



# City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814  
[www.CityofSacramento.org](http://www.CityofSacramento.org)

**Meeting Date:** 9/20/2011

**Report Type:** Consent

**Title:** Semi-Annual Recommendation Follow-Up Report

**Report ID:** 2011-00831

**Location:** Citywide

**Recommendation:** Approve the City Auditor's June 2011 Semi-Annual Recommendation Follow-up Report.

**Contact:** Jorge Oseguera, City Auditor, (916) 808-7270, Mayor/City Council Office

**Presenter:** None

**Department:** Mayor/Council

**Division:** Office of the City Auditor

**Dept ID:**

**Attachments:**

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1-Description/Analysis

2-June 2011 Recommendation Follow Up

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**City Attorney Review**

Approved as to Form

Matthew Ruyak

9/15/2011 10:28:11 AM

**Approvals/Acknowledgements**

Department Director or Designee: Jorge Oseguera - 9/13/2011 4:13:34 PM



## Description/Analysis

**Issue:** According to Resolution No. 2009-407, the City Council should be kept apprised of the City Auditor's work. The Audit Committee shall receive, review, and forward to the full Council the City auditor's updates and reports. This report details the implementation status of open audit recommendations during the first half of Fiscal Year 2010-11.

**Policy Considerations:** The City Auditor's presentation of the Semi-Annual Recommendation Follow-up Report is consistent with the Mayor and City Council's intent to have an independent audit function for the City of Sacramento.

**Committee/Commission Action:** On August 9, 2011 the Audit Committee unanimously voted to forward the Semi-Annual Recommendation Follow-up Report to the full City Council for approval.

**Environmental Considerations:** None.

**Sustainability Considerations:** None.

**Rationale for Recommendation:** This staff report contains information that is intended to keep the City Council informed of the City Auditor's work.

**Financial Considerations:** The costs of the audits listed in the Quarterly Audit Activities Report are funded out of the 2010-11 Office of the City Auditor Budget.

**Emerging Small Business Development (ESBD):** No goods or services are being purchased as a result of this report.



CITY OF SACRAMENTO  
CALIFORNIA

Office of the City Auditor  
Jorge Oseguera, City Auditor

September 20, 2011

Honorable Mayor and Members of the City Council  
915 I Street - Fifth Floor, New City Hall  
Sacramento, CA 95814-2604

Honorable Mayor and Members of the City Council:

The City Auditor's Office conducts audits and makes recommendations to strengthen accountability and improve the efficiency and effectiveness of City programs. The office monitors the implementation of all audit recommendations, and reports on the status of all open audit recommendations every six months with a semi-annual report. In accordance with the City Auditor's approved 2010-11 Audit Plan, we prepared a report of the status of open recommendations for the six months ending June 30, 2011. To prepare this report, we met with department staff, reviewed documentation provided by departments, and performed some testing to determine implementation progress.

We categorized recommendations by Auditee progress:

- **Not started** – The Auditee temporarily postponed implementing the audit recommendation or did not demonstrate sufficient progress toward implementing the recommendation.
- **Started** – The Auditee began implementing the recommendation, but considerable work remains.
- **Partly Implemented** – The Auditee satisfied some elements of the audit recommendation, but additional work and testing remains.
- **Implemented** – The Auditee provided documentation and the Auditor verified the satisfactory implementation of the audit recommendation.
- **Drop** – The auditor recommends eliminating the recommendation since a change in circumstances rendered it unnecessary.
- – A checked box<sup>1</sup> indicates notable new progress since the last semi-annual report towards implementing the recommendation.

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<sup>1</sup> Audits that are undergoing this process for the first time do not include a box.

As summarized in Exhibit 1, this report presents the implementation status of 95 audit recommendations, 40 of which were included as part of our last follow-up report for the period ending December 31, 2010.

### Exhibit 1

Report Title	Date Issued	Potential Quantifiable City Benefit	Number of Recommendations Made	Not Started	Started	Partly Implemented	Implemented	Dropped
<b>Performance Audit of the Community Development Department</b>	October 2010	\$2,300,000	40	3	19	18	0	0
<b>Audit of Employee Health and Pension Benefits</b>	April 2011	\$16,100,000	28	10	9	6	3	0
<b>Sacramento Utilities Department Operational Efficiency and Cost Savings Audit<sup>2</sup></b>	June 2011	\$8,600,000	27	NA	NA	NA	NA	NA
<b>Total</b>		\$27,000,000	95	13	28	24	3	0

### About Audit Benefits:

The City Auditor's Office primarily conducts performance audits. These reports seek to evaluate effectiveness and efficiency of City operations. In many cases, this involves verifying compliance with laws and regulations, identifying internal control weaknesses and failures, and assessing whether the City has acquired and used its resources efficiently. One of the aims in performing this work is to identify areas in which the City could reduce expenses or increase revenues. The Potential Quantifiable City Benefit shown above represents an estimate of possible financial benefits identified through our audit work. Some examples of benefits include identifying revenue the City should have collected, errors that led the City to overpay expenses, and potential savings by modifying practices or agreements.

While our audits aim to identify financial benefits, they are not strictly financial audits. Sometimes they focus on areas that identify key benefits that are not easy to tie back to

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<sup>2</sup> Although the Sacramento Utilities Department Operational Efficiency and Cost Savings Audit was issued during the reporting period, we did not assess the implementation status of these recommendations due to the recent issuing of the audit.

financial figures. For example, it could be difficult to quantify the value of increased residents' satisfaction with City services or the benefit of having policies in place that reduce the City's overall risk. We expect that most of our work will yield both financial and non-financial benefits. In cases in which the financial benefits are not easily quantifiable, we will include a narrative section in the *Post Audit Recommendation Follow-up Report* about potential non-financial benefits.

