log management in order to ensure:</p> <ul style="list-style-type: none"> • SAP and Oracle log data is secured using appropriate "write-once" media and/or backup 	<p>Information Technology</p>	<p>Complete</p>	<p>Target Date Not Provided Staff recommends external security expert evaluation. Status: Open. Risk level assessment: Low (09/2011) to be further validated by independent external security expert.</p>	<p>N/A 2014 Management Update: The City's IT Department has implemented a "Write-Once Log Procedure" to capture SAP and Oracle log data using "write-once" technology. The Information Security Manager has tested archived logs to verify they can be restored for investigative or review purposes. Prior Years' Management Updates (summarized): Update for item #19A (OPEN): SAP management is</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	<p>procedures.</p> <ul style="list-style-type: none"> • Access to SAP and Oracle logs is restricted based on the principles of least privilege and segregation of duties. • Accountability is established for monitoring SAP and Oracle logs and for reporting any incidents to the appropriate levels of management. • SAP and Oracle are properly configured to ensure logs capture appropriate information and retain the information for an appropriate duration. 				<p>researching a "write-once" solution.</p> <p>Update for item #19B (CLOSED): IT management is in the process of implementing an information security policy to enforce administrative restrictions so that an administrator cannot modify anyone else's authorization within the group of administrators defined in SAP, including the administrator's own authorizations.</p> <p>Update for item #19C (CLOSED): Accountability is already established for monitoring SAP and Oracle logs and for reporting any incidents to the appropriate levels of management. In addition, the IT security manager has implemented an incident reporting and tracking procedure to enhance security.</p> <p>Update for item #19D (CLOSED): SAP and Oracle environments are properly configured to capture and retain all log data in accordance with the City's data retention policy.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
5. Contract Oversight: Office Supplies, Issued 11/20/12					
<p>Finding 1: OfficeMax overcharged the City at least \$47,563 by applying unauthorized changes to pricing.</p>	<p>1. ASD should consult with the City Attorney’s Office to pursue recovery of unauthorized charges from OfficeMax, including at least \$47,563 for contract item overcharges under the America Saves program during the period November 1, 2007 through May 31, 2011.</p>	<p>Administrative Services</p>	<p>Complete</p>	<p>Target Date Not Provided ASD will work with the City Attorney’s Office to request reimbursement.</p>	<p>N/A 2014 Management Update: The company offered future discounts in lieu of past discounts. City opted to terminate contract and select an alternate vendor with better pricing. 2013 Management Update: Pending update from City Attorney's Office.</p>
<p>Finding 2: The City could have received additional discounts for non-contract office supplies.</p>	<p>2. ASD should consult with the City Attorney’s Office to determine if the City can recover additional discounts ranging from \$148,921 to \$341,863 for non-contract items it purchased under the America Saves program terms from November 1, 2007 through May 31, 2011.</p>	<p>Administrative Services</p>	<p>Complete</p>	<p>Target Date Not Provided ASD will work with the City Attorney’s Office to consider options for recovering additional discounts.</p>	<p>N/A 2014 Management Update: The company offered future discounts in lieu of past discounts. City opted to terminate contract and select an alternate vendor with better pricing. 2013 Management Update: Pending update from City Attorney's Office.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
6. Utilities Reserves, Issued 12/04/12					
<p>Finding 1: Rate Stabilization Reserves are not consistently maintained within Council-approved guidelines.</p>	<p>1. The Utilities Department should establish formal and comprehensive policies and procedures for its Utility Reserves.</p>	<p>Utilities</p>	<p>Complete</p>	<p>6/30/13</p> <ul style="list-style-type: none"> The Utilities Department will revisit its annual risk assessment model to determine, establish and document appropriate levels of Utility Fund working capital held in unrestricted reserves. As part of its project to develop financial management policies and procedures, Utilities will revisit its risk assessment models and practices and make any appropriate revisions and will consider the funds available in all unrestricted reserves to support those risks. The completion of the project is delayed until December 2013 due to the loss of key staff and the breadth of the project that is now being undertaken. 	<p>N/A</p> <p>2014 Management Update: The Utilities Department has established formal and comprehensive policies and procedures for its Utility reserves in the Financial Plans adopted by Council in June 2014.</p>
<p>Finding 1: Rate Stabilization Reserves are not consistently maintained within Council-approved guidelines.</p>	<p>2. The Utilities Department should re-evaluate and determine the use of reserve balance guidelines, updating the City's resolution and the language in key City documents accordingly.</p>	<p>Utilities</p>	<p>Complete</p>	<p>6/30/13</p> <ul style="list-style-type: none"> Utilities Department will re-evaluate and determine the use of reserve balance guidelines, updating the City's resolution and the language to key City documents accordingly. As part of its project to develop financial management policies and procedures, Utilities will develop reserve balance guidelines that support the rate-making objectives that are approved by the Council. Council action will be by resolution. The completion of the project is 	<p>N/A</p> <p>2014 Management Update: The Utilities Department has established guidelines for its Utility reserves in the Financial Plans adopted by Council in June 2014. The guidelines describe what steps staff should take when reserves exceed or are lower than these guidelines.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
				delayed until December 2013 due to the loss of key staff and the breadth of the project that is now being undertaken.	
Finding 1: Rate Stabilization Reserves are not consistently maintained within Council-approved guidelines.	3. The Utilities Department should revisit its annual risk assessment model to determine, establish, and document appropriate levels of utility fund working capital held in unrestricted reserves.	Utilities	Complete	6/30/13 <ul style="list-style-type: none"> The Utilities Department will revisit its annual risk assessment model to determine, establish, and document appropriate levels of utility fund working capital held in unrestricted reserves. As part of its project to develop financial management policies and procedures, Utilities will revisit its risk assessment models and practices and make any appropriate revisions and will consider the funds available in all unrestricted reserves to support those risks. The completion of the project is delayed until December 2013 due to the loss of key staff and the breadth of the project that is now being undertaken. 	N/A 2014 Management Update: The Financial Plans adopted by Council in June 2014 describe the appropriate levels of utility fund working capital to be held in unrestricted reserves. These levels have been incorporated into the utility's financial planning models.
Finding 1: Rate Stabilization Reserves are not consistently maintained within Council-approved guidelines.	4. The Utilities Department should revisit and update the 5-year financial projection rate making worksheets to completely state all reserve balances are consistent with the City's key financial documents and improve visibility over all unrestricted reserves.	Utilities	Complete	6/30/13 <ul style="list-style-type: none"> The Utilities Department will revisit and update the 5-year financial projection rate making worksheets to completely state all reserve balances are consistent with the City's key financial documents and improve visibility over all unrestricted reserves. Utilities now reports all unrestricted reserves on a quarterly basis to the 	N/A 2014 Management Update: The presentation format for the Financial Plans adopted by Council in June 2014 show all reserve balances are consistent with the City's key financial documents. Similar views have been incorporated into the quarterly reports.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
				Utilities Advisory Commission and Council. When the 5-year financial forecasts and rate projections are prepared next (in early 2014 for the FY 2015 budget process), the balances of all reserves will be visible.	

