



## POLICY AND SERVICES COMMITTEE

Tuesday, November 9, 2021  
Special Meeting  
Virtual Meeting  
6:00 PM

**\*\*\*BY VIRTUAL TELECONFERENCE ONLY\*\*\***

[Click to Join](#) **Zoom Meeting ID: 946-1874-4621 Phone: 1(669)900-6833**

Pursuant to the provisions of California Governor's Executive Order N-29-20, issued on March 17, 2020, to prevent the spread of Covid-19, this meeting will be held by virtual teleconference only, with no physical location. The meeting will be broadcast on Midpen Media Center at <https://midpenmedia.org>. Members of the public who wish to participate by computer or phone can find the instructions at the end of this agenda. Members of the public may speak to agenda items; up to three minutes per speaker, to be determined by the presiding officer. All requests to speak will be taken until 5 minutes after the staff's presentation. Public comment may be addressed to the full Policy and Services Committee via email at [City.Council@cityofpaloalto.org](mailto:City.Council@cityofpaloalto.org) and available for inspection on the City's website. Please clearly indicate which agenda item you are referencing in your email subject line.

### Call to Order

### Oral Communications

*Members of the public may speak to any item NOT on the agenda.*

### Action Items

1. Office of the City Auditor Presentation of the Construction Project Controls Report  
[Presentation](#)
2. Office of the City Auditor Presentation of the Utilities Power Purchase Agreement Assessment Report  
[Presentation](#)
3. City Council Referral: Policy and Services Committee to Recommend Strategies to Support and Strengthen Neighborhood Programs, Identify Gaps in Existing Neighborhood-based Services, and Evaluate

# new Strategies as Proposed in the Colleagues' Memo Regarding a Proposed Program for Neighbor Connection

## Future Meetings and Agendas

## Adjournment

### PUBLIC COMMENT INSTRUCTIONS

Members of the Public may provide public comments to virtual meetings via email, teleconference, or by phone.

1. **Written public comments** may be submitted by email to [city.council@cityofpaloalto.org](mailto:city.council@cityofpaloalto.org).
2. **Spoken public comments using a computer or smart phone** will be accepted through the teleconference meeting. To address the Council, click on the link below to access a Zoom-based meeting. Please read the following instructions carefully.
  - You may download the Zoom client or connect to the meeting in- browser. If using your browser, make sure you are using a current, up-to-date browser: Chrome 30+, Firefox 27+, Microsoft Edge 12+, Safari 7+. Certain functionality may be disabled in older browsers including Internet Explorer. Or download the Zoom application onto your phone from the Apple App Store or Google Play Store and enter the Meeting ID below
  - You may be asked to enter an email address and name. We request that you identify yourself by name as this will be visible online and will be used to notify you that it is your turn to speak.
  - When you wish to speak on an Agenda Item, click on "raise hand." The Clerk will activate and unmute speakers in turn. Speakers will be notified shortly before they are called to speak.
  - When called, please limit your remarks to the time limit allotted.
  - A timer will be shown on the computer to help keep track of your comments.
3. **Spoken public comments using a phone** use the telephone number listed below. When you wish to speak on an agenda item hit \*9 on your phone so we know that you wish to speak. You will be asked to provide your first and last name before addressing the Council. You will be advised how long you have to speak. When called please limit your remarks to the agenda item and time limit allotted.

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### AMERICANS WITH DISABILITY ACT (ADA)

Persons with disabilities who require auxiliary aids or services in using City facilities, services or programs or who would like information on the City's compliance with the Americans with Disabilities Act (ADA) of 1990, may contact (650) 329-2550 (Voice) 48

hours or more in advance.



# City of Palo Alto

## Policy and Services Committee Staff Report

(ID # 13605)

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**Meeting Date: 11/9/2021**

**Title: Office of the City Auditor Presentation of the Construction Project Controls Report**

**From: City Manager**

**Lead Department: City Auditor**

### **Recommendation**

The City Auditor recommends that the Policy & Services Committee consider the following action:

- 1) Review the Construction Project Controls report and corresponding recommendations for improvement and recommend the City Council accept the report.

### **Discussion**

Baker Tilly, in its capacity serving as the Office of the City Auditor, performed a review of internal controls over the management of capital projects within the Public Works Department. This assessment was conducted in accordance with the [FY2021 Audit Plan approved by City Council](#).

Through the audit activity, the Office of the City Auditor identified five (5) recommendations. The Public Works Department concurred with each finding and has drafted action plans for each item.

The Office of City Auditor will perform periodic follow up procedures to validate that corrective actions have been implemented.

### **Background**

The City of Palo Alto Public Works Department currently has approximately 150 active projects in various stages of planning and construction. Per the Semiannual Update on the Status of Capital Improvement Program Projects that reflected the status of all active projects through December 2020, the total budget for the active projects is approximately \$670 million. The active projects include those identified in the Council Infrastructure Plan introduced in 2014. This is a \$235 million plan that includes ten major capital projects ranging in value from \$2 million to \$118 million, in addition to the dozens of other smaller maintenance and improvement projects in the Capital Improvement Program. Note that other departments who manage capital projects, aside from Public Works (e.g., Utilities) were excluded from this assessment.

The objectives of this review were to:

- 1) Review documented policies, procedures and processes
- 2) Assess the adequacy of the current controls used to avoid, manage, or mitigate project risks
- 3) Verify implemented procedures and processes conform to the documented policy and procedures and identify any gaps between documented procedures and implemented procedures

### **Discussion**

The attached report summarizes the analysis, audit findings, and recommendations.

### **Timeline, Resource Impact, Policy Implications**

The timeline for implementation of corrective action plans is identified within the attached report. All corrective actions are scheduled to be implemented by July 1, 2022.

### **Stakeholder Engagement**

The Office of the City Auditor worked primarily with the Public Works Department and engaged with additional stakeholders, including the City Manager's Office and City Attorney's Office, as necessary.

### **Environmental Review**

Environmental review is not applicable to this activity.

#### **Attachments:**

- OCA - Construction Controls Review



Attachment: OCA - Construction Controls Review (13605 : Presentation of the Construction Project Controls Report)



# City of Palo Alto

Office of the City Auditor  
Construction Project Controls  
Assessment

October 20, 2021

# Executive Summary

## Purpose of the Assessment

The objectives of Construction Project Controls Assessment was to:

- 1) Review documented policies, procedures and processes
- 2) Assess the adequacy of the current controls used to avoid, manage, or mitigate project risks
- 3) Verify implemented procedures and processes conform to the documented policy and procedures and identify any gaps between documented procedures and implemented procedures

## Report Highlights

The OCA found the documented procedures and controls adequate to manage and mitigate risks on construction projects. We did not identify any material controls gaps or deficiencies with the implemented controls; however, we have offered recommendations for improvement to further strengthen the implemented controls. This assessment did not test the controls for effectiveness. A separate construction audit engagement will be performed on the new Public Safety Building where the effectiveness of the documented project controls can be observed for an entire project.

### Improvement Recommendation – Project Reporting

Pg. 8 **The OCA recommends developing project reporting that can be used to track project performance and as a risk mitigation tool.**

The Public Works Department maintains a Semiannual Update on the Status of Capital Improvement Program Projects that reflects including project budgets, actual expenditures per the SAP system, projected completion dates and a brief narrative regarding the current status of each project. In addition, each project manager maintains their own project reporting related to the project budget and progress; however, it does not follow the same format as the Semiannual Update, or as other project managers. This is not considered a controls deficiency because the project managers are actively tracking the status of their projects and the Construction Administration Manual, which defines required procedures and does specify a reporting format. Both the Semiannual Update and project manager's reporting only reflect historical data. There is an opportunity to enhance the reporting to better track project performance and be used as a risk mitigation tool. A uniform reporting format should be considered and include the current estimate to complete the project as well as the original scheduled completion date and the current estimated completion date. Maintaining this type of reporting on a consistent basis can help to identify and mitigate potential budget and schedule overruns earlier in the project. It would also help to provide up-to-date project tracking, and could streamline the process to compile the Semiannual Update.

### Improvement Recommendation – Document Control

Pg. 8 **The OCA recommends developing a consistent file management structure.**

The individual file management systems observed were adequate and allowed for the efficient recall of project documentation; however, a consistent structure could strengthen the City's controls on document management.

**Improvement  
Recommendation –  
Prevailing Wage  
Monitoring**

Pg. 8 **The Construction Administration Manual should be updated to reflect the controls that are currently implemented to verify prevailing wage requirements.**

The current implemented controls are not documented in the Construction Administration Manual.

**Improvement  
Recommendation –  
Schedule Management**

Pg. 9 **The Construction Administration Manual should be updated to provide guidance and standards on schedule monitoring as well as remedial procedures and escalation requirements for non-compliance.**

The implemented controls related to schedule monitoring should be documented in the Construction Administration Manual.

**Improvement  
Recommendation –  
Allowance Usage**

Pg. 9 **The Construction Administration Manual should reflect the controls that are currently in place for allowance usage and reconciliation.**

There are currently controls in place to manage allowance usage when applicable and these practices should be documented in the Construction Administration Manual.

See the Assessment Results section for additional detail on each of these highlights.



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Attachment: OCA - Construction Controls Review (13605 : Presentation of the Construction Project Controls Report)

# Introduction

## Objective

The purpose of this assessment was to:

- 1) Review documented policies, procedures and processes
- 2) Assess the adequacy of the current controls used to avoid, manage, or mitigate project risks
- 3) Verify implemented procedures and processes conform to the documented policy and procedures and identify any gaps between documented procedures and implemented procedures

## Background

The City of Palo Alto Public Works department currently has approximately 150 active projects in various stages of planning and construction. Per the Semiannual Update on the Status of Capital Improvement Program Projects that reflected the status of all active projects through December 2020, the total budget for the active projects is approximately \$670 million. The active projects include those identified in the Capital Improvement (Infrastructure) Plan introduced in 2014. This is a \$235 million that includes ten major capital projects ranging in value from \$2 million to \$118 million as well as dozens of other smaller maintenance and improvement projects. Note that other departments who manage capital projects, aside from Public Works (e.g., Utilities) were excluded from this assessment.

Risks related to construction projects include:

- Reputational damage related to projects the public considers unsuccessful
- Budget overruns due to excessive change order activity or abusive pricing practices
- Schedule delays due to poor or improper project management

Weaknesses in project controls can magnify these risks on capital programs of this size.

## Scope

We reviewed the processes and procedures documented in the City's Construction Administration Manual dated February 22, 2021. We then conducted interviews with project managers to walk through implemented controls and procedures.

The key controls areas included:

- Prime contractor bid and award control
- Contract administration and control
- Schedule management
- Communication and document control
- Contractor billing review and approval
- Change management
- Allowance and contingency management
- Verification of completed work
- Closeout activities

## Compliance Statement

This audit activity was conducted in accordance with the Annual Audit Plan.

The audit activity was not performed in compliance with the generally accepted government auditing standards (GAGAS). The audit activity was not performed in compliance with GAGAS for two primary reasons:

- The individuals conducting the activity did not meet the CPE requirements. As subject matter experts in construction risk, the team members are not required to

obtain government audit CPE. Rather, multiple team members are required to be technically competent construction risk professionals and obtain CPE in construction risk topics.

- Mitigating factor – City Auditor Kyle O'Rourke and Manager Chiemi Perry both adhere to CPE requirements and
- The City of Palo Alto Office of the City Auditor has not undergone an External Peer Review in the required 3 year cycle as required by Standards.
  - Note – the Office of the City Auditor will undergo a peer review at the conclusion of FY22.

We planned and performed the activity to obtain sufficient, appropriate evidence to provide a reasonable basis for our recommendations based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit the objectives.

## Organizational Strengths

During this audit activity, we observed certain strengths of the Public Works Department. Key strengths include:

- The project manager's interviewed have strong backgrounds in construction, engineering and project management.
- The procedures for construction contract bid and award contained in the Construction Administration Manual are both thorough and well defined. The Invitation for Bid (IFB) document contains adequate instructions to the bidders, criteria for selection, insurance, bonding, and prevailing wage requirements. It also includes the City's standard contract documents. The project managers interviewed had thorough understanding of the bid and award process.
- The Construction Administration Manual has a thorough process for reviewing project change orders. The project manager's interviewed follow a consistent and rigorous process to review and validate change order requests from contractors.

