# REPORT TO AUDIT COMMITTEE

**915 I Street, Sacramento, CA 95814-2604**
**www.CityofSacramento.org**

**Staff Report**
**February 14, 2012**

**Honorable Members of the Audit Committee**

**Title: Post Audit Semi-annual Recommendation Follow-up Report For The Six Month Period Ending December 31, 2011**

**Location/Council District:** Citywide

**Recommendation:** Accept the Auditor's Office Semi-Annual Recommendation Follow-up Report for the July 2011 to June 2011 period and forward to the City Council for final approval.

**Contact:** Jorge Oseguera, City Auditor 808-7270

**Presenters:** Jorge Oseguera

**Department:** Mayor and City Council

**Division:** Office of the City Auditor

**Organization No:** 01001201

**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 first half of fiscal year 2011-2012.

**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.

**Environmental Considerations:** None.

**Sustainability Considerations:** None.

**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 to the City Auditor.

**Financial Considerations:** None.

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

Respectfully Submitted by: _____
Jorge Oseguera, City Auditor

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**Attachment 1**

CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

February 9, 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 December 31, 2011. 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 147 audit recommendations, 45 of which were made during the six month reporting period ending December, 2011.

[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 below 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, the *Audit of Employee Health and Pension Benefits* includes a recommendation that employees contribute more towards pension benefits. Doing so could save the City millions per year. However, realizing the potential saving identified is contingent on negotiations with employees' labor unions.

**Exhibit 1: Potential City Benefit and Recommendation Status**

| Report Title | Date Issued | Potential City Benefit | # of Rec's Made | Not Started | Started | Partly Implemented | Implemented | Dropped |
|---|---|---|---|---|---|---|---|---|
| **2011-12 Audits** | | | | | | | | |
| Light Duty Vehicle Use[2] | Dec 2011 | $6,100,000 | 18 | NA | NA | NA | NA | NA |
| Municipal Golf Revenue and Expenditure Analysis | Sep 2011 | $500,000 | 0 | NA | NA | NA | NA | NA |
| Revenue Collections | Jul 2011 | $3,600,000 | 12 | 3 | 6 | 2 | 1 | 0 |
| Citywide Policy and Procedures Assessment | Jul 2011 | NA | 22 | 8 | 13 | 1 | 0 | 0 |
| **2010-11 Audits** | | | | | | | | |
| Sacramento Utilities Department Operational Efficiency and Cost Savings Audit | Jun 2011 | $8,641,000 | 27 | 4 | 17 | 3 | 1 | 2 |
| Audit of Employee Health and Pension Benefits | Apr 2011 | $16,000,000 | 28 | 8 | 11 | 5 | 4 | 0 |
| Performance Audit of the Community Development Department | Oct 2010 | $2,300,000 | 40 | 2 | 11 | 24 | 3 | 0 |
| **Total** | | **$37,141,000** | **147** | **26** | **58** | **34** | **9** | **2** |

[2] Due to the recent issue date of this audit, the status of the *Light Duty Vehicle Use* recommendations were not reviewed in this report.

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 half of the Office's budget (half is used because this is only reporting on the first half of 2011-12) results in $32 in identified 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.

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

Jorge Oseguera

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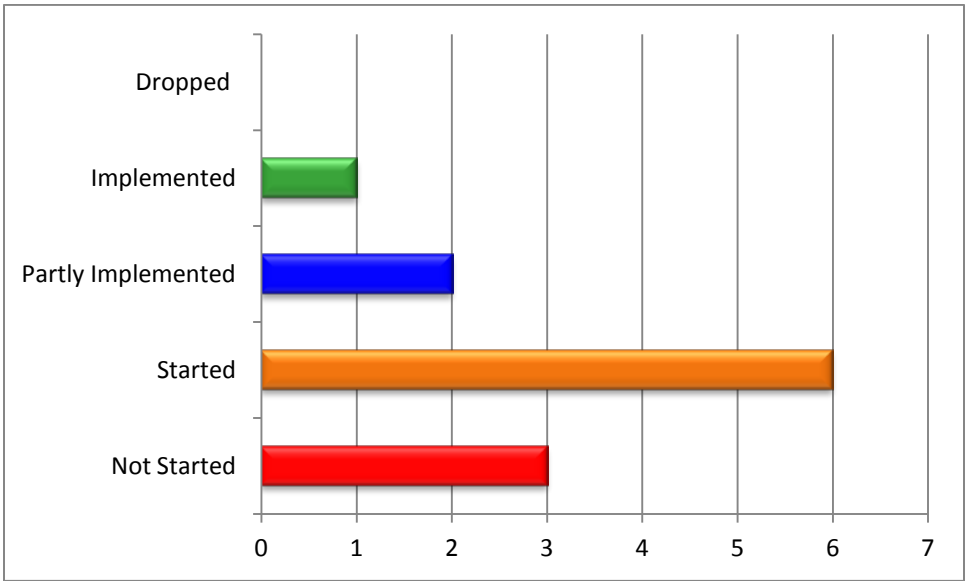
Attachment 2