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
7. Employee Health Benefits Administration, Issued 12/11/12					
Finding 1: Retiree reimbursements were not accurately calculated.	1-A (1). Establish clear, documented procedures to ensure the accuracy of the Reimbursement Report.	People Strategy and Operations	Complete	3/31/13 Written procedures on the Retiree Medical Reimbursement Report process will be created.	N/A Dec. 2013 Management Update: Procedures have been created and documented.
Finding 1: Retiree reimbursements were not accurately calculated.	1-A (2). Establish a methodology for reconciling the CalPERS billing to the Reimbursement Report and perform a monthly reconciliation to identify, track, and follow up on any discrepancies. Create and maintain common data fields among key data sources to facilitate such reconciliation in an accurate, complete, and efficient manner.	People Strategy and Operations	Complete	1/31/13 HR staff will request additional resources to establish an automated methodology for reconciling the CalPERS billing to the HR Reimbursement Report.	N/A Dec. 2013 Management Update (summarized): EBS has developed methodology to reconcile the CalPERS billing to the Reimbursement Report. Adjustments and discrepancies are identified, tracked, and notated on an EBS monthly report. City staff reviews the EBS monthly report during monthly teleconferences to review retroactive transactions and notes.
Finding 1: Retiree reimbursements were not accurately calculated.	1-A (3). Establish criteria and a methodology for addressing, recording, and reviewing retroactive transactions in the Reimbursement Report.	People Strategy and Operations	Complete	1/31/13 A methodology for recording and reviewing the monthly retroactive transactions will be developed.	N/A Dec. 2013 Management Update (summarized): Procedures have been created and documented. On a monthly basis, the CalPERS Health Event Notification Report is downloaded and securely emailed to EBS.
Finding 1: Retiree reimbursements were not accurately calculated.	1-B. Enhance current procedures to ensure that the Retiree Medical Tier Matrix is maintained accurately, completely, and in an organized manner along with a complete set of the labor agreements, resolutions,	People Strategy and Operations	Complete	1/31/13 Current process for maintaining Retiree Medical Tier Matrix will be improved and organized so it is available on the HR intranet site for business partners. Labor Agreements are currently available on the HR internet site.	N/A Dec. 2013 Management Update (summarized): Staff created an index to organize documentation related to health information for eligible active employees and retirees for all bargaining units and non-represented employee groups. This will be maintained as changes are adopted by Council in order to accurately maintain the Retiree Medical

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	and CalPERS letters. Consider making the Tier Matrix available to all business partners and stakeholders to ensure that the eligibility criteria are clearly communicated to all parties.				Matrix. A complete set of labor agreements, resolutions, CalPERS letters, and an updated Retiree Medical Matrix are posted on the City's intranet site. Labor agreements and the Matrix are also available on the City's website.
Finding 1: Retiree reimbursements were not accurately calculated.	1-C (1). Establish procedures for determining the health tier for each retiree and maintaining a complete and accurate record of retiree health tiers.	People Strategy and Operations	Complete	2/28/13 A written procedure for documenting the health tier as soon as a new retiree appears on CalPERS billing will be documented.	N/A 2014 Management Update: The review of existing retirees and their tiers was completed. Corrections were made to those identified as incorrect and an ongoing month to month review is performed for all retirees based on changes from CalPERS billing statement. Dec. 2013 Management Update (summarized): Procedures have been established for determining and documenting the health group for retirees. In addition, a review of previous retiree records is being conducted.
Finding 1: Retiree reimbursements were not accurately calculated.	1-C (2). Ensure that the tier determination is based on the hire date, retirement date, and employee group at the time of retirement as recorded in SAP and based on the Retiree Medical Tier Matrix.	People Strategy and Operations	Complete	3/31/13 Review retirees who separated prior to SAP implementation in 2003 to ensure they are accurately recorded on Retiree Medical Tier Matrix.	N/A Dec. 2013 Management Update (summarized): Procedures have been established for determining and documenting the health group for retirees. Employee group will be confirmed in SAP and the CalPERS system to ensure accuracy and consistency between the two systems.
Finding 2: CalPERS billing was not adequately monitored.	2-A (1). Enhance the current procedures to ensure that any changes in employment affecting the employee's health eligibility status are accurately and consistently	People Strategy and Operations	Complete	3/31/13 HR process for promotions will be updated to include recording changes in SAP as well as CalPERS system until such time that two systems are integrated.	N/A Dec. 2013 Management Update (summarized): PSO procedures for promotions and any changes in employment affecting the employee's health eligibility status have been updated. Staff created a quarterly exception report to compare data in SAP

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	recorded in both SAP and CalPERS system in a timely manner				and the CalPERS system to maintain accuracy.
Finding 2: CalPERS billing was not adequately monitored.	2-A (2). Verify the accuracy of the CalPERS system record by comparing to the SAP record for each employee at the time of retirement to ensure accurate billing by CalPERS.	People Strategy and Operations	Complete	3/31/13 Quarterly process for reviewing CalPERS billing to ensure accurate billing will be established as well as determining appropriate internal or external resources to accomplish this review.	N/A Dec. 2013 Management Update: Monthly procedures have been established to include confirmation of the employee group in SAP and CalPERS system for each employee at the time of retirement.
Finding 2: CalPERS billing was not adequately monitored.	2-B (1). Establish procedures for providing CalPERS with clear, written instructions for the employer share calculation on a regular basis.	People Strategy and Operations	Complete	12/31/12 Although written instructions were provided in the past, to ensure accuracy, HR staff will provide annual instructions to CalPERS to ensure calculations are clearly understood.	N/A Dec. 2013 Management Update: PSO procedures have been established to provide annual instructions to the CalPERS health division to ensure calculations are clearly understood.
Finding 2: CalPERS billing was not adequately monitored.	2-B (2). Establish monitoring procedures to ensure that the City instructions are followed by systematically reviewing the methodology applied to calculate the employer share.	People Strategy and Operations	Complete	1/31/13 An automated methodology for reviewing the CalPERS billing calculations will be established.	N/A Dec. 2013 Management Update (summarized): This function has been outsourced to EBS. EBS developed a methodology to compare information from the City and CalPERS to ensure the accuracy of the CalPERS billing and the reimbursement amount.
Finding 3: HRD has not effectively administered the EBS contract.	3-A. Review the EBS contract to ensure the adequacy of the contract terms and accuracy and clarity of the scope of services including the retiree tier definition. Establish monitoring procedures to ensure the contract terms remain adequate and any changes	People Strategy and Operations	Complete	12/31/12 HR staff will review the EBS contract with the vendor to ensure the contract accurately reflects retiree tier definitions and services that can be provided given limitations in access to CalPERS records. Periodic review of the contract to ensure the scope of services remains accurate will be conducted.	N/A Dec. 2013 Management Update (summarized): PSO reviewed the contract, revised the scope of services, and amended the contract. Monitoring procedures have been established and the contract terms will be reviewed on an annual basis.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	in the scope of services are documented and properly authorized in accordance with the terms and conditions under the contract.				
Finding 3: HRD has not effectively administered the EBS contract.	3-B (1). Establish recordkeeping procedures for maintaining monthly Reimbursement Reports and additional payment instructions provided to EBS along with adequate supporting documentation.	People Strategy and Operations	Complete	1/31/13 Recordkeeping procedures for any payment instructions and adjustments provided to EBS will be established.	N/A Dec. 2013 Management Update: Recordkeeping procedures for any payment instructions and adjustments provided to EBS have been outlined in internal staff procedural guidelines.
Finding 3: HRD has not effectively administered the EBS contract.	3-B (2). Establish review procedures to ensure accuracy and completeness of retiree reimbursements prior to instructions being provided to EBS for payment.	People Strategy and Operations	Complete	12/31/12 Review process will be established to ensure retiree reimbursement instructions are complete prior to submitting to EBS for payment.	N/A Dec. 2013 Management Update: Review procedures have been established.
Finding 3: HRD has not effectively administered the EBS contract.	3-B (3). Request EBS to provide monthly and annual reconciliations of their check register to the Reimbursement Reports and to notify the City of any exceptions noted during the month.	People Strategy and Operations	Complete	11/30/12 HR staff will request monthly reconciliation of check register and notification to City of any exceptions noted.	N/A Dec. 2013 Management Update (summarized): In July 2013, EBS transitioned to a new system, making a new report available online for PSO staff to review returned, voided, and reissued checks on a monthly basis. The report is also discussed during a monthly teleconference meeting.
Finding 3: HRD has not effectively administered the EBS contract.	3-B (4). Establish procedures for reviewing the monthly reconciliations and tracking and following up on any discrepancies	People Strategy and Operations	Complete	2/28/12 Procedures will be established for reviewing monthly reconciliation reports, including follow up on any discrepancies and documenting	N/A Dec. 2013 Management Update: Procedures have been established. The reconciliation report is reviewed monthly during a teleconference meeting and any discrepancies are reviewed. Documentation outlining issues and corrections are filed

