



Policy and Services Committee MINUTES

Special Meeting
Tuesday, September 11, 2012

ROLL CALL

Chairperson Holman called the meeting to order at 6:04 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Holman (Chair), Espinosa, Klein, Schmid

Absent:

ORAL COMMUNICATIONS

Aram James hoped the Policy and Services Committee (Committee) would not forward to the full Council a proposal for a restrictive vehicle habitation Ordinance on October 9, 2012. He provided a pamphlet concerning a Santa Barbara program for homeless people called New Beginnings and summarized services provided by the program. Program administrators were willing to present information to the Committee. He urged the Committee not to prohibit vehicle habitation and to review the New Beginnings and other programs.

Chair Holman noted City Manager Keene was unavailable for the meeting. Because of previous comments requesting his presence for discussion of Item Number 3: Input on Outreach and Development Process for Update of Comprehensive Plan Business and Economics Element. She asked whether the Committee Members wanted to discuss the Item.

Council Member Klein suggested the Committee discuss the Item even though Mr. Keene was not present.

Council Member Espinosa asked whether City Manager Keene could be present if the Item were continued to the next meeting.

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Sheila Tucker, Assistant to the City Manager, indicated Mr. Keene intended to be present for the next meeting; however, unforeseen events could prevent his attendance.

Council Member Espinosa felt Council Members had different perspectives on economic development activities and suggested Mr. Keene should hear those perspectives. Mr. Keene needed to present his vision for economic development activities and mesh them with views of the Committee.

Council Member Schmid suggested the Committee discuss the Item and then continue it until Mr. Keene could be available. At that time the Committee could obtain his input and discussion and perhaps reach a conclusion.

Council Member Klein did not feel the Item should be moved to the Planning and Transportation Commission (P&TC). He favored continuing the Item until Mr. Keene could be present for the discussion.

Council Member Espinosa suggested a dialog with Mr. Keene would be more beneficial than having a second discussion of the same topic.

Chair Holman noted the Comprehensive Plan was two years late and the Comprehensive Plan Update was not envisioned to include the business element.

MOTION: Council Member Klein moved, seconded by Council Member Espinosa that the Policy & Services Committee continue Agenda Item Number 3; Input on Outreach and Development Process for Update of Comprehensive Plan Business and Economics Element to the October meeting.

Thomas Fehrenbach, Economic Development Manager, asked the Committee to submit comments on the previous plan so that he could update the draft policy for the next discussion.

Chair Holman suggested a second meeting in October because the Agenda on October 9, 2012 was full.

Ms. Tucker reported Mr. Keene would be attending the International City/County Management Association (ICMA) 2012 conference on the next scheduled meeting date.

Chair Holman requested polling for a second meeting date in September and October.

MINUTES

Council Member Schmid inquired whether submission of comments was part of the Motion and whether the comments needed to be topic specific.

Mr. Fehrenbach indicated returning Committee Members had submitted comments regarding the policy and requested the new Committee Members review the policy and provide comments.

Council Member Schmid asked if they were to comment on the November 2011 document.

Mr. Fehrenbach answered yes.

Council Member Klein understood the policy was going to be abandoned as a separate document and included in the Comprehensive Plan.

Mr. Fehrenbach noted his approach was to review the Comprehensive Plan to sequence that first. He felt the Committee would rather review the existing document and make changes.

Council Member Klein felt the Committee needed Mr. Keene's input. The recommendation was for the Committee to review the attached questionnaire and provide feedback related to the questions regarding update of the business and economic element of the Comprehensive Plan. The recommendation did not mention reviewing or revising the draft from 2011. He requested clarification of the recommendation in light of Mr. Fehrenbach's request.

Council Member Schmid noted there was not a Comprehensive Plan document to review.

Mr. Fehrenbach had been working with a subcommittee of the P&TC to update the business and economic element of the Comprehensive Plan. He anticipated having an economic element of the Comprehensive Plan and a standalone economic policy. He asked if Staff should sequence the Comprehensive Plan update and economic element of the Comprehensive Plan first to provide a larger context for specific economic goals.