Additionally, Baker Tilly noted the documented controls are adequate to manage and mitigate risks on construction projects. While we have recommendations to further strengthen the City's controls, we did not identify any material controls gaps or deficiencies with the identified controls. This objective of this engagement was to assess the adequacy of documented controls. The effectiveness of the controls was not tested.

**The Office of the City Auditor greatly appreciates the support of the Public Works Department in conducting this assessment.**

***Thank you!***

# Technical Assessment

To accomplish our objective, we reviewed the Public Works Construction Administration Manual to gain and understanding of documented controls related to:

- Prime contractor bid and award control
- Contract administration and control
- Schedule management
- Communication and document control
- Contractor billing review and approval
- Change management
- Allowance and contingency management
- Verification of completed work
- Closeout activities

Key processes were assessed to ensure they are adequately defined and appropriate to mitigate both general construction risks and risks specific to the City of Palo Alto.

We also performed interviews with project managers to verify documented controls have been implemented as well as to document any project controls that are not defined in the Construction Administration Manual. During these interviews we asked individuals to provide examples of documentation. This was done to gain a better understanding of controls environment and processes in place. We interviewed the following individuals/functions:

- Director of Public Works
- Airport Division
- Environmental Services
- Engineering Services

The following matrix summarizes each control area reviewed, the key risks and documented controls to address the risks. The documented controls are adequate to mitigate the key risks in most instances. Testing to confirm the effectiveness of the controls related to the project portfolio was not in the scope of this assessment. A separate construction audit will be performed on the new Public Safety Building where the effectiveness of the documented controls will be tested.

Note: for our controls methodology we follow the Construction Audit and Cost Controls Institute (CAACCI) and the Project Management Institute (PMI).

Prime Contractor Bid and Award	
Key Risks	Summary of Documented Controls
Bid and award process is circumvented	<p>Policy and procedures related to bid are thoroughly documented in Sections A and B of the Construction Administration Manual</p> <p>Purchasing compiles the Invitation for Bid (IFB) and handles the solicitation and summarizes the bids (Review of Purchasing not in this assessment scope)</p>
Collusion and bid rigging	IFBs are advertised on the City's procurement system, PlanetBids, and can be accessed by all registered contractors
Incomplete bid documents leading to misinterpreted award criteria and contract requirements	<p>Projects managers review and compile the technical specifications and drawings</p> <p>Purchasing compiles the Invitation for Bid (IFB) and handles the solicitation and summarizes the bids (Review of Purchasing not in this assessment scope)</p> <p>The IFB document contains adequate instructions to the bidders, criteria for selection, insurance, bonding, and prevailing wage requirements. It also includes the City's standard contract documents</p>
Low bid response	IFBs advertised on PlanetBids and can be accessed by all registered contractors
Response from unqualified contractors	<p>Larger projects involve a pre-qualification process to ensure prospective contractors have the financial strength and qualifications to perform the work</p> <p>Contractors are required to provide valid licensing to perform work to be considered a responsive bidder</p>

Contract Administration	
Key Risks	Summary of Documented Controls
Non-compliance with insurance and bonding requirements	<p>Procedures related to insurance are defined in Section B.1 of the Construction Administration Manual.</p> <p>Purchasing contract manager (in consultation with the awarding department and the City's risk manager as needed) defines the insurance requirements that are applicable to the project</p> <p>The contractor awarded the work needs to provide all certificates of insurance and proof of bonding prior to the contract being executed</p> <p>Project managers monitor the expiration dates of the documents and obtain current documents when needed</p>
Non-compliance with prevailing wage requirements	<p>Section 4.0 of the IFB defines the certified payroll requirements (<b>No controls are documented in the Construction Administration Manual – see Recommendations for Improvement</b>)</p> <p>When certified payroll is required to be provided to the City under the contract, it is collected weekly</p> <p>Project managers verify wages are compliant with prevailing wage requirements</p> <p>Project managers perform spot checks with trade and craft workers to verify rates and hours reflected in the certified payroll are accurate</p>
Billing non-compliance	See contractor billing and approval
Failure to deliver the project as specified	See verification of complete work

Schedule Management	
Key Risks	Summary of Documented Controls
Project delays leading to cost escalation and delayed placed in service	<p>Project managers interviewed conduct regular schedule reviews with the contractor at weekly, bi-weekly or monthly meetings depending on the size and magnitude of the project</p> <p>The schedule review involves checking the current physical progress of the project against the project schedule and major milestones, verifying long lead items are being procured in a timely fashion, and reviewing look-ahead schedules</p> <p>The status of current projects are discussed internally at monthly Public Works project manager meetings</p> <p>If a project falls behind schedule, project managers issue written notice to the contractor and require a recovery plan</p> <p><b>See Recommendations for Improvement related to documenting the current procedures</b></p>

Communication and Document Control	
Key Risks	Summary of Documented Controls
Budget overruns and schedule delays that could have been mitigated with timely and accurate reporting	<p>Each project manager has their own project tracking and progress reporting document. The documents track amounts expended against the contract values and have basic information on progress</p> <p>Public Works compiles a semiannual report reflecting the progress of all CIP</p> <p>Project budgets and progress are discussed internally at monthly Public Works project manager meetings</p> <p><b>See Recommendation for Improvement related to project reporting</b></p>
<p>Poor document management can result in an inability to:</p> <ul style="list-style-type: none"> <li>Support and defend key decisions on the project</li> <li>Verify installed quantities and physical progress in order to validate contractor payment applications</li> <li>Validate change orders</li> <li>Resolve contractor disputes and defend against claims</li> </ul>	<p>Section C8 of The Construction Administration Manual defines the principal types of documentation that should be maintained on each project</p> <p>Project Managers' document management systems were observed during interviews. They were organized and allowed them to access needed documents. When asked to provide documents as a follow up to the interviews, the requests were fulfilled within one day</p> <p><b>See recommendation for Improvement related to document control</b></p>

Contractor Billing Review and Approval	
Key Risks	Summary of Documented Controls
Billing errors  Overpayments to contractors  Payment for work that has not been completed	The following controls are applicable to each key risk:  Section C5 of the Construction Administration Manual defines contractor billing review procedures Project managers observe physical progress to verify work and/or quantities installed Project managers review the Project Inspectors daily inspection reports as additional confirmation of physical progress  Project managers check the math and confirm any unit rate billings comply with the bid documents  If errors are noted, billings are sent back to the contractor for revisions

Change Management	
Key Risks	Summary of Documented Controls
Overpriced change orders	Section C9 of the Construction Administration Manual defines change order procedures  Change orders are checked for arithmetic accuracy  Where applicable labor rates and materials rates are compared to the bid documents to ensure consistency with bid amounts  When applicable labor rates are compared to certified payrolls  If needed, the project management team may do an independent take off to verify the quantities and pricing are reasonable
Change orders for duplicate scope and rework	Section C9 of the Construction Administration Manual defines change order procedures  Change order scope of is compared to the bid documents to confirm it is a change in scope  RFIs related to the change order scope are reviewed
Unauthorized change orders	Section C9 of the Construction Administration Manual defines change order procedures  The Construction Administration Manual contains an authorization matrix detailing approval limits



Allowance and Contingency Management	
Key Risks	Summary of Documented Controls
Unauthorized allowance usage  Allowance costs co-mingling	<p>The following controls are applicable to each key risk:</p> <p>Project Managers track project contingency (this is a requirement in Section C9 of the Construction Administration Manual)</p> <p>Allowances are broken out as separate line items in the bid documents</p> <p>All allowance usage requires an Allowance Usage Request. This is documented using a process similar to change order review and approval</p> <p><b>See Recommendations for Improvement related to contingency management.</b></p>

Verification of Completed Work	
Key Risks	Summary of Documented Controls
Work not installed per specifications  Failure to deliver the contracted scope	<p>The following controls are applicable to each key risk:</p> <p>Section C1 and C8.1 of the Construction Administration Manual define procedures related to verification of completed work</p> <p>Each project has a project inspector that reviews progress and verifies compliance with specifications</p> <p>The project inspector completes daily inspection reports</p> <p>Project managers review the daily inspection reports to confirm progress</p> <p>Project managers perform regular site visits to verify the work in place</p>

<b>Closeout Activities</b>	
Failure to deliver the contracted scope	<p>Section C11 of the Construction Administration Manual defines procedures related to closeout activities</p> <p>A punch list is generated by the project manager once the contractor notifies the project manager the work has been completed</p> <p>A Letter of Acceptance is issued to the contractor once all work is certified complete</p>
Subcontractor claims or stop payment notices against the contractor	<p>Section C11 of the Construction Administration Manual defines procedures related to closeout activities</p> <p>The contractor is required to provide an affidavit certifying all subcontractors and material suppliers have been paid along with stop payment notice waivers</p>
Inability to operate manage and maintain the asset	<p>Section C11 of the Construction Administration Manual defines procedures related to closeout activities</p> <p>Article 9.8.2 of the General Conditions document stipulates that O&amp;M Manuals, as built drawings and manufacturer warranties need to be submitted prior to final payment</p>

# Assessment Results

## Improvement Recommendation – Project Reporting

**The OCA recommends developing project reporting that can be used to track project performance and as a risk mitigation tool.**

In our initial request to the Public Works Department on March 22, 2021, we asked for a schedule of construction projects in progress along with projects completed in the past 12 months, including a description of the project, the initial project budget and the current or final budget. The Public Works Department provided the most recent Semiannual Update on the Status of Capital Improvement Program Projects that reflected the status of all active projects through December 2020. This report reflected each project's budget, actual expenditures per the SAP system, projected completion dates and a brief narrative regarding the current status of each project. In addition we reviewed the individual project reporting from eight projects with approximate expenditures of \$48 million (see Appendix A). We noted each project manager maintains their own project reporting related to the project budget and progress; however, it does not follow the same format as the Semiannual Update, or as other project managers. This is not considered a controls deficiency because the project managers are actively tracking the status of their projects. However, the reporting produced only reflects historical data and there is an opportunity to enhance the reporting to better track project performance.

We recommend enhancing the current report format to include the current estimate to complete the project as well as the original scheduled completion date and the current estimated completion date. Maintaining this type of reporting on a consistent basis can help to identify and mitigate potential budget and schedule overruns earlier in the project. It would also help to provide up-to-date project tracking, and could streamline the process to compile the Semiannual Update.

Additionally, this type of project reporting can be used to assess the performance of specific contractors or project types. This would allow the Public Works Department to identify trends such project as projects or contractors that consistently incur a high magnitude of change orders or consistently fall behind schedule.

This type of reporting can be maintained manually using readily available tools such as Microsoft Excel; however, the City would benefit by exploring project management software options that could generate this reporting more efficiently. Use of a project management software could also help with consistent file management as well (see Document Control recommendation).

## Improvement Recommendation – Document Control

**The OCA recommends developing a consistent file management structure.**

Each project manager has their own file management structure. We observed the different file structures during our interviews by asking project managers to share their screens and navigate through their file systems with us. The individual file management systems were adequate and allowed for the efficient recall of project documentation; however, a consistent structure

### Improvement Recommendation – Prevailing Wage Monitoring

could strengthen Public Works' controls on document management. As noted in the Project Reporting recommendation, the City could consider a project management software option that would also act as a project file management system.

**The Construction Administration Manual should be updated to reflect the controls that are currently implemented to verify prevailing wage requirements.**

The contractor's requirements for prevailing wage and certified payroll submission are defined in Section 4.0 of the Invitation For Bids (IFB) document. The procedures performed related to collection and review of certified payrolls by the project managers, which is required if the project is grant funded, are not reflected in the Construction Administration Manual. In circumstances where a project is grant funded, the City policy requires that the project manager verifies compliance with prevailing wage requirements. This process should be reflected in the Construction Administration Manual. Additionally the Construction Administration Manual should detail the City's remedies for non-compliance.

### Improvement Recommendation – Schedule Management

**The Construction Administration Manual should be updated to provide guidance and standards on schedule monitoring as well as remedial procedures and escalation requirements for non-compliance.**

The project managers interviewed all conduct regular schedule reviews with the contractor at weekly, bi-weekly or monthly meetings depending on the size and magnitude of the project. Typically the schedule review involves checking the current physical progress of the project against the project schedule and major milestones, verifying long lead items are being procured in a timely fashion, and reviewing schedule look-ahead schedules. The remedies currently used by the project management team if a project falls behind schedule is to issue written notice to the contractor and require a recovery plan. In addition, progress on current projects is discussed internally at Public Works meetings that occur each month. These practices should be documented in the Construction Administration Manual.

