



REPORT TO AUDIT COMMITTEE

915 I Street, Sacramento, CA 95814-2604

www.CityofSacramento.org

Staff Report
August 9, 2011

Honorable Members of the Audit Committee

Title: Post Audit Semi-annual Recommendation Follow-up Report For The Period Ending June 30, 2011

Location/Council District: Citywide

Recommendation: Accept the Auditor's Office Semi-Annual Recommendation Follow-up Report for the January 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: Office of the City Auditor

Division:

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 last half of fiscal year 2010-2011.

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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CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

August 9, 2011

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

Honorable Members of the Audit Committee:

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

We categorized recommendations by Auditee progress:

- **Not started** – The Auditee temporarily postponed implementing the audit recommendation or did not demonstrate sufficient progress toward implementing the recommendation.
- **Started** – The Auditee began implementing the recommendation, but considerable work remains.
- **Partly Implemented** – The Auditee satisfied some elements of the audit recommendation, but additional work and testing remains.
- **Implemented** – The Auditee provided documentation and the Auditor verified the satisfactory implementation of the audit recommendation.
- **Drop** – The auditor recommends eliminating the recommendation since a change in circumstances rendered it unnecessary.
- ☒ – A checked box¹ indicates notable new progress since the last semi-annual report towards implementing the recommendation.

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

As summarized in Exhibit 1, this report presents the implementation status of 75 audit recommendations, 40 of which were included as part of our last follow-up report for the period ending December 31, 2010.

Exhibit 1

Report Title	Date Issued	Potential Quantifiable City Benefit	Number of Recommendations Made	Not Started	Started	Partly Implemented	Implemented	Dropped
Performance Audit of the Community Development Department	October 2010	\$2,300,000	40	3	19	18	0	0
Audit of Employee Health and Pension Benefits	April 2011	\$16,100,000	28	10	9	6	3	0
Sacramento Utilities Department Operational Efficiency and Cost Savings Audit²	June 2011	\$8,600,000	7	NA	NA	NA	NA	NA
Total		\$27,000,000	75	13	28	24	3	0

About Audit Benefits:

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

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

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

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

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

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

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

Respectfully submitted,



Jorge Oseguera

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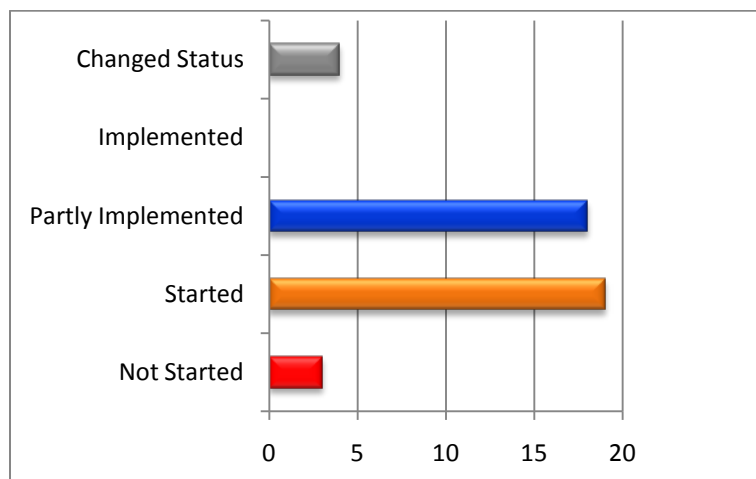
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Post Audit Summary of the Audit of the Community Development Department

The Performance Audit of the Community Development Department (CDD) contained five sections, identified \$2.3 million³ in required permitting fees that the City did not receive, and made 40 recommendations for improving CDD's operations, controls, and management. The audit specifically reviewed the City's processes for issuing building permits and collecting the requisite fees. Since the audit's release in October 2010, we have been working with CDD staff to assess adequate implementation of the adopted recommendations.

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

Exhibit 2 Status of CDD Audit Recommendations⁴



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

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

Performance Audit of the Community Development Department (CDD)

Section 1: Organization and Policies

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

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

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

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

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

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

Update

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

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

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

Update

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

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

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

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

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

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

Update

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

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

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

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

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

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

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

Update

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

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

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

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

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

Update

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

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

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

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

Update

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

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

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

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

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

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

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

Update

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

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

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

Section 2: Proper Permitting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

☐ [Started](#) The building division operations and code enforcement managers are drafting policies and procedures for phased and partial building permits. We will review and test samples for internal controls.