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	including returned, voided, reissued checks in a timely manner. If the exceptions require corrective actions, they should be documented and related written communication to EBS be maintained.			corrective action.	electronically and also noted on a summary report.
Finding 3: HRD has not effectively administered the EBS contract.	3-C. Work with ASD to establish procedures for handling uncashed EBS checks. Based on the procedures, formalize the EBS procedures for notifying the City of the returned or uncashed checks and how to handle them.	People Strategy and Operations	Complete	2/28/13 HR will work with ASD to establish a procedure for EBS notification of uncashed checks and steps to follow in such circumstances.	N/A Dec. 2013 Management Update: Staff worked with ASD to create a stale dated check procedure. Steps for handling uncashed EBS checks have been established.
Finding 3: HRD has not effectively administered the EBS contract.	3-D. Establish a methodology for EBS to follow and require specific supporting documentation to be provided to HRD for review. Identify review criteria and establish procedures to verify the accuracy and completeness of the EBS services provided for Form 1099 issuance.	People Strategy and Operations	Complete	12/31/12 Recordkeeping procedures will be established to ensure EBS accurately issues 1099 forms to retirees who have not submitted Substantiation forms and at the same time, accurately document forms received.	N/A Dec. 2013 Management Update: A methodology and recordkeeping procedures have been established to ensure EBS accurately issues 1099 forms to retirees who do not submit the Substantiation form. Review procedures have also been established to verify the accuracy of 1099 issuance and related invoices.
Finding 3: HRD has not effectively administered the EBS contract.	3-E. Establish procedures to review EBS invoices to ensure the accuracy of the EBS billing. Review should include reconciliation of the invoice to the actual	People Strategy and Operations	Complete	2/28/13 Procedure for reviewing EBS invoices will be created to ensure accuracy of EBS billing and completion of services.	N/A Dec. 2013 Management Update (summarized): A procedure for reviewing EBS invoices has been created to ensure accuracy of EBS billing, including reconciliation with checks and ACH transactions completed and other services within the contract

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	services provided.				scope.
Finding 4: Required documentation to verify the eligibility of dependents for enrollment was not always available.	4. Improve dependent eligibility verification procedures to ensure that required supporting documentation is obtained, reviewed, and maintained in accordance with the CalPERS Circular Letter No. 600-045-12.	People Strategy and Operations	Complete	4/30/13 Verification procedures will be reviewed and improved to ensure that required supporting documentation is obtained and if not, medical insurance will be cancelled promptly.	N/A Dec. 2013 Management Update: A procedure document was provided to PSO staff and a review was completed to ensure verification documentation is obtained and filed in accordance with CalPERS Circular Letter No. 600-045-12. If supporting documentation is not received, dependents will not be enrolled in the health benefit plan. In addition, each Business Partner team will review a sample of the employee benefits files on a quarterly basis.
Finding 5: Personally Identifiable Information (PII) has not been adequately protected and controlled.	5. Take applicable steps recommended by the NIST Guide to appropriately maintain the confidentiality of PII.	People Strategy and Operations	Complete	6/30/13 The NIST guidelines have been reviewed with HR staff. An internal policy will be created.	N/A Dec. 2013 Management Update (summarized): The NIST guidelines have been reviewed with PSO staff and a meeting was held with the City's IT Security Manager. PSO has established a privacy policy specific to the department, which was distributed and discussed at a staff meeting.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
8. Contract Oversight: Trenching and the Installation of Electric Substructure, Issued 10/30/13					
Finding 1: The Utilities Department and ASD did not effectively address a significant variance between the City's estimate and the selected contractor's flawed bid, which may have resulted in additional costs of approximately \$281,000.	1. The Utilities Department and ASD should implement policies and procedures to appropriately address significant variances between City estimates and contractor bids before awarding contracts, in order to ensure staff awards contracts to the lowest responsible and responsive bidder, as required by the Municipal Code.	Administrative Services Department and Utilities	Complete	Original Target: Immediately When there are significant differences between the lowest bid and staff estimates or other bids, City Staff will set up a meeting with the lowest bidder to ensure that its bid is correct, that it can perform the work as described, and to ensure compliance with Municipal Code 2.30.440. Staff will document this discussion with the bidder to include: meeting date, attendees, description of questions, summary, and next steps.	N/A 2014 Management Update: When there is variance greater than 25% between the lowest and second lowest bidder or between staff's estimate and lowest bidder, staff will conduct a special meeting with the appropriate parties to review the scope of work, pricing, and timeline to ensure compliance with the Municipal Code. The meeting will be documented and filed along with the contract paperwork.
Finding 1: The Utilities Department and ASD did not effectively address a significant variance between the City's estimate and the selected contractor's flawed bid, which may have resulted in additional costs of approximately \$281,000.	2. The Utilities Department and ASD should ensure the accuracy of key information stated in staff reports submitted to City Council, including those which request authorization for the award of contracts.	Administrative Services Department and Utilities	Complete	Original Target: Immediately ASD will put an extra emphasis as a result of this finding to match key figures in the solicitation summary to the actual solicitation documents.	N/A 2014 Management Update: Utilities performs cross checking of figures during the report preparation process. ASD added a new level of review in the staff report process. In addition to the resource impact section, the Office of Management and Budget will verify and ensure consistency in the figures reported in the staff report, solicitation documents, and attachments.
Finding 1: The Utilities Department and ASD did not effectively address	3. ASD should prioritize implementing a system to electronically record and track vendor bids as part of any future system	Administrative Services Department	Complete	Issue RFP 2014 Staff is in the early phase of reviewing online bid options and will issue a request for proposal for such a	N/A ASD made it a high priority to explore a new procurement system. ASD issued an RFP on 7/9/14 for a hosted, web-based, E-Procurement solution software system to automate one or more of the

