City of Sacramento
City Council

915 I Street, Sacramento, CA, 95814
www.CityofSacramento.org

Meeting Date: **9/4/2012** **Report Type:** Consent

Title: City Auditor's Semi-Annual Recommendation Follow-Up Report for the Period Ending June 31, 2012

Report ID: 2012-00759

Location: Citywide

Recommendation: Pass a motion approving the Semi-Annual Recommendation Follow-Up Report for the Period Ending June 31, 2012.

Contact: Jorge Oseguera (916) 808-7270, Mayor/Council

Presenter: Jorge Oseguera (916) 808-7270, Mayor/Council

Department: Mayor/Council
Division: Office of the City Auditor
Dept ID: 01001201

Attachments:

1-Description/Analysis
2- SemiAnnual Recommendation Followup Report Jun2012

City Attorney Review

Approved as to Form
Grace Arupo
8/29/2012 2:13:13 PM

Approvals/Acknowledgements

Department Director or Designee: Jorge Oseguera - 8/27/2012 11:38:47 AM

Sandra Talbott, Interim City Attorney Shirley Concolino, City Clerk Russell Fehr, City Treasurer
John F. Shirey, City Manager

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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 City Council the City Auditor's updates and reports. This report details the implementation status of open audit recommendations during the second half of fiscal year (FY) 2011/12.

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

Economic Impacts: None

Environmental Considerations: None

Sustainability: None

Commission/Committee Action: The Audit Committee unanimously accepted this report on August 14, 2012 and forwarded it to the full City Council for approval.

Rationale for Recommendation: This staff report provides the Audit Committee with information that may be used to meet its responsibility to provide oversight and supervision of the City Auditor.

Financial Considerations: The costs of this Report are funded out of the FY2011/12 Office of the City Auditor Budget.

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

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Attachment 2

CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

August 14, 2012

Honorable Members of the Audit Committee
915 I Street - Fifth Floor, New City Hall
Sacramento, CA 95814-2604

Honorable Members of the Audit Committee:

The Office of the City Auditor conducts performance audits and makes recommendations to strengthen accountability and improve the efficiency and effectiveness of City programs. 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. 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 2011-12 Audit Plan, we prepared a report of the status of open recommendations for the six months ending June 30, 2012. To prepare this report, we met with department staff, reviewed documentation provided by departments, and performed 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[1] indicates notable new progress since the last semi-annual report towards implementing the recommendation.

This report presents the implementation status of 171 audit recommendations, 24 of which were made during the six month reporting period ending June, 2012.

[1] Audits that are undergoing this process for the first time do not include a box.

One of the aims in performing audit work is to identify areas in which the City could reduce expenses or increase revenues. The Potential City Benefit shown in Exhibit 1 represents an estimate of possible financial benefits identified thought our audit work. Some examples of benefits captured include identifying revenue the City should have collected, errors that led the City to overpay expenses, and potential savings by modifying practices or agreements.

As the benefits noted in Exhibit 1 cover 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. For example, although the Audit of the Community Development Department identified $2.3 million in fees that the City did not collect, recovering those fees may prove difficult due to developers going bankrupt.

One of the measures by which we evaluate the effectiveness of our function is by identifying more in benefit for the City than the City incurs in audit cost. The City Auditor's Office's budget for Fiscal Year 2011-12 was about $631,000. Dividing the Potential City Benefit for 2011-12 by the Office's budget results in $18 in identified potential benefit for every $1 of audit cost.

While many of our audits aim to identify financial benefits, they are not all solely focused on identifying savings. Sometimes they focus on areas that identify key benefits that are not easily quantifiable. 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.

Exhibit 1: Potential City Benefit and Recommendation Status

Report Title	Date Issued	Potential City Benefit	Confirmed Savings	# of Rec's Made	Not Started	Started	Partly Implemented	Implemented	Dropped
2011-12 Audits									
Utility Billing Review	Jun 2012	$1,300,000		11	NA	NA	NA	NA	NA
AB 1825 Compliance	Jun 2012	Reduce Liability		9	NA	NA	NA	NA	NA
Whistleblower Hotline Assessment	Feb 2012	Reduce Fraud		2	0	2	0	0	0
Fleet Management	Dec 2011	$6,100,000	$2,800,000	18	2	9	1	6	0
Municipal Golf Revenue and Expenditure Analysis	Sep 2011	$500,000	$500,000	0	NA	NA	NA	NA	NA
Revenue Collections	Jul 2011	$3,600,000	$40,000	12	2	3	5	2	0
Citywide Policy and Procedures Assessment	Jul 2011	Improve Controls		22	7	13	2	0	0
2010-11 Audits									
Sacramento Utilities Department Operational Efficiency and Cost Savings Audit	Jun 2011	$8,641,000	$2,200,000	27	0	6	9	6	6
Audit of Employee Health and Pension Benefits	Apr 2011	$16,000,000	$7,400,000	28	5	4	13	6	0
Performance Audit of the Community Development Department	Oct 2010	$2,300,000		40	1	9	23	6	1
Total		**$38,441,000**	**$12,940,000**	**169**	**17**	**46**	**53**	**26**	**7**

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

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Post Audit Summary of the Assessment for Establishing a Whistleblower Hotline

The *Assessment for Establishing a Whistleblower Hotline* contained one finding and estimated that the City's loss to fraud, waste, and abuse could total several million dollars each year. The report, which was released in February 2012, contained four recommendations and covered the potential benefits of establishing a hotline, results of an employee survey, information about other cities' hotlines, and cost estimates to establish a Sacramento hotline.

Report recommendations were made to the City Council in March 2012 to seek its guidance. Council voiced support for establishing a whistleblower hotline and directed the City Attorney's Office, City Manager's Office and Office of the City Auditor to begin implementing a whistleblower hotline program.

In response to Council's direction, the Office of the City Auditor wrote Whistleblower Hotline Procedures, established a complaint intake form, and began tracking complaints on an intake log. While the program is in its early stages, the Auditor's Office has received and investigated some complaints. The office plans to report to Council on the whistleblower hotline program every six months. The first report will cover the period ending September 30, 2012.

In addition to Council's general direction to begin implementing the whistleblower hotline program, Council directed the City Attorney's Office and City Manager's Office to take specific steps towards implementation. These two items were in line with report recommendations and their progress towards implementation was evaluated below.

#1 Direct the City Attorney's Office to draft a whistleblower resolution and non-retaliation resolution for adoption by Council.

Started The City Attorney's Office has started researching these issues and plans to present resolutions to Council in the next few months.

#2 Direct the City Attorney and City Manager to establish a Citywide Code of Ethics.

Started Staff from both offices have discussed parameters for moving forward and plan additional meetings this month.

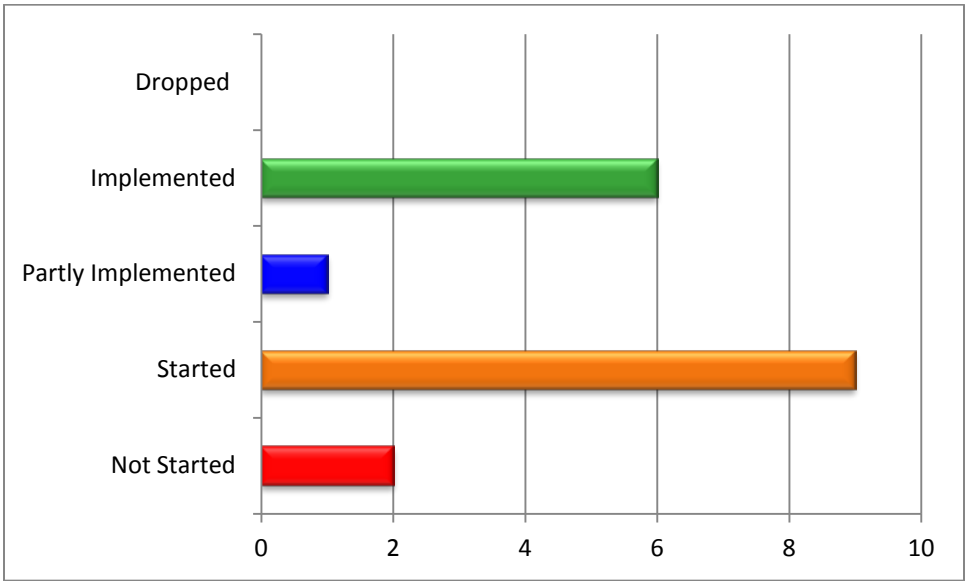
Post Audit Summary of the Audit of City Light Duty Vehicle Use

The *Audit of City Light-Duty Vehicle Use* contained three findings and identified as much as $6.1 million in one-time and future benefits, with most of these benefits generated through avoided vehicle replacement. The audit, which was released in December 2011, included 18 recommendations and covered vehicle use, Fleet information, and take-home vehicles. To evaluate the Department of General Services' Fleet Management Division's progress in implementing recommendations, we first requested a self-assessment from the Department and asked for evidence to support progress. We reviewed this information, worked with DGS staff, and requested additional evidence as needed.