## 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 9 of the 12 recommendations. Of those, we determined that the department has implemented or partly implemented three recommendations (25%) and has started work on six others (50%). 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 2: Status of the Revenue Division's 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.**

Started 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.

**#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.**

Started 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.**

Started 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, the division determined that 60 percent needed minor revisions, 20 percent needed major revisions, and 20 percent needed to be developed. While those requiring minor revisions have been completed, Revenue is still revising those that needed more work and writing new policies and procedures.

## 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 According to Revenue, staff began in February 2011 to code their time sheets to program codes in order to track time spent on specific areas and programs. In addition to tracking employees' time, the division began in August 2011 to collect statistics on transfer tax, collections, refunds processed, returned mail, and other areas. Management is evaluating these measures to ensure that the division is tracking meaningful information.

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

Started While some of the statistics mentioned in Recommendation 4 have been reviewed, Revenue plans to complete an analysis of the data collected for the past several months in February 2012.

**#6 Publicly reports the results of its performance measures.**

Not started This step is pending the gathering and analysis of meaningful performance measures as detailed in Recommendations #4 and #5.

## 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. The division aims to establish this system next fiscal year.

**#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.**

Partly implemented Revenue's contracted auditor has completed the first phase of the audit of City hotels and is planning to conduct onsite transient occupancy tax compliance reviews at 23 hotels as the second phase of the audit. 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.**

Not started According to Revenue, this is awaiting the conclusion of the audit (Recommendation #10) to determine if any additional code changes are required.

**#12 Ensure that it has a mechanism to detect hotels operating within the City that are not submitting transient occupancy tax revenue and enforce the uniform transient occupancy tax per City Code. Such a mechanism could be accomplished by assessing the completeness of transient occupancy tax collected as part of regular audits of this revenue as suggested in Recommendation 10.**

Implemented Revenue has established a written procedure for processing Business Operations Tax (BOT) accounts for lodging operators that are subject to the Transient Occupancy Tax (TOT). The procedure includes information about calculating the tax amount and requires Revenue staff members who process these BOT applications to provide copies of the applications to

Revenue Administration so that division can better monitor lodging facilities that are subject to the TOT. Additionally, Revenue has established a written procedure that directs staff members who are responsible for reviewing reports from the City's contracted hotel auditor to send any reports related to TOT activity to Revenue Administration for tracking. Revenue plans to have its contracted hotel auditor conduct regular hotel audits every three to four years. In addition to formalizing these procedures, Revenue monitors the newspaper for any news related to lodging that could have an impact on the TOT.