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
<p>a significant variance between the City's estimate and the selected contractor's flawed bid, which may have resulted in additional costs of approximately \$281,000.</p>	<p>implementation for ASD Purchasing.</p>			<p>service.</p>	<p>City's vendor management, purchase-to-pay, solicitation, evaluation, contract management, insurance and bond management, and reporting processes. The RFP submittal deadline was September 9, 2014. The tentative timeline for implementing a new system is 7/1/15.</p>
<p>Finding 2: The Utilities Department and ASD did not appropriately re-evaluate or renew the City's contract for trenching services and the installation of electric infrastructure.</p>	<p>4. The Utilities Department and ASD should review existing policies, implement new policies, and develop procedures to ensure the City's contracts are appropriately re-evaluated and renewed in accordance with applicable contract terms and the Municipal Code.</p>	<p>Administrative Services Department and Utilities</p>	<p>Complete</p>	<p>12/31/13 Policies and procedures will be reviewed, revised, and implemented to evaluate contractor work every 12 months, at a minimum. The evaluation criteria shall include: performance, contract compliance, responsiveness, accuracy of estimates and invoicing. ASD staff will create a contract monitoring checklist to aide in regular contract administration. The checklist will prompt for review of contract terms, contractor deliverables, project milestones, payments, and overall performance. The information collected via the checklist will aid in performance review when contract renewal is sought.</p>	<p>N/A 2014 Management Update: ASD and Utilities have developed a vendor evaluation form, which will be submitted along with Appendix M - PR Transmittal Form, for contract renewal. The vendor evaluation form is a rating checklist which addresses performance, responsiveness, quality of work, change orders, delays, and issues. ASD is providing a contract administration checklist to project managers when a contract is implemented. This checklist provides reminders on the steps to effectively manage a contract.</p>
<p>Finding 3: The Utilities Department did not enforce contract billing terms that were the basis.</p>	<p>5. The Utilities Department should work with ASD to review existing contract performance management policies and develop procedures to ensure staff appropriately administers the City's contracts.</p>	<p>Administrative Services Department and Utilities</p>	<p>In Process</p>	<p>3/31/14 Utilities staff is formalizing the process by which contractor work is requested, approved, inspected, reviewed, and invoiced. Utilities will hire a Project Coordinator to assist Engineering in administrating</p>	<p>6/30/15 2014 Management Update: Utilities has developed contract management guidelines and a project charter for large construction projects and professional services. These contracts and documents are stored on a centralized SharePoint website.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	<p>Procedures should address the following areas:</p> <ul style="list-style-type: none"> Monitoring of contractor billings to ensure accuracy and compliance with contract terms. Ensuring contracts are appropriately and timely modified, if required. 			<p>contracts, verifying invoices, and processing payments. Utilities will be requesting for similar positions in Operations and Customer Support Services in the 2014 mid-year budget.</p> <p>Utilities will also develop a tracking mechanism to monitor contractor work, reconcile invoices, and verify payments.</p> <p>ASD will conduct a review of the entire purchasing process citywide. The departments will collaborate to bring contract management training to appropriate staff. This training will be rolled out to all departments.</p>	<p>Utilities Engineering hired a Project Coordinator in March 2014 to assist with contract administration and project management. The coordinator has developed a contract database, coordinated project management training, and formalized policies and procedures. Utilities Operations reclassified a position in the FY 2015 to assist with contract and inventory management.</p> <p>Utilities is working with the City Attorney's Office to strengthen the boilerplate language in the IFB and professional service contract templates.</p> <p>ASD hired a consultant to perform an independent review of the entire purchasing process. The review recommended a new purchasing system, increased training, and additions to the Purchasing Manual among other recommendations. Staff is in the process of implementing the recommendations.</p> <p>ASD has selected an online invoice management system to improve the review, approval and tracking invoices received by the City. This system will be implemented in 2015 and will provide increased accountability and visibility into the invoice review and payment process.</p>
<p>Finding 4: The Utilities Department did not appropriately manage its contract with Casey Construction, Inc. to ensure the City's projects were completed in accordance with plans and cost</p>	<p>6. The Utilities Department should work with ASD to review existing contract performance management policies and develop procedures to ensure staff appropriately administers the City's contracts.</p> <p>Procedures should address the following areas:</p> <ul style="list-style-type: none"> Roles and responsibilities for the contract administrator and any 	<p>Administrative Services Department and Utilities</p>	<p>In Process</p>	<p>Recommendation 5 & 6 are similar. See response to recommendation 5.</p>	<p>6/30/15</p> <p>2014 Management Update: Roles, responsibilities, and workflow for contract administration are documented and saved on SharePoint.</p> <p>Utilities Engineering completed a mandatory 3-day project management course in July 2014.</p> <p>ASD provided purchasing and contract administration training to the Executive Team and City staff in 2013 and 2014. This training will continue in 2014 and 2015 as part of an ongoing purchasing training curriculum for City staff.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
estimates.	additional training requirements for staff. <ul style="list-style-type: none"> • Monitoring of contractor performance. • Ensuring payments are made only for services and materials included in the contract scope. • Ensuring there is an adequate process and documentation to show planned work has been completed. 				Additional Contract administration training is planned for November 2014 with Purchasing and City Attorney's Office. See responses above related to vendor performance review and new invoice management system.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
9. Inventory Management, Issued 12/31/13					
Finding 1: ASD and City departments should implement inventory management policies and procedures citywide to achieve the City's inventory goals and objectives.	1. ASD and City departments should implement the City's inventory management policies and procedures citywide to achieve inventory goals and objectives.	Administrative Services (lead)	In Process	6/30/14 Citywide policies and procedures will be reviewed, updated, and shared with all departments cited in this audit. Inventory goals and objectives will be stressed and implemented where it is cost-effective to do so.	10/31/14 2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 1: ASD and City departments should implement inventory management policies and procedures citywide to achieve the City's inventory goals and objectives.	2. ASD should review its inventory accounting policies and correct any misstatements in the City's accounting records.	Administrative Services	In Process	5/31/14 ASD has reviewed issues raised by the Auditor and has found no material misstatements in its FY 2013 financial records and CAFR. ASD believes its accounting policies are reasonable. Accounting policies and records, however, will be reviewed as staff responds to Recommendation 1.	Completed and awaiting Auditor's verification 2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 2: ASD should improve controls to ensure the accuracy of recorded inventory.	3. ASD should update and enforce inventory count policies and procedures to help ensure consistent and accurate inventory records. The update should	Administrative Services	In Process	6/30/14 <ul style="list-style-type: none"> ASD has implemented blind inventory counts and appropriate segregation of duties at the MSC warehouse and will continue to improve. Limited staffing at the MSC 	10/31/14; All policies and procedures and responsibilities for this recommendation are in place; will go live on 10/31/14 after Finance Committee review 2014 Management Update: When the audit was presented to the Finance Committee in February