We determined that DGS made significant progress towards implementing recommendations since the audit's release. Most notably, the Department worked with the City Manager's Office to request that all City departments turn in vehicles that had historically received little use. This effort led to the turning in of 136 vehicles. Of those, Fleet sold 89 vehicles and shifted 47 within the City to better optimize efficient use. Fleet estimated that removing the 89 vehicles and not replacing them with new vehicles will save the City about $2.8 million.

In addition to making recommendations to DGS, this report also included some recommendations to the City Manager's Office, City Attorney's Office, and Department of Finance. Of the 18 recommendations, we found work had already begun on most of them (89 percent). We considered six recommendations to be implemented (33 percent) and one more to be partly implemented. Work towards two recommendations (11 percent) had not yet been started.

Exhibit 2: Status of Audit Recommendations



Finding 1: Removing and not replacing the City's light-duty vehicles that were driven less than 6,000 miles per year could yield more than $5 million in one-time and future benefits, with most of these benefits generated through avoided vehicle replacement

#1 Work with departments to find opportunities for rotating vehicles to ensure more even use.

Partly Implemented Fleet trained the Fleet Advisory Board members and department fleet contacts on the Fleet Business Intelligence (FBI) reporting system so they can monitor vehicle use. Fleet plans to assist departments in interpreting these utilization reports for Fiscal Year 2011/12 during the annual utilization review, which is scheduled to be completed by September 30, 2012.

#2 Conduct a review of replacement standards in order to ensure that the time and mileage requirements are realistic and set efficient targets.

Started Fleet hired a consultant to analyze and recommend optimal replacement criteria based on fleet management best practices and the City's operating costs. Recommendations are expected to be finalized by September 30, 2012.

#3 Requests that departments voluntarily turn in vehicles that were driven less than 3,000 miles in Fiscal Year 2010/11.

Implemented Departments turned in and did not replace 32 vehicles in Fiscal Year 2011/12 that were driven less than 3,000 miles (in the prior fiscal year) in response to the City Manager's directive to turn in or justify the need for light-duty low use vehicles. Fleet plans to coordinate its annual review of low-use vehicles prior to September 30, 2012.

#4 Requests from departments written justifications for retaining specific vehicles that were driven more than 3,000 miles, but less than 6,000 miles in Fiscal Year 2010/11.

Implemented Departments turned in and did not replace 104 vehicles in Fiscal Year 2011/12 that were driven more than 3,000 and less than 6,000 miles (in the prior fiscal year) in response to the City Manager's directive to turn in or justify the need for light-duty low-use vehicles. Fleet plans to coordinate its annual review of low-use vehicles prior to September 30, 2012.

#5 Work with the City Manager's Office to establish a Fleet Utilization Review Board that is empowered to set minimum use standards and remove low-use vehicles.

Started The Department of General Services is working with the City Manager's Office to identify and assign department stakeholders and representatives to form a Fleet Utilization Review Committee. The committee will review and update fleet utilization standards and employee transportation polices by December 31, 2012.

#6 Conduct annual reviews of Motor Pool use to evaluate pool needs.

Implemented Fleet staff has conducted three reviews of motor pool use during the past six months, and has made shifts in response to use and customer demands. Specifically, the division closed one motor pool location and added a new one. Additionally, it adjusted the number of vehicles at motor pool locations based on demand. Fleet plans to reevaluate the motor pool on an ongoing basis, and at least annually each year by September 30, 2012.

Finding 2: While Fleet provides departments with vehicle use information, the division has not always adequately and accurately presented usage data to enable optimal decision making

#7 Conduct periodic reviews of Fleet data to ensure information captured and reported is accurate.

Implemented Fleet has set up a system to create exception reports for odometer reading errors and omissions. Exceptions are e-mailed to Fleet staff and they review and reconcile discrepancies. While most vehicles have automated meter collection devices, Fleet plans to install these devices in all of its vehicles by September 30, 2012. Division staff explained that the full installation of this system should increase the accuracy of the data.

#8 Create more meaningful and simpler measures of appropriate utilization than the z-score method. Such analysis could include tracking mileage driven to expected mileage, aligning time with mileage standards, or other factors that Fleet determines are meaningful.

Implemented Fleet trained the Fleet Advisory Board members and department fleet contacts on the Fleet Business Intelligence (FBI) reporting system so they can monitor vehicle use. Information presented and available to stakeholders identifies vehicles that received little use and projects annual use based on monthly averages. Vehicles that received the least use are prominently identified in reports with red highlights. Fleet plans to assist departments in interpreting these utilization reports for Fiscal Year 2011/12 during the annual utilization review, which is scheduled to be completed by September 30, 2012.

#9 Report this information frequently to departments.

Implemented Fleet trained the Fleet Advisory Board members and department fleet contacts on the Fleet Business Intelligence (FBI) reporting system so they can monitor vehicle use. In addition to the posting of utilization reports, departments can now run their own reports to view utilization data in real time. Fleet plans to assist departments in interpreting these utilization reports for Fiscal Year 2011/12 during the annual utilization review, which is scheduled to be completed by September 30, 2012.

Finding 3: The lack of a detailed City take-home vehicle policy has allowed the City to approve almost 250 take-home vehicles, resulting in a substantial cost

We recommend that the City Manager's Office:

#10 Revise the City's transportation policy to consolidate City direction and enhance criteria for allocating take-home vehicles.

Started The Department of General Services is working with the City Manager's Office to identify appropriate department stakeholders to form a Fleet Utilization Committee. This committee might be formed in conjunction with the existing City Manager's Accident Review Committee. The utilization committee will review and update fleet utilization standards and employee transportation polices by December 31, 2012.

#11 Require employees who receive a take-home vehicle to maintain a log of call back events.

Started The Department of General Services is working with the City Manager's Office to identify appropriate department stakeholders to form a Fleet Utilization Committee. This committee might be formed in conjunction with the existing City Manager's Accident Review Committee. The utilization committee will review and update fleet utilization standards and employee transportation polices by December 31, 2012.

We recommend that the City Attorney's Office:

#12 Review the details of the undocumented arrangements with Police and advise City Council about its options.

Started This is pending ongoing labor discussions.

We recommend that the City Manager's Office:

#13 Work towards incorporating into all City labor agreements language that clearly states the City's rights and authority over vehicle assignments and removals.

Started The Department of General Services is working with the City Manager's Office to identify appropriate department stakeholders to form a Fleet Utilization Committee. This committee might be formed in conjunction with the existing City Manager's Accident Review Committee. The utilization committee will review and update fleet utilization standards and employee transportation polices by December 31, 2012.

We recommend the City Manager:

#14 Enforce the current take-home vehicle distance limitation that restricts take-home vehicle assignments to employees that live within thirty-five (35) air miles from the freeway interchange at W-X, 29th-30th Streets.

Started The Department of General Services is working with the City Manager's Office to identify appropriate department stakeholders to form a Fleet Utilization Committee. This committee might be formed in conjunction with the existing City Manager's Accident Review Committee. The utilization committee will review and update fleet utilization standards and employee transportation polices by December 31, 2012.

#15 Work towards reducing the allowable distance for assigning a take-home vehicle so as to promote reasonable response times to emergency call backs.

Started The Department of General Services is working with the City Manager's Office to identify appropriate department stakeholders to form a Fleet Utilization Committee. This committee might be formed in conjunction with the existing City Manager's Accident Review Committee. The utilization committee will review and update fleet utilization standards and employee transportation polices by December 31, 2012.

We Recommend that Finance:

#16 Update its form to fully capture different methods of reporting tax liability and add relevant references to IRS publications.

Started Finance is evaluating adding wording regarding having employees use the Lease Value Rule as an option when reporting tax liability.

#17 Work with the City Manager's Office and Fleet to compile an annual list of take-home vehicles.