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

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

Update

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

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

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

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

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

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

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

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

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

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

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

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

Section 3: Collecting Fees

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

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

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

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

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

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

Update

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

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

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

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

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

Update

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

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

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

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

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

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

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

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

Section 4: Alignment of Operations and Finance

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

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

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

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

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

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

Section 5: Reporting and Control

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

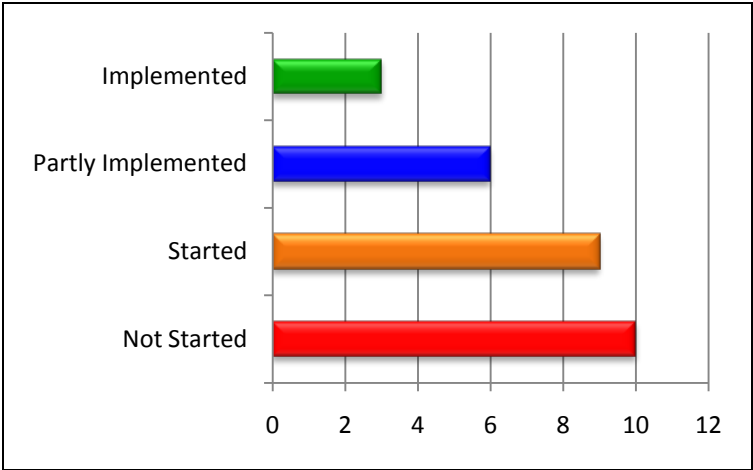
☐ [Partly Implemented](#) We will report periodically to Council on the status of recommendations until complete. CDD's initiatives, listed in Appendix C of the performance audit, are important specific internal controls identified by CDD management which mostly fall under Recommendation #4 Draft...complete...policies,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

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

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

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

Exhibit 3 Status of Human Resources' Audit Recommendations



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

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

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

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

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

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

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

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

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

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

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

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

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

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

Implemented Human Resources created and provided the formal written procedure.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#16 Consider regional trends when negotiating benefit shares.

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

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

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

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

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

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

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

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

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

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

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

#21 Continue pursuing options to reduce retiree health costs.

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

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

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

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

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

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

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

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

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

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

#26 Consider changes to the retiree health benefits program.

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

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

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

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

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

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

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

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



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June 8, 2011

MEMORANDUM

TO: Jorge Oseguera, City Auditor

FROM: Marty Hanneman, Director of Utilities 

SUBJECT: **Responses to City Auditor's Audit of Utilities Operations**

Introduction

On May 24, 2011, the City Auditor submitted to the Council's Audit Committee the *Sacramento Department of Utilities Operational Efficiency and Cost Savings Audit*. This audit reviewed the operations of the department's four primary service functions including Water, Sewer, Drainage and Solid Waste. Due to the compressed timeframe for completing the audit, DOU did not have the opportunity to respond to the findings and recommendations as would normally occur. The Audit Committee therefore, directed that the Audit report be brought back to the Committee at its next meeting and include a response from DOU. This report is the Department's response to the audit report and its findings and recommendations.

Responses to Audit Findings and Recommendations

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

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



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Response: Staff believes that the policy and fiscal considerations of this recommendation require further policy discussion and clarification. While marginal savings may be possible, staff does not believe it is possible to achieve the savings identified in the audit report for the reasons outlined below.

Since the 1980's, the City has been relocating backyard water mains that have reached the end of their useful life to the street right-of-way (ROW). Backyard water mains are relocated only when they have reached the end of their useful life, as demonstrated by failures and common industry benchmarks such as age and material. Replacing failing water mains in landscaped and improved back yards is extraordinarily problematic for the City and residents and is far more expensive than relocating to the front of property in the street right of way. Further, over the long term useful life of the system, maintenance and replacement cost savings are achieved through street ROW placement.

In 2004, the City Council established the Water Meter Retrofit Program (WMRP). As a part of this program, the Council gave direction to incorporate the relocation of backyard water mains and place mains in the street ROW with meters in the sidewalks. The WMRP implementation plan took into consideration the remaining useful life of the water mains in need of replacement. The phasing schedule for WMRP prioritizes installation on water mains that already require replacement due to their condition, and thus, relocation to the front of property in the street ROW.