### Improvement Recommendation – Allowance Usage

**The Construction Administration Manual should reflect the controls that are currently in place for allowance usage and reconciliation.**

Projects may contain budgeted scopes of work the City is considering, but the City has not yet finalized the design. Such scopes are broken out in the bid documents as an allowance line item. The City can then elect to buy these items at a later date once the design is completed. The project manager's interviewed stated charging against the allowance requires an allowance usage request. There is a specific document for this request and the review process follows the same procedures as executing a change order. These practices should be documented in the Construction Administration Manual.

# Appendices

## Appendix A: Project Reporting

The OCA reviewed the project reporting for the following projects:

Project	Project ID	Area	Total Project Budget	Actual Expenditures
Highway 101 Pedestrian/Bicycle Overpass Project	PE-11011	Council Infrastructure Plan	\$ 22,889,453	\$ 14,142,494
High and Bryant Street Garages Waterproofing and Repairs	PE-18002	Building and Facilities	\$ 443,376	\$ 257,431
Cubberley Roof Replacements	CB-16002	Building and Facilities	\$ 860,400	\$ 569,606
Rinconada Park Improvements	PE-08001	Parks and open spaces	\$ 8,742,375	\$ 2,350,551
Street Maintenance	PE-86070	Street and Sidewalks	\$ 11,055,995	\$ 5,226,631
Airport Apron Reconstruction	AP-16000	Airport Projects	\$ 44,573,110	\$ 23,736,439
Primary Sedimentation Tank Rehabilitation	WQ-14003	Wastewater Treatment	\$ 20,681,849	\$ 738,257
Plant Repair, Retrofit and Equipment Replacement	WQ-19002	Wastewater Treatment	\$ 7,332,834	\$ 760,983
<b>Total</b>			<b>\$ 116,579,392</b>	<b>\$ 47,782,392</b>

Attachment: OCA - Construction Controls Review (13605 : Presentation of the Construction Project Controls Report)

**Appendix B: Management Response**

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan
<p>The OCA recommends developing project reporting that can be used to track project performance and as a risk mitigation tool, including enhancing the current report format to include the current estimate to complete the project as well as the original scheduled completion date and the current estimated completion date. Maintaining this type of reporting on a consistent basis can help to identify and mitigate potential budget and schedule overruns earlier in the project.</p>	<p>Public Works</p>	<p>Public Works Department appreciates the audit observations which affirm strong project management and controls that manage and mitigate construction risks. The audit recommendations generally seek to enhance or further document existing practices, and the department is confident that they can be addressed with a modest investment of staff resources.</p> <p>Concurrence: Partially Agree                      Target Date: 7/1/2022                      Action Plan:</p> <ol style="list-style-type: none"> <li>1. Review current project tracking practices and formats in use: by 2/1/2022</li> <li>2. Standardize updated project tracking formats, including some potential differences between approaches due to factors such as project size and recurring vs. one-time project: by 4/1/2022</li> <li>3. Update Construction Administration Manual and complete staff training and implementation of updated practices: by 7/1/2022</li> </ol>
<p>The OCA recommends developing a consistent file management structure. Each project manager has their own file management structure. A consistent structure could strengthen Public Works' controls on document management. As noted in the Project Reporting recommendation, the City could consider a project management software option that would also act as a project file management system.</p>	<p>Public Works</p>	<p>Concurrence: Partially Agree                      Target Date: March 1, 2022                      Action Plan: Public Works has a standard file management structure for capital project documentation. The department will confirm and make any potential updates to the existing file management structure, document the file management structure in the Construction Administration Manual, and complete staff training and implementation of the updated practice. Note: Additional supplemental filing systems will also be maintained as required by grants (e.g. Caltrans, FAA).</p>
<p>The Construction Administration Manual should be updated to reflect the controls that are currently implemented to verify prevailing wage requirements. The contractor's requirements for prevailing wage and certified payroll submission are defined in Section 4.0 of the Initiation For Bid (IFB) document. The procedures performed related to collection</p>	<p>Public Works</p>	<p>Concurrence: Agree                      Target Date: March 1, 2022</p>

Attachment: OCA - Construction Controls Review (13605 : Presentation of the Construction Project

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan
<p>and review of certified payrolls by the project managers are not reflected in the Construction Administration Manual. This process should be reflected in the Construction Administration Manual. Additionally the Construction Administration Manual should detail the City's remedies for non-compliance.</p>		<p>Action Plan: Public Works is in the process of updating the Construction Administration Manual and will include this information in the current update.</p>
<p>The Construction Administration Manual should be updated to provide guidance and standards on schedule monitoring as well as remedial procedures and escalation requirements for non-compliance. The remedies currently used by the project management team if a project falls behind schedule is to issue written notice to the contractor and require a recovery plan. In addition, progress on current projects is discussed internally at Public Works meetings that occur each month. These practices should be documented in the Construction Administration Manual.</p>	Public Works	<p>Concurrence: Agree  Target Date: March 1, 2022  Action Plan: Public Works is in the process of updating the Construction Administration Manual and will include this information in the current update.</p>
<p>The Construction Administration Manual should reflect the controls that are currently in place for allowance usage and reconciliation. Projects may contain budgeted scopes of work the City is considering but has not yet finalized the design. These are broken out in the bid documents as an allowance line item. The City can then elect to buy these items at a later date once the design is completed. The project manager's interviewed stated charging against the allowance requires an allowance usage request. There is a specific document for this request and the review process follows the same procedures as executing a change order. These practices should be documented in the Construction Administration Manual.</p>	Public Works	<p>Concurrence: Agree  Target Date: March 1, 2022  Action Plan: Public Works is in the process of updating the Construction Administration Manual and will include this information in the current update.</p>



# City of Palo Alto

## Policy and Services Committee Staff Report

(ID # 13681)

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**Meeting Date: 11/9/2021**

**Title: Office of the City Auditor Presentation of the Utilities Power Purchase Agreement Assessment Report**

**From: City Manager**

**Lead Department: City Auditor**

### **Recommended Motion**

The City Auditor recommends that the Policy & Services Committee consider the following action:

- 1) Review the Power Purchase Agreement Assessment report and corresponding recommendations for improvement and recommend the City Council accept the report.

### **Executive Summary**

Baker Tilly, in its capacity serving as the Office of the City Auditor, performed an assessment of the City's process for evaluating, entering into, and managing power purchase agreements (PPA) focusing on the effectiveness of internal controls and validating the accuracy and compliance of PPA billing. This assessment was conducted in accordance with the [FY2021 Audit Plan approved by City Council](#).

Through the audit activity, the Office of the City Auditor identified three (3) recommendations. The City of Palo Alto Utilities (CPAU) concurred with each finding and has drafted action plans for each item.

The Office of City Auditor will perform periodic follow up procedures to validate that corrective actions have been implemented.

### **Background**

The City of Palo Alto offers its residents and businesses a suite of utility services, including electricity, natural gas, water, sanitary sewer and commercial fiber optics. To continue to provide reliable and affordable services, specifically power, the CPAU has entered into multiple PPA's. To ensure CPAU continues to meet its mission, power needs and mitigate risks, the Office of the City Auditor conducted an assessment



focused on current PPA management practices.

The Office of the City Auditor included an audit activity related to the adjustment in the [FY2021 Audit Plan approved by City Council](#). The objectives of this review were to:

- 1) Gain an understanding of the City's process for evaluating and entering into Power Purchase Agreements;
- 2) Evaluate the effectiveness of internal controls in the management of agreements and;
- 3) Validate the accuracy of and compliance of billing.

### **Discussion**

The attached report summarizes the analysis, audit findings, and recommendations.

### **Timeline, Resource Impact, Policy Implications**

The timeline for implementation of corrective action plans is identified within the attached report. All corrective actions are scheduled to be implemented by FY 2023.

### **Stakeholder Engagement**

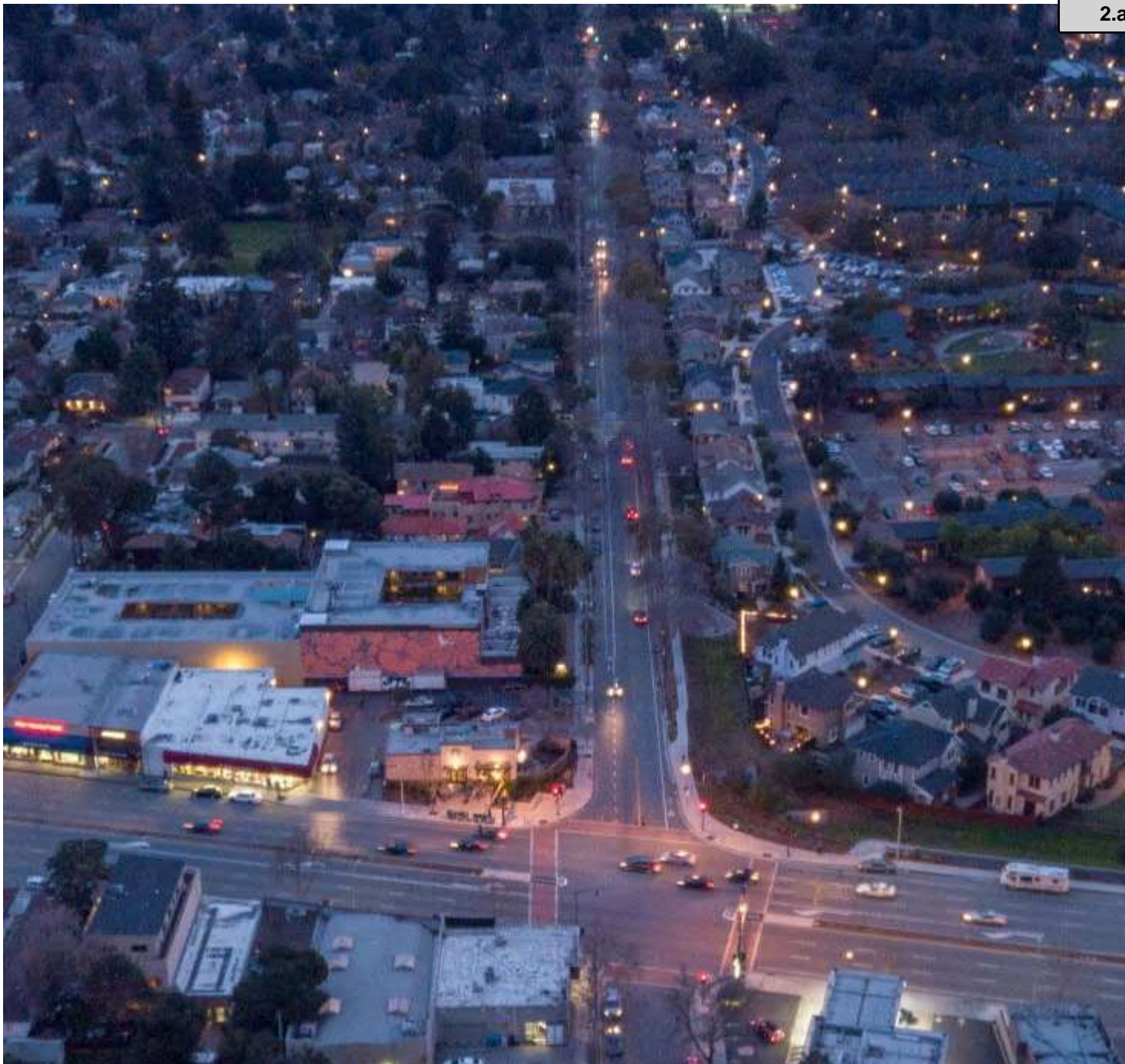
The Office of the City Auditor worked primarily with CPAU and engaged with additional stakeholders, including the City Manager's Office and City Attorney's Office, as necessary.

### **Environmental Review**

Environmental review is not applicable to this activity.

#### **Attachments:**

- OCA - PPA Assessment Report (Final Draft - P&S)



Attachment: OCA - PPA Assessment Report (Final Draft - P&S) (13681 : Presentation of the Power Purchase Agreement Report)



now, for tomorrow.

# City of Palo Alto

Office of the City Auditor  
Power Purchase Agreement  
Assessment

November 4, 2021

# Executive Summary

## Purpose of the Audit

The purpose of the audit was to gain an understanding of the City's process for evaluating and entering into power purchase agreements (PPA), evaluate the effectiveness of internal controls and the management of agreements and validate the accuracy of and compliance of billing.