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	at minimum require blind inventory counts, sufficient documentation of counts and adjustments, and appropriate segregation of duties. ASD should consider implementing controls included in the GAO publication titled "Executive Guide Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property."			<p>does make segregation of duties challenging.</p> <ul style="list-style-type: none"> To achieve greater accuracy in counts at the RWQCP warehouse as well as segregation of duties, additional staffing is necessary. Staff from Public Works and ASD propose to evaluate the costs and benefits of the recommendation and report back to Council. Staff will strive to implement controls cited in GAO publication and inform Council of its progress. 	2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 3: Inventory records do not evidence accountability for all inventory transactions.	4. ASD should update and enforce inventory transaction policies and procedures to ensure there is proper authorization and accountability for all transactions. The update should, at minimum, require approved reservations prior to issuance of inventory and separation of the following incompatible roles: a) custody of inventory, b) counting of inventory, and c) making adjustments to inventory.	Administrative Services	In Process	<p>6/30/14</p> <ul style="list-style-type: none"> ASD will reassess its transaction policies and procedures to ensure proper authorization and accountability within its warehouses and whether additional FTE will be needed to achieve the separation of the "incompatible" roles. Systems, current and new, will be assessed to maximize use of the reservation system. There may be situations, like an emergency, where goods may be withdrawn without a reservation. Staff will work to reconcile this situation. 	<p>10/31/14; All policies and procedures and responsibilities for this recommendation are in place; will go live on 10/31/14 after Finance Committee review</p> <p>2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.</p>
Finding 3: Inventory records do not evidence accountability for	5. ASD should avoid use of generic user accounts. ASD should consult with the IT Department to determine	Administrative Services	In Process	<p>1/31/14</p> <p>ASD is working with IT and SAP personnel to change user accounts from generic to specific, identifiable</p>	<p>Completed and awaiting Auditor's verification</p> <p>2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
all inventory transactions.	an appropriate alternative to using a generic account to issue inventory.			staff.	return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 4: The City's warehouses have significant quantities of unused or infrequently used inventory.	6. ASD should identify, formalize, and communicate inventory management goals and objectives to City departments.	Administrative Services	In Process	6/30/14 Once current policies and procedures are reviewed and updated and inventory management goals and objectives are reaffirmed, they will be discussed and left with departments.	10/31/14; All policies and procedures and responsibilities for this recommendation are in place; will go live on 10/31/14 after Finance Committee review 2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 4: The City's warehouses have significant quantities of unused or infrequently used inventory.	7. ASD should update existing policies and develop new policies and procedures to address the following: <ul style="list-style-type: none"> • Roles and responsibilities for managing inventory levels • Management of slow-moving or dead stock 	Administrative Services	In Process	6/30/14 ASD will update its policies & procedures, to include a review of Muni Code requirements, and work with departments to: a) clearly define responsibilities for managing inventory levels; b) periodic reports will be sent to departments to identify dead stock; c) departments will	10/31/14; All policies and procedures and responsibilities for this recommendation are in place; will go live on 10/31/14 after Finance Committee review 2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	<ul style="list-style-type: none"> Transitioning to new materials 			coordinate with ASD when new materials are ordered and replace old inventory.	meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 4: The City's warehouses have significant quantities of unused or infrequently used inventory.	<p>8. ASD should consult with the IT Department and other City departments to ensure staff:</p> <ul style="list-style-type: none"> Identifies and uses key SAP inventory management reports. Appropriately configures and updates SAP parameters affecting inventory levels. 	Administrative Services	In Process	<p>3/31/14</p> <ul style="list-style-type: none"> ASD has worked and will continue to work with SAP staff to use and develop SAP inventory management reports. A list of these reports will be included by Target Date. Parameters affecting inventory levels will be explored and updated as needed. 	<p>10/31/14; All policies and procedures and responsibilities for this recommendation are in place; will go live on 10/31/14 after Finance Committee review</p> <p>2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.</p>
Finding 5: The City should improve physical security over its inventory.	<p>9. The Public Works Department should perform a citywide physical access risk assessment in collaboration with the Utilities Department, Office of Emergency Services, IT Department, and the Police Department in order to effectively identify, prioritize, and</p>	Public Works	In Process	<p>12/31/14</p> <ul style="list-style-type: none"> Public Works has and is interacting with departments to address access control weaknesses. Hard keys are being transitioned to a card entry system. A thorough review of those with access cards to the MSC warehouse has been conducted and the number of people with access has been reduced. 	<p>12/31/14; MSC and WQCP security measures are completed. Public Works staff will collaborate with the City's OES Director for recommendations and guidance working toward a citywide risk assessment.</p> <p>2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	address access control weaknesses.			<ul style="list-style-type: none"> • A cage extension and a card access system have been added to a City Hall storage facility for IT equipment. • Public Works will be working with other departments to identify further improvements such as an improved camera system at the MSC. 	7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
<p>Finding 5: The City should improve physical security over its inventory.</p>	<p>10. The Public Works Department should develop policies and procedures to address the management of citywide physical security. Policies and procedures should address:</p> <p>a. Designation of roles and responsibilities to ensure physical security controls appropriately restrict and monitor access.</p> <p>b. Management (administration) and proper use of the City's access control systems.</p> <p>c. Processing departmental requests to grant or modify employees' physical access.</p> <p>d. Granting restricted access to non-employees.</p> <p>e. Ensuring access is timely modified or revoked when roles and responsibilities</p>	Public Works	In Process	<p>12/31/14</p> <ul style="list-style-type: none"> • Public Works staff will make improvements to existing policies and procedures to address citywide physical security. • The department is in the process of working with IT, OES, and Police to address items a-e. PW is, for example, evaluating non-employee access to CNG filling equipment. 	<p>Completed and awaiting Auditor's verification</p> <p>2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	change.				
Finding 5: The City should improve physical security over its inventory.	11. The Public Works Department should configure the fleet access control system to support the City’s security goals and objectives or determine if the AMAG Technology, Inc. Symmetry Security Management System should replace it.	Public Works	In Process	6/30/14 Prior to audit, PW staff was in the process of converting the Fleet access control system to the AMAG system. The AMAG technology access control system is expected to be implemented by FY end.	12/31/14 2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff’s responses to and the implementation plan for the Auditor’s findings and recommendations. Since the Auditor’s Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 5: The City should improve physical security over its inventory.	12. The Public Works Department should review and update AMAG Technology, Inc. Symmetry Security Management System access authorization records to ensure access card holders can be uniquely identified. Access cards (especially generic or group cards) should only be assigned with a documented and approved business need.	Public Works	In Process	6/30/14 Public Works will evaluate the current access control database and remove any access cards that are not uniquely identified. Only uniquely identified access cards will be issued in the future.	Completed and awaiting Auditor’s verification 2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff’s responses to and the implementation plan for the Auditor’s findings and recommendations. Since the Auditor’s Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 5: The City should improve physical security over its inventory.	13. The Public Works Department should assess the adequacy of records of individuals assigned keys and take necessary corrective action to ensure the accuracy and	Public Works	In Process	12/31/14 PW will review physical key records and update them to reflect the current issuance of keys. The current key system is in process of being replaced, card readers will be added to key	12/31/14 2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	completeness of the records. The Public Works Department should identify and prioritize replacement or rekeying of locks for high risk areas if records do not identify who is in possession of the keys or if the keys issued were of the type that can be duplicated.			locations, and cameras will be installed in specific locations. The latter will be done in concert with Police, OES, and IT.	meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.
Finding 5: The City should improve physical security over its inventory.	14. The Public Works Department should improve physical security at the City Hall storage area. Appropriate actions include, but are not limited to, enforcing appropriate key or card access controls and securing areas that have inadequate fencing.	Public Works	In Process	12/31/14 A review of City storage areas is underway. As stated above IT equipment at City Hall is now caged and will be caged at MSC warehouse as well. Public Works is evaluating new access controls.	Completed and awaiting Auditor's verification 2014 Management Update: When the audit was presented to the Finance Committee in February 2014, the Finance Committee requested that staff return in 6 months (August 2014) to provide a status update. Due to various scheduling conflicts, the meeting has been moved from August 19 to October 7, at which time the Finance Committee will hear staff's responses to and the implementation plan for the Auditor's findings and recommendations. Since the Auditor's Recommendation Status update report ends June 30, 2014, staff will provide status responses to the audit in the FY 2015 Recommendation Status update report.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
10. Solid Waste Program, Issued 6/3/14					
<p>Finding 1: The Public Works Department should improve the accuracy of refuse billing.</p>	<p>1.1. Continue to review and verify the data discrepancies identified during the audit and take corrective action.</p>	<p>Public Works</p>	<p>In Process</p>	<p>9/30/14 Agree. Staff has already verified 192 out of 685 discrepancies, which represent the largest dollar amounts. The remaining 493 discrepancies will be analyzed and adjusted as appropriate and staff will continue to verify the accounts. When an account discrepancy is identified, staff reviews the account history for a period not to exceed 3 years and either generates a credit or a charge to the customer by following the current Rule and Regulations No. 11. Residential or small commercial/non-profit accounts that have been undercharged may be back billed for a shorter time period as appropriate, or not back billed if the customer is not at fault.</p>	<p>9/30/14 2014 Management Update: As of June 30, 2014, staff has reviewed 458 accounts.</p>
<p>Finding 1: The Public Works Department should improve the accuracy of refuse billing.</p>	<p>1.2. Develop methodology and tools to compare the SAP data with RAMS data to detect and correct any discrepancies in an efficient and timely manner.</p>	<p>Public Works</p>	<p>Not Started</p>	<p>9/30/14 Agree. Staff will implement the comparative method developed by the Auditor comparing SAP data with RAMS data. Additionally, staff has been meeting with GWOPA regularly and are working collaboratively to correct any new discrepancies found in either system. Staff has committed to compare the data semiannually with GWOPA moving forward and taking immediate actions to correct any errors found.</p>	<p>12/31/14 2014 Management Update: Staff has not started on recommendation because it is first focusing on higher priority tasks related to recommendations affecting customer billing and financial issues.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
<p>Finding 1: The Public Works Department should improve the accuracy of refuse billing.</p>	<p>1.3. Perform a cost-benefit analysis and determine an optimal course of action to maintain the accuracy and integrity of refuse customer data.</p>	<p>Public Works</p>	<p>In Process</p>	<p>10/31/14 Agree. Staff has reviewed the preliminary cost-benefit analysis and will continue to evaluate options to address future discrepancies to limit the inaccuracies and potential billing errors resulting from the maintenance of two distinct customer databases; however, staff recommends adding one FTE Business Analyst position to focus on billing issues on a daily basis. This option would also need to invest budget to modify SAP to provide more accuracy for the system integrity. The salary (including benefits) for a Business Analyst is approximately \$170,000 and the costs of modifications to SAP are unknown at this time. Contracting directly with GWOPA to perform the Refuse billing functions would have an additional net annual cost impact of approximately \$200,000 and would result in residents receiving separate billings for their utilities. Due to the inconvenience to the residents, cost and the need to continue to review GWOPA billing, staff does not recommend this option.</p>	<p>10/31/14 2014 Management Update: Staff has been considering the options and costs and benefits associated with maintaining the accuracy and integrity of the refuse customer data. Staff plans to submit a request in the FY16 Budget process to hire a Business (or Management) Analyst position to focus on future billing discrepancies and assist with the long term billing software modifications.</p>
<p>Finding 1: The Public Works Department should improve the accuracy of refuse billing.</p>	<p>1.4. Complete the review of all Multi-Family Dwellings (MFDs) to ensure the accuracy of the customer type classification in RAMS.</p>	<p>Public Works</p>	<p>In Process</p>	<p>9/30/14 Agree. For various reasons some MFD customers have been classified as single-family dwelling (SFD), MFD, or Commercial. Staff has already begun reviewing and correcting any MFD classification inaccuracies. Staff will continue to work with GWOPA and</p>	<p>9/30/14 2014 Management Update: Staff has reviewed MFD list and classifications with GreenWaste and begun correcting inaccuracies as well shared with Utilities the drafted MFD categories.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
				consult with Utilities to clarify the guidelines categorizing MFDs in both SAP and RAMS systems, which includes: improving the guidelines and definitions of customer types to ensure that they are further clarified, identifying the number of units for existing MFD customers and reclassifying customers in RAMS, and establishing appropriate collection services as needed.	
Finding 1: The Public Works Department should improve the accuracy of refuse billing.	1.5. Work with the Utilities Department and GWOPA to clarify the roles and responsibilities over obtaining information required for determining customer type, recording data, and maintaining the accuracy and completeness of the refuse customer type data.	Public Works	In Process	9/30/14 Agree. New Utilities customers, including Refuse accounts, are initially set up through Utilities Customer Service. The move-in/move-out data file is transferred every hour to GWOPA. Staff will work with Utilities Customer Service and GWOPA to clarify the roles and responsibilities by creating clear guidelines for the single-family, multi-family, and commercial categories used by both Utilities Customer service and GWOPA.	9/30/14 2014 Management Update: Staff completed initial discussions with Utilities.
Finding 1: The Public Works Department should improve the accuracy of refuse billing.	1.6. Establish procedures to ensure that necessary data, system capability, and related administrative tasks are identified, assessed, and communicated to stakeholders before refuse rates or exemptions with high complexity are adopted.	Public Works	In Process	11/30/14 Agree. Staff will identify business requirements and consult with GWOPA, Utilities and IT on required system changes/capabilities and procedures to ensure sufficient data is obtained, and that consequences are considered and communicated to stakeholders when identifying or before adopting new rates or service exemptions.	11/30/14 2014 Management Update: Staff completed initial discussions with Utilities. Further steps are pending rate study.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
<p>Finding 1: The Public Works Department should improve the accuracy of refuse billing.</p>	<p>1.7. Establish procedures to ensure that a service code is defined and added to both systems before a new service fee is implemented.</p>	<p>Public Works</p>	<p>In Process</p>	<p>9/30/14 Agree. Staff and GWOPA have worked to eliminate the RFZ (a generic billing category) category as documented in this report. Staff will work with the SAP team to establish procedures and ensure that any new charged service code will be added to SAP prior to any billing.</p>	<p>9/30/14 2014 Management Update: Staff completed initial discussions with Utilities and eliminated nearly all customer accounts with RFZ codes. Procedures for new service fees will be created.</p>
<p>Finding 2: The Public Works Department should strengthen its oversight of GWOPA to maintain accurate refuse service data.</p>	<p>2. Assess the potential impact of incorrect service records that may remain in RAMS, and provide additional direction as needed to enhance GWOPA's monitoring activities, such as a route audit, over the accuracy of the refuse customer service records.</p>	<p>Public Works</p>	<p>In Process</p>	<p>6/30/15 Agree. Staff will strengthen oversight and work with GWOPA to improve the accuracy of customer service records in RAMS. Staff will direct GWOPA to perform regular route audits based on a staff developed process, sampling size, and methodology for more frequent route and service record reviews. Subsequently, staff will continue to work with GWOPA to correct any new errors in a timely method. Until all routes have been subject to an audit, GWOPA will perform quarterly route audits. Once the data is cleaned up, the route audits will be performed annually.</p>	<p>6/30/15 2014 Management Update: Staff has begun discussions with GreenWaste. The first route audit will take place in the first quarter of fiscal year 2015.</p>
<p>Finding 3: The Public Works Department should ensure reliable and useful data are provided to stakeholders for informed decision making.</p>	<p>3.1. Work with Administrative Services Department staff to identify key financial data, clarify the methodology to obtain the data, and develop common terminology to be applied throughout budget, accounting, and staff</p>	<p>Public Works</p>	<p>Not Started</p>	<p>9/30/14 Agree. Due to various reporting needs, timing, the type of information being communicated and to whom, current budget and reserve numbers can fluctuate. Staff will work with ASD Staff to define the common financial data that will be used or referenced throughout the budget, accounting and staff reports. When available, staff</p>	<p>9/30/14 2014 Management Update: Staff has not started on recommendation because it is first focusing on higher priority tasks related to recommendations affecting customer billing and financial issues.</p>