The WMRP included approximately 110,000 non-metered water services that required retrofit. For design and construction purposes, these services were segregated into 144 geographically defined project areas. Of this, 60 project areas are for front of property mains and 84 are for backyard main replacement projects. Since inception, four backyard water main replacement/relocation projects (960 meter services) have been completed. In all four projects, the water mains were at or past their useful life. Over the remaining 14 years of the WMRP, 71 of the 80 proposed backyard main replacement projects will replace pipelines that have met or exceeded their industry standard life cycles. The remaining 9 replacements may be considered for in situ meter installation. Additional testing and cost benefit analysis will have to be conducted on those 9 replacements at the appropriate time.

The rationale for backyard main replacements was developed by staff field experience, industry standards for life cycle replacement, and customer focus groups. The policy direction was informed with the following considerations:

- Customers provided feedback regarding the replacement of aging water mains as a part of the WMRP, expressing they would like to only have their neighborhoods disrupted once rather than multiple times to install a meter and then years later to replace the leaking water main;

- Focus groups did not want meters installed in yards due to privacy concerns. Hence, Council approved the staff recommendation that the meters be placed in the sidewalks and backyard mains be replaced in streets;
- The City's backyard water mains are 50 to over 100 years old. Most backyard mains will be at, or exceed, their useful life by the end of the Water Meter Retrofit Program in 2025; and
- Priority project areas (Land Park, Meadowview and East Sacramento) were selected, in part, based upon leak history and repair data.

To confirm the useful life assumptions, staff will complete a review of the backyard main replacement policy. This will include a review of the estimated useful life of all mains, inclusive of the numerous determinants involved (e.g. age, pipe material, soil conditions, water quality, etc.). The analysis will also assess the consequence of failed backyard mains in comparison to conventional mains in city streets, and a long-term cost analysis of a revised policy to place meters in backyards. Upon the completion of this analysis, staff will seek policy affirmation from City Council on the proposed strategy for future backyard main replacements.

Key Finding 2: Plant operations staffing can be reduced.

Recommendation: Reduce labor at treatment plants and rely more heavily on technology to monitor and control equipment.

Response: Staff agrees with the finding to consider alternative cost saving efficiencies at the water treatment plants related to staffing. Of the three alternatives suggested in the report, Alternative 3-Modified Shifts, would be the most realistic and cost effective alternative to implement. The primary issue that would need to be addressed for this implementation to occur is Labor Agreement negotiations with affected unions.

Staff does not agree that Alternative 2-Reducing Graveyard Shift Staffing or Alternative 3-Unattended Operation is feasible at this time. These approaches would involve significant regulatory compliance, water quality, public health and safety, and cost capital improvements prior to implementation, and expose the City to potential wholesale water revenue losses as a result of any prolonged plant shut downs.

Key Finding 3: An Operations Energy Management Program should be implemented.

Recommendation: Implement a "best practice" operations energy program to achieve significant energy and cost savings.

Response: Staff agrees with this recommendation and will be seeking outside consultant analysis to prepare a detailed cost effectiveness study of the approach outlined in this recommendation.

In 2005, the department commissioned a consultant review of its water operations for energy savings. The recommendation from that study did not result in enough savings to justify recovery of the cost over a reasonable period. Staff believes that it is an appropriate time to review the water operation again, and include drainage and sewer operations, to determine if there are changes that could be implemented to reduce the energy costs. It is estimated that the initial study will cost \$70,000. This study will be completed in FY2011/12 and return to City Council with the results to seek further direction on this issue.

In addition, SMUD offers an energy tracking service (Energy Profiler Online) that may be an inexpensive tool to improve plant energy management. DOU will engage SMUD staff to determine the requirements for program participation. There is a potential that the information from the SMUD system could be used in conjunction with DOU's SCADA (Supervisory Control and Data Acquisition) system to help reduce demand during high price periods.

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

Recommendation: Change to a boom truck to collect garden refuse.

Response: Staff does not agree with this finding. City Council has directed staff to develop a future ballot to repeal Measure A, and therefore, it may not be an appropriate time to make significant capital investments until the future of the loose-in-the-street program is determined. Furthermore, staff believes additional analysis is necessary to verify the proposed savings for converting to the "boom truck".

It should also be noted that the total number of LITS customers represented in the report states the "current" LITS customer composition as 4,500. However, the current (FY11) composition is 12,121. Thus, the cost per customer calculations in the report may not accurately reflect the existing costs for the LITS program.

In consideration of the aforementioned issues, staff recommends further exploring this option and other options for collecting lawn and garden materials. Specifically related to the boom truck alternative, staff has identified additional items for analysis to determine the cost effectiveness and operational feasibility of this option for LITS collection:

- With the boom fully extended, the height exceeds 22 feet. In many parts of the City, the lower tree canopy will hinder operation;
- When deployed with full outrigger span, the boom truck has a width of over 11 feet – this may impact traffic on narrower City streets;
- The City has unique challenges with the collection of green waste, such as leaf season, which would impact productivity and existing service levels; and
- Labor Agreement negotiations to incorporate classification changes for Sanitation Worker II classification would be necessary to include crane operator certification.