The Potential Quantifiable City Benefit shown in Exhibit 1 captures reports issued during Fiscal Year 2010-11 and estimates a benefit of as much as \$27 million. As this amount covers various types of potential benefits and relies on decisions and agreements that may or may not be made, it does not represent an expectation that the City will necessarily save or recover the full amount identified.

To provide context, the City Auditor's Office's budget for Fiscal Year 2010-11 was about \$516,000. Dividing the Potential Quantifiable City Benefit by the office's budget results in a \$52 to \$1 ratio.

On behalf of the Auditor's Office, I would like to express my appreciation to the City staff members for their cooperation and assistance during our reviews.

Respectfully submitted,



Jorge Oseguera

## Table of Contents

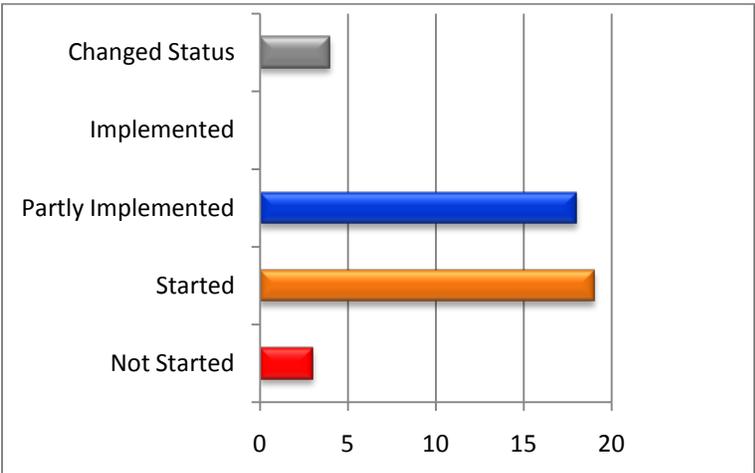
<b>Post Audit Summary of the Audit of the Community Development Department</b> .....	7
Section 1: Organization and Policies .....	8
Section 2: Proper Permitting.....	13
Section 3: Collecting Fees .....	18
Section 4: Alignment of Operations and Finance .....	20
Section 5: Reporting and Control .....	21
<b>Post Audit Summary of the Audit of Employee Health and Pension Benefits</b> .....	22
FINDING 1: The Administration Of Health Benefits Has Strengthened, But Areas Of Concern Remain .....	23
FINDING 2: The City’s Current Methods For Determining Premium Amounts And Shares Need Improvement .....	24
FINDING 3: Moderate Changes Could Help Rein In Rising Pension Costs .....	25
FINDING 4: City Payments Towards Retiree-Health Costs Are Growing And The Way The City Pays For These Benefits Could Result In Overpayments .....	25
FINDING 5: Rising Benefit Costs Require The City To Evaluate Cost Containment Options Like Those That Other Governments Employee And Best Practices Recommend....	26
<b>Post Audit Summary of the Department of Utilities Operational Efficiency and Cost Savings Audit</b> .....	28

## Post Audit Summary of the Audit of the Community Development Department

The Performance Audit of the Community Development Department (CDD) contained five sections, identified \$2.3 million<sup>3</sup> in required permitting fees that the City did not receive, and made 40 recommendations for improving CDD's operations, controls, and management. The audit specifically reviewed the City's processes for issuing building permits and collecting the requisite fees. Since the audit's release in October 2010, we have been working with CDD staff to assess adequate implementation of the adopted recommendations.

During the reporting period of January 2011 to June 2011, CDD made additional progress towards implementing recommendation 3, 4, 6, 35x that has resulted in upgrades in implementation status. In addition, we have also noted progress for recommendations 9, 10, 11, 13, 25, and 33 that did not warrant an update in implementation status. As shown in Exhibit 2, we designated 19 recommendations as started (48%) and 18 recommendations as partly implemented (45%). We fully expect several recommendations to reach the implemented status during the next reporting period. However, while the department is making progress towards implementing recommendations, we anticipate a lengthy period for completion due to the complexity of establishing policies and procedures while consolidating, and managing staffing reductions.

Exhibit 2 Status of CDD Audit Recommendations<sup>4</sup>



<sup>3</sup> According to the City Attorney's Office, the City is still evaluating whether it may successfully recoup some or all of these uncollected fees.

<sup>4</sup> Changed status bar indicates the number of recommendations that were upgraded since the last report in implementation status.

## **Performance Audit of the Community Development Department (CDD)**

### **Section 1: Organization and Policies**

**#1 Ensure the necessary changes are made to the automated permitting system to limit access based upon critical job needs and position-analysis should include CDD employees as well as external users. This will likely require contracting with the system vendor as CDD recently lost its in-house Accela expert. (p. 10 of the performance audit report issued October 2010)**

**Started** CDD responded that system access changes are under way and that only managers and supervisors will be able to make revisions, updates, or corrections. The director will authorize specific positions to apply fees. CDD provided a list of people with various levels of access and is analyzing the list to make further changes. We are looking forward to reviewing the risk analysis management performed to develop the access list and user groups.