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
	reports to ensure that data is verifiable, understandable, timely, consistent, and useful for decision making processes.			will use CAFR numbers and projections based on SAP or budget, and ensure figures will be labeled and referenced.	
Finding 3: The Public Works Department should ensure reliable and useful data are provided to stakeholders for informed decision making.	3.2. Update and clarify the Refuse Fund Rate Stabilization Reserve guideline to ensure that the minimum and maximum reserve balance is set at an adequate level required to support the reserve's intended purpose.	Public Works	In Process	11/30/14 Agree. Staff will revise and clarify the Refuse Reserve guidelines.	11/30/14 2014 Management Update: Staff will revise and clarify reserve guidelines as part of the rate study project.
Finding 3: The Public Works Department should ensure reliable and useful data are provided to stakeholders for informed decision making.	3.3. Work with Utilities, Information Technology, and Administrative Services Department staff to explore opportunities for improvement to ensure that actual refuse revenues by sector are accurately captured and tracked.	Public Works	Not Started	9/30/14 Agree. The customer data and refuse service type need to match. The current service types: R-1 (residential), R-2 (commercial cart), and R-3 (commercial bin and roll off), do not match the revenue categories of residential, commercial, and industrial. The Auditor has identified an additional reporting code that will allow for more accurate revenue reporting. Staff is working with IT on the SAP modification.	9/30/14 2014 Management Update: Staff has not started on recommendation because it is first focusing on higher priority tasks related to recommendations affecting customer billing and financial issues.
Finding 3: The Public Works Department should ensure reliable and useful data are provided to stakeholders for informed decision	3.4. Work with GWOPA to ensure that data required for accurate tracking of actual expenses are identified and reported by GWOPA on a regular basis. Establish procedures to periodically review	Public Works	Not Started	9/30/14 Agree. Staff will request updated financial statements and expense records from GWOPA annually and will review the assumptions and methodology used by GWOPA in establishing their expense by sector. Staff will also consider using any	9/30/14 2014 Management Update: Staff has not started on recommendation because it is first focusing on higher priority tasks related to recommendations affecting customer billing and financial issues.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
making.	GWOPA financial records to monitor the accuracy of the data provided by GWOPA.			revised GWOPA percentages of expenses by sector and operations into the rate model.	
Finding 3: The Public Works Department should ensure reliable and useful data are provided to stakeholders for informed decision making.	3.5. Consult with the City Attorney’s Office and reevaluate the need for establishing the Commercial Sector Reserve. If applicable, work with Administrative Services Department staff to establish the Commercial Sector Reserve and related procedures.	Public Works	Not Started	11/30/14 Agree. Staff plans to develop and recommend a sustainable rate model for implementation in FY 2016 that will provide a roadmap for eliminating sector imbalances and working with the City Attorney will reevaluate the need for a separate commercial sector reserve and related procedures.	11/30/14 2014 Management Update: Staff has not started on recommendation because it is first focusing on higher priority tasks related to recommendations affecting customer billing and financial issues.
Finding 3: The Public Works Department should ensure reliable and useful data are provided to stakeholders for informed decision making.	3.6. Identify key operational data required for informed decision making to ensure efforts required to monitor program performance and progress are effective and reasonable.	Public Works	In Process	9/30/14 Agree. Staff will continue to identify and monitor key operational data and measures required for informed decision making by the City as well as for the purposes of monitoring GWOPA’s performance.	9/30/14 2014 Management Update: Staff is evaluating various data to be considered as key measures.
Finding 3: The Public Works Department should ensure reliable and useful data are provided to stakeholders for informed decision making.	3.7. Establish baseline data and a methodology to evaluate the effectiveness of program activities and related expenses in achieving Solid Waste goals.	Public Works	In Process	9/30/14 Agree. Existing measures have been in place to evaluate the program effectiveness, which include, but are not limited to, percent of residential customers with mini-cans, pounds per person, and commercial customers with compost service. Staff is working on additional measures to quantify the benefits of outreach activities.	9/30/14 2014 Management Update: Staff is evaluating various data to be considered as key measures.