## Report Highlights

### Finding

There is no formal documentation of staff review of vendor compliance with PPAs

### Page # Description of Finding

15 Palo Alto's PPA procurement process identified that while energy delivery is closely monitored, other PPA terms are informally monitored through meetings and status updates. There is no formal process that documents vendor compliance with PPAs. Vendor compliance or performance issues may not be documented appropriately, resulting in delayed or inadequate communication throughout the City about PPA non-compliance.

There is no formal review or approvals of changes to front office models.

16 Review of front office models identified that changes made to the front office model do not require approvals. Figures are vetted periodically by senior management as the figures are often reported to City Council and other senior stakeholders. If changes are not reviewed and approved by a second user/reviewer, there is an increased likelihood of inaccurate reporting.

CPAU staff does not audit NCPA's validation of vendors' invoices, contract rates and payments

17 The City of Palo Alto Utilities (CPAU) delegates its PPA settlements processes to Northern California Power Agency (NCPA), but does not have a process in place to validate NCPA settlement processes that include the verification of invoice calculations, contract rates, and matching All Resources Bill (ARB) amounts on behalf of the City.

### Key Recommendations to the City Manager:

- The City should work towards documenting vendor performance monitoring via a formal procedure by which vendors are periodically assessed for PPA compliance and general performance.
- The front office model file should be altered to allow for a second reviewer and approver to document a second review and approval of any changes.
- The City should implement a formalized process that would allow CPAU to validate vendor invoices and rate calculations completed by NCPA. This process should be incorporated before payment, allowing the CPAU to validate rates to contractual requirements and confirm accuracy before payment.

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# Introduction

## Objective

The purpose of the audit was to gain an understanding of the City's process for evaluating and entering into power purchase agreements (PPA), evaluate the effectiveness of internal controls in the management of agreements and validate the accuracy of and compliance of billing.

## Background

The City of Palo Alto Utilities (CPAU) offers its residents and businesses a suite of utility services, including electricity, natural gas, water, sanitary sewer, and commercial fiber optics. The CPAU's mission statement is to "provide safe, reliable, environmentally sustainable and cost-effective services." To continue to provide reliable and affordable services, specifically power, CPAU has entered into multiple PPAs. These agreements support the City's power needs. However, disruption in power supply and unmitigated risk can result in the CPAU's inability to meet its customer's needs and impact the reliability of its services.

In 2013 the City of Palo Alto set out on a mission to cut carbon emissions 80% below their 1990 levels by 2030. In order to achieve their goal, the City shifted away from buying market energy, which contains fossil energy sources and entered into PPAs for energy produced from renewable sources like wind, solar and biogas. The City currently has fifteen (15) large scale PPAs in place where they purchase power generated from a renewable or carbon neutral source. The City also started a CLEAN Program for community members/organizations to install solar panels and sell the energy back to the City.

The fifteen (15) large scale PPA contracts are made up of five (5) biogas contracts (natural gas produced from landfills), six (6) solar contracts, two (2) wind contracts, and two (2) hydroelectric contracts. For more information on each contract such as term length, rate, generation type, annual production, annual spend, and Palo Alto's percentage share please see Appendix B.

To ensure CPAU continues to meet its mission, power needs and mitigate risks, the Office of the City Auditor (OCA) conducted an assessment that would focus on current PPA management processes. This decision was in conjunction with a broader, Citywide audit plan detailing the potential risks facing each department. The purpose of the assessment was to identify and prioritize risks to develop the annual audit plan.

During the FY2021 risk assessment, the OCA identified a risk related to the contract management of purchased power. With the CPAU entering into multiple agreements representing a significant expenditure for the City, it is important to monitor PPAs to ensure both parties comply with contractual requirements, meet state and local regulations, and are financially sound, ensuring reasonable and adequately billed costs.

In order to properly assess the CPAU's PPA management process, the OCA reviewed three (3) operational areas of PPAs that included procurement and contracting, contract management, and invoicing/payments. For additional details, please review the [Detailed Testing & Analysis](#) section.

## Scope

The scope of this engagement includes the City's active PPAs and related processes.

## Compliance Statement

This audit activity was conducted in accordance with the Annual Audit Plan.

The audit activity was not performed in compliance with the generally accepted government auditing standards (GAGAS). The audit activity was not performed in compliance with GAGAS for one primary reason:

- The City of Palo Alto Office of the City Auditor has not undergone an External Peer Review in the required 3 year cycle as required by Standards.
  - o Note – the Office of the City Auditor will undergo a peer review at the conclusion of FY22.

We planned and performed the activity to obtain sufficient, appropriate evidence to provide a reasonable basis for our recommendations based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit the objectives.

## Organizational Strengths

During this audit activity, we observed certain strengths of the City. Key strengths include the following:

- The City Attorney’s Office is thoroughly involved in the drafting and finalization of the PPA agreements, as well as with the Commercial Operation Deadline (COD) process to ensure that all legal requirements are met prior to and during project start up.
- The CPAU is highly knowledgeable and experts in their field. Individuals that engaged with the OCA displayed a thorough understanding of processes and practices associated with their roles. In addition to developing and managing key processes, they exhibited expertise and knowledge of the power industry, current trends, and best practices.
- The City has a energy risk management structure that includes policies, guidelines, and procedures first developed in the wake of the City’s issues with Enron. A component of the energy risk management structure is the City’s Utilities Risk Oversight and Control Committee, a cross-departmental body comprised of staff from Utilities, ASD, Public Works, the City Manager’s Office, and the City Attorney’s Office that meets regularly to oversee the City’s risk management program.
- The City employs a structured Front Office / Back Office / Middle Office structure for all of its energy transactions intended to ensure that the different aspects of the transaction process are carried out by independent parts of the organization, and that there are internal controls and oversight in place.
- The City has been actively procuring renewable power for roughly 20 years, and over that time City staff (Utilities, ASD, and the Attorney’s Office) has developed expertise with the PPA solicitation, negotiation, and management process.

*The team at CPAU was very proactive and involved in the engagement that allowed for clear communication and support for audit team. CPAU was always available to provide additional support and hands on explanations on the billing/invoice processes.*

**The Office of the City Auditor greatly appreciates the support of the CPAU in conducting this audit activity.**

***Thank you!***

# Detailed Testing & Analysis

## Methodology & Approach

The objective is to assess the current PPA processes, evaluate the effectiveness of current controls and validate billings.

To evaluate controls and billing accuracy, audit testing was conducted on a sample of active PPAs. Testing areas were identified based on results of the risk assessment documented within the Risk and Controls Matrix (RCM). Additional information regarding the testing approach and methodology can be found in the [Audit Testing](#) section.

In addition, a contract analysis was conducted that reviewed all the current agreements against best practices and other peer contracts. Additional information regarding the contract analysis can be found in the [Contract Analysis and Review](#) section.

In order to properly evaluate PPAs and CPAUs operational areas that covered procurement and contracting, contract management, and invoicing/billing, the specific approach included the steps noted below.

### Audit Planning

- Conduct research and gather information to understand the current environment
- Assess audit risk
- Develop an audit planning memo and program
- Conduct kick-off meeting with key stakeholders

### Control Review and Testing

- Gather information to understand the environment under review
- Conduct interviews with key process owners and management
- Assess risks and identify controls in place
- Quantify and analyze PPA spend by contract
- Perform testing of key controls around energy procurement/contracting, contract management, and invoice processing
- Benchmark active PPA terms and conditions against other Baker Tilly client PPAs and industry best practices

### Reporting

- Develop findings and recommendations based on supporting evidence
- Validate documented findings
- Develop and validate a draft audit report
- Finalize report with management responses
- Review and finalize report with the City Council and/or appropriate Council Committee



# Audit Testing

## Introduction

In order to achieve the objectives of the engagement, the OCA developed an audit testing approach and methodology that would test the design and operational effectiveness of controls and identify control gaps and unmitigated risks around PPA procurement and contracting, contract management, and invoicing/billing.

## Approach & Methodology

In order to evaluate CPAU's control environment, the OCA developed a Risk and Controls Matrix (RCM) based on documentation and stakeholder interviews. The RCM was developed to document known risk, and mitigation practices based on CPAU's information and identify opportunities and improvement areas. The RCM was developed with the emphasis on the three focus areas that include procurement, contract management, and billing/invoices. The matrix documents 33 risks that cover each of the focused operational areas. In addition, the RCM was used to facilitate the risk assessment and note the risks for the current PPA processes, identify control gaps, and determine key risk and control areas for audit testing. The detailed RCM can be found in [Appendix A](#).

The OCA evaluated the RCM and, based on an understanding of the current state, key risks were identified for testing. In addition to prioritizing high risks, gaps were identified and noted for further observation during testing. As a result of the RCM, ten (10) work papers were created to test controls in CPAU's current PPA management processes. Below is a description of each of the work papers that were developed for testing.

### T1- Invoices

Work paper T1 tested various controls associated with risks related to invoicing. The work paper evaluated the potential risk of duplicate payments, overpayment, incorrect charge amounts, unapproved payments, and applications for Renewable Energy Credits (REC). In order to test the controls, the work paper verified the following items:

- Generation data is tracked, and REC quantities are reconciled to generation totals from invoices.
- Invoiced rates correspond to approved rates
- The payment amount matches the invoice amount demonstrating payment accuracy
- Payments can be traced to and match entries in the GL
- There are no duplicate payments.
- Payment amounts are traceable to approved All Resources Bills (ARB)

### T2- Payment Packages

Work paper T2 tested the risk and control associated with the processing of the ARB. The ARB was identified as the detailed bill package that includes details utilized to develop the Payment Claim Voucher (PCV) which is utilized for the approval and processing of payments. In order to test the controls, each approved package was reviewed for documented approval, and amounts were reconciled to ensure they matched.

### T3- PPA Contract Assurance

Work paper T3 reviewed contracts to ensure they contained contracts assurance language related to energy provisions and contract performance.

### T4- Purchasing

Work paper T4 tested controls associated with the procurement of PPAs. The work papers evaluated the potential risk of outdated vendor evaluation criteria and weights, selection of vendors without proper evaluation, and unsatisfied Commercial Operations Deadline (COD). In order to test the controls, the work paper verified the following items:

- A completed Commercial Operation Deadline (COD) was approved as part of the PPA procurement process by requesting a complete COD and reviewing the documents provided.
- A Resource Integration Checklist was used as part of the procurement process by requesting the checklist and reviewing the provided documents.
- The RFP was evaluated based on assigned weights and shortlist by requesting documentary support and evaluating the documents provided in response.

#### **T5- Annual Reporting**

Work paper T5 addressed the CPAU's annual reporting requirements. The work paper examined the potential risk of non-compliance to State RPS requirements and environmental impacts/changes. In order to test the controls, the work paper verified the following items:

- RPS requirements are addressed within the report.
- Report review and approval is documented.
- Vendor compliance is addressed within the report.

#### **T6- Front Office Models**

Work paper T6 evaluated front office models to validate if they are current, updated, and relevant. Front office models are developed for new contracts and extend out to the full length of the contract. Models include costs and are updated to track and manage budgets and needs. In order to test the controls, the work paper reviewed models to ensure they were updated and changes were approved. In addition, the model amounts were compared to the invoice amounts for reasonableness.

#### **T7- Staff Reports**

Work paper T7 evaluated staff reports to determine if the appropriate approvals were obtained for entering into a new or updated contract with a vendor. Reports were validated to ensure resolutions were included with approval from the Utility Risk Oversight and Coordinating Committee, Utilities Advisory Committee, City Council Finance Committee, and City Council.

#### **T8- Vendor Evaluation**

The purpose of work paper T8 is to determine if vendor reliability and/or viability has been evaluated. The work paper addressed the potential risk of financially unstable vendors, unreliable vendors, and maintaining high-risk vendors. In order to validate vendors, the work paper reviewed evaluation documentation.

#### **T9- Other Reports**

Work paper T9 validated the Integrated Resource Plan, annual RPS, and Carbon Neutral Plan status report. The work paper ensured that the Utilities Director approved the report and provided to the City Council.

#### **T10- Billing and Adjustments**

Work paper T10 evaluated controls related to the billing and adjustments. The risks addressed in the work paper include inaccurate adjustments, unapproved payments, inaccurate ARB amounts, and invoice amounts that do not match. In order to test the controls, the work paper verified the following items:

- The ARB estimated amount and approved PCV amount match.
- Adjustment amounts are appropriate and accurately applied to the estimated amount.
- The amount from the summary report matches the recalculated amount based on the application of adjustments.
- If the payment amount matches the ARB amount demonstrating payment accuracy.
- If payment amounts are traceable to approved All Resources Bills.