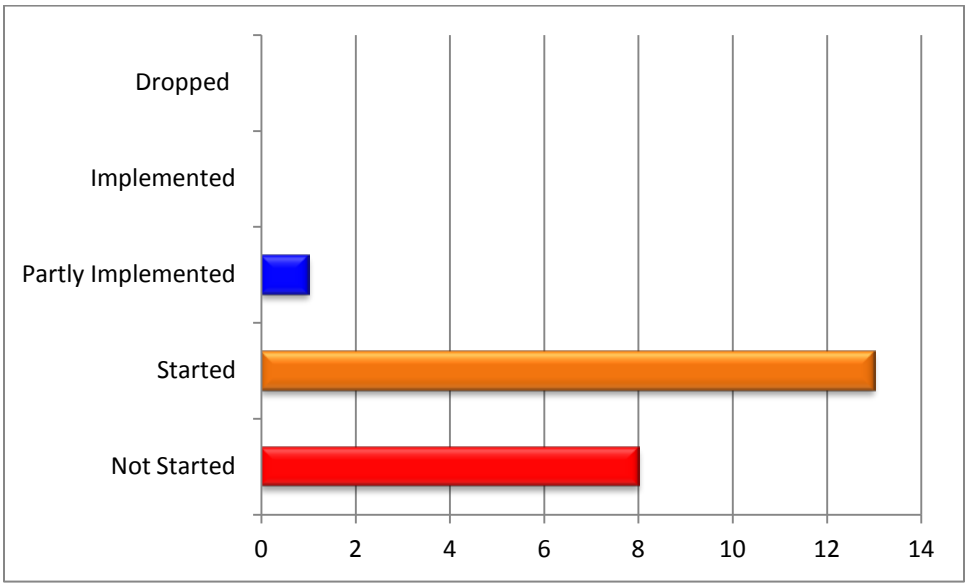
**Attachment 3**

## 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 July 2011 to December 2011, the City administration made some progress towards implementing recommendations. As shown is Exhibit 3, we designated one recommendation partly implemented (5%) 13 recommendations as started (59%) and 8 recommendations as not started (36%). However, while the department is making progress towards implementing recommendations, we anticipate a lengthy period for completion due to the complexity of establishing policies and procedures while consolidating, and managing staffing reductions.

**Exhibit 3: Status of Citywide Policies and Procedures 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 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 is in February or March 2012. We will test to see if issues identified in the audit report are resolved.

**#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 will provide, by March 15, procedure for how administrative policies are entered in CCM. 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.

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

Started The City Manager's Office assigned department staff to identify which policies require updating, if new policies needed, or which policies need to be discarded. City Manager's Office provided updated spreadsheets from departments. Auditor reviewed spreadsheets including department and City Manager's Office notes. City Manager will review departments' recommendations and make final determination, taking into consideration risks of not having policies for certain procedures like annual reviews and personnel actions.

**#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.

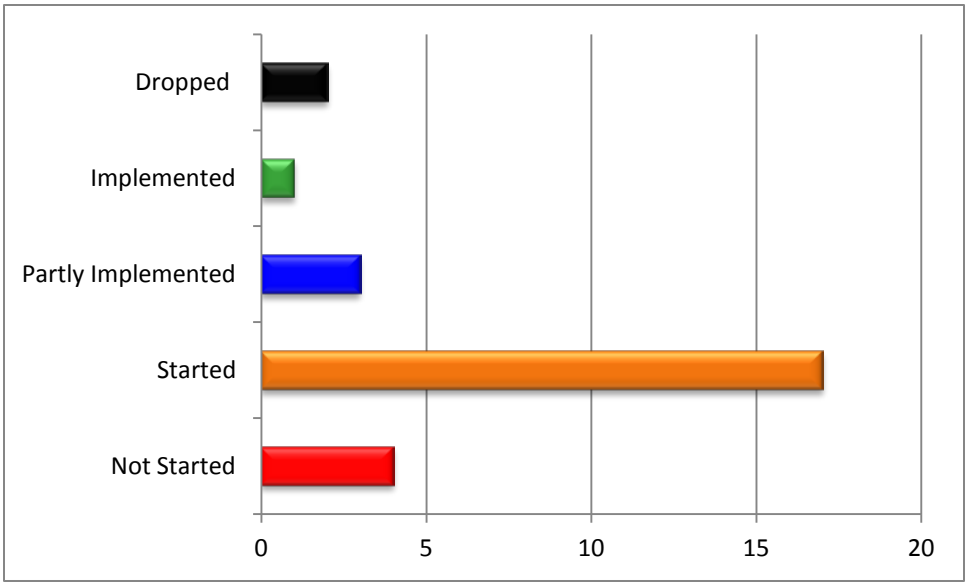
**Attachment 4**

## 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.

Since the publication of the audit, the Utilities Department has made progress towards implementing 23 of 27 recommendations. Of those, we determined that six recommendations should be designated implemented or partially implemented or dropped (22%). The department has started work on 17 others (63%). Work has not started on 4 recommendations pending the City Manager's assessment of departmental functions and organizational structure (15%). The department's progress is shown in the exhibit below.

**Exhibit 4: Status of *Department of Utilities Operational Efficiency and Cost Savings Audit***



## 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**

☑ Started 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. Final consultant recommendations are anticipated in January 2012. Upon the completion of this study, DOU will seek further direction from City Council on the feasibility of this finding. Attachment A provides detailed information on the scope of the current consultant study.