**#2 Develop processes to create and regularly utilize system exception reports to monitor system usage, detect process errors, or identify unusual or abnormal activities to ensure all employees and system users follow proper permitting processes and policies and procedures. (p. 10)**

**Started** CDD responded that the operations manager of the building division reviews Accela reports weekly and trains staff at weekly counter meetings. We will be sampling the content of the reports, and to see if the operations' manager's job description is revised to reflect the recommended controls.

**#3 Formalize a complete reconciliation process between the three systems: Accela permitting system, CDD's cashiering system, and the City's eCaps financial systems. (p. 11)**

**Started** CDD's administrative services unit is drafting a policy and procedures manual. In addition the city's finance department is in the process of developing a query to enable CDD's accounting function to reconcile eCaps, the city's financial system, with the department's cashiering system. Once the query is built, we will review the reconciliation process for adequacy.

## Update

[Partly Implemented](#) The finance department developed a query to facilitate the reconciliation process. The reconciliation process has been in practice since the end of May. We reviewed the reconciliation process for adequacy and are waiting for the final policy and procedure from management to finalize our testing.

**#4 Draft a complete, detailed, formal, and comprehensive set of policies, procedures and guidelines, and standards for operations with specific parameters that cover all of CDD's permitting and fee assessment processes and practices that are widely distributed to all employees. Hold all employees accountable for following and adhering to all system and process policies and procedures. (p. 13)**

[Started](#) The director has assigned the code enforcement manager to coordinate writing the department's policies for all permitting and fee assessment processes. He has compiled a 115-page draft manual. Upon completion we will review the manual for completeness, appropriate supervisory review points, segregation of duties, and accountability. Ideally management in charge of specific processes will review and authorize written procedures annually and be held to this as part of annual review by the director.

## Update

[Partly Implemented](#) CDD posted a draft Counter Procedures Manual, detailing permitting and fee topics, on CDD's CityNet page (the City's intranet page).

**#5 Establish a formal employee training program to ensure all employees have sufficient knowledge and experience to handle job responsibilities and functions, particularly employees that handle permit counter operations and all employees that interact with the permitting system. (p. 13)**

[Partly Implemented](#) The director and division managers are discussing details of the types of training, phasing and staffing. The building division counter manager has posted a draft 75-page counter procedure manual on the department's intranet site as guidance for staff. We will review the training program with a focus on the permit counter and permitting system.

**#6 Develop conflict of interest policies that require employees to disclose any conflict or appearance of conflict related to job responsibilities and duties that could adversely influence their judgment, independence or objectivity. (p. 13)**

[Started](#) CDD responded that the City currently requires all exempt managers to complete a conflict of interest statement, Form 700, before the end of the fiscal year. We've noted that non-

exempt managers have the ability to make permitting decisions. We do not think the Form 700 is sufficient and we'd like to see a detailed policy requiring the disclosure of conflicts of interest. CDD will be working with the Attorney's office to create a conflict of interest form for represented and unrepresented staff.

#### Update

[Partly Implemented](#) CDD presented a draft Conflict of Interest Standard Operating Procedure developed in conjunction with the City Attorney's Office. In addition, CDD developed a Supplemental Employment draft Standard Operating Procedure. It is similar to the one that the Human Resources Department uses.

**#7 Establish an organizational culture that places importance on adhering to proper policies and processes while also meeting service level goals. Also, create a "tone at the top" that circumvention of proper permitting and fee assessment polices and processes will not be tolerated. (p. 15)**

[Partly Implemented](#) CDD responded that the current director schedules monthly meetings with exempt managers to discuss department goals, policies, procedures and system controls. This will be connected with implementation of Recommendation #4.

**#8 Complete a comprehensive analysis of employee positions and organizational reporting structure to ensure proper control, oversight and authority is present. (p. 19)**

[Started](#) CDD reported that the director and division managers are assessing existing positions and roles and responsibilities in the building division. We will review management's analysis of the entire department.

**#9 Ensure that the City's Chief Building Official, who is held responsible by state law and City Code for enforcing the City's building laws, codes and regulations, has the ability to control all of the activities and processes for which he or she is responsible. (p. 19)**

[Started](#) CDD responded that the chief housing and dangerous buildings inspector has *ex officio* powers as the building official for housing & dangerous buildings matters and that the operations manager, who supervises the building division, assists in decision making and issue resolution. The department, the City Auditor's office, and the City Attorney will review the Chief Building Official's position within the organization for compliance with City and State code.

#### Update

[Started](#) The City Attorney's Office confirmed that the Chief Building Official is ultimately responsible for enforcing Sacramento City Code Title 15, Buildings and Construction; relevant portions of Title 8 Health and Safety, and California law. The Code Enforcement Manager is

principal assistant to the building official in enforcing relevant chapters of Title 8, and as such has powers of the building official for substandard housing and dangerous buildings.

In response, CDD is developing process flow charts and a revised organization chart clarifying roles.

**#10 Ensure that the City's Chief Building Official has reporting authority over the positions that carry out those activities and processes for which he or she is responsible, including but not limited to Permit Counter staff, Process Assessment Unit staff, inspectors, plan reviewers, etc. (p. 19)**

**Started** CDD responded that the chief housing and dangerous buildings inspector has *ex officio* powers as the building official for housing & dangerous buildings matters and that the operations manager, who supervises the building division, assists in decision making and issue resolution. The department, the City Auditor's office, and the City Attorney will review the Chief Building Official's position within the organization for compliance with City and State code.