Not started The annual review of currently authorized take-home vehicles is scheduled to be completed in coordination with the annual Fleet utilization reviews, which will be conducted prior to September 30, 2012.

#18 Work with the Attorney's Office to determine if the City is accurately reporting the IRS liability.

Not started This is pending work in Recommendation 17.

Post Audit Summary of the Municipal Golf Revenue and Expenditure Analysis

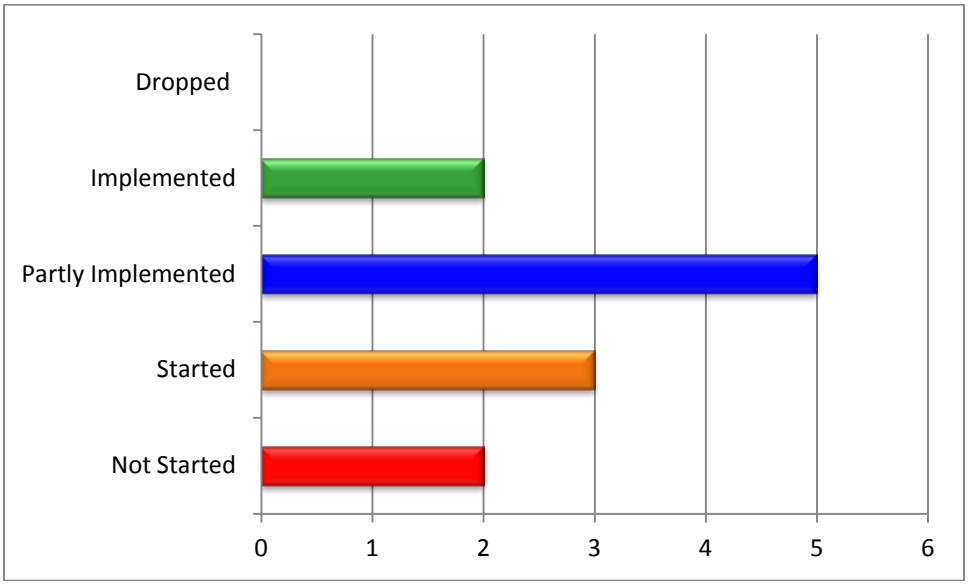
On 10/25/2011, the City's Convention Culture and Leisure Department presented to the Council and Agreement for the Lease and Operation of Haggin Oaks, Bing Maloney and Bartley Cavanaugh Golf Facilities. The Council approved the agreement with Morton Golf for golf maintenance services which eliminated the annual General Fund subsidy and significantly reduced the future risk to the General Fund. In addition, it included funding to reinvest in the golf courses and buildings, and to replace outdated equipment. The agreement was passed by the City Council 7 yes 2 no.

Post Audit Summary of the Audit of City Revenue Collection

The Audit of City Revenue Collection contained four findings and identified as much as $3.6 million in potential additional revenue. The audit, which was released in July 2011, included 12 recommendations and evaluated cash handling policies and procedures, and the effectiveness and efficiency of the Revenue Division's overall operations.

Since the publication of the audit, the Department of Finance's Revenue Division has made progress towards implementing 10 of the 12 recommendations. Of those, we determined that the department has implemented or partly implemented nine recommendations (75%) and has started work on 3 others (25%). Those classified as "not started" are pending the completion of other related recommendations. The division's progress is shown in the exhibit below. While the Revenue Division is making progress in implementing recommendations, we anticipate that some recommendations could take several more months to fully implement.

Exhibit 3: Status of Audit Recommendations



Finding 1: The City, Including The Revenue Division, Could Improve Its Cash Handling Policies and Procedures

#1 Establish a citywide cash handling policy that dictates that all City departments that handle cash create, maintain and distribute cash handling procedures that are both in line with the citywide policy and specific to each department.

☑ Partly Implemented According to the Revenue Division, the citywide cash handling policy has been drafted and will be reviewed internally before it will be sent to the Director of Finance and City Manager for their reviews and approvals. All Department have had an opportunity to review the policy and comment.

#2 Continue to update its existing cash handling procedures and create those that it lacks. All cash handling procedures should be maintained, distributed, accessible and consistently enforced.

☑ Partly Implemented According to Revenue, the division has completed about half of the necessary work to update and create procedures related to cash management. For example, Revenue has drafted *Cash Handling Guidelines* that address separation of duties, physical security, reconciling balances, and other key principles.

#3 Create, maintain and enforce formal procedures for the processes the City uses to collect revenue from and on behalf of other City Departments. These procedures should be in writing and easily accessible to those City Departments that regularly interact with the Revenue Division. In addition, the Revenue Division should include these procedures in the training it provides other departments regarding the use of the Cashiering System.

☑ Partly Implemented Revenue has located, categorized, and sorted its policies and procedures. Also, it has begun writing new policies and procedures. The progress of completing these documents is being tracked in an *Outline for Policies and Procedures* worksheet. According to Revenue, most of these procedures are substantially completed. Revenue is still revising those that needed more work and finalizing those that are ready for Department approval.

Finding 2: Efficient Revenue Division Management Is Hindered By Its Lack Of Performance Measures

#4 Develops and continues to implement meaningful performance measures.

☑ Partly Implemented The Revenue Division has made significant progress in gathering and using performance measures. According to the Division, it is capturing time sheet data, collection performance data by collector position, and has implemented a cue-flow system that tracks why customers are visiting the Revenue Division. This data is being used by the Division to make decisions, but have not put it in a formal analysis or report.

#5 Managers and Supervisors review data generated from performance measures to proactively make decisions and improvements.

☑ Partly Implemented The Revenue Division has made significant progress in gathering and using performance measures. According to the Division, it is capturing time sheet data, collection performance data by collector position, and has implemented a cue-flow system that tracks why customers are visiting the Revenue Division. This data is being used by the Division to make decisions, but have not put it in a formal analysis or report.

#6 Publicly reports the results of its performance measures.

☐ Not started Implementing this recommendation is pending the Division determining which performance measures would be the most useful to report publicly.

Finding 3: The Revenue Division's Process For Collecting Transfer Tax Revenue Is Inefficient And Does Not Conform To City Code

#7 Consider options for a more efficient transfer tax collection system.

☐ Started The Revenue Division has been working with the Sacramento County Clerk/Recorder's office to establish a process for the County to collect the City's transfer tax when properties are recorded. Revenue is also working with the City's Information Technology Department to ensure that this information sent electronically from the County Clerk/Recorder could be captured in a City database and easily reconciled with other property information in order for Revenue to research discrepancies and bill or refund appropriately.

#8 The Revenue Division Manager should either ensure that the transfer tax process is in line with City Code or explore proposing a change to City Code.

☐ Not Started This is pending the implementation of the process with Sacramento County, as explained in Recommendation #7.

#9 Pursue verifying the accuracy of transfer tax data to ensure the City is receiving complete revenue.

☐ Started According to Revenue, the division discussed with other governments how they verify the accuracy of transfer tax information. Also, Revenue reviews transfer tax data for anomalies. However, completing this recommendation is pending the implementation of the above process with Sacramento County (Recommendation #7).

Finding 4: The Transient Occupancy Tax Process Could Be More Effective

#10 Audit transient occupancy tax revenue received by the City and determine how often to perform these audits in the future.

☑ Implemented The Revenue Divisions contracted auditor has completed an audit of City hotels. This audit included onsite transient occupancy tax compliance reviews at 23 hotels. The Division is awaiting the final results. Preliminary results confirm that the current transient occupancy tax collected appear accurate. According to the division, transient occupancy tax audits will be performed every three to four years.

#11 Manager should either bring the transient occupancy tax process in line with City Code or explore proposing a change to City Code.