Chair Holman was not aware that the business section of the Comprehensive Plan was being updated or that funding had been provided for that update. She asked if the Committee should return to the original scope to amend the two documents or wait for a coordinated response.

MINUTES

Mr. Fehrenbach felt it would be best to have a coordinated response and have Mr. Keene present for a dialog with the Committee.

MOTION RESTATED: Council Member Klein moved, seconded by Council Member Espinosa that the Policy & Services Committee: 1) continue Agenda Item Number 3; Input on Outreach and Development Process for Update of Comprehensive Plan Business and Economics Element to the October meeting, 2) request that the City Manager and Economic Development Manager provide the Committee with a memorandum answering the question of the relationship of the Economic Development Plan policy with what Staff is doing with the Comprehensive Plan, and 3) direct Staff to respond to the direction of City Council regarding a business element of the Comprehensive Plan.

Chair Holman suggested a date in late September as well as October 2012 be polled for the additional meeting.

Council Member Klein agreed; however, he would be unavailable from September 26-30, 2012.

Ms. Tucker noted Mr. Keene's calendar would be crowded for several weeks.

Council Member Espinosa felt the Committee and Council was in favor of a business and economic policy but wanted to understand the relationship of the policy to the Comprehensive Plan.

Council Member Schmid stated economic development was a critical aspect to the City's long-term strategy and Comprehensive Plan. It was important to have a strategic statement in place to guide the Council in its discussions.

MOTION PASSED: 4-0

AGENDA ITEMS

1. Auditor's Office Quarterly Report as of June 30, 2012.

Jim Pelletier, City Auditor, presented the quarterly status update of the accomplishments for the fiscal year audits completed. The audit of contract administration was in process and Staff issued the final draft report on September 7, 2012. Staff had five weeks to respond; those responses would be incorporated into the report and Staff would present the final report to the Policy and Services Committee (Committee). The Utility Reserves audit was in process.

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Exit conferences were scheduled for September 17, 2012. The final audit in process was the Human Resources Employee Benefits audit which it was currently in the field work stage.

The Service Efforts and Accomplishments (SEA) audit was also in process. Staff would shift their efforts to the SEA audit in the next few weeks.

Council Member Espinosa suggested including a timeline for the audits in process.

Mr. Pelletier reported one temporary, part-time position had been changed to a regular, part-time position. That position recovered approximately \$138,000 in the prior fiscal year in sales and use tax. The position paid for itself from the recovery perspective and the employee was a former auditor who had the experience to assist with other assignments. The Audit Department passed the external quality control review in full compliance with standards. The City received a Knighton Award for the SAP Security Audit. Staff completed the hotline administrative policy, and the hotline went live on August 16, 2012.

Council Member Klein asked if the hotline had received any calls.

Mr. Pelletier noted one call to the hotline concerning a policy. Staff obtained a response from the Human Resources Department and answered the caller's question.

Council Member Schmid suggested the status include dates. He did not recall an audit report from the Utilities Department risk assessment but assumed it was included in the Audit Department's overall work plan.

Mr. Pelletier indicated results of the Utilities Department risk assessment was incorporated into the City's overall risk assessment. There was no separate report for that item.

Council Member Schmid asked if there was a separate list of recommendations from that.

Mr. Pelletier answered no. That was purely an assessment.

Council Member Schmid inquired whether the Audit Department was tracking the impacts.

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Mr. Pelletier stated there was nothing to track.

Council Member Schmid asked if there were two full audits in process.

Mr. Pelletier stated three audits were in process: contract administration, utilities reserve, and human resources.

Council Member Schmid noted one objective of the human resources audit was to ensure that health premiums and administrative fees were paid accurately. He felt a critical risk area was accurately calculating the premiums and fees.

Mr. Pelletier stated part of the accuracy check was to ensure that payments were accurate.

Council Member Schmid suggested including that in the objectives.

Mr. Pelletier agreed.