Update

**Started** The City Attorney's Office confirmed that the Chief Building Official is ultimately responsible for enforcing Sacramento City Code Title 15, Buildings and Construction; relevant portions of Title 8 Health and Safety, and California law. The Code Enforcement Manager is principal assistant to the building official in enforcing relevant chapters of Title 8, and as such has powers of the building official for substandard housing and dangerous buildings.

In response, CDD is developing process flow charts and a revised organization chart clarifying roles.

**#11 Consider the City's Chief Building Official's responsibilities related to housing and code enforcement activities, and ensure that proper control and reporting authority is provided, particularly since Building Services already provides plan review related to housing permits. (p. 19)**

**Started** CDD responded that the chief housing and dangerous buildings inspector has *ex officio* powers as the building official for housing & dangerous buildings matters and that the operations manager, who supervises the building division, assists in decision making and issue resolution. The department, the City Auditor's office, and the City Attorney will review the Chief Building Official's position within the organization for compliance with City and State code.

Update

**Started** The City Attorney's Office confirmed that the Chief Building Official is ultimately responsible for enforcing Sacramento City Code Title 15, Buildings and Construction; relevant

portions of Title 8 Health and Safety, and California law. The Code Enforcement Manager is principal assistant to the building official in enforcing relevant chapters of Title 8, and as such has powers of the building official for substandard housing and dangerous buildings.

In response, CDD is developing process flow charts and a revised organization chart clarifying roles.

**#12 Analyze the duties of CDD staff to ensure all conflicting responsibilities are sufficiently segregated and controlled. (p. 20)**

**Started** CDD responded that the director is evaluating specific roles and responsibilities based on classifications and available resources. He will further clarify duties during completion of procedures manuals.

**#13 Continue working to create a systematic process to organize, store and image CDD's project plans. (p. 20)**

**Partly Implemented** CDD provided a written policy, used by the records management unit, outlining how residential and commercial plans should be catalogued and stored per code. We observed CDD's project plans and the process. We will select plans to test they are being organized as intended by management's policy.

Update

**Partly Implemented** CDD scanned and stored an extensive backlog of previously unorganized plans during the last six months. We selected 10 permits from Accela and found plans for 30% were not stored as intended by management's written procedure. Based on these results, CDD is updating its procedures..

**#14 Develop processes to ensure key documentation is maintained to support process decisions. (p.21)**

**Started** CDD reports that staff have begun to document and upload supporting data in Accela along with a rationale for the changes. We will review the formalized written process when complete to verify that the new process mitigates the concerns regarding recordkeeping, incomplete documentation of permitting processes and decisions. We will also review how this process complies with the chief building official's responsibility to keep records per the California Building Code Appendix Chapter 1 Section 104.7.

## Section 2: Proper Permitting

**#15 Develop formal policies and procedures that cover all permitting processes, including points where supervisory review is conducted. Hold employees accountable for not following proper processes. (p. 28)**

**Started** The director has assigned the code enforcement manager to coordinate writing the department's policies and procedures for all permitting processes. The draft is currently 115 pages. Upon completion we will review, for supervisory decision points, segregation of duties, and accountability.

**#16 Insert automatic system process routing protocols that ensure all processes are complete prior to a permit being issued, including (but not limited to) ensuring construction plans have gone through all required reviews and approvals and all prerequisite permits have been properly obtained from other City entities. (p. 28)**

**Started** Department management is looking into whether CDD's IT unit can make automatic system changes so projects can be routed into these systems without staff having to manually check the boxes.

**#17 Determine which system fields must be completed during permit application intake and program the system to not allow permits to proceed in the process without all required data inputs. Once project data is input and a permit application is accepted as complete, restrict the ability to make modifications to the permit record to managerial or supervisory staff. (p. 28)**

**Partly Implemented** The director has authorized the building division's operations manager to determine which fields must be completed for an application to be created to ensure plans are reviewed for code compliance, i.e. for electrical, structural, life safety, mechanical/plumbing, Planning, Fire, Utilities, Transportation, and special districts like design review or historical. The IT unit added red asterisks to identify required fields which include job value, parcel number, and applicant name. The operations manager has determined which staff can make modifications. We will perform testing to verify that only managerial or supervisory staff can modify required fields.

**#18 Restrict system access and ability to provide approval of project plans in the system to only those employees employed by the City in such a capacity; ensure the employees given access to input approvals in the system have the necessary qualifications, training and education to review and approve project plans. Also, only allow those employees with proper qualifications to sign and approve the hard copy of project plans. (p. 29)**

**Started** The building division operations manager plans to regulate access to specific entries in Accela to a list of authorized staff, similar to internal controls for Recommendation #1. We would like to see the assessment of what qualifications, training and education is required for those positions (possibly in job descriptions). To provide assurance we'll test access and sample hard copies of project plans to review for signature and approval by employees with requisite qualifications.

**#19 Ensure all professional approval stamps, such as engineering, plan review, etc. are secured and cannot be misused. (p. 29)**

**Partly Implemented** CDD reported that the building division operations manager is monitoring stamps and has put reasonable precautions in place. Per interviews with staff in administrative services division and process assessment, stamps are used by staff as they see the need. We will observe secure storage of professional approval stamps, who has access to them, and policy on securing them.