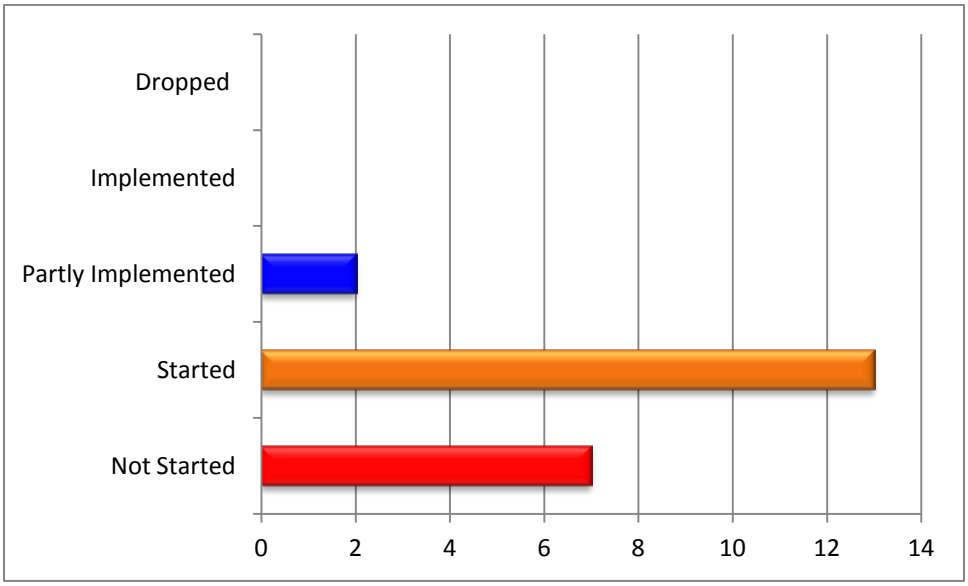
☑ Started According to Revenue, it is initiating discussion to modify the City Code so that it no longer requires a transient occupancy registration certificate.

Post Audit Summary of the Audit of Citywide Policies and Procedures

The *Audit of Citywide Policies and Procedures* contained three findings and made 22 recommendations for improving the City's administrations of its citywide policies and procedures. By performing this assessment, we sought to identify ways to reduce time spent by employees looking for or explaining policies and procedures, and to reduce risk to the City in case of inconsistent direction. With an adequate policy manual, City employees will be better able to act effectively, decisively, fairly, legally and consistently.

Since the audit's release in July 2011, we have been working with the City Manager and City Clerk staff to assess adequate implementation of the adopted recommendations. During the reporting period of January 2012 to June 2012, the City administration made limited progress towards implementing recommendations as the person to whom the City Manager originally assigned implementation is no longer with the City. As shown is Exhibit 3, we designated two recommendations partly implemented (9%) 14 recommendations as started (64%) and 6 recommendations as not started (27%).

Exhibit 4: Status of Audit Recommendations



Finding 1: While the City has a System for Establishing Policies & Procedures, It is Generally Circumvented

#1 Establish a control to ensure that e-mailed memorandums that establish or change citywide processes are incorporated into the official body of Administrative Policies and procedures.

☐ Started The City Manager's Office informed us they are updating *AP-1001* to require changes or updates be done by updating the policy or procedure document rather than using alternative modes of communication

However we have noticed that e-mailed memorandums that we would expect to be incorporated into the official policy body continue to be sent without being incorporated into official policies and procedures, for example Change in Practice for Resolution Requirements sent via e-mailed memo on December 14th, and Winter Holiday Decorations sent via e-mailed memo on November 29th.

#2 Develop a control to ensure that documents referred to in Administrative Policies exist and are accessible for policy users before approving the policy

☐ Started The City Manager's Office informed us they are updating *AP 1001* to ensure all attachments referred to in a policy document are available, and that the Administrative Policy Coordinator will not approve a policy document unless all referenced documents are included at the time the policy is submitted.

#3 Update *Developing Administrative Policies or Guidelines PR-1001.01* to clarify responsibility for linking documents within policies and procedures

☐ Started The City Manager's Office is updating *AP-1001* to assign responsibility for linking policy documents with associated procedures and/or relevant reference documents to the Administrative Policy Coordinator, who is the Special Projects Manager, Office of the City Manager.

#4 Establish a time frame for periodic review of established Administrative Policies and procedures and incorporate it into *AP-1001*.

☐ Started The City Manager's Officer reported that *AP 1001* is being updated to require annual review of policy documents by respective departments.

#5 Update *AP-1001* to clearly describe the mechanism for updating Administrative Policies

Not started The City Manager's Office stated that *PR 1001-01* will be updated to incorporate a schematic to illustrate the process to update policy documents.

#6 Improve the controls to ensure City ordinances and resolutions are reflected in City policies and procedures.

Not started The City Manager is considering options to best implement the recommendation.

#7 Formally document the roles, responsibilities and processes of area experts.

Not started The City Manager's Office informed us they will update *PR 1001-01* to require policy owners to define area experts' roles and responsibilities. We note that in addition, steps need to be taken to define the existing roles outlined on page 18 of the report.

#8 Analyze roles and access privileges of area experts to determine whether any are incompatible with others, to ensure segregation of duties and prevent conflicts of interest.

Not started The City Manager's Office informed us they will update *PR 1001-01* to address segregation of duties, and that the Administrative Policy Coordinator will also review proposed policies for possible conflicts of interest within the policy documents prior to issuing policy numbers. While it's important that the City Manager is documenting roles going forward, in addition the City Manager needs to analyze current roles.

Finding 2: The Inventory of Citywide Policies Could be More Complete and Organized

#9 Evaluate the divisions of Support Services and determine if the policies currently in place are adequate and where additional policies are needed

☐ Started The City Manager's Office informed us it has tasked Support departments with analyzing the list of policy documents referenced in the audit as well as a spreadsheet provided by the Auditor's office. Although this starts to meet part of the recommendation, the City Manager should continue determining which areas lack policies. The list of policy documents referenced does not include policies by many divisions, because they didn't have any. The diagram on page 21 of the report shows several divisions, like Benefits & Retirement, and Revenue which have no policies, allowing for policy gaps in key City operations to remain.

#10 Strengthen the language in *AP-1001* to require department directors and division managers who manage citywide processes to establish Administrative Policies over key operational areas.

☐ Started City Manager's Office is updating *AP 1001* to strengthen the language to require department directors and division managers to establish policies over key operational areas

#11 Assess the inventory of outside policies and procedures and determine whether they should be incorporated or retired.

☐ Started The City Manager's Office informed us it has tasked Support departments with analyzing the list of policy documents referenced in the audit as well as a spreadsheet provided by the Auditor's office. This starts to meet part of the recommendation. For example, a department determined that the Performance Appraisal System should be shelved until December 2013. The City Manager, with his broader perspective of issues facing the City will make the final decision on this and other important City procedures included in the inventory.

#12 Assess whether the City should develop policies to address some of the policy areas owned by other cities and noted in Exhibit 13

☐ Started The City Manager's Office tasked Support departments with analyzing Exhibit 13. CMO will evaluate the list.

We recommend that the City Manager and City Clerk:
#13 Revisit how Administrative Policies and related documents are housed in CCM.

☐ Started The City Manager's Office and City Clerk report that they are developing a public website to interface with CCM with the intention of being more user-friendly and easy to search for particular documents. The anticipated timeline for this website to be completed was in February or March 2012. This has been extended to January 2013 at the earliest. We will test to see if issues identified in the audit report are resolved. The two offices met in May to discuss.

#14 Update *PR-1001-01* to include a clear description of how Administrative Policies and Procedures are integrated and accessed in CCM.

Not started City Manager's Office stated that they will update *PR-1001* once a new website is developed and the City Manager has documented its functionality. City Clerk was planning to provide, by March 15, 2012 procedure for how administrative policies are entered in CCM. This has been extended to January 2013 at the earliest. Auditor notes to ensure including issues raised in Recommendation #18.

 # 15 Centralize citywide policies and procedures to a location where employees can easily find all current policies that relate to their position or employment at the City.

☐ Started The City Manager's Office stated that department directors will remove policies and procedures from department Intranet and Internet websites once a new website is launched. The City Manager's Office is updating *AP 1001* to prohibit departments from housing policy documents in places other than CCM. In May the City Manager's Office met with IT to discuss posting the City's policies and procedures online.

#16 Evaluate the 250 documents and determine which warrant integration into the formal process described in *AP-1001* and related formats.

☑ Partly Implemented The Human Resources Department created an action plan and quarterly report on progress made, and reports completion on 24 documents. In addition the Department of General Services made significant progress in evaluating documents and determining if and how they should be incorporated.

#17 Design a control to ensure outdated policies and procedures are removed from CityNet and the City' public website.

☐ Started The City Manager's Office stated that department directors will remove policies and procedures from department Intranet and Internet websites once a new website is launched. The City Manager's Office is updating *AP 1001* to prohibit departments from housing policy documents in places other than CCM.

 # 18 Change the department owners of policies to reflect correct owners.

☐ Started The City Manager and City Clerk are developing a website to optimize searches for City policies in CCM. Our initial testing showed some policies were still listed under different owners, and one could not be found. We will do more testing when the interface between CCM and the website is finalized.