Staff will seek additional information from the boom truck manufacturer and other agencies that use the equipment for comparable collections. Staff will also conduct baseline surveys of other cities, such as San Jose and Davis, who currently use equipment similar to Sacramento's current LITS collection vehicles, to gather comparison data on their LITS programs. Staff will present these results to City Council to receive direction on whether further assessment of this recommendation is desired at the appropriate time.

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

Recommendation: Solid Waste should utilize the routing software and follow the recommended routes, which will reduce staff and vehicle road time.

Response: Staff agrees with this recommendation. In June 2011, Solid Waste Division will run a one-month pilot program on nine routes with travel paths to identify the total fuel usage, mileage, and actual collection time. The pilot results will be compared to the same nine routes without travel paths to determine potential cost savings, level of service options, and whether expansion of the program is feasible.

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

Recommendation: Implement a more effective public information program that can reduce non-recyclables from 32% to 10%.

Response: Staff agrees with the recommendation.

While many of the suggested activities listed in the report are already being conducted, staff concurs that additional investment in a public education campaign could yield reduced levels of contamination and increased clean recyclables. In order to be effective, the outreach message needs to be steady, consistent, and easy for the customer to understand.

Staff is currently undertaking the following strategies to implement a more effective public education and outreach program:

- Circulating a Request For Qualifications (RFQ) to collect data that will be used to increase public education that will include a media campaign and a citywide recycling incentive and education program;
- Negotiating an agreement with Recycle Bank to implement a citywide recycling incentive and education program;
- Proposed additional funding for recycling education and outreach in the FY2011/12 budget, and if approved, will determine a more focused outreach effort to achieve a lower contamination rate; and
- Reviewing cost effective public education strategies used in other jurisdictions and evaluating the audit report's strategy proposed in Appendix B of the audit report.

Key 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.

Response: DOU agrees that investment in infrastructure capital is inadequate and that the programming guide is a work in progress. DOU will move forward on consolidating lists of capital projects in drainage, sewer and water into a programming guide, which clearly articulates criticality and conditioned assessment ranking methodologies and overall project ranking protocols. These issues will be addressed as a part of DOU's multi-year rate plan, which will be presented to City Council in August 2011.

Additional Recommendation A: Create and implement a Large Meter Replacement Program.

Response: Staff supports this recommendation and will continue to enhance the existing Large Meter Replacement Program to ensure that customer billing accurately reflects the actual water volume delivered. However, staff believes additional staffing levels may be necessary to accelerate the replacement program.

In 2009, the City committed to developing a comprehensive meter replacement program based on America Water Works Association (AWWA) standards for meter replacements. Using AWWA standards, the department developed an eleven-year testing and replacement schedule for all meters. Based on training, studies performed by other agencies/utilities, and a review of past meter selection practices, the 2010 and 2011 meter replacement schedules were revised to focus on the replacement of misapplied large meters.

During the first two years of our current schedule, all meters replaced have been tested for accuracy and the results documented in our database. At present, Field Services Division is in the process of hiring additional temporary staff to evaluate the test results to further refine our replacement schedule. In 2010 and 2011, all operational sections of Water Distribution performed large meter replacement as part of their job function. However, the recent staff reductions from layoffs and furloughs, Automated Meter Infrastructure (AMI) implementation, and routine repairs and maintenance will prevent the department from meeting its 2010/11 goal to replace and test meters.

Additional Recommendation B: Verify customer classification and revenue.

Response: DOU agrees with this recommendation and fully supports the Auditor's work plan to complete a separate audit of the customer information billing system in July 2011. In addition, DOU currently conducts ongoing internal billing audits and is subject to external revenue audits as component of the annual budget and accounting processes.

Customer classification impacts to revenue are a potential issue for accounts billing flat rates. Approximately 90 percent of commercial properties are metered and 25 percent of residential

properties are billing metered usage. Upon the completion of the upcoming audit of the billing system's process and structure, DOU will address any potential revenue impacts identified.

Additional Recommendation C: Contract for landscape maintenance at largest Natomas basins.