**#20 Create permitting process business mappings to ensure all required processes, participants, and stakeholders are identified and all corresponding roles are included and considered in the development of formal processes and procedures to ensure that key permitting process participants are not overlooked, such as CDD's environmental planning group. (p. 30)**

**Started** The building division operations and code enforcement managers are drafting flow charts of the building permit process. When complete we will review, and survey stakeholders and employees.

**#21 Establish protocols to require that counter staff review permit applications and other appropriate notices for conditions of approval and proof of payment and input such stipulations into Accela. Employees must be trained to ensure all required conditions are appropriately entered and tracked. (p. 32)**

[Partly Implemented](#) CDD reported that its planning division and units within its building division note conditions (processes to complete prior to issuing permits) on the physical construction plans, and that the chief building official reinforces review of construction valuation at meetings with staff in the public counter customer service unit of the building division. The paper application for permit, revised in November 2010, includes a section listing 14 “disciplines” (processes to complete prior to issuing permits). The building division counter manager has posted a draft 75-page counter procedure manual on the department’s intranet site as guidance for staff.

We will review the manual and select and test permits for required plan review and approval.

**#22 Program the permitting system to ensure the acknowledgement and resolution of permitting conditions and require the signoff of such provisions by designated individuals before permits can be appropriately issued or finalized. (p. 32)**

[Partly Implemented](#) According to CDD, management set up the Accela system to allow city staff to input free-form conditions to ensure that specific issues are addressed and actions occur prior to permit issuance. The department reported that the director authorized the building division operations manager to determine which staff can sign off on permitting conditions. Only these authorized staff are allowed to remove a “lock” in the system.

CDD management is exploring with Accela vendors additional security controls to implement in the system related to locks and holds.

**#23 Limit approval or signoff authority to certain City employees and restrict access to the system for functions that would allow removal, resolution, or clearing of conditions of approval. (p. 32)**

[Partly Implemented](#) According to CDD, the director will create an access list to authorize staff to make specific entries in Accela, as for Recommendation #1. We will test that a condition cannot be modified by those that are not on the approved list.

**#24 Within policies and procedures, clarify when phased or partial permits can be utilized and ensure proper protocol is followed. Particularly, eliminate the ability to utilize phased permits when main permits are ready for issuance to simply avoid paying required permitting fees. (p. 33)**

**Started** The building division operations and code enforcement managers are drafting policies and procedures for phased and partial building permits. We will review and test samples for internal controls.

**#25 Investigate the feasibility within the permitting system to link together related permit documents. Otherwise, develop an alternative process that will ensure all requirements of all permits associated with a project have been formally and appropriately completed and resolved prior to providing final approval of a project. (p. 38)**

**Started** CDD reported that City management will be speaking with vendors to determine if Accela can link related permit documents. We will review how the chief building official or building division operations manager currently ensures that related documents are linked together and that all permits associated with a project have been appropriately completed and resolved prior to providing final approval of a project.

#### Update

**Started** The chief building official informed us that he or one of two field inspectors supervisors verify this information prior to issuing a Certificate of Occupancy. The building official is reviewing whether anyone else has the capability in Accela to issue such a certificate, and is finalizing related policy and procedures.

**#26 Ensure process policies and system controls are developed and maintained that require permits to be properly issued before any construction work begins. (p. 39)**

**Partly Implemented** The building division counter manager has posted a draft 75-page counter procedure manual on the department's intranet site as guidance for staff. We will review the policies and system controls management developed to ensure specific programs are not inappropriately expanded.

**#27 Ensure process policies and systems controls are developed and maintained that require permits to be properly issued before inspection services are rendered, including removing related existing system security gaps. (p. 41)**

**Partly Implemented** CDD has begun developing and posting policies and procedures on the department's intranet site. These include policies that pertain to all employees, and administrative and building procedures. The counter manager has posted a draft 75-page counter procedure manual. We will review policies and systems controls requiring permits prior

to services, and will test to verify that inspections services are not provided prior to fees being paid.

**#28 Immediately prior to permit issuance, establish a formal, final review process of permit applications to ensure all required reviews and approvals have occurred and all fees have been assessed and paid prior to permit issuance. Assign the responsibility to conduct the final review to specific individuals that have sufficient training and ensure these employees provide their signatures acknowledging their acceptance of processes undertaken and granting approval for the permit to be issued. (p. 42)**

**Started** According to CDD, the building division operations manager has put a system in place to assess fees and ensure that all conditions are resolved during processing of plans. The operations manager assigned the individuals who process plans to review outstanding balances and ensure accurate notes and supporting data are input in Accela prior to permit issuance or Certificate of Occupancy. We will interview the operations manager to gain an understanding of why specific staff were assigned and will sample permits for signatures of designated individuals.

**#29 Develop regular spot check processes where a sample of permits are selected and reviewed to ensure all required processes were appropriately completed. Determine any training needs or increase in frequency of spot checks based on the outcome of the review process. (p. 42)**

**Not Started** CDD reported that the chief building official was checking deviations made in the Accela system at the time of occurrence and on a weekly basis. While this is an important control, we would like to see the department add a sampling component.

**#30 Require that any deviations from regular permitting processes defined through formal policies and procedures are formally approved and documented by CDD management and sufficient and detailed justification for decisions and approvals is maintained. (p. 43)**

**Started** The building division operations and code enforcement managers are drafting policies and procedures for the permitting process. We'll sample work allowed to start, specifically projects that deviate from regular permitting processes. We'll test for documentation and justification of management's approval.