## Finding 2: Plant operations staffing can be reduced

**#2 Reduce labor at treatment plants and rely more heavily on technology to monitor and control equipment**

☑ **Dropped** The department engaged in an analysis to examine alternative staffing levels. Upon consulting with the California State Department of Health (DPH), they did not recommend reduced staffing at the City water treatment plants due to the size and age of the facilities and the number of additional support and maintenance duties involved beyond immediate plant operations. Further, rehabilitation efforts are also planned for the Sacramento Water Treatment Plant (SWTP) to restore capacity to the facility's original design specifications. Given this, it will be necessary for DOU to maintain staffing levels once the SWTP rehabilitation project is completed.

Based on DPH's recommendations and the planned treatment plant rehabilitation efforts, we do not anticipate any further action related to this audit recommendation is needed.

## 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**

☑ Started 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 is negotiating the scope and cost involved in the preparation of an energy management operations study for the water, sewer, and drainage systems. The study will focus primarily on optimizing the operations of equipment. A contract agreement will be completed in January 2012. Additional work will continue throughout calendar year 2012.

## Finding 4: Solid Waste is using an inefficient two-vehicle system to collect loose-in-the-streets garden refuse

**#4 Change to a boom truck to collect garden refuse**

☑ **Dropped** Solid Waste (SW) conducted an investigation of the boom truck as an alternative collection method. After explaining business requirements, the regional manufacturer of boom trucks concurred with SW that the implementation of this equipment would not yield significant savings greater than the current garden refuse collection method.

## 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.

According to Solid Waste, RouteSmart cannot produce maps that are useable by a Solid Waste driver in their day to day driving and collection activities. Since the maps produced are not user friendly, SW staff examined other onboard driving routing hardware/software that is currently used by other municipal and private haulers. New routing hardware and software (Routeware) will cost approximately $600,000 to purchase and install and includes: hardware and software to design routes (in the office), hardware and software for integration with all Solid Waste collection vehicles, GPS unit for each vehicle, and training and a $41,000 annual software support fee ($35 per vehicle, per month).

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

## 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%**

☑ Started Solid Waste circulated an RFQ and selected a consultant to assist with surveying the community to establish a base level of knowledge about the City's recycling services. The

survey was conducted in October 2011 and information is being compiled into a report and findings are being shared with staff, along with suggested activities to implement for improvements in behavior regarding recycling. Additional funding was provided in the FY11/12 budget for recycling outreach efforts. Solid Waste plans to use the findings from the survey to determine the most effective use of these funds

Solid Waste also reviewed the Recycle Bank Program, including the pilot program offered in South Meadowview, and determined that that the Recycle Bank program was not a good fit for the City. Solid Waste will continue to look for other incentive ideas to promote recycling habits.

For the next follow-up, we would like to see an analysis of current residual rates to document any achieved improvements in recyclable residue

## 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**

☑ Started DOU agrees that investment in infrastructure capital is inadequate and will seek final Council approval of the Infrastructure Investment Plan and accompanying rate increases in February 2012. The department has developed a 30 and 5 year Capitol Improvement Project Program and a program development methodology narrative. The department continues to develop its Asset Management Program, including condition assessments of the water, wastewater and drainage infrastructure and prioritization and ranking of capital projects. DOU is consolidating the methodology for all of these efforts into a Capital Improvement Project Programming Guide, which is scheduled for completion in April 2012.

## Additional Operational Efficiencies and Cost Savings

**#8 Create and implement a Large Meter Replacement Program.**

☑ Started 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

**#9 Verify customer classification and revenue.**

☑ Implemented DOU continues to complete internal and external billing and revenue audits as components of annual budget and accounting reconciliation processes. The City Auditor's executed a contract with an outside audit firm to complete a separate audit of the customer information billing system in February 2012.

**#10 Contract for landscape maintenance at largest Natomas basins.**

☑ Started DOU 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.

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

☑ Started DOU has informed us that they will seek out opportunities to increase the size of construction contracts whenever possible to reduce City costs. 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 July 2012. The second phase, which will include interface development with Azteca CityWorks or other Field Services Division CMMS solutions, will follow in the latter part of fiscal year 2012.

**#13 Modify or eliminate the furlough program.**

☑ Partly Implemented DOU continue to pursue this recommendation and will incorporate any fiscal impacts into future budget discussion pending City Council direction.

**#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

a contract is expected to be in place in February 2012. Attachment H provides a copy of the RFP for this project.

**#15 Eliminate the Machine Shop**.

☑ Started 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**.

☐ Not Started To date, this item has been put on hold pending the completion of the City Manager's assessment of departmental functions and organizational structure.