Council Member Schmid noted the lack of Special Advisory Memoranda (SAM) and asked how those could be announced.

Mr. Pelletier reported the SAMs tool would be utilized outside the normal audit process. Issues that did not require 600-800 hours for an audit could be reported quickly using a SAM.

Council Member Schmid inquired whether SAMs would be included in the quarterly reports.

Mr. Pelletier reported a certain number of hours were budgeted for SAMs and he wanted to ensure those hours were utilized for important ideas.

Council Member Schmid noted the sales and use tax numbers in the tables were not identified. The last tables describing the geographic component were year numbers rather than quarterly numbers, even though they were given each quarter. He suggested discussing that prior to preparation of the next report.

Mr. Pelletier indicated he would request the vendor make that change.

Council Member Schmid suggested the report include a breakdown of where resources were spent in the prior year to allow a comparison of the prior year with the current year.

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Mr. Pelletier did not have the data he needed to put that together for the current report but it was his intention to include it in the next report.

MOTION: Council Member Espinosa moved, seconded by Council Member Schmid that the Policy & Services Committee accept the Auditor's Office Quarterly Report as of June 30, 2012 and recommend City Council approval.

MOTION PASSED: 4-0

2. Report on the Status of Audit Recommendations (June 2012).

Jim Pelletier, City Auditor, presented the annual report on the status of audit recommendations. The report summarized the status of 64 audit recommendations from eight completed audit reports, including 33 recommendations from the prior status report and 31 new recommendations from audit reports issued during the prior fiscal year. Changes to the report included the finding each recommendation was based on, a rating system for recommendations based on his judgment, and a target date for implementation of audit recommendations. The red circles in the report indicated items he judged were not implemented in a timely manner.

Council Member Espinosa suggested Mr. Pelletier notify Staff when he had concerns. He asked Mr. Pelletier to comment on the many audit recommendations not implemented in a timely fashion.

Mr. Pelletier wanted the Policy and Services Committee (Committee) and ultimately the City Council to indicate if the amount of time that had passed from acceptance of audit recommendations was acceptable.

Council Member Espinosa appreciated the reminder to Council but he did not have the information needed to answer the question. If Mr. Pelletier identified an audit recommendation as needing attention, he presumed Mr. Pelletier would raise the issue with Mr. Keene and the Department head to determine if the Council should be involved.

Mr. Pelletier agreed.

Council Member Klein asked if the City Manager's Staff was prepared to respond.

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Sheila Tucker, Assistant to the City Manager, indicated the City Manager would work with Mr. Pelletier to reach a consensus on a timeline to complete implementation of the audit recommendations.

Mr. Pelletier reported he had not discussed the issue with the City Manager but would do so.

Council Member Klein preferred to have the City Manager response. He requested color copies be used in future.

Council Member Espinosa reiterated the need for discussion with the City Manager and Department heads prior to the Committee or City Council becoming involved.

Mr. Pelletier apologized for the wording in his report and stated it was not intended to be strongly worded. His intent was to notify the Committee to open issues.

Council Member Espinosa recalled previous reports which included a column indicating the Department head's agreement or explanations.

Mr. Pelletier stated the information in the status update column was provided by the Departments.

Council Member Espinosa stated an update was different from agreement or explanation.

Mr. Pelletier indicated the report did not include information on the timeliness of implementation.

Council Member Schmid noted the first two items, overtime and management span of control, dated back to 2003/2004 and had legal issues that needed to be resolved. He asked how Mr. Pelletier would deal with such issues.

Mr. Pelletier reported those two audits were closed. The two audits were unique in that they were very complicated with legal issues that required negotiation.

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Audits taking that long to close may be reasonable based on all those factors. Had they not been completed they would not have been timely.

Council Member Schmid inquired whether the issues were relevant by the time they were settled.

Yuki Matsuura, Senior Performance Auditor, reported the City Attorney's Office provided supporting documentation which indicated past actions addressed the finding and allowed closure of the audits for overtime expenditures and audit restructuring.

Council Member Schmid asked if the audits could have been settled previously.