## Sampling Methodology

CPAU provided a list of all active PPAs managed by the City. Understanding the generation type, dollar amount, and perceived risk/complexity, five (5) of twenty-one (21) contracts were judgmentally selected for the assessment. The contracts selected include Shiloh, San Joaquin, Elevation Solar, Calaveras, and Western. Refer to [Appendix B](#) for a summary of the active PPAs.

Based on the contract selection, a list of the volumes and settlement months was provided to conduct transactional sample selection for invoicing and payment testing. The OCA focused testing on transactions covering the period 01/01/2020 to 12/31/2020, and selected three (3) transactions from each contract. The selected samples can be found in [Appendix D](#).

# Contract Analysis & Review

**Introduction** As part of this audit, an overall contract analysis was performed to review the PPAs entered into by CPAU and ensure they are in alignment with industry standards. The PPAs were reviewed for standard contract language and structure compared to others in the industry.

## PPA Overview

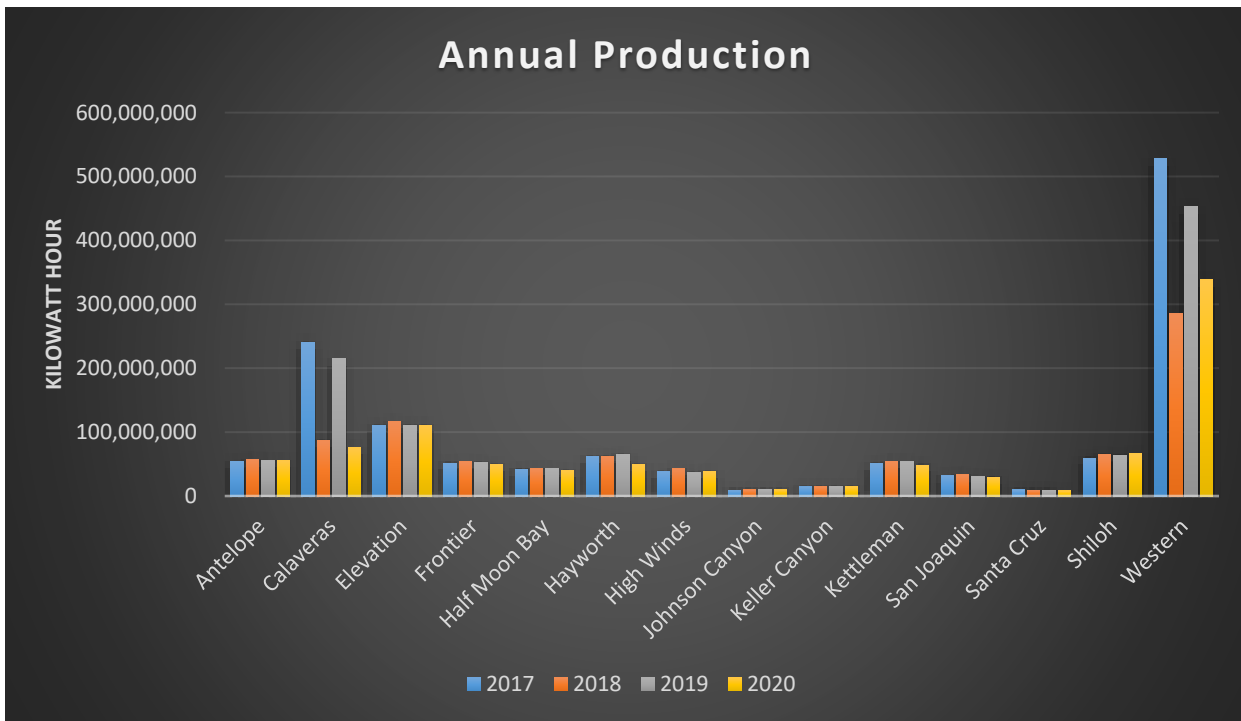
The PPA contracts entered into by CPAU are all physical PPAs. A physical PPA is where the customer (Palo Alto) and the developer agree on a set price per kWh or MWh, and the customer purchases the energy for use in the same power grid. CPAU's physical PPAs are set up in two different ways: 1) CPAU is an off-taker 2) CPAU acts as a joint owner. Fourteen of CPAU's contracts are those in which they act as an off-taker. The developer or seller develops the facility, maintains, operates, and provides the City with an agreed-upon percentage of the energy produced. The City then pays for the energy supplied at the agreed-upon rate. This structure has several benefits, including locking in a fixed rate over the contract's life, performance guarantees, only pay for energy provided, dependable budgeting, etc.

The Calaveras PPA is set up where the City and other project participants act as owners instead of simply being off-takers. This contract dates back to 1982 and is a "Third Phase" agreement between Northern California Power Agency (NCPA) member parties for the construction operation and financing the North Fork Stanislaus River Hydroelectric Development Project. Since some NCPA members act as owners, it was set up as a take-or-pay agreement described below.

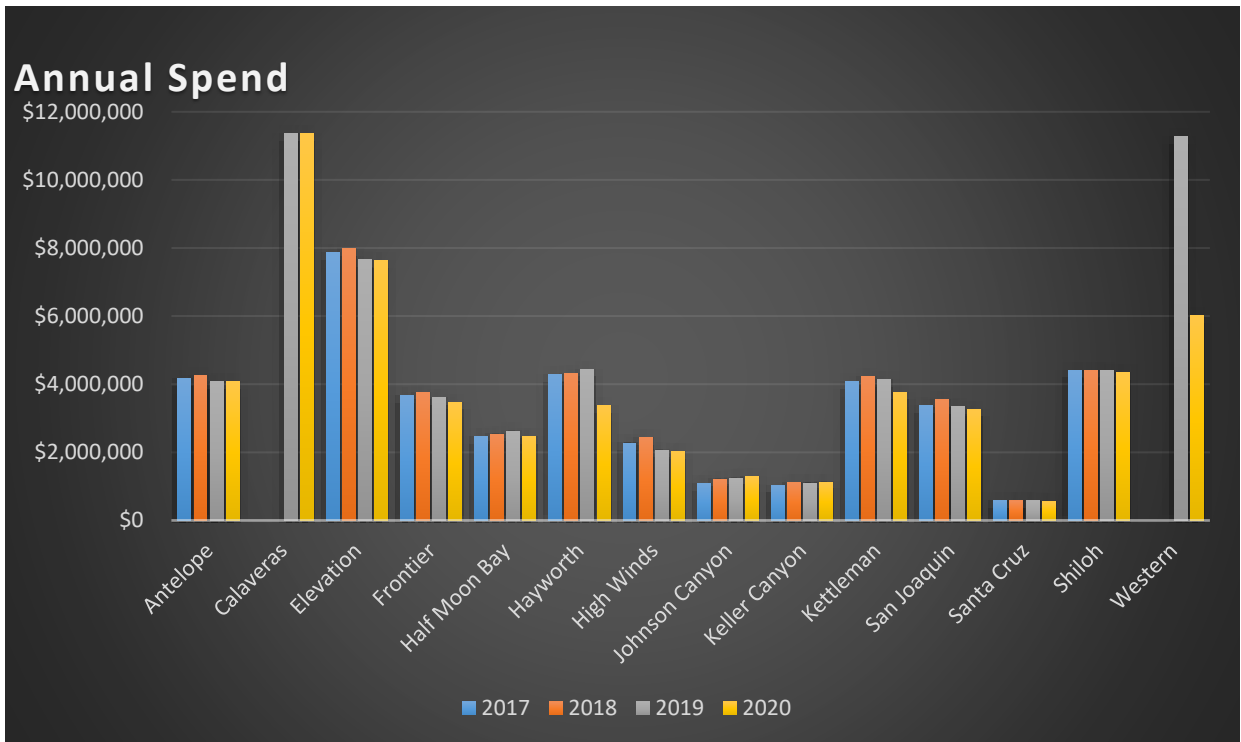
*Section 6.3.3 of the City's Facilities Agreement with NCPA states, "Third Phase Agreements shall be written as "take-or-pay" ("hell-or-high-water") agreements to the greatest extent possible, so as to insulate NCPA and all Members who are not Project Participants from liability arising from the NCPA Project. Third Phase Agreements shall obligate Project Participants to treat all Project Costs as operating and maintenance expenses of their respective Electric Systems, and shall pledge the Project Participant's obligation to raise electric rates and/or increase Revenues upon demand of NCPA so as to pay such Project Costs."*

This development provided roughly 8% of the power CPAU used in 2020 and 18% in 2019. Since the Project Participants are acting as owners, there is a different risk environment. The take or pay structure adds the risk of incurring project costs but not receiving energy, which is similar to the risk incurred by any utility that owns a generating resource. In addition, since party members are responsible for the project's operational costs, there is the risk of physical damage, maintenance costs, and unexpected issues.

Both PPA structures used by CPAU have their own risks. Each agreement needs to align with the community's overall goals, risk tolerance, and available resources. All of these contracts align with the City's goals of reducing carbon emissions and promoting clean energy. Information on the annual spend and production is shown in the graphs below. Both graphs show the historical time frame of 2017-2020 and the information was taken from files provided by CPAU. Additionally, a summarized list the PPAs and related details can be found in [Appendix B](#).



**Graph 1** – Annual kWh supplied by each contract from 2017-2020. This information was pulled from the "Supplier Invoices and REC Tracking" document provided by CPAU.



**Graph 2** – Annual spending associated with each contract from 2017-2020. This information was taken from the "Supplier Invoices and REC Tracking" document provided by CPAU. The annual cost information for Calaveras and Western (WAPA) was not included in the "Supplier Invoices and REC Tracking" document and was therefore taken from the "PPA Invoice Payments 1-19 to 4-21" file provided. This document did not include the annual spend for 2017 or 2018, so there are no values on the graph for Calaveras or Western for that time frame.

Attachment: OCA - PPA Assessment Report (Final Draft - P&S) (13681 : Presentation of the Power Purchase Agreement Report)

## Approach & Analysis

Our benchmarking approach focused on the terms and conditions within each contract to ensure the City is not leaving itself open to unnecessary risks. Some of the significant risks associated with PPA contracts relate to development, price, liquidity, volume, profile, and balancing. Our research of industry standards led us to the following list of risk-reducing clauses typically included in a PPA contract to reduce the previously mentioned risks.

- Development Guarantees
- Performance/Production Guarantees
- Force Majeure Clause
- Audit Clause
- Insurance Clause
- Operation and Maintenance

During our analysis, it was determined that the agreements entered into by the City contain many of the risk mitigation clauses found in other contracts around the industry. The contracts lay out development guarantees and repercussions for the developer if specific project goals/deadlines are unmet. Performance/Production Guarantees are established within each contract and are nuanced toward the specific energy or project type. The contracts contain force majeure language and lay out the events if necessary. Insurance clauses are in place to ensure the production facility contains a large policy to cover major physical damages that would affect the production. The City's contracts put the operations and maintenance responsibilities on the seller, except for Calaveras.

It is important for a community to vet the other partner on the agreement along with these standard contract clauses. Having a financially sound and experienced production partner helps ensure that the partner can remedy an issue with little risk of bankruptcy if any unforeseen problems occur. The City does this by putting restrictions on who a project can be transferred to, who can lend money for the project, and through questioning during the RFP process. Overall, the contracts appear to contain similar clauses used across the industry.

## Audit Results

### Finding #1 - No formal documentation of staff review of vendor compliance with PPAs

The OCA's review of the Palo Alto PPA procurement process identified that vendors are informally monitored through meetings and status updates. For Western, the project's performance is monitored via weekly email updates from the supplier (Western Area Power Administration) and via monthly meetings with NCPA. Calaveras operations and performance are also discussed with NCPA staff at other member agencies at the monthly meeting. For the City's solar, wind, and landfill gas PPAs, the performance of these resources is monitored on a quarterly basis, when staff compare each resource's actual output to its projected level.

However, there is no formal process that documents vendor compliance with PPAs. Although documenting PPA compliance can be difficult given the nuances and complexity of PPAs, documenting PPA compliance reviews should be performed periodically. Otherwise, vendor compliance or performance issues may not be documented appropriately, resulting in delayed or inadequate communication throughout the City which poses a greater risk of maintaining a relationship with the vendor for a longer than ideal period of time.