**#17 Reduce the number of superintendents.**

☐ Not Started To date, this item has been put on hold pending the completion of the City Manager's assessment of departmental functions and organizational structure.

**#18 Downgrade O&M positions**.

☐ Not Started To date, this item has been put on hold pending the completion of the City Manager's assessment of departmental functions and organizational structure.

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

☐ Not Started DOU supports the recommendation to study the potential cost savings and impacts of Workforce Flexibility implementation. Further action is pending the completion of current citywide organizational assessments being conducted by the City Manager and any subsequent City Council direction.

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

☑ Started DOU has been working with central City GIS staff to develop additional GIS functionality through the Enterprise Application Integration project. An RFP was released on September 15, 2011 and a consultant has been selected to perform this work. A professional services agreement is expected to go to Council in early 2012 for approval.

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

☑ Started Solid Waste has hired a consultant to assist in the development of a new business plan. Through the process of developing the business plan, the consultant will be working with

Solid Waste to determine the next steps as it relates to continued commercial garbage and recycling service. It is expected that the plan will be finalized in February 2012 and staff will be seeking direction from City Council, based on the recommendation from the consultant.

**#22 Develop a publicly-owned garden refuse site.**

☑ Started The Solid Waste Authority (SWA), Sacramento County and City are reviewing the option of a regional composting facility to be located at Kiefer Landfill. The project, known as Greencycle, has short listed three companies. Presently, an RFP is being developed for these three companies with commitments of material from both the City and the County. This process is expected to take another 12-18 months.

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

☑ Started Solid Waste continues to review current health and safety programs to develop more effective strategies for increasing the health and wellness of employees with the goal of minimizing future job injuries.

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

☑ Started Solid Waste expects to see a reduction of fleet costs once new vehicles are in service. Over the next three fiscal years (FY12 through FY14), Solid Waste will implement a plan to retire side loading fleet vehicles currently in service beyond their useful life.

**#25 General Services Fleet Division costs appear excessive.**

☑ Started DOU is continuing discussions the Department of General Services to examine opportunities related to managing fleet maintenance costs.

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

☑ Started Solid Waste has hired a consultant to assist in the development of a new business plan. Specifically, the scope of the business plan includes a thorough analysis of whether or not a managed competition approach is a good option for City solid waste services. The Solid Waste Business Plan is expected to be completed by February 2012. At that time, Solid Waste will seek direction from City Council.

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

☑ Started Solid Waste issued an RFP in October 2011 for a consultant to assist with the development of a Solid Waste Business Plan. A consultant was selected, a scope of services agreed upon, and a contract has been signed. Since that time, SW has worked closely with the consultant to provide information and data as it pertains to the development of the Solid Waste

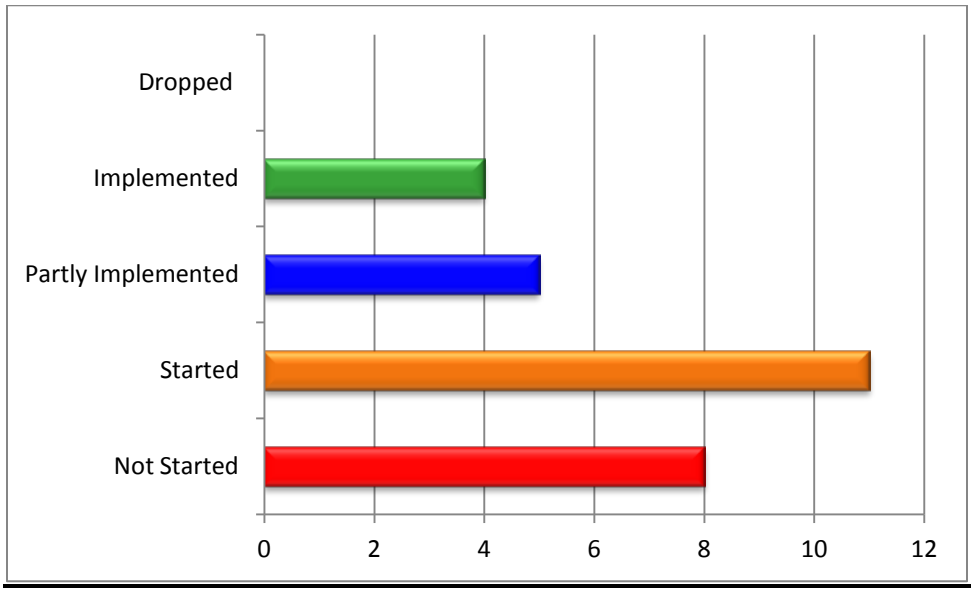
Business Plan. The plan is expected to be complete in February 2012. Once completed, Solid Waste will seek further direction from City Council.