### Section 3: Collecting Fees

**#31 Ensure fees are finalized and approved by staff with sufficient training and experience and require signature approval and sign-off acknowledging acceptance of final fee assessment calculations. Once fee assessments are finalized, restrict the ability to make modifications to the fee assessment to managerial staff. Ensure sufficient support and justification for any fee assessment change is maintained. (p. 48)**

**Started** CDD reported that the director will limit the ability to make revisions, updates, and corrections in Accela system to managers and supervisors only. In addition, the director or the building division operations manager will analyze job duties to determine who will be able to apply fees in Accela. We will interview management to gain an understanding of what training and experience are requisite to verify final fee calculations. We will sample preliminary fee assessments and final invoices for supervisory signature approval of calculations, and confirm CDD staff followed the required processes.

**#32 Develop formal and detailed policies to guide fee assessment processes, including the proper establishment of job valuation figures on a project as well as points in the process where supervisory review is conducted. Hold employees accountable for not following proper processes. (p. 48)**

**Started** The building division operations and code enforcement managers are developing policies to guide fee assessment processes. This may be implemented in conjunction with Recommendation #4. When complete, we'll review the policies to gain an understanding of how management establishes job valuations. We will test samples of fees paid for supervisory review and to confirm CDD staff followed the required processes.

**#33 Insert automatic system calculation of all permitting fees to reduce the risk that required fees are missed as well as the ability of employees to disregard or circumvent proper fee assessment processes. (p. 48)**

**Partly Implemented** CDD reported that this is done and that IT staff are providing on-going review and updates. To provide assurance, we will review evidence that the building division operations manager provided written guidance to the IT unit and has a plan to continue to do so as fees change. We are reviewing CDD's list of all permitting fees in the draft counter procedures manual.

#### Update

**Partly Implemented** The chief building official is working with staff to identify fields within Accela that should be required, removed, and/or automatic.

**#34 Establish strong system controls so that only employees with sufficient managerial authority have the ability to make critical changes in the permitting system, including changes to fee assessments (voids, deletions, etc.) and to key aspects of permit records such as addresses, parcel numbers, etc. (p.48)**

**Partly Implemented** CDD reported that only managers and supervisors will be able to make revisions, updates, and corrections in Accela relevant to fees prior to permit issuance. In addition, the director will analyze job duties to determine who will be able to apply fees in Accela. This may be implemented as part of response to Recommendation #1.

**#35x Develop formal and detailed policies to guide fee assessment processes, including requiring project valuations to be submitted by all applicants and supported with sufficient justification and documentation, such as customer contract. (p.52)**

**Not started** CDD states they will request the contract from the applicant when valuation verification is necessary. We will evaluate after CDD develops policy and procedure. This may be implemented as part of Recommendation #4.

Update

**Started** CDD included the fee assessment process as part of its draft Counter Procedures Manual. While this is a positive start, the Manual states that if the valuation of the project appears low, a copy of the bid should be requested. This leaves a great deal of room for interpretation and we look for clearer guidance in the final Manual.

**#35y Ensure expired permits are appropriately deactivated or removed from the permitting system in compliance with building rules and laws. (p.54)**

**Implemented** According to the department, CDD's director instructed administrative services to deactivate permits after 180 days of construction inactivity.

**#35z Ensure that users cannot inappropriately modify critical project information of permits, such as addresses, parcel numbers, etc. Significant changes to project information and fee assessments should only be made by supervisory staff upon determination that changes are appropriate and justified. (p.54)**

**Not Started** As with Recommendation #1, we will look for policies, and controls in Accela, to prevent critical project information from being edited in a way that permits can be transferred between lots.

**#36 Develop processes to formally approve fee payment credits, transfers, and refunds and ensure sufficient support is obtained and all associated documentation is maintained prior to fee payment adjustments being entered in the systems. Ensure processes to credit, transfer, or refund fee payments comply with all aspects of the City**

**code and such processes are only handled by accounting staff. Require accounting staff to review approvals for reasonableness and compliance with City rules. (p. 58)**

[Partly Implemented](#) CDD's accounting function is developing written procedures including supervisory approvals. After reviewing process for evidence that analysis has been done to ensure compliance with City code, we'll test a sample of fee payment adjustments. We'll also sample plans to verify that plan review fees were collected in advance.

#### **Section 4: Alignment of Operations and Finance**

**#37 Conduct a review of past Building Services' revenues to analyze how the monies were utilized and determine whether the usage was appropriate, complied with regulations, and was in the best interest of CDD and Building Services' operations. Make necessary adjustments in revenue utilization going forward. (p. 68)**

[Not Started](#) CDD will be working with the City Auditor's Office to determine how the department can best address this recommendation.

**#38 Conduct a full-scale staffing and workload study to determine the appropriate levels of staffing to ensure staffing level goals can be met and related service fees are sufficient. Also, ensure the study includes analyzing and establishing a clear reporting structure and system so that Business Services' limited resources are efficiently allocated among competing priorities. (p. 68)**

[Started](#) According to CDD, the director is reformatting the department's structure by evaluating and re-classifying positions. We would like to verify that CDD's fee structure policy, when it's developed, meets the City's Fees and Charges policy and that the Matrix program complies.

**#39 Conduct a comprehensive fee study of its building services fees and analyze the relationship between the cost of providing service and fees charged, including whether fees should be assessed for services. (p. 71)**

[Not Started](#) We would like CDD to identify in the organization chart and by job description who is responsible for: regular analysis and adjustment of methods to calculate building permit, plan review, and technology fees; overseeing the process to ensure City Council resolutions and other factors like the City's Fees & Charges Policy are included; establishing hourly staff rates so that management can see if fees cover services; and how this will be incorporated in the budget process.