We recommend the City implement a formal vendor performance monitoring procedure by which vendors are periodically assessed for PPA compliance and general performance.

Detailed reviews of specific PPAs, vendors, or issues should be conducted on an as needed basis. Each PPA should be reviewed in detail once every five years.

### Finding #2 - No formal review or approvals of changes to front office models.

The OCA's review of front office models identified that changes made to the front office model do not require approvals. There is version control on the document used to track front office models, and few people are allowed to change the document. Also, the figures are vetted periodically by senior management as the figures are often reported to City Council and other senior stakeholders.

However, if changes are not reviewed and approved by a second user/reviewer, there is an increased likelihood of inaccurate reporting.

Changes to front office models that significantly affect planning should be reviewed and approved, and the review and approval should be documented. We recommend the front office model file be altered to allow for a second reviewer and approver to document a second review and approval of any changes.

### Finding #3 – No CPAU audit of NCPA's validation of vendors' invoices, contract rates and payments

The OCA identified during process interviews that CPAU does not have a process in place to validate NCPA settlement processes that include the verification of invoice calculations, contract rates, and matching ARB amounts on behalf of the City.

NCPA owns processes that include rate calculation and proper invoicing, but the City does not conduct a periodic check to monitor NCPA's processes for accuracy. Without proper rate review processes, payments for amounts charged at incorrect rates could be processed, and inaccurate financial reporting may occur.

We recommend a formalized process that would allow CPAU to validate vendor invoices and rate calculations completed by NCPA. This process should be incorporated before payment, allowing the CPAU to validate rates to contractual requirements and confirm accuracy before payment.

# Appendices

## Appendix A: Risk and Control Matrix

Below is the RCM that was developed and utilized to identify gaps and developing testing criteria.

Risk Ref.	Process	Sub-Process	Risk	Risk Description	Control #	Control Description
1	RFP	Needs Assessment	Over purchase of renewable energy	An inaccurate needs assessment can result in the overstatement or understatement of needs resulting in either an over-commitment or under-commitment outlined in contracts. This can result in the City being placed in the position to fill gaps.	C1	Development of the Integrated Resources Plan (every 5 years) and/or the annual RPS and Carbon Neutral Plan status report to the City Council and approval from the Utilities Director.
2	RFP	Needs Assessment	Inadequate budget	An inaccurate needs assessment can result in the overstatement or understatement of budget needs.	C1	Development of the Integrated Resources Plan (every 5 years) and/or the annual RPS and Carbon Neutral Plan status report to the City Council and approval from the Utilities Director.
3	RFP	RFP Development	Weak/Inaccurate RFP	An RFP is issued that is not adequately vetted and developed with the review and validation of specifications the City needs to be achieved.	C2	Content is developed with coordination with the City Attorney that drafts the pro forma PPA to send with the RFP.
4	RFP	RFP Development	Unapproved RFP	An Unapproved RFP is distributed without validation of legal and performance specifications.	C2	Content is developed with coordination with the City Attorney that drafts the pro forma PPA to send with the RFP.
5	RFP	Vendor Management	Unreliable Vendor	The city is partly dependent on unreliable energy providers.	Gap	There is not currently a process by which PPA vendors are periodically vetted for reliability
6	RFP	Vendor Management	Fraudulent vendor	High risk vendors are maintained in the RFP distribution list and receive opportunities to bid on City projects.	Gap	There is not currently a process to document review of PPA vendor reliability or compliance with relevant laws and PPA terms.
7	RFP	Evaluation	Improper evaluation of vendors	Outdated vendor evaluation criteria and weights are used leading to the selection of an unqualified vendor.	C3	Evaluation criteria and weights are developed/decided based on each RFP.
8	RFP	Evaluation	Unqualified vendor selection	Vendor selected from outdated criteria or not properly evaluated.	C4	Proposals are ranked based on criteria by the RFP evaluation team that results in a short list.
9	RFP	Evaluation	Financially unqualified vendor	Vendor financial and credit clearance not completed and financially unviable vendor is chosen to provide services.	C5	Energy Risk Manager completes financial/credit evaluation.

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Risk Ref.	Process	Sub-Process	Risk	Risk Description	Control #	Control Description
10	RFP	Selection	Unapproved PPA executed	Vendor PPA executed without proper review and approval(s).	C6	Staff report and resolution seeking approval of PPA(s) from the Utilities Risk Oversight and Coordinating Committee (UROCC), Utilities Advisory Committee, City Council Finance Committee, and City Council. City Council approval is required for PPA execution.
11	Contract Management	Forecasting	Inaccurate forecasting	Inaccurate forecasting of generation supplies, requirements and costs leading to inadequate budgeting and other related planning.	C7	Front office models are developed for new contracts that extend out to contract length and include associated costs. Models are updated based on any changes.
12	Contract Management	Forecasting	Inaccurate forecasting	Inaccurate and unapproved updates to the front office models.	Gap	Changes made to the front office model do not require approvals.
13	Contract Management	Consents	Unapproved consents	Unapproved vendor financing consents are signed adding unapproved City liabilities.	C8	Standard consent form developed by City is utilized with a legal redline process.
14	Contract Management	Contractual Guarantees	Non-compliance to contractual development timelines	Projects are delayed due to non-compliance with contractual development timelines.	C9	Quarterly/monthly project development reports are provided by the developers/suppliers. The Senior Resource Planner validates if they are meeting contractual deadlines and criteria.
15	Contract Management	Contractual Guarantees	Unsatisfied Commercial Operations Deadline (COD) criteria	Commercial Operations Deadline criteria are not met prior to Commercial Operations commencement.	C10	Senior Resource Planner works with the City Attorney's Office to ensure checklist is met.
16	Contract Management	Contractual Generation Guarantees	Vendor non-compliance with generation requirements	Vendors do not meet generation requirements.	C11	The Senior Resource Planner reviews generation data to ensure contractual requirements are met. Performance assurances are placed in contracts.
17	Contract Management	REC-Renewable Energy Credit	Generation totals do not match REC quantities	Invoice totals do not match REC quantities transferred by suppliers.	C12	Generation data is tracked from supplier invoices. REC quantities are reconciled to generation totals from invoices.

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Risk Ref.	Process	Sub-Process	Risk	Risk Description	Control #	Control Description
18	Contract Management	RPS	Non-compliance to RPS requirements	RPS requirements are not met annually.	C13	Annual report provided to CA Energy Commission. The Resource Planner tracks the requirements and compiles the report. The report is reviewed by the Senior Resource Planner and NCPA.
19	Contract Management	RPS Reporting	Non-compliance to RPS reporting requirements	Annual reporting requirements are not met.	C13	Annual report provided to CA Energy Commission. The Resource Planner tracks the requirements and compiles the report. The report is reviewed by the Senior Resource Planner and NCPA.
20	Contract Management	General	Unacceptable environmental impacts/changes in law and regulations	Suppliers are unable to meet legal and/or environmental requirements.	C14	The City Attorney's Office is responsible for incorporating environmental laws into new and amended PPA's. The CPAU monitors compliance and brings compliance issues to the City Attorney's Office for assistance.
21	Contract Management	General	Enforceability of contracts	Weak legal constraints do not allow for feasible contract enforcement.	C15	Use and application of appropriate legal clause and constraints to support City objectives.
22	Contract Management	General	Price volatility	Adverse market price fluctuations leading to unforeseen increased energy costs.	C16	Fixed price contracts address market fluctuation risks.
23	Contract Management	General	Production volume	Sufficient volume is not produced and needs to be procured at additional unforeseen costs to the City.	C17	Forecasting and estimates for potential needs.
24	Contract Management	General	Balancing market changes	Market price changes from execution to agreement close changing cost expectations from those originally procured.	C16	Fixed price contracts address market fluctuation risks.
25	Invoicing	All Resources Bill (ARB)	Inaccurate ARB	The All Resources Bill (ARB) is not accurate leading to inaccurate billings and payments.	C17	The Resource Planner validates the ARB through review and development of the Payment Claim Voucher.
26	Invoicing	All Resources Bill (ARB)	Totals do not match invoices	Vendor invoices do not match the relevant ARB(s) causing an inadequate audit trail of services provided versus related payments.	C18	The Business Analyst conducts review to ensure totals match invoices from the G/L entries.
27	Invoicing	All Resources Bill (ARB)	Inaccurate rates are charged	Rates that are not in accordance with the contract rates are charged and paid.	Gap	NCPA reviews contract rates upon invoice payment, but CPAU staff does not audit NCPA's review.

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Risk Ref.	Process	Sub-Process	Risk	Risk Description	Control #	Control Description
28	Invoicing	All Resources Bill (ARB)	Duplicate payments	Duplicate payments are made	Gap	NCPA checks for duplicate payments, but CPAU staff does not audit NCPA's review.
29	Invoicing	All Resources Bill (ARB)	Overpayments	Vendor overpayment.	Gap	NCPA checks for overpayments to vendors, but CPAU staff does not audit NCPA's review.
30	Invoicing	Verification of Charges	Unapproved payments	Unapproved payments are made.	C19	Payment packages are sent to management for review and approval before processing.
31	General	General	Severe weather event	The potential risk of severe weather events causing disruption in service and meeting contractual obligations.	C20	There are related contract assurances in place in most modern PPAs.
32	Solar	General	Equipment delivery delays	Delay in completion of project.	C21	There are financial penalties and assurances language in most modern PPAs.
33	Solar	General	Completion delay / No completion	Project startup delays in development resulting in the City not obtaining the power needed based on projected timeline.	C21	There are financial penalties and assurances language in most modern PPAs.

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## Appendix B: Contract Listing

Below is summary content of the current PPAs in place with the City.

Contract Number	Agreement Name	Execution Date	Commercial Operation Date	Contract Length	Generation Type	Contract Rate	Palo Alto's Percentage Share	Overall Category
C04-075	Santa Cruz	11/9/2004	2/2/2006	20th Anniversary of COD	Gas	\$51/MWh 1.5% annual escalation	50%	RPS
C04-076	High Winds	11/9/2004	12/1/2004	23 and a half years (July 1, 2028)	Wind	\$57.60/MWh	12.35%	RPS
C05-003	Ox Mountain (Half Moon)	1/19/2005	4/1/2009	20 years after COD	Gas	\$52/MWh 1.5% annual escalation	50%	RPS
C05-068	Keller Canyon	8/8/2005	8/1/2009	20 years after COD	Gas	\$59/MWh	50%	RPS
C05-110	Shiloh	10/11/2005	6/1/2006	15 years after initial delivery date	Wind	\$62.95/MWh	16.66%	RPS
C10-027	San Joaquin	5/3/2010	4/20/2014	20 years after COD	Gas	\$91.33/MWh 1.5% annual escalation also contains increases for emission controls	100%	RPS
C12A-087	EE Kettleman Land	6/27/2014	8/11/2015	25th anniversary of COD option for 5 year extension	Solar	\$77.00/MWh	100%	RPS
C13A-061	Frontier Solar	7/10/2013	6/7/2016	30 years after COD	Solar	\$69.00/MWh	100%	RPS
C13A-062	Western Antelope	7/10/2013	12/31/2016	25th anniversary of COD option for 5 year extension	Solar	\$68.77/MWh	100%	RPS
C13A-063	Elevation Solar	7/10/2013	12/31/2016	25th anniversary of COD option for 5 year extension	Solar	\$68.77/MWh	100%	RPS
C14A-028	Hayworth	6/14/2014	12/22/2015	27th anniversary of the COD extension options	Solar	\$68.72/MWh yrs 1-13 \$68.22/MWh yrs 14-27	100%	RPS