## 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 $16.1 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 20 of 28 recommendations. Of those, we determined that the department has implemented or partially implemented nine recommendations (32%) and has started work on 11 others (39%). Work has not started on eight recommendations (29%). Exhibit 5 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 5: Status of Human Resources' Audit Recommendations**



## Finding 1: The Administration Of Health Benefits Has Strengthened, But Areas of Concern Remain

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

☐ Started According to Human Resources, the department has communicated with health providers and is in the process of preparing information to present to the City Attorney's Office for evaluation. Human Resources is expected to provide the requested information to the City Attorney's Office within the next few weeks.

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

☐ Not started According to Human Resources, the department has not yet had the opportunity to begin addressing this recommendation.

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

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

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

☐ Started According to Human Resources, staff discussed creating a procedure and are beginning to draft it.

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

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

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

☑ Implemented Human Resources has established a procedure with a checklist for reviewing labor agreements. The process involves the Benefit's Division using the Labor Relation Division's contract implementation schedule for each labor agreement to update contract

changes. Benefits' *Contract Implementation Checksheet* includes a review of key amounts and signoffs from staff and management.

**#7 This recommendation was reported as implemented in the August 9, 2011 report.**

**#8 This recommendation was reported as implemented in the August 9, 2011 report.**

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

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

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

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

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

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

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

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

☐ Not started According to Human Resources, the department plans to request in writing that the City's benefits broker provide this information every other year. The department expects that the first request will be in February 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.**

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

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

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

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

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

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

☐ Not started According to Human Resources, the department has not started implementing this recommendation.

## 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.**

☑ Started Charter Officers and Executive Managers began paying the entire employee contribution towards their pensions. Also, the City executed a labor agreement with the Fire Fighters' union in which employees will contribute 6 percent of the City's share to pensions.

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

☐ Started The department has begun compiling information about other governments' retirement benefits, including which ones require employee contributions from safety officers. The department plans to compile similar information for other job classifications and to use this information in future negotiations.

## 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 is reviewing this area and it is part of the benefits strategic plan, which is being revised.

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

☐ Started Human Resources has corresponded with Health Net about this issue and the provider has stated that it will not return money to the City. While Health Net's message, as provided by Human Resources, explained how the subsidy amount impacts premium rates, it did not specifically address double payments made on behalf of some retirees. Human Resources is in the process of preparing information to present to the City Attorney's Office for evaluation. Human Resources is expected to submit the information in the next few weeks.

**#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

**#24 This recommendation was reported as implemented in the August 9, 2011 report.**

**#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 in September. According to the department, the impact of a wellness program may not be evident on health premium rates and the utilization of health plans for four years. Human Resources plans to assess the program's impact.

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

☐ Partly Implemented According to Human Resources, this area has been discussed and will continue to be discussed during future labor negotiations.

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

☐ Started According to Human Resources, the Department has gathered information about this area. Changes in terms are subject to future labor negotiations.