Ms. Matsuura stated that it was a matter of interpretation but the additional communication helped resolve the issues.

Council Member Schmid believed the base problem was information and personnel changes as the issues aged.

Mr. Pelletier indicated his Staff discussed timeliness and relevance of the issues and had discussions with the departments. The departments had already taken action to address the recommendations; therefore, the audits were closed.

Council Member Schmid stated no update was provided for Number 3, audits open from January 2008.

Ms. Tucker suggested there was an oversight in providing the update to the Auditor. Assistant City Manager Pam Antil reported on the status of this item. The consultant did not complete the work and did not provide the final deliverables. Staff was working with the City Attorney's Office to terminate the consultant's contract and would need to secure outside assistance to complete the project.

Council Member Schmid asked if the issues needed to be redefined.

MINUTES

Ms. Tucker stated it was an important issue for City Manager Keene. If the records could not be recovered Staff would need to start over.

Council Member Schmid suggested reviewing the audit to ensure it was targeted at the current issues rather than the issues at the time of the audit.

Chair Holman asked when the consultant stopped working and producing information.

Mr. Pelletier believed he stopped working in January 2012.

Chair Holman inquired when the work was expected to be completed.

Ms. Tucker would obtain that information. She believed a work plan was prepared for completion of the work.

Chair Holman stated it was a three to four year plan to accomplish the work.

Ms. Tucker indicated the City did not retain the consultant's services until 2011.

Council Member Schmid said the reports must have been coming in every quarter and the Committee should have raised that issue. He asked for comment on the four target dates of August 30, 2012 regarding packet page 28 regarding cash handling.

David Ramberg, Assistant Director Administrative Services Department reported Staff issued an updated travel policy to City Staff which completed the recommendation; however, it was not issued in time to be included in the report. Item number 1, an updated cash handling policy, had a target date of October 31, 2012 and Staff intended to issue the policy by that date.

Council Member Schmid recalled other groups were providing oversight of the library's finances and asked how the City Auditor's assessment was different or unique.

Mr. Pelletier indicated the Auditor's Office could achieve more detail than the other agencies.

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Houman Boussina, Senior Performance Auditor reported the focus of the audit was to review controls in terms of policies and procedures to ensure bond funds were used in accordance with the bond measure and any applicable Internal Revenue Service (IRS) provisions. The audit perspective was control, effectiveness, and compliance.

Mr. Pelletier stated the major difference was reviewing the processes and controls underlying expenditures.

Council Member Schmid said the Library Bond Oversight Committee (LBOC) was performing a high level review while the Auditor was reviewing the procedures.

Mr. Pelletier indicated the Auditor was reviewing the process of how expenditures were made and how they complied with specific requirements of the bond measure or IRS requirements.

Council Member Schmid inquired whether the Auditor performed a yearly audit.

Mr. Pelletier reported only one time.

Council Member Schmid asked if the Auditor assumed the correct procedures were in place as the project continued.

Mr. Pelletier stated the goal was to identify good controls to ensure ongoing compliance with the requirements.

Council Member Schmid inquired whether the Auditor would perform the same work if another large bond issue was approved.

Mr. Pelletier indicated he would if the Council asked for it or if he felt it was a higher risk.

Council Member Schmid asked if the Council could have confidence that the procedures were correct.

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Mr. Pelletier answered yes.

Council Member Klein recalled the Committee strongly recommended the rating of recommendations and inquired whether the Auditor's Office received the necessary cooperation and implementation of the audit recommendations.

Mr. Pelletier felt Staff considered the recommendations seriously and took action. Staff faced limited resources and many priorities making it difficult to complete all priorities.

Council Member Klein asked for Mr. Pelletier's comments regarding the three recommendations listed under the SAP Security Audit.

Mr. Boussina felt most of the SAP Security Audit recommendations should be high priority. The Information Technology (IT) Department had taken the recommendations seriously as shown by the number of completed recommendations and changes in the IT Department. With regard to Recommendation Number 5, segregation of duties in terms of account administration functions, one of the significant findings that concerned Staff was potentially having the ability to upgrade their own access in the system. This was a key area of control recognized in information systems. The recommendation was essential because of the nature of what could happen if someone with technical knowledge and know-how had capabilities that should be separated.