## Section 5: Reporting and Control

**#40 Request the City Auditor follow up on the implementation of not only the recommendations the audit report provides, but also follow-up and evaluate CDD's progress with implementing various initiatives. (p. 73)**

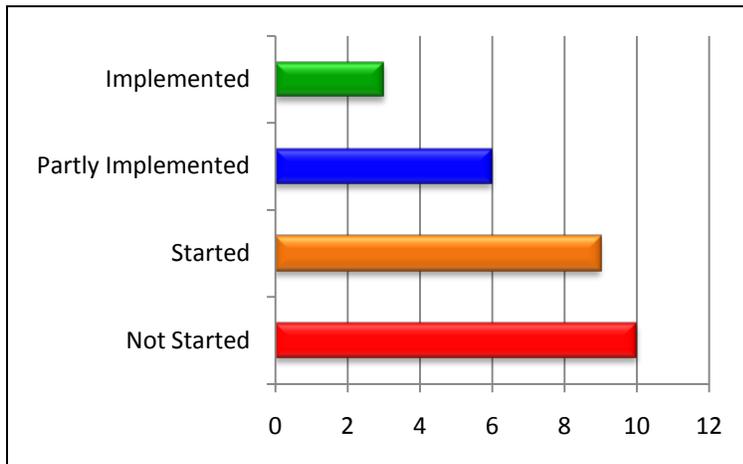
[Partly Implemented](#) We will report periodically to Council on the status of recommendations until complete. CDD's initiatives, listed in Appendix C of the performance audit, are important specific internal controls identified by CDD management which mostly fall under Recommendation #4 Draft...complete...policies, procedures. Thus we will review these as part of Recommendation #4.

## Post Audit Summary of the Audit of Employee Health and Pension Benefits

The Audit of Employee Health and Pension Benefits contained five findings and identified as much as \$16 million in possible overpayments and potential City savings. The audit, which was released in April 2011, included 28 recommendations and covered the administration of health benefits; health premium amounts and cost sharing; pension payments and cost sharing; retiree-health obligations; and general benefit cost containment options.

Since the publication of the audit, Human Resources has made progress towards implementing 18 of 28 recommendations. Of those, we determined that the department has implemented or partially implemented nine recommendations (32 percent) and has started work on nine others (32 percent). Work has not started on 10 recommendations (36 percent). The department's progress is shown in the exhibit below. While Human Resources is making progress in implementing recommendations, we anticipate that some recommendations could take several more months to fully implement.

**Exhibit 3 Status of Human Resources' Audit Recommendations**



## **FINDING 1: The Administration Of Health Benefits Has Strengthened, But Areas Of Concern Remain**

**#1 Continue to work with health providers and the City Attorney's Office to determine if the City can recover overpayments.**

Started According to Human Resources, the department is working with the City Attorney's Office and health providers.

**#2 Develop a system to reconcile self-billed amounts to actual amounts deducted in payroll.**

Not started Human Resources indicated that it had not started implementing this recommendation.

**#3 Inventory all previous LOUs and present them to Council for incorporation into labor agreements as necessary.**

Started According to Human Resources, the department has meet with represented employee organizations to review which LOUs are continuing and which have expired. The department is working with the City Attorney's Office to draft a City Council report that will contain the updated inventory.

**#4 Create a formal procedure related to LOUs to ensure the implementation of Resolution No. 2010-700 and that LOUs become part of the labor agreements.**

Started According to Human Resources, staff discussed creating a procedure. However, they have not yet begun to draft it.

**#5 Post all active LOUs online along with labor agreements.**

Not started According to Human Resources, this item is pending the completion of Finding #3.

**#6 Establish a written procedure to review labor agreements. Such a procedure should entail a review of key amounts specified in the documents as well as a sign-off form that indicates Human Resources' staff and management review of agreement terms.**

Not started According to Human Resources, the department plans to establish the written procedure by September 30, 2011 in order for it to be in place for Open Enrollment for 2012.

**#7 Establish a written procedure for creating rate sheets to ensure that amounts set in agreements are correctly transferred to eCaps and rate sheets.**

Implemented Human Resources created and provided the formal written procedure.

**#8 Modify its current review process for open enrollment to ensure that premium amounts and shares of costs are correct and in compliance with labor agreements.**

Implemented Human Resources created and provided a formal written procedure that includes a review process.

**#9 Work with Accounting and Information Technology to change electronic paycheck information to clearly display how much the City and employees contribute towards benefits**

Not started According to Human Resources, the department plans to work on this recommendation after the electronic payroll system is updated to a new version.

**#10 Change the practices for crediting employees who leave the City to ensure that they are refunded the correct amounts for health premium payments.**

Started According to Human Resources, the department has begun meeting with Payroll staff to discuss this issue. However, changes have not been made to the method of crediting employees who leave the City.

**#11 Formalize the out-of-area plan and the subsidy methodology in the labor agreements.**

Not started According to Human Resources, changes in this area must be agreed upon with represented employee organizations in future labor agreements.

## **FINDING 2: The City's Current Methods For Determining Premium Amounts And Shares Need Improvement**

**#12 Establish a formal process to periodically compare the costs of the City's health premiums to what other area governments pay.**

Not started According to Human Resources, the department plans to request in writing that the City's benefits broker provide this information every other year. The department expects that the first report will be available towards the beginning of 2012.