**#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.

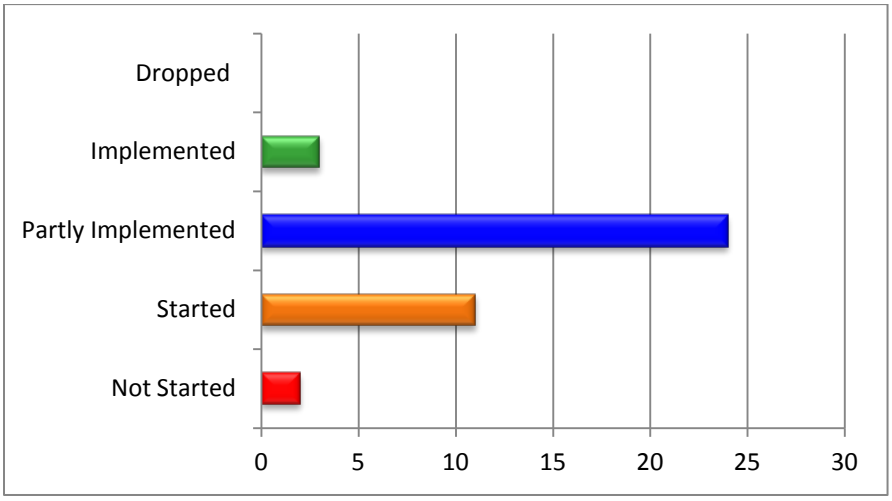
Attachment 6

## 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[3] 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 July 2011 to December 2011, CDD made additional progress towards implementing recommendations. As shown is Exhibit 6, we designated three recommendations as implemented (8%), 24 recommendations as partly implemented (60%) and 11 recommendations as started (28%). We fully expect several recommendations to reach the implemented status during the next reporting period. However, while the department is making progress towards implementing recommendations, we anticipate a lengthy period for completion due to the complexity of establishing policies and procedures while consolidating, and managing staffing reductions.

**Exhibit 6: Status of CDD Audit Recommendations**




[3] According to the City Attorney's Office, the City considering how best to pursue the recovery of 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)**

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

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

☐ Started When CDD has developed policies and procedures, auditor will sample.

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

☑ Implemented The finance department developed a query to facilitate the reconciliation process. The reconciliation process has been in practice since the end of May. We reviewed the reconciliation process for adequacy. CDD management approved a Daily Reconciliation Manual including instructions for reconciling the Accela permitting system, CDD's cashiering system, and the City's eCaps financial system.

**#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 posted a Counter Procedures Manual, detailing permitting and fee topics, on CDD's CityNet page (the City's intranet page). While this is a mile stone, it would improve the utility of the manual to identify responsible and authorized parties for carrying out processes. See text for #15, #40.

**#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.

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

☑ Implemented Management issued a Conflict of Interest policy on 12/2/11. Auditor sampled ten employees by varying ranks and units and found policies for each on file.

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

☐ Partly Implemented CDD responded that the current director schedules monthly meetings with exempt managers to discuss department goals, policies, procedures and system controls. This will be connected with implementation of Recommendation #4. In addition, CDD created an excellent conflict of interest form for all employees to sign (see #6).

**#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.

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

☑Implemented CDD provided a written policy, used by the records management unit, outlining how residential and commercial plans should be catalogued and stored per code. We observed CDD's project plans and the process. The Auditee provided documentation and the Auditor verified the satisfactory implementation of the audit recommendation. However Auditor recommends strengthening the Plan Management Procedures Manual page 12 to establish responsibility for filing, and to specify where finaled commercial plans can be found in the City Content Management System.

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

☑ Partly Implemented CDD is better organizing approved plans so that they can be located (see #13), and restructured the department so that the Records Management unit reports to the Chief Building Official. CDD reports that staff have begun to document and upload supporting data in Accela along with a rationale for the changes. We will review the formalized written process when complete to verify that the new process mitigates the concerns regarding recordkeeping, incomplete documentation of permitting processes and decisions. We will also review how this process complies with the chief building official's responsibility to keep records per the California Building Code Appendix Chapter 1 Section 104.7.what controls are in place to

ensure  inspectors log results in Accela? i.e. missing my sample item #1 from first round of testing #13.

## 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 Management finalized the Counter Procedures Manual, which describes permit approval and issuance, on 9/1/11. While this is a milestone, management needs to clarify supervisory decision points, segregation of duties, and accountability; i.e. who is authorized to perform and 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)**

☑ Partly Implemented Department management determined that automatic routing protocols cannot be inserted into the process. In lieu, management finalized the Counter Procedures Manual, which describes permit approval and issuance, on 9/1/11 and updated it on 11/7/11. While finalizing the Manual is a milestone, management needs to clarify responsibility and control points, especially in the section on approving building permits.

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

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

**#18 Restrict system access and ability to provide approval of project plans in the system to only those employees employed by the City in such a capacity; ensure the employees**

**given access to input approvals in the system have the necessary qualifications, training and education to review and approve project plans. Also, only allow those employees with proper qualifications to sign and approve the hard copy of project plans. (p. 29)**

☐ Started The building division operations manager plans to regulate access to specific entries in Accela to a list of authorized staff, similar to internal controls for Recommendation #1. We would like to see the assessment of what qualifications, training and education is required for those positions (possibly in job descriptions). We sampled hard copies of project plans and noted initialed approvals for individual disciplines, but not for the "approved" stamp.

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

☐ Partly Implemented From observation we noted that stamps are in open bins behind the counter, and in the plan-collating area. Risk remains that stamps could be misused, and as inspectors do not always update statuses in Accela, owners may bring in stamped plans to prove inspections occurred.