Mr. Pelletier reported the City's Information Security Manager, Raj Patel and Chief Information Officer, Jonathon Reichental were present for additional questions.

Mr. Boussina reported Recommendation Number 12, adoption and implementation of information system security control frameworks, was considered essential because it established a framework and baseline of controls to ensure that IT was secure throughout the system. Payment Card Industry (PCI) and Data Security Standard (DSS) were also mandated.

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Recommendation Number 13, development of the formal and comprehensive security policy consistent with security frameworks, existed to ensure the City had a policy of communicating, understanding, and being aware of security. Because of the security component the Auditor Staff felt it was an essential recommendation.

Council Member Klein noted the recommendations were in progress and asked if Staff was comfortable with the timetable.

Mr. Boussina believed the IT Department was taking the recommendations seriously.

Mr. Pelletier reported the Information Security Manager established a steering committee, developed a comprehensive plan and strategy for information security, and developed a timeline for implementation of the plan and strategy. He was comfortable with their efforts and steps to move in the right direction.

Council Member Espinosa asked why the recommendations were listed as not in progress.

Mr. Boussina indicated there was a plan for implementation of the recommendations. The recommendations were being addressed, even though the specific recommendation had not been started.

Mr. Pelletier stated the IT Department's plan was logical in terms of timing. It was a large and comprehensive undertaking and the plan addressed the entire issue over a reasonable period of time.

Council Member Espinosa believed thought should be given to coming to Committee meetings with recommendations identified as essential as well as recommendations not being addressed in a timely fashion. He suggested Mr. Pelletier, City Manager Keene, and Department heads discuss essential recommendations not being addressed in a timely fashion.

Mr. Pelletier agreed.

MINUTES

Council Member Klein recommended calling those recommendations essential and not on track.

Ms. Tucker asked the Committee to consider amending the report to note her verbal update.

MOTION: Council Member Schmid moved, seconded by Council Member Klein that the Policy & Services Committee: 1) accept the Auditor's Office Audit Recommendations (June 2012) and recommend City Council approval including the response to the audit recommendation from the Audit of Employee Ethics Policies provided to the City Auditor by the City Manager and the updated travel and Cash Handling policies, and 2) include sections on "essential and not on track"

MOTION PASSED: 4-0

~~3. Input on Outreach and Development Process for Update of Comprehensive Plan Business and Economics Element.~~

Chair Holman suggested documents be provided in color or use colors that would reproduce clearly in black and white.

FUTURE MEETINGS AND AGENDAS

Chair Holman indicated the Agenda for October 9, 2012 had two Items: human habitation of vehicles and fire resources services and the utilization study update. She asked if the Items would be ready for the October 9th meeting.

Sheila Tucker, Assistant to the City Manager answered yes.

Council Member Schmid asked if both Items would be substantial.

Chair Holman responded yes. She was uncertain if the meeting should be held in the Council Conference room or in Council Chambers.

Ms. Tucker suggested the meeting be held in Council Chambers.

Chair Holman noted Staff would poll for a second meeting date in October.

Ms. Tucker inquired about the start time of the meeting.

Council Member Klein suggested 7:00 P.M.

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Council Member Espinosa would not be available for an early start time.

Chair Holman was uncertain if she would be present on October 9, 2012.

Ms. Tucker indicated City Manager Keene would not be available on October 9, 2012. She suggested polling for another date for the meeting.

Council Member Espinosa wanted to keep the date of October 9th if possible.

Chair Holman stated the meeting would be held on October 9, 2012, with Staff polling for a second meeting date in October.

Council Member Schmid noted the second date could be earlier or later.

Chair Holman suggested moving one of the Items on the October 9th Agenda to the second date if necessary.

ADJOURNMENT: The meeting was adjourned at 7:20 P.M.