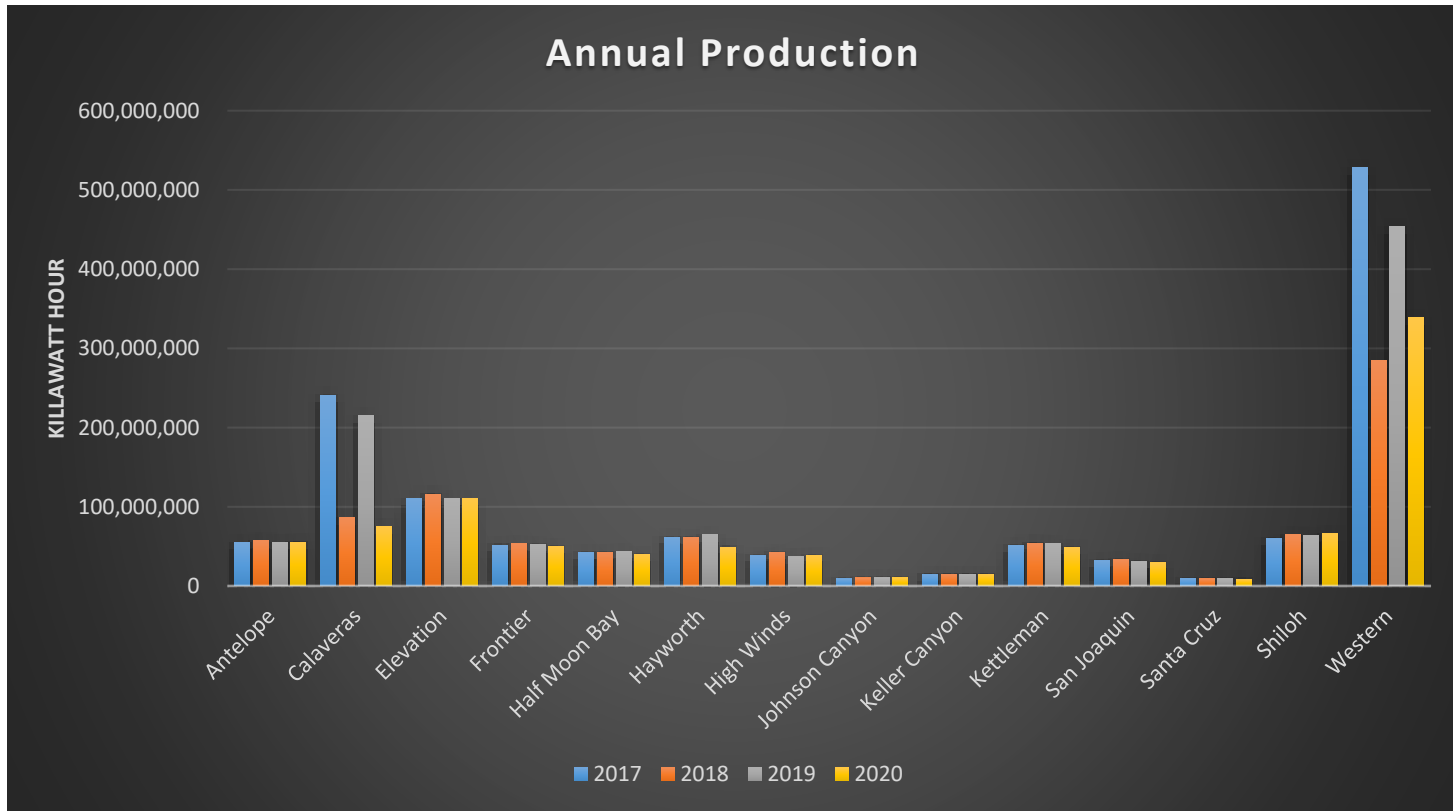
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Contract Number	Agreement Name	Execution Date	Commercial Operation Date	Contract Length	Generation Type	Contract Rate	Palo Alto's Percentage Share	Overall Category
						increases for extension terms		
SF81-003	Calaveras	7/21/1982	N/A	Until Bonds mature or are redeemed	Hydro	Varies depending on annual budget put together by NCPA	22.92%	Carbon Neutral/RPS
N/A	Johnson Canyon	10/19/2009	5/12/2013	20 years after COD	Gas	\$109/MWh 1.5% annual escalation	100%	RPS
N/A	Western	10/26/2000	N/A	20 years (initial service date is 1/1/2005)	Hydro	Fluctuates based on market rate	12.31%	Carbon Neutral (WAPA)
N/A	Rosamond Solar	5/28/2019	Not operational	25th anniversary of COD	Solar	\$34.02/MWh	100%	RPS

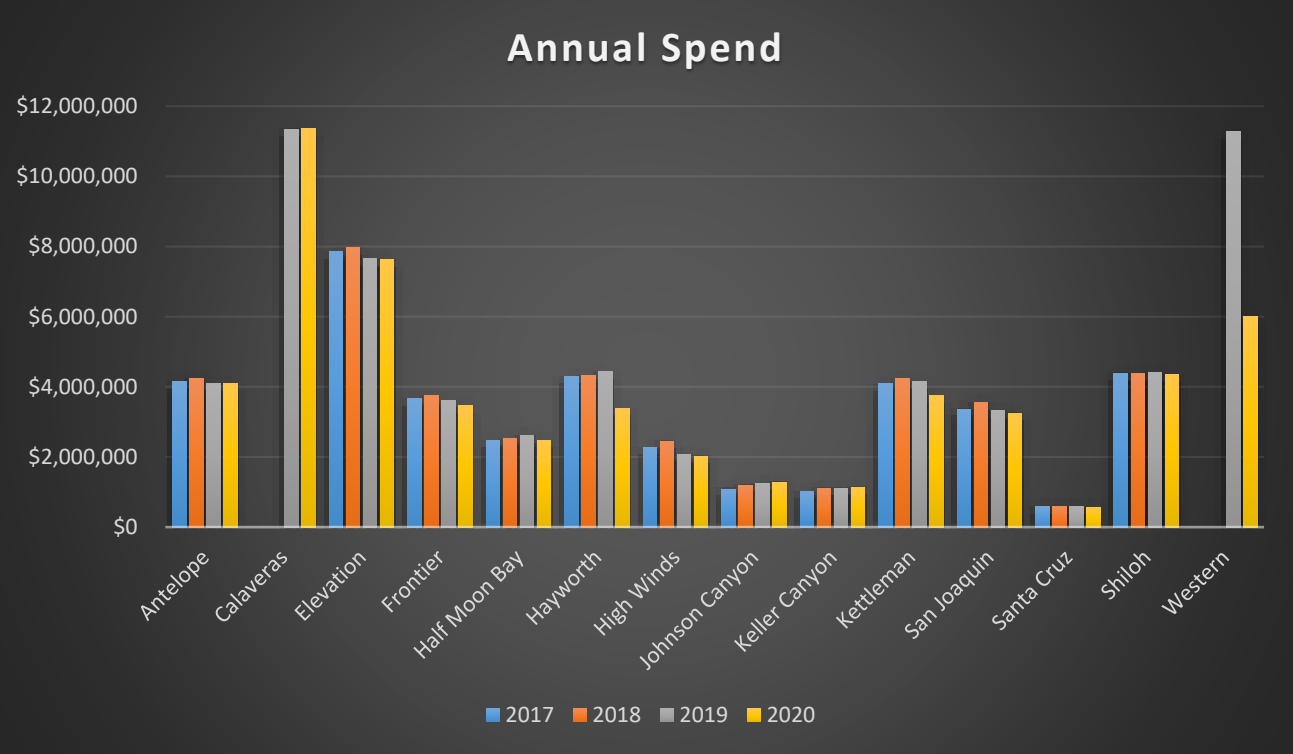
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### Appendix C: Contract Analysis Graphs

Below are graphs developed from the contract analysis.



Note: The graph shown above represents the annual kWh supplied by each contract from 2017-2020. This information was pulled from the "Supplier Invoices and REC Tracking" document provided by CPAU.



**Note:** The graph above represents the annual spending associated with each contract from 2017-2020. This information was taken from the "Supplier Invoices and REC Tracking" document provided by CPAU. The annual cost information for Calaveras and Western (WAPA) was not included in the "Supplier Invoices and REC Tracking" document and was therefore taken from the "PPA Invoice Payments 1-19 to 4-21" file provided. This document did not include the annual spend for 2017 or 2018, so there are no values on the graph for Calaveras or Western for that time frame.

## Appendix D: Agreement List and Samples

Below are tables outlining the current agreements by power source and the sample selected for testing.

Table 1 – Power Purchase Agreements

Type	Name/Location	Contract Date	Amount
Hydroelectric	Western Area Power Administration	1/1/2004 – 12/31/2024	Take or Pay-Hst. \$10 million/year
	Calaveras	7/2/1982- Bonds Mature	Varies
Wind	High Winds	12/1/2004 – 6/30/2028	Up to \$78.4 million
	Shiloh I	6/1/2006 – 12/31/2021	Up to \$75 million
Landfill Gas	Santa Cruz	2/2/2006 – 2/1/2026	Up to \$13.9 million
	Ox Mountain	4/1/2009 – 3/31/2029	Up to \$61.8 million
	Keller Canyon	8/1/2009 – 7/31/2029	Up to \$21.7 million
	Johnson Canyon	5/14/2013 – 5/13/2033	Up to \$30 million
	San Joaquin	4/24/2014 – 4/23/2034	Up to \$122.4 million
Solar (Large Scale)	EE Kettleman Land	8/17/2015 – 8/16/2040	Up to \$116 million
	Hayworth Solar	12/22/2015 – 12/21/2042	Up to \$130 million
	Frontier Solar	7/20/2016 – 7/19/2046	Up to \$99 million
	Elevation Solar C	12/2/2016 – 12/1/2041	Up to \$226 million
	Western Antelope Blue Sky Ranch B	12/2/2016 – 12/1/2041	Up to \$125 million
	Rosamond Solar	1/1/2023 – 12/31/2047	Up to \$101 million
Solar (CLEAN Feed-in Tariff)	Unitarian Universalist Church of Palo Alto (UUCPA)	7/3/2018 – 7/2/2043	Up to \$20 million
	275 Cambridge Parking Garage	3/19/2018 – 3/18/2043	
	445 Bryant Parking Garage	7/19/2017 – 7/18/2042	
	475 Cambridge Parking Garage	3/19/2018 – 3/18/2043	
	520 Webster Parking Garage	8/2/2017 – 8/1/2042	
	Solar Star Palo Alto I (HP Headquarters)	8/23/2019 – 5/31/2033	



Table 2 – Selected Sample

Contract Number	Partner	Date	Generation (MWh)	Charges
SF81-003	Calaveras	2020-03-01	4,182.616	\$965,391
SF81-003	Calaveras	2020-07-01	5,524.528	\$964,159
SF81-003	Calaveras	2020-10-01	4,299.668	\$924,196
C13A-063	Elevation Solar	2020-03-01	7,578.482	\$521,172
C13A-063	Elevation Solar	2020-09-01	8,958.425	\$616,071
C13A-063	Elevation Solar	2020-12-01	5,538.420	\$380,911
C10-027	San Joaquin	2020-01-01	2,558.688	\$279,337
C10-027	San Joaquin	2020-04-01	2,629.826	\$287,103
C10-027	San Joaquin	2020-09-01	2,314.246	\$256,441
C05-110	Shiloh	2020-04-01	5,040.000	\$364,147
C05-110	Shiloh	2020-08-01	10,176.000	\$652,675
C05-110	Shiloh	2020-11-01	2,163.000	\$158,961
NA	Western	2020-04-01	42,830.887	\$1,348,036
NA	Western	2020-07-01	48,779.731	\$999,732
NA	Western	2020-10-01	14,536.857	\$573,955

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Appendix E: Management Response

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan
<b>Finding 1: There is no formal documentation of staff review of vendor compliance with PPAs</b>		
<p>The OCA recommends that the City implement a formal vendor performance monitoring procedure by which vendors are periodically assessed for PPA compliance and general performance.</p> <p>Detailed reviews of specific PPAs, vendors, or issues should be conducted on a as needed basis. Each PPA should be reviewed in detail once every five years.</p>	<p>Resource Management Division</p>	<p>Concurrence: Agree</p> <p>Extensive risk management practices are in place for PPA management. The Utilities Risk Oversight Coordinating Committee. (UROCC), which includes City Manager, Utilities, Attorney’s Office, and Public Works representation, establishes risk management practices for entering into and managing PPAs. An ASD risk manager has a role in monitoring risk. The City’s Attorney’s Office and Utilities staff have built up extensive experience with PPA terms, which has been recognized by vendors and other agencies. CPAU along with experienced NCPA partner staff monitor its vendors’ compliance with PPA energy delivery terms daily (the most important item to monitor). Other periodic reviews include: CPAU Front Office staff also review monthly performance reports from the vendor of its landfill gas projects. CPAU Back Office staff also produce monthly reports tracking the output of renewables projects relative to staff’s expectations. And CPAU Front Office staff actively participate in quarterly stakeholder meetings held by WAPA for Western customers. CPAU staff agrees that it would be worthwhile to more formally document these ongoing reviews of vendor compliance with PPA terms periodically.</p> <p>Target Date: December 31, 2021</p> <p>Action Plan: CPAU staff intends to develop a checklist all vendor PPA obligations. The renewable energy contract managers will use this checklist to document compliance reviews. The contract managers will also review this list and discuss any non-compliance issues with the Electric Front Office team (which includes utility management) on at least a quarterly basis and share reports with the UROCC.</p>