Response: DOU supports this recommendation and is currently preparing a bid to have a contractor take care of the landscape maintenance on large drainage facilities in the Natomas area (Basins 1 and 3). This agreement will be effective in FY12 and is a pilot to determine any cost savings and service impacts by contracting out this work and will be renewable annually for a period of three (3) years.

At the end of the first year, DOU will review the effectiveness of using a provided contractor to see if we will proceed with expanding to include the landscape maintenance for other basins. The scope of the work to be performed per this agreement includes, but is not limited to mowing and edging the turf, fertilization, tree replacement, and irrigation repair and maintenance. DOU staff will still be responsible for any water quality, removal of any debris or vegetation that would prohibit us from meeting the streambed alteration agreement with the State, channel repair, and erosion repair.

Additional Recommendation D: Increase size of construction contracts (specifically directed at the meter retrofit program).

Response: DOU agrees with this recommendation whenever possible. For the recent American Recovery and Reinvestment Act (ARRA) funds, to maximize job creation, federal requirements specified the inclusion of as many contractors as feasible. The contracts for construction funded by the ARRA projects were sized to meet this intent. It appears that the reduction in cost per meter installed, which went from \$900 at the beginning of these projects to \$750 towards the end, was due, in part, to the competition between multiple contractors. Moving forward, DOU will be funding the Water Meter Retrofit Program from water rates and will package the construction contracts in as an efficient manner as possible.

Additional Recommendation E: Accelerate completion of the Computerized Maintenance Management Systems (CMMS).

Response: DOU supports this recommendation. However, the scope of this effort requires additional analysis. The cost effective and priority improvements have not been determined at this time. To this end, DOU will complete the following next steps to determine potential cost savings:

- Meet with Central Information Technology staff to determine the requirements to develop an interface between CMMS and the PeopleSoft (eCAPS) budget and human resources systems;

- Schedule training for maintenance staff on the use of project work orders to track and link tasks that involve multiple disciplines; and
- Identify potential funding sources to add additional staff support for CMMS data entry and functionality.

Additional Recommendation F: Modify or eliminate the furlough program.

Response: DOU supports this recommendation and will incorporate any fiscal impacts into future budget discussion pending City Council direction.

Additional Recommendation G: Accelerate completion of the SCADA HMI software system replacement.

Response: DOU supports this recommendation and is preparing a RFP to achieve this objective. Preliminary cost estimates are about \$250,000 to complete the project.

Additional Recommendation H: Eliminate the Machine Shop.

Response: DOU does not support this recommendation.

Elimination of the machine shop would not result in significant immediate savings, as the skilled staff in the Plant Services Division (PSD) would still be required to assemble and install most equipment and chemical systems. In addition, DOU procured a majority of the existing equipment in the machine shop from military surplus programs. The sale of this equipment would be restricted to other government agencies and the assets would have very little, if any, residual value.

Implementation of this recommendation would require DOU to make a significant budgetary shift, from its current repair orientation, to a larger asset replacement strategy. Many of the above ground assets that are currently maintained by the machine shop are approaching 100 years in age and would require tens to hundreds of millions dollars in capital spending to replace. This policy change would need to be implemented over a period of several years and would involve substantial CIP increases. Given this, any potential savings would be realized over a very long horizon and would result in decreasing reliability for its water treatment facilities and drainage and sewage pumping facilities.

DOU has approached the Department of Human Resources and the applicable employee labor union in the past about creating Mill Wright classifications and reducing the number of Machinists and Electricians to reduce costs by combining duties. These discussions were unsuccessful.

Finally, DOU machinists and electricians are contributing in other City departments such as Facilities, Transportation and Fleet, so an analysis of the impact to other departments would also be necessary to determine the feasibility of this recommendation.

Recommendation I: Reduce the number of supervisors.

Response: DOU supports the recommendation for a full organizational assessment in FY2011/12 to further study staffing levels. The scope of this study should include potential service impacts as the result of a reduction in supervisor positions.

Additional Recommendation J: Reduce the number of superintendents.

Response: DOU supports the recommendation for a full organizational assessment in FY2011/12 to further study staffing levels. The scope of this study should include potential service impacts as the result of a reduction in superintendent positions.

Additional Recommendation K: Downgrade O&M positions.

Response: DOU supports the recommendation for a full organizational assessment study in FY2011/12 to determine the service level impacts and feasibility of this recommendation.

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

Response: DOU supports the recommendation to study in FY2011/12 the potential cost savings and impacts of Workforce Flexibility implementation.

Additional Recommendation M: Develop additional Geographic Information System (GIS) functionality.