#19 Update the department drop-down list to align with the current organization chart.

Not started The Clerk is discussing options to update the drop-down menu to reflect the current organization chart without losing former departments.

#20 Consider making a change to CCM to allow for the distinction between active/current policies and inactive/replaced policies.

☐ Partly implemented The City Manager's Office archived the five outdated policies identified in the report so that they don't come up in CCM. The City Manager's Office indicated that *AP 1001* will be amended to reflect that requests for archived documents can be made to the Administrative Policy Coordinator in the City Manager's Office. Auditor recommends responsibility for archiving policies be documented in the *1001* series.

#21 Ensure department directors and division managers regularly review the policy repository to ensure only, and all, their current policies are posted.

☐ Started The City Manager's Office is updating *AP 1001*.

Finding 3: A Long-Established Tradition of Undocumented Processes Hinders Some Directors' Efforts to Establish Department-Specific Policies and Procedures

#22 Reinforce management's expectation that all department operations policies and procedures be put in place and kept up to date.

☐ Started The City Manager's Office is updating *AP-1001* to emphasize the CMO's expectations and the importance of having department specific operational policies. We will begin testing after the City Manager issues the updated version.

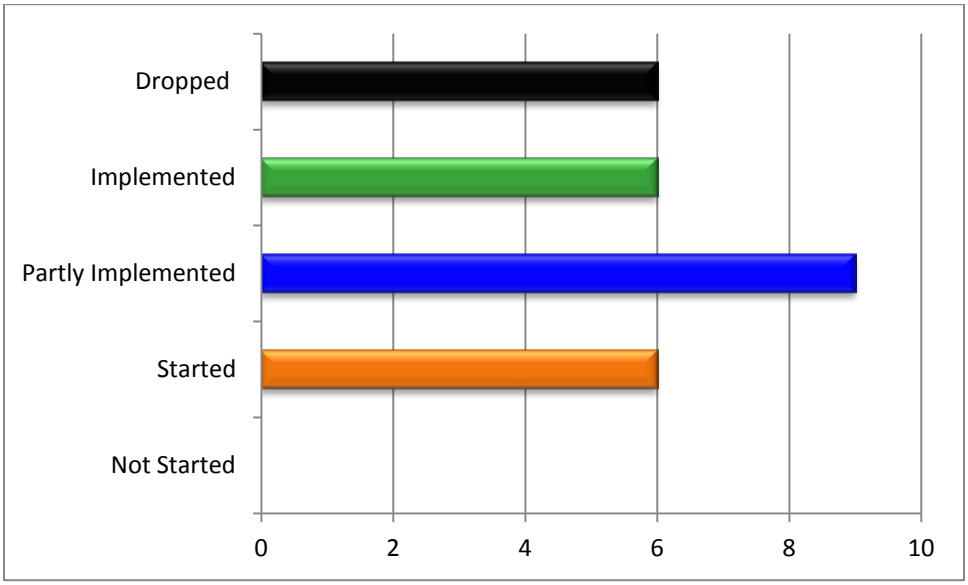
Post Audit Summary of the Department of Utilities Operational Efficiency and Cost Savings Audit

The Performance Audit of the *Department of Utilities Operational Efficiency and Cost Savings Audit* contained seven findings and identified $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.

During this response period, the Solid Waste Division made significant progress towards achieving better efficiencies and improving operations. For example, in May 2012, the Solid Waste division worked with R3 Consulting Services to oversee a new recycling load characterization which resulted in a decrease from 32 percent residual to 22 percent. With the contamination decrease, Solid Waste expects to see a savings of approximately $200,000 in disposal cost savings and increased recyclable revenue. The Solid Waste Division is also discontinuing commercial waste collection, By discontinuing commercial waste collection, Solid Waste will eliminate a $2 million general fund subsidy and apply those savings to fund the revised residential collection programs presented in the business plan and hold rates steady through fiscal year 2015. The Solid Waste Business Plan was presented to City Council in March 2012 with a myriad of proposed changes for City solid waste services that are contingent on the successful repeal of Measure A.

Since the publication of the audit, the Utilities Department has made progress towards implementing 27 of 27 recommendations. Of those, we determined that 21 recommendations should be designated implemented or partially implemented or dropped (78%). The department has started work on 6 others (22%). The department's progress is shown in the exhibit below.

Exhibit 5: Status of Audit Recommendations



Finding 1: Backyard mains are being replaced before the end of useful life

#1 DOU should keep backyard mains in place, install new meters in resident's backyards and reallocate funding from backyard main replacements for immediate capital replacement needs

☑ **Dropped** In September 2011, DOU contracted with a consultant to provide a business case evaluation of the cost effectiveness of replacement and relocation of backyard water mains.

The final Technical Memorandum report from the consultant was completed in May 2012. Based on the results of the analysis and the practical considerations of placing meters in backyards as, the consultant's evaluation confirmed that the City's policy of abandoning backyard water mains that are nearing or have exceeded their remaining useful life and relocating the water mains to the street is the most economical approach. Further, the City's approach appears to result in a reduced risk to the City when considering the fire flow and water loss issues described in the full report.

Finding 3: An Operations Energy Management Program should be implemented

#3 Implement a "best practice" operations energy program to achieve significant energy and cost savings

☑ Partly Implemented DOU hired a consultant to prepare a detailed cost effectiveness study of the energy management approach outlined in the audit report.

DOU issued an RFP and completed a contract agreement in January 2012. The Energy Management Operations study is underway with the consultant evaluating electrical energy data, collecting operational equipment data and schematics, reviewing hydraulic models, and understanding facility operational constraints. Findings from the evaluation will be summarized in a Technical Memo, including specific energy and cost saving recommendations. Estimated project completion is scheduled for November 2012.

Finding 5: Solid Waste is not fully utilizing its route optimizing software

#5 Solid Waste should utilize the routing software and follow the recommended routes, which will reduce staff and vehicle road time

☐ Started Solid Waste undertook the process of inputting the information needed (one way streets, medians, turn lane restrictions, school zones, etc.) and developed nine (9) pilot route paths. During the time the route paths were being developed, staff monitored the same nine routes, recording fuel usage, mileage, and dump times. Staff compared the mileage calculated by RouteSmart versus the mileage driven currently by SW drivers. The difference showed approximately a 3% reduction in mileage if the routes were followed exactly. Solid Waste believes that a new system may be necessary to produce maps that are useable by a Solid Waste driver.

We will review the analysis to assess whether the gained efficiencies per route outweigh the potential estimated costs of upgrading the system.

In the meantime, Solid Waste will continue to research and analyze various technologies to optimize routing capabilities in our fleet and integration with utility billing and customer service systems. Additionally, Solid Waste is actively recruiting a Geographic Information Systems (GIS) Specialist to replace the Solid Waste Supervisor currently performing the routing functions. The Specialist will have extensive education and experience in using mapping applications and should help the division improve routing efficiencies even under current software constraints.

Finding 6: There is excessive non-recyclable material in residential recycle bins

#6 Implement a more effective public information program that can reduce non-recyclables from 32% to 10%

☑ Partly Implemented In May 2012, the Solid Waste division worked with R3 Consulting Services to oversee a new recycling load characterization which resulted in a decrease from 32 percent residual to 22 percent. With the contamination decrease, Solid Waste expects to see a savings of approximately $200,000 in disposal cost savings and increased recyclable revenue.

Solid Waste has also hired a new Community Relations and Media Manager to implement and oversee new and improved outreach programs for the revised residential services included in the 2012 Solid Waste and Recycling Business Plan.

Finding 7: Investment in capital assets is likely insufficient, but DOU's proposed capital plan is not well defined and there are few projects identified

#7 Continue development of a capital master plan that includes a long-term financing plan

☑ Partly Implemented DOU agrees that investment in infrastructure is critical and towards that end, the City Council approved 3-year rate increases in March 2012 that will primarily be used to fund infrastructure replacement and regulatory compliance.

The Capital Improvement Programming Guide was recently completed and is available on the City's website. This guide describes DOU's asset management processes as it relates to defining the capital projects, including identification of asset criticality; condition assessment of the water, wastewater and drainage infrastructure; and prioritization and ranking of capital projects. The guide presents both a short and long-term investment strategy (5-year and 30-year) for incrementally improving the utility infrastructure of the City. The guide also includes a prioritized list of programmatic, rehabilitation and replacement needs that support a long-term financing plan.

Additional Operational Efficiencies and Cost Savings

#8 Create and implement a Large Meter Replacement Program.