Attachment: OCA - PPA Assessment Report (Final Draft - P&S) (13681) : Presentation of the Power

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan
<b>Finding 2: There is no formal review or approvals of changes to front office models</b>		
<p>Changes to front office models that significantly affect planning should be reviewed and approved, and the review and approval should be documented. We recommend the front office model file be altered to allow for a second reviewer and approver to document a second review and approval of any changes.</p>	<p>Resource Management Division</p>	<p>Concurrence: Agree</p> <p>CPAU staff agree that, while the likelihood is very low, there is a slight possibility that errors made in updating the Front Office models could lead to planning/budgeting errors that could impact electric rates. Although CPAU staff would note that such errors would most likely be caught long before they have an impact on the budget or rates. The Electric Front Office team currently sends out a “Monthly Electric Front Office Report” to over a dozen individuals across multiple City departments that details the supply cost impacts of any significant changes to the Front Office models. And the annual electric supply budget, after being developed by the Electric Front Office team, is reviewed by Back Office staff, ASD staff, and management before being considered for adoption by the City Council.</p> <p>Target Date: August 31, 2021</p> <p>Action Plan: In the future, whenever a Resource Planner makes a change to any of the supply contracts in the electric Front Office models that has a materially significant impact (at least \$1M over the prompt 36-month period, approximately 0.2% to 0.3% of total utility costs), a Senior Resource Planner must review and complete a documented approval of the change before it is accepted.</p>

Attachment: OCA - PPA Assessment Report (Final Draft - P&S) (13681 : Presentation of the Power

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan
<b>Finding 3: CPAU staff does not audit NCPA’s validation of vendors’ invoices, contract rates and payments</b>		
<p>The OCA recommends a formalized process that would allow CPAU to validate vendor invoices and rate calculations completed by NCPA. This process should be incorporated before payment, allowing the CPAU to validate rates to contractual requirements and confirm accuracy before payment.</p>	<p>Resource Management Division</p>	<p>Concurrence: Agree                      Target Date: Completed*                      Action Plan: Invoice/contract rates are now being checked internally prior to monthly payment approval and these checks are being documented. Staff will also perform a documented annual audit on a sample of PPA invoices received during the year to verify the accuracy of NCPA’s billing.</p> <p>*The OCA will perform procedures to verify that this is complete.</p>



# City of Palo Alto

## Policy and Services Committee Staff Report

(ID # 13755)

**Meeting Date: 11/9/2021**

**Title: City Council Referral: Policy and Services Committee to Recommend Strategies to Support and Strengthen Neighborhood Programs, Identify Gaps in Existing Neighborhood-based Services, and Evaluate new Strategies as Proposed in the Colleagues' Memo Regarding a Proposed Program for Neighbor Connection**

**From: City Manager**

**Lead Department: City Manager**

### Recommendation

City Council Referral that the Policy and Services Committee to Discuss and Recommend Strategies to Support and Strengthen Neighborhood Programs, Identify Gaps in Existing Neighborhood-based Services, and Evaluate new Strategies as Proposed in the Colleagues' Memo Regarding a Proposed Program for Neighbor Connection.

### Background

On May 24, 2021, the City Council discussed [Colleagues' Memo Requesting Council Refer to the Policy and Services Committee a Proposed Program Allowing Neighbors to Directly Connect With Each Other, and a Potential Volunteer Network for the City](#) by Councilmembers Cormack and Stone. After discussion, the City Council sent the following referral to the Policy and Services Committee ([Minutes](#)):

- A. Recommend strategies to support and strengthen neighborhood programs and associations;
- B. Identify gaps in existing neighborhood-based services; and
- C. Evaluate new strategies, including those proposed in the Colleague's Memo and others to expand the role of neighborhood volunteers.

### Discussion

The Consistent with Council direction, the Policy and Services Committee ~~will~~ should discuss the recommendations and the ideas shared in the Colleagues' Memo (also attached), identify gaps in neighborhood-based services, and make recommendations to Council, as appropriate, to support and strengthen neighborhood programs and associations.

### Attachments:

- May 24-Colleagues' Memo-Neighbor Programs



## City of Palo Alto

### COLLEAGUES MEMO

**DATE:** May 24, 2021

**TO:** City Council Members

**FROM:** Council Member Cormack, Council Member Stone

**SUBJECT:** COLLEAGUES' MEMO REQUESTING COUNCIL REFER A PROPOSED PROGRAM ALLOWING NEIGHBORS TO DIRECTLY CONNECT WITH EACH OTHER AND A POTENTIAL VOLUNTEER NETWORK FOR THE CITY TO THE POLICY AND SERVICES COMMITTEE

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#### *Situation*

Due to the pandemic, we have begun living more locally, seeing neighbors on the street and in the hallways who used to be elsewhere during the day -- at work, school, appointments, or activities. Many of us walk in our immediate neighborhoods, visit our closest park, shop at nearby stores, and order takeout from the nearest restaurants. Our neighbors constitute our closest community.

At the same time, the need for real-time information and action has increased, just when the city has fewer resources than before. We can see this in the desire for more services and need for immediate information about our open spaces, libraries, and other programs. The increased visitation to our parks and school fields has created more landscaping needs and trash.

In recognizing these needs and the new way in which we live and work, we recommend that the City consider creating a program to build neighborhood leaders. These ambassadors could be connected to the city to flow information and opportunities up, down, and across. The city and the people who live here would both benefit from establishing strong local connections who are plugged into the city's information structure.

#### *Benefits*

For the block, the benefit is to connect immediate neighbors to each other and the city, to help take care of themselves, and to provide knowledge about and volunteers for the city. Each block would have a team leader and develop according to the needs and interests of the immediate neighbors (this type of organization is sometimes called a mutual aid society). This program will help connect neighbors and create closer community connections, put residents in the lead by soliciting the needs of individual blocks through the neighborhood leaders, and connect blocks with the city in order to provide the necessary resources for greater community development.

For the city, there is the opportunity to target information to blocks and block leaders. For example, when the Utilities Department turned off electricity to blocks for pole replacements and needed to make a change after notification, having the capability to easily identify a point of contact would have helped reduce concerns about the requested changes. We have seen during these recent crises that people's need for timely and targeted information is increasing and while not everyone subscribes to or pays attention to the various social media platforms, they can be quickly reached with a virtual or physical note from a neighbor nearby whom they know and trust.

*What ambassadors could do*

- Create and maintain a list of neighbors including contact information and any skills, interests, or household items available to share, along with any pets or special needs in the household
- Communicate to the block on a regular basis about any changes in the immediate area like road or park renovations, back to school dates, new neighbors, etc.
- Identify needs for volunteers in the community, such as park/school weeding and clean up, or creating costumes for an elementary school play, and coordinate with the city, the school district, and other neighbor groups to do that safely
- Provide a welcome letter to anyone who moves into the neighborhood
- Support any existing ESVs and CoolBlock leaders and identify new ones, as needed and appropriate
- Schedule occasional social meetings (Zoom on Saturday mornings with coffee, a Fourth of July parade, or Sunday barbecues or soup suppers post-pandemic)
- Partner with the nearest PTA to share information about upcoming activities for the school that might need volunteers for or welcome attendance at events like concerts or games
- Support and promote Little Libraries and/or book swaps
- Consider sponsoring a family in Palo Alto or another community that is struggling during difficult times, or adopting a local business that needs support, or bulk ordering food from local farmers
- Provide an ongoing resource to City staff for feedback on proposed programs and other issues of general interest to residents

*What the city could provide*

- Recommended phone numbers, emails, and sites about how to solve problems within the city
- Localized community information events for park planning, notification about road work, or utilities outages
- A map for the city that shows blocks where leaders exist and where they are needed

- A monthly (virtual) meeting to share best practices among team leaders and invite city staff to share updates on parks and programs as well as opportunities to volunteer, etc.
- A monthly newsletter with highlights from team leaders
- Gloves and garbage bags and an extra pickup for park maintenance
- Sample welcome letters that neighborhood leaders can modify to meet their needs
- A venue to share templates for various communication and data keeping documents for neighborhood leaders to maximize efficiency and ease in implementing the program

#### *Additional ideas and details*

- The size of the block could vary up to 30 households, depending on what makes sense for the geography of the area or the design of the apartment or condo building
- A high schooler or college student living at home could be a great neighborhood team leader and anyone over age 16 is welcome to volunteer
- The city would not have access to any of the personal information that a team leader collects (e.g., names or ages of people in each house or apartment)
- This program would not be a channel for specific complaints. Those concerns should still go through the Palo Alto 311 app or other channels.

#### *Existing programs*

Our current neighborhood programs provide a communication process during crises and encourage reduced household use of greenhouse gases, so are not designed to fulfill the needs we have to share information and provide mutual assistance in an ongoing manner. The primary focus of this program is to help foster closer community connections and provide a channel for two-way, non-emergency information between the city and residents.

About 600 registered Emergency Service Volunteers (ESV) are part of the ESV program. ESV became an official program in 2010, consolidating the Block Preparedness Program from 2003, the Neighborhood Watch Program from the 1970s, the CERT program from 1999, and others. Its primary function is to provide information during an emergency that disrupts communication lines to our public safety professionals.

CoolBlock has 65-70 blocks participating. It began in 2012 as an experiment, then transitioned to an official city pilot program in 2016. Its primary function is to encourage households to reduce energy usage that contributes to greenhouse gas emissions and climate change.

While both of these city programs include a component of information gathering and sharing, creating a community of neighbors and an open channel of communication with the city is a secondary objective. However, both of these programs can help us think about how to best structure and organize the new program.



The existing neighborhood associations are not organized at a block level, nor affiliated with the city. Their strengths in broad communication and neighborhood events could be channels for the program to help identify block leaders and we hope and expect the neighborhood associations to partner with the city on this new program.

### Resource Impacts

Referral of this matter to the Policy & Services Committee would have no significant resource impact. Depending on final scope, developing an entirely new program at this time could be extremely challenging in light of anticipated budget constraints. In order to advance the goals of this proposal, staff would recommend approaching this as a modification to the planned approach for existing outreach efforts. To minimize staff resource impacts, the Council should consider issues such as the following:

- Consider the program as a pilot through December 2021 designed for a predetermined number of participants
- Design the effort as a virtual (zoom) platform, to minimize in-person meeting logistics and capacity limitations
- Consider the pilot's focus areas, such as:
  - Supporting community meetings and conversations being planned this year, such as town halls, neighborhood community meetings, issue specific community engagement, community resilience trainings, etc.
  - Enhancing current City public communications and community engagement, where possible, by seeking input on established Council priorities such as sustainability and climate action, economic and community recovery, Race and Equity work, budget and fiscal sustainability, etc.
  - Maximizing engagement and communications at the neighborhood level through pilot ambassadors by:
    - Engage/utilize existing community networks, community groups and community non-profits such as neighborhood associations, Cool Block neighborhood blocks, Emergency Service Volunteers, Magical Bridge Playground, etc.
    - Leveraging other community networks that exist informally like book clubs, walking groups, etc.
- Set mutual expectations between the City and individuals participating as ambassadors of the program, such as:
  - Attending a City training, as well as regularly participating in webinars, neighborhood meetings, and online surveys to share input and inform their networks

- Receive invitations and act as a focus group, such as through a City online survey or informal Citizen forum where staff can gain input quickly, etc.
  - Share details of participating and other City information regularly with a neighborhood group leveraging existing and new community networks such as book clubs, block parties, neighborhood associations, walking/running groups, Cool Block neighborhood group, Emergency Service Volunteers, etc.
- Consider designating a Council Ad Hoc committee to help guide the pilot to help support program efforts and reduce staff resources needed to maintain the pilot

*Next steps*

Refer this concept for a program that allows neighbors to directly connect with each other and create a communication and potentially volunteer network for the city to the Policy and Services Committee. Since some of this is already happening organically in the community, the program should provide a way to enroll existing small groups of neighbors who have ambassadors/leaders and connect with existing ESVs and CoolBlock leaders who might want to expand their work. The program might include a steering committee of block leaders to help shape the program as it develops over time in response to community needs. Referring this to Policy and Services would provide the opportunity for existing programs and neighborhood associations to offer suggestions and for staff to assist in development.