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

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

☑ 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 CDD management determined that Accela cannot link related permit documents. In September, Management finalized the Counter Procedures Manual. According to CDD, prior to stamping "approved", the Chief Building Official's staff enter the address in Accela to look for related permit documents. As part of our follow-up process an event made us question whether the process is truly capturing all related permits. We will do further testing to see whether it was an isolated problem or a systemic issue to address.

**#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, 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 and the results made us question the efficacy of the system controls. We will do further testing 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)**

☑Partly Implemented Management finalized the Counter Procedures Manual, of which Sections 17, 18 and 19 cover Recommendation #27. While this is a milestone, management needs to identify responsibility and control points. CDD, and then auditor, will test if inspections can be scheduled with amounts outstanding.

**#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)**

☑ Partly Implemented Management finalized the Counter Procedures Manual, which describes permit approval and issuance. See sections 17, 18 and 19. While this is a milestone, the Manual does not assign responsibility for final approval. Also, final approval stamps do not require a wet signature.

**#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)**

☑ Partly Implemented Management finalized the Counter Procedures Manual, which describes permit approval and issuance, on 9/1/11, and a Policy and Procedures Standard Operating Procedure on 10/11/11. While these are milestones, management needs to clarify responsibility and control points, especially documentation that related permit documents were viewed and formally approved per #28 and #31. Once these steps are complete we'll sample work allowed to start, specifically projects that deviate from regular permitting processes. We'll test for documentation and justification of management's approval.

## Section 3: Collecting Fees

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

☑ Started Management finalized the Counter Procedures Manual, which includes a fee overview and fee tables. While this is a milestone, the Manual does not establish responsibility for final approval nor require signature approval.

**#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 CDD is developing a fee assessment manual. It will stipulate that managers review if fees are out of a given range. As quality control, supervisors will randomly pull items for review. When complete, we'll review the policies to gain an understanding of how management establishes job valuations. We will test samples of fees paid for supervisory review and to confirm CDD staff followed the required processes.

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

☑ Partly Implemented 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 reported that only managers and supervisors will be able to make revisions, updates, and corrections in Accela relevant to fees prior to permit issuance. In addition, the director will analyze job duties to determine who will be able to apply fees in Accela. This may be implemented as part of response to Recommendation #1. The Chief Building Official will only allow certain user groups to make changes, including fee assessments, by graying-out certain fields in Accela once they've been populated.

**#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 A fee manual is in process. The Chief Building Official seeks to mitigate the primary risk for incorrect valuation, which is identified as remodels.

**#35y This recommendation was reported as implemented in the August 9, 2011 report.**

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

☐ Not Started As with Recommendation #1, we will look for policies, and controls in Accela, to prevent critical project information from being edited in a way that permits can be transferred between lots. The Chief Building Official will only allow certain user groups to make changes, including fee assessments, by graying-out certain fields in Accela once they've been populated.

**#36 Develop processes to formally approve fee payment credits, transfers, and refunds and ensure sufficient support is obtained and all associated documentation is maintained prior to fee payment adjustments being entered in the systems. Ensure processes to credit, transfer, or refund fee payments comply with all aspects of the City code and such processes are only handled by accounting staff. Require accounting staff to review approvals for reasonableness and compliance with City rules. (p. 58)**

☐ Partly Implemented CDD's accounting function is developing written procedures including supervisory approvals. After reviewing process for evidence that analysis has been done to

ensure compliance with City code, we'll test a sample of fee payment adjustments. We'll also sample plans to verify that plan review fees were collected in advance.

## Section 4: Alignment of Operations and Finance

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

☐ Not Started CDD will be working with the City Auditor's Office to determine how the department can best address this recommendation.

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

☐ Started According to CDD, the director is reformatting the department's structure by evaluating and re-classifying positions. One unit was moved from Administrative Services to Code Compliance. We would like to verify that CDD's fee structure policy, when it's developed, meets the City's Fees and Charges policy and that the unit who approves permits (known as the Matrix program, business development, project management, and other names) program complies.

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

☐ Not Started We would like CDD to identify in the organization chart and by job description who is responsible for: regular analysis and adjustment of methods to calculate building permit, plan review, and technology fees; overseeing the process to ensure City Council resolutions and other factors like the City's Fees & Charges Policy are included; establishing hourly staff rates so that management can see if fees cover services; and how this will be incorporated in the budget process. According to a meeting with CDD on 9/21/11,Tom Pace of the Planning Division will be the project manager.

## 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.