☑ Partly Implemented DOU will continue to enhance the existing Large Meter Replacement Program to ensure that customer billing accurately reflects the actual water volume delivered. DOU's Field Services Division hired additional temporary staff in 2011 to further refine meter replacement schedules.

Based on the analysis of meter test data, Field Services modified its replacement priorities in 2011 to incorporate level of use as a key determining factor to project meter longevity. This shift will result in a greater ability to pinpoint and replace meters with declining accuracy, thereby improving the accuracy of volumetric billing.

Field Services made further refinements to improve the replacement schedule in 2012 using additional meter bench test data and longevity information. These refinements accelerated the schedule for the targeted large meters identified for replacement.

#10 Contract for landscape maintenance at largest Natomas basins.

☑ **Dropped** DOU supported this recommendation for additional analysis and issued an Invitation for Bid (IFB) on August 31, 2011, for maintenance of two drainage basins. However, the bid was not awarded pending the completion of the City Manager's assessment of departmental functions and organizational structure.

Upon the completion of the City Manager's and additional internal assessments, it was determined that it was not feasible to implement this recommendation. DOU is the lead regulatory agency responsible for maintenance of large portions of detention basins for internal flood control and storm water quality mandates. Given this, the efficiencies in the audit cannot be realized since DOU is required to maintain prescribed levels of service in the basins to meet regulatory requirements.

#11 Increase size of construction contracts (specifically directed at the meter retrofit program).

☐ Started DOU is packaging Meter Retrofit Program projects in as an efficient manner as possible. The auditor will review department documentation demonstrating that the size of the contract is considered in their decision making process.

#12 Accelerate completion of the Computerized Maintenance Management Systems (CMMS).

☐ Partly Implemented Preliminary meetings with Central City IT staff have been completed and this project has been separated into phases. DOU has focused on interfacing with the Plant Services Division Maintenance Connection system in the first phase. Training for Plant Services staff on work orders involving multiple operational disciplines has been completed. Full completion of the first phase on the project will be completed in October 2012.

The second phase, which will include interface development with Azteca CityWorks or other Field Services Division CMMS solutions began in early 2012. DOU will begin a Proof of Concept in September 2012 to evaluate various CMMS systems, determine implementation feasibility and cost requirements.

#13 Modify or eliminate the furlough program.

☑ Implemented Effective July 2012, the City Manager discontinued furloughs for two City bargaining units effecting DOU employees.

#14 Accelerate completion of the SCADA HMI software system replacement.

☐ Partly Implemented DOU released an RFP to achieve this objective. Preliminary cost estimates are about $250,000 to complete the project. RFP responses have been received and evaluated and a contract is expected to be in place in August 2012. Final project completion is expected by September 2013.

#15 Eliminate the Machine Shop.

☑ **Dropped** DOU performed an assessment of the Machine Shop in the June 2011. The results of the assessment indicated that eliminating the Machine Shop would result in significant savings. The auditor will review the assessment for reasonableness and report on his findings during the next reporting period.

#16 Reduce the number of supervisors.

☑ Started DOU began a complete internal organization assessment in the spring of 2012. The outcome of the assessment may result in the consolidation of operational functions, thereby changing staffing levels or the organizational structure of the department. This assessment is anticipated to be completed by the end of 2012.

#17 Reduce the number of superintendents.

☑ Started DOU began a complete internal organization assessment in the spring of 2012. The outcome of the assessment may result in the consolidation of operational functions, thereby changing staffing levels or the organizational structure of the department. This assessment is anticipated to be completed by the end of 2012

#18 Downgrade O&M positions.

☑ Started DOU began a complete internal organization assessment in the spring of 2012. The outcome of the assessment may result in the consolidation of operational functions, thereby changing staffing levels or the organizational structure of the department. This assessment is anticipated to be completed by the end of 2012

#19 Implement a program of Workforce Flexibility (WFF), which could allow operations and maintenance to improve productivity roughly 15%, possibly more.

☑ **Dropped** DOU supported the recommendation to study the potential cost savings and impacts of Workforce Flexibility implementation. Upon further analysis, implementation of this program would create regulatory issues for DOU operations.

The vast majority of DOU operations employees are required to maintain distinct State of California certifications for water treatment, water distribution and wastewater collection activities, respectively. Cross training, in general, is desirable to create redundancy and efficiency in operations. However, given the diversity of required regulatory certifications and potential for cross contamination in DOU water, wastewater and drainage systems, implementation of this program is not feasible.

#20 Develop additional Geographic Information System (GIS) functionality.

☑ Partly Implemented DOU supports this recommendation and has been working with central City GIS staff to address this through the Enterprise Application Integration project. An RFP was released on September 15, 2011 and a consultant was selected to perform this work. A professional services agreement was developed with the consultant and awarded at City Council. The project is currently under way with an expected completion date of May 2013.

#21 City should expand or exit commercial collection and recycling.

☑ Implemented In March 2012, the City Council approved staff's recommendation to terminate collection of commercial solid waste and recyclables by October 1, 2012. By discontinuing commercial collection, Solid Waste will eliminate a $2 million subsidy and apply those savings to fund the revised residential collection programs presented in the business plan and hold rates steady through fiscal year 2015.

#22 Develop a publicly-owned garden refuse site.

☑ Partly Implemented The project Environmental Impact Report (EIR) is scheduled to be certified by the Solid Waste Authority (SWA) Board by fall of 2012. The three short listed companies will submit their proposals to the SWA Board by October 2012. Once submitted, staff will review and report back to the SWA Board with a recommended course of action.

#23 Labor costs exceed the amount needed to pay regularly scheduled employees.

☑ Partly Implemented Solid Waste worked with the City's Health and Safety Office to develop a voluntary stretching program to promote effective exercises for increasing employee health and well-being. Before the program could be implemented, it was determined that the program would be subject to mandatory bargaining with Local 39 and the union would object to its implementation (despite its voluntary nature).

Solid Waste is continuing to look at other options to minimize future job injuries.

#24 The Solid Waste Division has a higher than normal spare factor.

☐ Started In summer 2011, City Council approved the purchase of 53 new side loading refuse trucks over the next three fiscal years (FY12 through FY14). In FY12, GSD purchased 33 trucks and to date have received 27, with the balance due to arrive in August 2012. As new trucks arrive, GSD is retiring older vehicles in an effort to maintain a 25 percent spare ratio. The large acquisition is necessary to establish a seven year vehicle replacement program intended to designate older trucks as spares in year six (when maintenance and repair costs typically spike) and retire them in the seventh year thereby reducing costly maintenance and fuel expenses. Once all 53 trucks are received and in-service, the division will re-evaluate our spare usage to determine if it could reduce our spare ratio to 20 percent, per the audit recommendation.

#25 General Services Fleet Division costs appear excessive.

☑ Implemented General Services Fleet Division implemented several cost reduction measures in FY 2012/13. For example, monthly admin cost per vehicle was reduced from $40/month to $30/month ($20/month for trailers). Parts mark-up were also reduced from 23% to 17%. Light duty labor rate was reduced from $75/hour to $72/hour.

In addition, Fleet continues to be proactive in searching out opportunities to reduce costs for its customer departments, to green the City's fleet and leverage technology.

#26 Consider a managed competition approach for Solid Waste services.

☑ Implemented The Solid Waste Business Plan was presented to City Council in March 2012 with a myriad of proposed changes for City solid waste services that are contingent on the successful repeal of Measure A. After the Measure A repeal vote in November 2012, GSD staff will return to City Council with an implementation plan, including a discussion of managed competition.

#27 Planning and implementing a new business plan for the Solid Waste Division.

☑ Implemented The Solid Waste Business Plan was presented to City Council in March 2012 with a myriad of proposed changes for City solid waste services that are contingent on the successful repeal of Measure A. After the Measure A repeal vote in November 2012, GSD staff will return to City Council with an implementation plan, including a discussion of managed competition.