Response: DOU supports this recommendation and is in the process of working with central City GIS staff to develop the requirements to expand GIS capabilities. DOU, with support from the City's Information Technology Division, plans to release a RFP to meet this objective within the next 3-6 months.

Additional Recommendation N: City should expand or exit commercial collection and recycling.

Response: Staff supports the recommendation to further study the feasibility of the City continuing/modifying commercial collection services. Solid Waste proposes a cost of service analysis of its commercial solid waste and recycling operations to determine the benefits and/or disadvantages of continuing all or a portion of its operation.

Staff has identified the following issues that should be considered in this cost of service analysis:

- Potential effect that increases in indirect costs passed on to the residential operation will have on Solid Waste utility rates;
- Revenue impacts on General Fund tax and other City departments and services;

- Evaluation of Solid Waste commercial rates and services in comparison to private haulers;
- Impacts of elimination of more costly commercial services (i.e. in-office recycling and two person rear load garbage collection);
- City Code considerations; and
- Consideration of Solid Waste Authority franchise agreements for commercial waste.

Upon the completion of the costs of service analysis, staff will present the results to City Council to seek further direction.

Additional Recommendation O: Develop a publicly-owned garden refuse site.

Response: Staff supports this recommendation and agrees that there may be benefits of a publicly-owned garden refuse site within the region. The report's recommendation of the 28th Street and Dellar Landfills as potential sites create implementation challenges. The proximity of these sites to adjacent residential neighborhoods pose significant issues (i.e. increased noise, pollution, and vehicle traffic). Additionally, permitting for such a facility has considerable costs and planning impediments that may prohibit a facility at these locations.

DOU is currently an active participant in the discussions with the Solid Waste Authority (SWA) to establish a regional facility near the Kiefer landfill known as "Greencycle". This facility would be located within a few miles of the City and would offer a location for composting, chip and grinding, and may be able to accept food waste.

Additional Recommendation P: Labor costs exceed the amount needed to pay regularly scheduled employees.

Response: Staff does not support the assertion that Solid Waste labor costs exceed the amount to pay regularly scheduled employees due to inefficient scheduling. The increased labor costs result from an average of seven full time positions being paid regular time, while not on a route, in accordance with the City's "modified duty" policy for employee injuries.

Staff will be reviewing our current health and safety program to develop more effective strategies for increasing the health and wellness of our employees and minimizing future job injuries.

Additional Recommendation Q: The Solid Waste Division has a higher than normal spare factor.

Response: Staff supports this recommendation. SWD recognizes that many vehicles in its fleet are being used beyond their useful seven year service life. This is largely due to the deferment of vehicle replacements and the onetime purchase of used collection vehicles for the recycle program when it went from bi-weekly to weekly collection.

SWD will work with Fleet Services division to develop a multi-year fleet replacement schedule to ensure that trucks are retired from service after year seven and replaced with new equipment, and the division maintains a 20-25% spare ratio. In FY2011/12, DOU will establish a vehicle replacement multi-year operating project to fund the purchase of new vehicles and relieve annual utility rate fluctuations resulting from spikes in replacement needs.

Additional Recommendation R: General Services Fleet Division costs appear excessive.

Response: DOU supports the recommendation and will meet with the Department of General Services to review fleet costs.

Additional Recommendation S: Consider a managed competition approach for Solid Waste services.

Response: Staff supports the recommendation and proposes that a policy analysis be completed for City Council review and further direction, to include the following:

- An evaluation of other public agencies utilizing a managed competition approach to residential collections;
- City code amendments necessary to allow for a private hauler to service City customers;
- Impacts and amendments to the City's disposal agreements necessary to allow for a private hauler to service City customers; and
- Solid Waste staff and revenue impacts to the General Fund if the City were to lose the bid for residential services.

Additional Recommendation T: Planning and implementing a new business plan for the Solid Waste Division.

Response: Staff supports the recommendation and will issue a RFP in FY2011/12 to solicit consultant assistance with developing a new business plan for Solid Waste Division that will address the recommendations outlined in the audit and additional potential efficiencies and service changes, including:

- Bi-weekly collection for recycle and containerized green waste;
- Alternative collection methods for loose-in-the-street; and
- Reinstating the neighborhood clean-up program.

Conclusion

The City Auditor has identified many cost saving opportunities, efficiencies, and ways to improve our business operations. DOU appreciates the findings and recommendations as outlined in his report. DOU looks forward to implementing or further analyzing these

recommendations, and continuing to find new strategies to deliver more efficient and cost effective services to our customers.