STATUS OF AUDIT RECOMMENDATIONS AS OF JUNE 30, 2014

Finding	Recommendation	Responsible Department	Current Status	Original Target Date and Response	Revised Target Date and Status
<p>Finding 3: The Public Works Department should ensure reliable and useful data are provided to stakeholders for informed decision making.</p>	<p>3.8. Establish a process to ensure that financial incentives and output requirements provided in a new or renegotiated contract are aligned with Solid Waste's key performance measures to effectively support its goals.</p>	<p>Public Works</p>	<p>In Process</p>	<p>9/30/2014 Agree. Staff will establish a process that will review and identify key information that could ensure that financial incentives and output requirements of a new or renegotiated contract are aligned with the program's performance measures. Key information may include, but not be limited to tonnages, successes in other jurisdictions, customer surveys or waste characterization studies.</p>	<p>9/30/14 2014 Management Update: Staff started developing negotiation strategy for implementing changes in the GreenWaste contract.</p>



POLICY AND SERVICES COMMITTEE FINAL MINUTES

Special Meeting
September 23, 2014

Chairperson Price called the meeting to order at 6:00 P.M. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Klein, Price (Chair), Scharff, Schmid

Absent:

Agenda Items

1. Report on the Status of Audit Recommendations (June 2014).

Harriet Richardson, City Auditor, reported as of June 30, 2014 86 recommendations from 10 audit reports remained open. During the past year, Staff completed 38 of 50 recommendations open as of June 30, 2013. Four of 36 recommendations made in audits issued in Fiscal Year (FY) 2014 were completed. Staff made progress on 39 of the open recommendations but had not begun implementation of five recommendations issued late in FY 2014. Departments expected to complete 37 of 44 remaining open recommendations by the end of calendar year 2014 and the remaining 7 by the end of FY 2015. Audit Staff reviewed Department responses for all completed recommendations to ensure implementation met the intent of the recommendation. In some instances, Departments implemented alternative measures to accomplish the intent of a recommendation, which Audit Staff also verified. The Finance Committee requested a detailed update regarding the Inventory Management Audit, and Staff from several Departments would provide that update on October 7, 2014.

Council Member Klein inquired whether the number of closed recommendations was good, bad, indifferent.

Ms. Richardson indicated that closing 76 percent of open recommendations represented good progress. In the prior year, only 16 recommendations had been implemented. Significant progress was made on recommendations from audit reports issued in 2008, 2010, and 2012. All recommendations from the Utilities Reserves Audit of the prior fiscal year were implemented. Within the past year, all recommendations from the Employee Benefits Audit

WORKING MINUTES

were implemented. Significant work was being performed on all open recommendations.

Council Member Klein noted some recommendations were more important than other recommendations. He asked if any important recommendations were lagging.

Ms. Richardson answered no. Some of the highly important recommendations were contained in the Inventory Management Audit. A great deal of work to implement those recommendations had been completed since June 30, 2014. With respect to the Ethics Policy, the Executive Leadership Team had reviewed a draft Ethics Policy. The SAP Security Audit had only one remaining open recommendation.

Chair Price requested Staff explain status, original target date, revised target date, and status columns contained in Attachment A.

Ms. Richardson advised that a current status of complete indicated the recommendation was closed. The original target date was the date provided in the audit response. "N/A" in the revised target date column indicated the audit was complete. The 2014 update column indicated the date of the status report.

Chair Price was confused by the current status indicating complete, yet the 2014 update contained narrative.

Ms. Richardson explained that the 2014 update indicated actions taken to complete or implement recommendations.

Council Member Schmid noted that 42 recommendations were completed during the year and anything remaining open would be completed by the end of FY 2015. Efforts to close recommendations were noticeable. Three of the ten audits with outstanding recommendations were at least four years old. In the Contract Oversight Audit, detailed responses allowed a reviewer to see the steps taken. The Employee Health Benefits Audit did not provide the same detail. He asked how the Policy and Services Committee (Committee) should interpret that difference in terms of audit oversight.

Ms. Richardson explained that previous updates were summaries taken from old status reports, and Staff carried those forward. For 2014, Audit Staff focused on providing sufficient detail for a reviewer to understand that the recommendation was fully implemented. Departments provided a large amount of detail. Audit Staff determined what to include in the report based on the City Auditor requesting Audit Staff to write a brief summary of each recommendation.