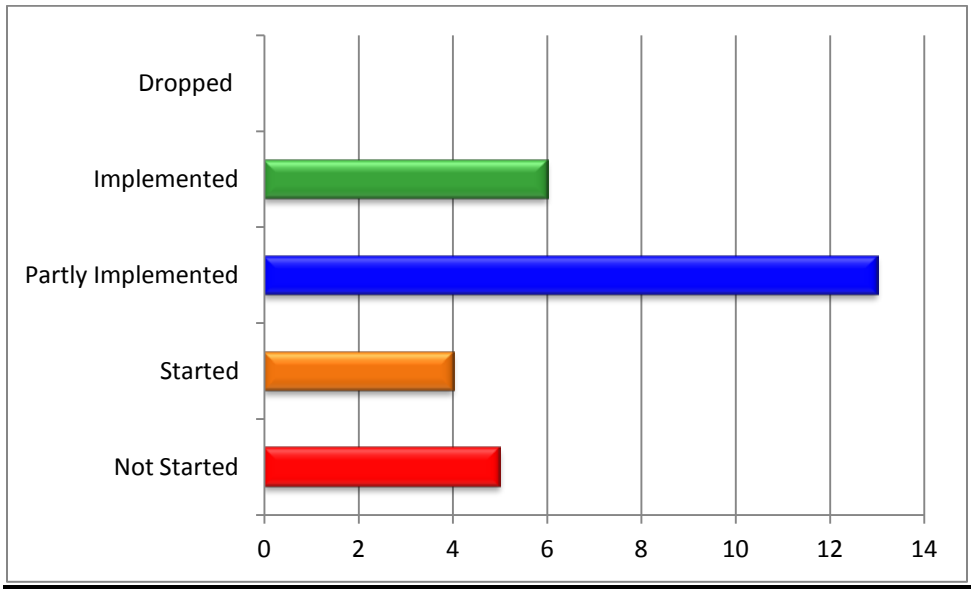
Post Audit Summary of Employee Health and Pension Benefits

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.

To evaluate Human Resources' progress in implementing recommendations, we first requested a self-assessment from the Department and asked for evidence to support progress. Using this information, we worked with Human Resources staff and obtained additional evidence. Since the publication of the audit, Human Resources has made progress towards implementing 23 of 28 recommendations. Of those, we determined that the Department has implemented or partially implemented 19 recommendations (68%) and has started work on 4 others (14%). Work has not started on five recommendations (18%).

The most notable progress was seen in recent labor negotiations regarding pensions. The Department estimates that changes in pension contributions will save the City about $7 million this fiscal year. Exhibit 6 summarized the implementation progress to date. While Human Resources is making progress in implementing recommendations, we anticipate that some recommendations could take several more months to fully implement.

Exhibit 6: Status of 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.

☑ Partly Implemented The department has worked with the City Attorney's Office and health providers to pursue these amounts. One provider, Kaiser, credited the City about $401,000 for overpayments. Kaiser credited the amount to the City in 2010, but Human Resources did not become aware of the credit until recently when it worked with the provider to research this recommendation. Human Resources is working with the City Attorney's Office to recover payments from the City's other health provider, Health Net.

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

☑ Started According to Human Resources, the department has begun working with Human Resources' information technology staff to develop a reconciliation process.

#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 Letters of Understand (LOUs) are continuing and which have expired. In consultation with the City Attorney's Office, Human Resources has determined that it will incorporate continuing LOUs in future agreements.

#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.

☑ Implemented The Labor Relations Division created a formal written procedure that species responsibilities related to the resolution.

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

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

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

☑Started According to Human Resources, the department has discussed how this will be changed with the new People Soft update, which is slated to be implemented in February 2013.

#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 met with Payroll staff to discuss this issue and it is expected to be resolved after the People Soft update is completed.

#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 to request this information for November 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. Reporting is contingent on the completion of Recommendation #12.

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

☑ Partly Implemented According to Human Resources, the department considers employee equity during labor negotiations. For example, as the City agreed with SCXEA to freeze its employer health contribution rates, it also froze the health contribution rates for unrepresented employees. Additionally, the City reached agreements with three unions and unrepresented personnel to require that employees who are covering only themselves under the City plans contribute towards their health premiums.

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

☑ Partly Implemented According to Human Resources, the department has met with the City's benefits consultant to review trends and created a strategy for benefits to be negotiated in future labor agreements. When agreements are negotiated, the Department considers trends related to other agencies. Additionally, Human Resources is conducting a compensation study that will

include a review of health premium costs paid by the employer. This study is expected to be completed in January 2013.

#16 Consider regional trends when negotiating benefit shares.

☑ Partly Implemented As mentioned in Recommendation 15, Human Resources has reviewed trends and created a benefits strategy, and is conducting a compensation study.

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

☑ Partly Implemented Employee contributions have increased for those who cover themselves and one or more dependants as premiums have risen. Additionally, the City reached agreements with three unions and unrepresented personnel to require that employees contribute towards their premiums. Any future changes will need to be negotiated with employees' unions.

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.

☑ Partly Implemented The Department negotiated that employees represented by Local 39 and SCXEA began paying their employee share towards pension beginning in July 2012. Additionally, Local 522 agreed that employees, who began contributing towards pensions in July, will contribute a total of 9 percent of their salaries starting in January 2013. Charter Officers and Executive Managers began paying the entire employee contribution towards their pensions towards the end of 2011 and other unrepresented employees began paying their entire employee contributions in July 2012. The Department estimates that these changes will save the City about $7 million this fiscal year.

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

☑ Partly Implemented As noted in Recommendation 18, some employees are now contributing more towards their pensions. City negotiators stay abreast of trends, proposed state legislation, and agreements reached by nearby government agencies. Human Resources is conducting a compensation study that includes amounts employers pay towards employees' pensions.

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 This is pending future negotiations.

#21 Continue pursuing options to reduce retiree health costs.

☐ Partly Implemented The department has researched Medicare Exchange plans and will present information to employee unions.

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

☑ 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. Health Net's message, as provided by Human Resources, explained that the additional subsidy payments reduced premium amounts in the following year. The Department has decided to no longer pursue this issue

#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.

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

#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 frequent events, including a Wellness Expo. According to the Department, results might not be known for a few more years and that participating in health assessments could impact premiums under some future health plans.

#26 Consider changes to the retiree health benefits program.

☐ Partly Implemented Newly hired employees represented by Local 39 and SCXEA will not be eligible for retiree health benefits. Also, new unrepresented hires will not be eligible for retiree health benefits. The City is pursuing such agreements with other unions and looking to reduce retiree health care costs.

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

☑ Partly Implemented According to Human Resources, the City has reached an agreement with Local 39 and SCXEA to implement a second tier pension system for new hires. Changes are pending agreements with other employee unions.

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

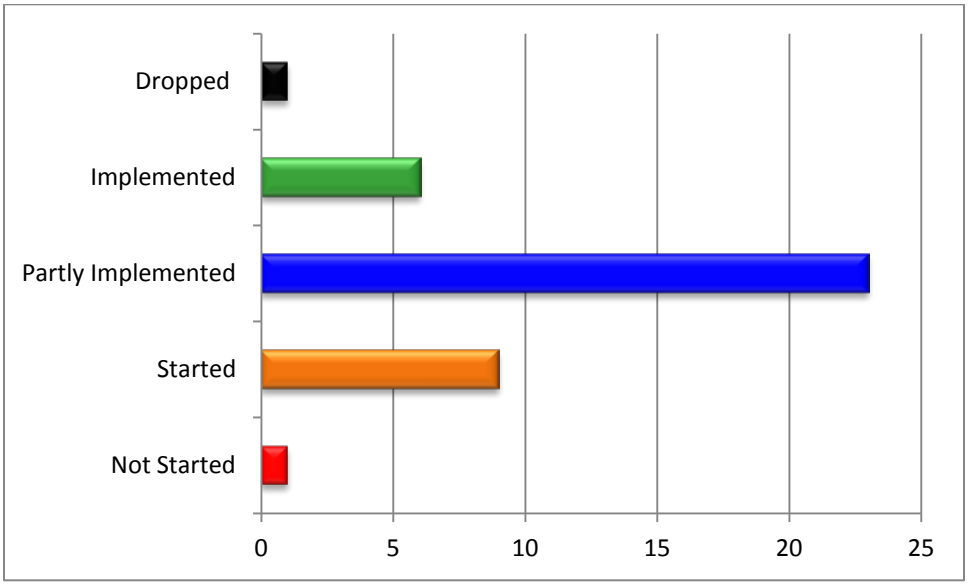
☐ Partly Implemented The City's five-year strategic benefits plan is being revised. After it is completed and reviewed by Human Resources, it will be submitted to the City Manager's Office.

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[2] 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 2012 to June 2012, CDD made some progress towards implementing recommendations. As shown is Exhibit 6, we designated six recommendations as implemented (15%), 23 recommendations as partly implemented (58%) and 9 recommendations as started (23%).