**#13 Report to City Council how the City's premium amounts compare with those paid by area governments.**

Not started According to Human Resources, the department plans to report this information to Council when it becomes available. See Recommendation #12 above for additional information.

**#14 Consider employee equity when negotiating with unions the City's contributions to health benefits.**

**Started** According to Human Resources, the department is considering this and various other factors as it prepares to negotiate upcoming labor agreements. The department is planning its strategy and has met with the City's benefits broker to understand trends.

**#15 Establish a process to obtain and review trends in area governments' contributions towards employees' health premiums.**

**Started** According to Human Resources, the department has met with the City's benefits broker to better understand trends.

**#16 Consider regional trends when negotiating benefit shares.**

**Started** According to Human Resources, the department has met with the City's benefits broker to better understand trends.

**#17 Negotiate terms that require increasing employees' contributions to their benefits.**

**Not started** According to the Human Resources, this recommendation is pending the start of negotiations for new labor agreements.

### **FINDING 3: Moderate Changes Could Help Rein In Rising Pension Costs**

**#18 Negotiate a change in contributions to require that all employees pay some share of the employee contribution portion of pensions.**

**Not started** Human Resources indicated that it had not started implementing this recommendation.

**#19 Consider the employee contributions required by nearby government employers when negotiating the City's pension share.**

**Started** According to Human Resources, the department has discussed this area after receiving information from the City's benefits broker.

### **FINDING 4: City Payments Towards Retiree-Health Costs Are Growing And The Way The City Pays For These Benefits Could Result In Overpayments**

**#20 Work towards negotiating a change to the City's contribution for Fire retirees' benefits to bring them more in line with contributions made toward other City retirees.**

**Not started** Human Resources indicated that it had not started implementing this recommendation.

**#21 Continue pursuing options to reduce retiree health costs.**

[Partly Implemented](#) According to Human Resources, the department is reviewing this area and it is part of the benefits strategic plan. The City's benefits broker prepared a draft plan and discussed it with the department this summer. The plan is expected to be completed in the next few months.

**#22 Continue working with Health Net to pursue overpayments for the out-of-area subsidy.**

[Partly Implemented](#) Human Resources has corresponded with Health Net about this issue and the provider has stated that it will not return money to the City. While Health Net's e-mail message, as provided by Human Resources, explained how the subsidy amount impacts premium rates, it did not specifically address double payments made on behalf of some retirees. While Human Resources considered this item implemented, we would like to review the documentation provided by Health Net with Human Resources staff and the City Attorney's Office to determine whether this matter should be pursued further.

**#23 Continue work to implement the self-billing method for retiree health benefits.**

[Partly Implemented](#) Human Resources has designed a self-billing method for retiree health benefits and is testing the process with Health Net. According to Human Resources, the department plans to begin self-billing for retiree health in September. The department had planned to implement this recommendation earlier, but it lost a key staff member who worked on the project.

**FINDING 5: Rising Benefit Costs Require The City To Evaluate Cost Containment Options Like Those That Other Governments Employee And Best Practices Recommend**

**#24 Establish a process to annually review health plans for possible cost savings options.**

[Implemented](#) Human Resources received a presentation and report this summer from the City's benefits broker that included possible cost saving options in connection with the annual benefits renewal process. According to Human Resources and the City's 2011 contract with the benefits broker, the benefits broker is required to develop cost savings recommendations during the annual renewal process.

**#25 Continue plans to implement a wellness program that includes assessing the program's impact.**

[Partly Implemented](#) Human Resources has implemented a wellness program and has held events. Some include blood pressure screenings, presentations about fitness, and a workshop about managing stress. According to the department, the impact of a wellness program may not be evident on health premium rates and the utilization of health plans for several years.

**#26 Consider changes to the retiree health benefits program.**

[Partly Implemented](#) According to Human Resources, this area has been discussed and will continue to be discussed during future labor negotiations.

**#27 Consider changes to pension formulas and final compensation calculations for new employees.**

[Started](#) According to Human Resources, the department has requested information from CalPERS about this area.

**#28 Create and manage a strategic health-care plan.**

[Partly Implemented](#) According to Human Resources, the City's benefits broker is working on a strategic benefits plan. The benefits broker prepared a draft plan and discussed it with the department this summer. The plan is expected to be completed in the next few months and it will be submitted to the City Manager's Office.

## **Post Audit Summary of the Department of Utilities Operational Efficiency and Cost Savings Audit**

The Operational Efficiency and Cost Savings Audit of the Department of Utilities (DOU) contained seven key findings and identified as much as \$8.6 million of potential savings in FY 2011-12. The audit, which was released in June 2011, was an objective examination of the DOU to evaluate whether the department was managing and/or utilizing resources in a responsive, economical and efficient manner. In addition to recommendations directly related to the seven key findings, the audit included further opportunities for operational efficiencies and cost savings that the DOU may want to explore.

As this audit was presented to the City Council for approval on August 4, 2011, we did not evaluate the recommendations' implementation status. Instead, we have included the DOU's formal written response to the findings and recommendations as of June 8, 2011. We will follow-up on each of the seven key findings and any operational changes that the DOU makes in response to the audit's additional operational efficiency and cost savings opportunities in our next semi-annual post audit recommendation follow-up dated December 31, 2011.

**INSERT .pdf of JUNE 8, 2011 DOU RESPONSE HERE.**