WORKING MINUTES

Council Member Schmid asked if future reports would contain more statements.

Ms. Richardson answered yes.

Council Member Schmid noted that risk assessment was the City Auditor's responsibility, yet the Auditor requested the Information Technology (IT) Department to perform a risk assessment of itself. The IT Department confirmed that the security risk assessment would be completed. He inquired whether the City Auditor's oversight had occurred.

Ms. Richardson replied no. If a recommendation had not been completed, then Audit Staff had not verified actions taken. Auditors performed risk assessments for one purpose; however, the standards for internal control required management to perform risk assessments of its own function. Having the IT Department perform a risk assessment of its function was a commendable practice. The IT Department would attempt to identify the controls it needed to implement in order to mitigate risks. New internal control standards were recently released.

Council Member Schmid asked how Audit Staff would determine the IT Department's risk assessment was accurate.

Ms. Richardson advised that the Audit Plan included training regarding internal controls. Audit Staff would train Departments on implementing good internal controls. As Audit Staff performed risk assessments in the future, they would ask questions based on the revised standards that would help assess areas for an audit.

Council Member Schmid felt the Committee viewed the City Auditor as the major operator in performing risk assessment.

Ms. Richardson indicated new standards were issued two weeks previously.

Council Member Schmid referred to the Fleet Utilization Audit where Finding Number 1 reported the City recently avoided spending \$2.5 million. The City implemented a major change in vehicle use and replacement. He reviewed the Budget for an impact from the reorganization; however, he did not find a substantial change over the past five years. He asked why an impact was not demonstrated in the Budget.

Ms. Richardson clarified that the finding indicated the City avoided spending money in the future to replace vehicles. Avoidance of an expense might not be shown in the Budget.

WORKING MINUTES

Council Member Schmid explained that if expenses were flat or increasing, he would expect to find a reduced rate of increase or reduced total expenditure.

James Keene, City Manager, wished to understand Council Member Schmid's analysis before attempting to answer the question. Decreased costs in one area could have been offset by increased costs in another area. Staff could review Council Member Schmid's question and the Budget and provide an answer in writing.

Council Member Schmid advised that the FY 2007 total budget of the vehicle replacement fund was approximately \$7 million. In addition, he reviewed FY 2008, 2010, 2012, 2014, and 2015 Budgets. In FY 2014 the rate of growth was consistent with the overall Budget rate of growth. He also reviewed the Capital Improvement Budget and salaries and benefits over the same periods of time. He could not find anything in vehicle expenses that would demonstrate a change in the pattern of uses, whether capital investment, maintenance costs, or outside contracts. The audit seemed to promise a change in vehicle replacement and utilization.

Mike Sartor, Public Works Director, reported Staff had thoroughly reviewed underutilized vehicles and deemed a number of vehicles as surplus since the audit. Another group of vehicles was placed into pools, and a number of vehicles were eliminated. The City recently purchased a Fire ladder truck at a cost of approximately \$1 million.

Council Member Schmid attempted to find an impact in the Budget.

Mr. Sartor would work with the Fleet Review Committee to provide a written response.

Council Member Schmid asked if the City owned and operated fewer vehicles.

Mr. Sartor had reduced the number of fleet vehicles. Staff was also revising the policy for vehicles assigned to individuals and/or taken home in an effort to reduce the number of those vehicles. Another possibility was leasing vehicles rather than replacing them. The review of fleet vehicles was moving slowly, because the Fleet Manager position had been vacant for two years. The City recently hired a Fleet Manager who would aggressively pursue changes. In addition, Staff submitted a requisition to purchase three electric vehicles and two hybrid vehicles.

Council Member Schmid wanted to see an impact from the audit decision.

WORKING MINUTES

Council Member Scharff inquired about the delay in hiring a Fleet Manager.

Mr. Sartor explained that Staff selected an applicant approximately a year ago, but the applicant declined the City's offer of employment. Staff did not believe the remaining applicants were well qualified. In a second recruitment, the requirement for municipal experience was changed. The new Fleet Manager had 25 years of experience as a Fleet Manager with UPS.

Mr. Keene felt the change in requirements was an adjustment to the marketplace.

Mr. Sartor anticipated the new Fleet Manager would perform well for the City.

Council Member Scharff referred to Recommendation 14 on packet page 12 that originated in 2008. The 2014 management update seemed to indicate the recommendation was complete. He inquired about remaining steps to be taken.

Mr. Sartor advised that the Department upgraded its software in 2013 to a fleet-focused program. Staff had completed the update as recommended in the finding.

Council Member Scharff asked why the target date for completion was June 30, 2015.

Mr. Sartor explained that ongoing updates were needed.

Council Member Scharff inquired whether the recommendation would ever be complete because updates would always be needed.

Mr. Sartor did not know why the target date was June 30, 2015.

Ms. Richardson used the date provided by the Department when the Department indicated it was not complete.

Mr. Sartor would review the matter and report to the Committee.

Council Member Scharff remarked that the issue of Departments completing recommendations was almost resolved. Later audit recommendations were being implemented timely. The annual status report to the Council resulted in a lack of oversight.

Ms. Richardson reported that Staff was now required to report on open recommendations six months from the date the audit report was approved and every six months thereafter until complete. Current pending audits

WORKING MINUTES

would be reviewed six months from September and every six months thereafter. Staff could report sooner if they completed recommendations.

Council Member Scharff inquired whether Audit Staff and Departments agreed on target dates.

Ms. Richardson was working closely with Departments to ensure recommendations were feasible. Those discussions included identifying a timeframe for taking action. If action would require a lengthy time period to implement, then Audit Staff and Departments determined reasons and interim steps to mitigate issues.

Council Member Scharff asked if the City Auditor had reviewed all target dates and determined they were reasonable.

Ms. Richardson advised that completion dates of the end of calendar year 2014 were reasonable. Those target dates of the end of FY 2015 resulted from Staff requesting sufficient time to complete recommendations.

Council Member Scharff commented that other Staff work could take priority over responding to audits. The issue was ensuring items were not lost. He appreciated Audit Staff's efforts to resolve outstanding audit items.

Chair Price felt more frequent status updates would be helpful. She inquired whether there was a target date for completing training on internal controls and whether training would include all Departments.

Ms. Richardson had not developed training as she was waiting for new standards to be released. Training would likely begin in January 2015. She would work with the Administration Services Department (ASD) to prioritize Staff for training.

Chair Price was pleased by Audit Staff discussing the feasibility of recommendations and working with Departments.

Ms. Richardson believed Audit Staff working directly with Departments along with the City Manager's encouragement for Departments to complete recommendations were responsible for the positive report.

MOTION: Council Member Schmid moved, seconded by Council Member Klein to recommend to the City Council acceptance of the Status of Audit Recommendations Report as of June 30, 2014.

Council Member Schmid encouraged the City Auditor to continue including detailed actions taken in the report.

WORKING MINUTES

Council Member Scharff could support the Motion if Item Number 14 was revised to explain actions to be taken in the update section or to modify the target date. Without that information, the report was not complete.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER: Regarding Recommendation 14 under Audit Number 2-Fleet Utilization and Replacement, Issued 4/14/10, Council Member Klein noted the Committee was accepting the report rather than approving it. The Committee's responsibility was not to review the work of the City Auditor.

MOTION AS AMENDED PASSED: 4-0

Mr. Keene remarked that the City Auditor focused on practical recommendations and discerned recommendations that provided a greater return on investment. That would result in greater efficiency for completing recommendations and a more trusting relationship between the Audit Staff and Departments.

ADJOURNMENT: Meeting adjourned at 8:51 P.M.