Exhibit 7: Status of Audit Recommendations



[2] According to the City Attorney's Office, the City is still evaluating whether it may successfully recoup some of these uncollected fees.

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)

☑ Partly Implemented CDD reduced the number of people with access to the automated permitting system, Accela, from 372 to 271. In addition CDD created 27 user groups with varying access to fields within Accela. We tested a sample of users and found that all had access as described in documents provided by CDD. We are waiting for documentation that the Chief Building Official authorized the users of the building permitting system, and assigned 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 When CDD has developed policies and procedures, auditor will sample.

#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)

☑ Partly Implemented CDD added an index of its policies for employees on its CityNet page. In addition the Chief Building Official issued a memo authorizing 11 individuals to approve building plans. The Chief Building Official estimates that a *Building Permit Fee Procedure Manual*, referenced in the building permit Counter Procedures Manual, is 75% complete.

#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 CBO identified five areas of knowledge required for counter staff, and for these staff to self-certify for each area or attend training sessions. The CBO is planning a more formal program and is determining how often and when it will occur. In order for #5 to be rated Implemented, CDD will provide documentation that shows CDD has formal training for all employees who interact with Accela, like training materials, schedule, and an attendance/sign in sheet.

#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. In addition, CDD created an excellent conflict of interest form for all employees to sign. This recommendation's implementation 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. In November 2011 CDD revised the organization chart so that an administrative unit which supports the Rental Housing Inspection Program now reports to the same division manager as the RHIP, instead of the Support Services division manager.

#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)

☐ Partly Implemented

CDD revised the org chart in November 2011. The unit which approves building permits now reports to the Chief Building Official.

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, and that the Code Enforcement Manager is principal assistant to the building official in enforcing relevant chapters of Title 8, and has powers of the building official for substandard housing and dangerous buildings. However, neither the Chief Building Official nor the Code Enforcement Manager appear to have responsibility for substandard housing and dangerous buildings. CDD should either align operations to comply with City Code, or discuss updating City Code.

#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)

☐ Partly Implemented

CDD revised the org chart in November 2011. The unit which approves building permits now reports to the Chief Building Official.

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, and that the Code Enforcement Manager is principal assistant to the building official in enforcing relevant chapters of Title 8, and has powers of the building official for substandard housing and dangerous buildings. However, neither the Chief Building Official nor the Code Enforcement Manager appear to have responsibility for substandard housing and dangerous buildings. CDD should either align operations to comply with City Code, or discuss updating City Code.

#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)

☐ Partly Implemented CDD revised the org chart in November 2011. The unit which approves building permits now reports to the Chief Building Official.

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, and that the Code Enforcement Manager is principal assistant to the building official in enforcing relevant chapters of Title 8, and has powers of the building official for substandard housing and dangerous buildings. However, neither the Chief Building Official nor the Code Enforcement Manager appear to have responsibility for substandard housing and dangerous buildings. CDD should either align operations to comply with City Code, or discuss updating City Code.

#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. Director should work with the Human Resources and Finance Departments to evaluate job descriptions of account clerks, customer service specialists in particular as descriptions contain conflicts.

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

☑ Partly Implemented CDD is enhancing existing policies and created an on-line index of its policies and procedures. The Chief Building Official estimates that a *Building Permit Fee Procedure Manual*, referenced in the building permit Counter Procedures Manual is 75% complete.

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)

☑ Partly Implemented The Chief Building Official issued a memo authorizing 11 individuals to approve building plans. Management needs to clarify supervisory decision points within the building permits Counter Procedures Manual to establish segregation of duties, and accountability by naming which positions are authorized to perform, and are responsible for, each step.

#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)

☑ Drop Department management determined that automatic routing protocols cannot be inserted into the process. In lieu, management developed a Counter Procedures Manual that describes permit approval and issuance, and lists the disciplines that need to be targeted for plan review. In addition the Chief Building Official issued a memo authorizing 11 individuals to approve building plans.

#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 CDD reduced the number of people with access to the automated permitting system, Accela, from 372 to 271. We are waiting for documentation that the Chief Building Official authorized the users of the building permitting system, and assigned user groups (see Recommendation #1). The director previously 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.

#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)

☑ Partly Implemented CDD reduced the number of people with access to the automated permitting system, Accela, and created user groups with varying access to fields. In addition the Chief Building Official issued a memo authorizing 11 individuals to approve building plans. The Building Chief's memo requires project plans to be signed by the final approver. Once Recommendation #1 has been implemented, #18 will be as well.

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

☐ Partly Implemented CDD moved stamps to unlocked drawers. In lieu of securing stamps, CDD stated that they plan to document their requirement that whomever use stamps be qualified, sign and print name on the plan.

#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

The paper application for permit, revised in November 2010, includes a section listing 14 "disciplines" (processes to complete prior to issuing permits). In addition, management finalized the Counter Procedures Manual, which describes permit approval and issuance, on 9/1/11. While this is a milestone, management needs to identify counter staff responsibilities, as some of the procedures in the manual are performed by non-counter staff. The Chief Building Official has begun a training program to ensure counter staff identify conditions.

#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 finaled. (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 The Chief Building Official issued a memo authorizing 11 individuals to approve project plans. The Building Chief's memo requires project plans to be signed by the final approver. Please see #1 for further discussion of access control.

#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)

☐ Partly Implemented Management finalized the Counter Procedures Manual, which describes phased permits on pages 7, 16, 18, and 62, and partial permits on page 62. Although CDD has drafted this manual, we think additional clarification could be useful. We'll be working with CDD staff to address areas where we think improvements can be made. Once clarified 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)

☐ Partly Implemented A staff person reporting to the Chief Building Official stated that CDD expects to be able to link permits and records in Accela using a "Related Records" tab starting in Fall 2012. Furthermore, the building permits Counter Procedures Manual will require individuals authorized by the Chief Building Official to approve building plans to 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. Currently the Chief Building Official ensures counter staff taking in building permit applications are trained to enter the address in Accela to search for affiliated permits.

#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 In September 2011 Management finalized the Counter Procedures Manual stating that construction work should not begin without a permit. We tested several addresses as part of our follow-up process in January, 2012 and the results made us question the efficacy of the system controls. We will do further testing once stronger controls are in place, like a fee assessment policy and access control to see whether it was an isolated problem or a systemic issue to address.

#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)

☑ Implemented CDD relinked its interactive voice recognition automated scheduling system with accounting records. Neither callers nor Accela users are able to schedule inspections if records show outstanding payments on permits.

#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)

☑ Implemented The Chief Building Official issued a memo authorizing 11 individuals to approve building plans. The memo requires the individuals to complete steps in the "Processing" section of the building permits Counter Procedures Manual, and to print and sign their names beneath the approval stamp.

#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)

☐ 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. The Chief Building Official will develop a quality control policy.

#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)

☑ Implemented The Chief Building Official issued a memo authorizing 11 individuals to approve building plans. The memo requires the individuals to complete steps in the "Processing" section of the building permits Counter Procedures Manual, and to print and sign their names beneath the approval stamp.

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)

☑ Partly Implemented The Chief Building Official issued a memo authorizing 11 individuals to approve building plans. The memo requires the individuals to complete steps in the "Processing" section of the building permits Counter Procedures Manual. These steps include verifying fees and documenting reasons for fee changes. In addition CDD reduced the number of people with access to the automated permitting system, Accela and created user groups. The Chief Building Official estimates that a *Building Permit Fee Procedure Manual* is 75% complete.

#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 Chief Building Official estimates that a *Building Permit Fee Procedure Manual* is 75% complete.

#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 While staff still enter some fees, CDD is in the scoping phase with the Accela consultant to grey-out fees fields for non-supervisors, once they've been entered. We will review evidence that the chief building official provided written guidance to the IT unit and has a plan to continue to do so as fees change.

#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 reduced the number of people with access to the automated permitting system, Accela and created user groups. We anticipate that the Chief Building Official will restrict the ability to make changes noted in Recommendation #34 by the next reporting period.

#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)

☐ Started The Chief Building Official estimates that a *Building Permit Fee Procedure Manual* is 75% complete.

#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)

☑ Started CDD reduced the number of people with access to the automated permitting system, Accela and created user groups.

#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 The Chief Building Official estimates that a *Building Permit Fee Procedure Manual* is 75% complete.

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.

#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)

☑ Started CDD is drafting a Request for Proposal (RFP) for the fee study to be completed by June 2013. The study will include the cost of providing services and a new fee schedule to reflect the appropriate level of cost recovery.

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.