

# Memorandum

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**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** David Sykes  
Sharon Erickson

**SUBJECT:** 2018-2019 OPEN AUDIT  
RECOMMENDATION PRIORITIES

**DATE:** May 31, 2018

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## **RECOMMENDATION**

Approve the 2018-2019 Open Audit Recommendations Priorities with direction to the City Manager to prioritize work on these outstanding audit recommendations while continuing to make progress on addressing and working with the City Auditor to close out other open audit recommendations.

## **OUTCOME**

If the City Council approves the 2018-2019 Open Audit Recommendations Priorities list, the Administration will focus on implementing and closing out these key audit recommendations over the next fiscal year. In addition, as staff and resources allow, the Administration will continue to address other outstanding audit recommendations within the course of normal work plans.

## **BACKGROUND**

Twice each year, the City Auditor presents a semi-annual report on outstanding audit recommendations. On March 27, 2018, the City Council heard the “Status of Open Audit Recommendations as of December 31, 2017”<sup>1</sup> report and gave the following direction to the City Auditor and City Manager:

1. Drop the recommendation from the 2012 Audit of Environmental Services to eliminate the public art requirement for underground ratepayer-funded capital projects.
2. Defer acceptance of the status report of Open Audit Recommendations for sixty (60) days.

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<sup>1</sup> Report: <https://sanjose.legistar.com/View.ashx?M=F&ID=5883784&GUID=3F1F9D1E-503A-4A52-A322-6635FD7EC4A4>

3. Direct the City Manager to meet with the City Auditor to jointly develop a priority list of the top three key audit recommendations in each of the following four categories of benefits: budgetary savings/revenue generation, operational efficiency, improved services, and risk mitigation—and reset target dates in accordance with the new priority list:
  - a. When staff returns to Council within sixty (60) days with the list for Council adoption, Council may resolve any disagreement that the City Auditor and City Manager may have about those priorities.
  - b. Future annual reports regarding remaining open audit recommendations shall prominently describe the progress of the City in addressing these priorities, and submit new recommendations to supplant completed priorities.
  - c. Periodic reports to the Rules Committee may also include a discussion of progress on key priorities, as the City Auditor deems appropriate.

As directed, this memorandum provides the top three audit recommendation priorities in the areas of potential budgetary savings/revenue generation, operational efficiency, improved services, and risk mitigation, as well as updated target dates for implementation. There is no disagreement between the City Auditor and the City Manager regarding these priorities.

## **ANALYSIS**

The City Auditor and City Manager have collaborated to develop the following list of 12 open audit recommendations for priority focus within each of four directed categories:

- Potential budgetary savings/revenue generation;
- Operational efficiency;
- Improved service delivery; and,
- Citywide security/risk mitigation.

The City Manager's team has worked with City departments to understand work plans related to these items and any barriers to implementation. Ten of the 12 following priorities are anticipated to be implemented and closed out in the next fiscal year (no later than June 2019). One of the priorities, the identification of a sustainable and predictable funding stream for street pavement maintenance, will reach a significant milestone next year if a bond measure is brought forward and approved by voters next November 2018. The final priority that relates to police comp-time balances is more complicated, needing some additional time for full implementation, therefore that item is expected to be completed and closed by midyear 2019-2020.

***Potential Budgetary Savings/Revenue Generation***

	<b>Department(s)</b>	<b>Audit &amp; Recommendation</b> <i>Reason Selected</i>	<b>Target Date</b>
A	Fire	<p><b>Fire Department Injuries: A More Coordinated Response and Better Follow-up Is Needed<sup>2</sup> (12-07)</b></p> <p><i>Recommendation 14: We recommend that the Fire Department prioritize improving its safety culture by dedicating the appropriate personnel with the right authority to enforce and coordinate changes and raise awareness about employee injuries.</i></p> <p>The Proposed Operating Budget for 2018-2019 includes the addition of a Battalion Chief to serve as Safety Officer. If approved, this individual will analyze workers' compensation and injury data, and work to bring down the rate of injuries in the Fire Department, and coordinate the Firefighter Cancer Prevention Initiative. This is a significant benefit to the health and safety of the City's firefighters and has the potential to save costs as actual worker's compensation expenses for the Fire Department in 2016-2017 totaled approximately \$7 million.</p>	December 2018
B	Transportation	<p><b>Street Pavement Maintenance: Road Condition Is Deteriorating Due to Insufficient Funding<sup>3</sup> (15-02)</b></p> <p><i>Recommendation 1: The Department of Transportation, together with the City Manager's Office, should identify a sustainable, predictable funding stream to maintain roads annually, and develop a multi-year plan to use one-time funding to bring the road network up to ■ good condition by addressing maintenance backlogs and reconstructing ■ poor and ■ failed streets.</i></p> <p>Meaningful progress has been made on this recommendation to date. With City Council support, VTA 2016 Measure B was approved by voters in 2016 and the State enacted SB1 in 2017. Once fully implemented, the combination of these initiatives will enable the City to fully fund ongoing maintenance of the Major Street Network and resume a limited maintenance program on the Local and Neighborhood Street Network for the</p>	December 2018

<sup>2</sup> 12-07: <http://www.sanjoseca.gov/DocumentCenter/View/4039>

<sup>3</sup> 15-02: <http://www.sanjoseca.gov/pavementaudit>

	Department(s)	Audit & Recommendation <i>Reason Selected</i>	Target Date
		<p>first time since 2012. However, even with such significant progress, this recommendation remains a high priority item as local and neighborhood street conditions continue to decline, and every dollar spent on pavement maintenance can save \$5 in the future as a street needs more extensive and costly street repairs. According to the Department of Transportation<sup>4</sup>, due to insufficient and inconsistent funding, the current one-time backlog of deferred pavement maintenance is \$453 million. The backlog was \$250 million in 2010, and is predicted to grow to \$711 million in 2022 based on projected funding levels. With an ongoing annual shortfall of approximately \$43 million, the Administration is exploring alternatives such as general obligation bond funding that will be brought forward for City Council consideration in August 2018 and potentially to the voters in November 2018.</p>	
C	Police	<p><b>Police Overtime: The San José Police Department Relies on Overtime to Patrol the City Due to Unprecedented Vacancies<sup>5</sup> (16-08)</b></p> <p><i>Recommendation 10: The Police Department should enforce the requirement for employees to lower their comp balance to 240 hours by the end of the year or submit plans to reduce balances.</i></p> <p>This recommendation is important because comp-time balances increase the City’s liability, leading to greater expenses for the City when the balance is paid out upon an officer’s retirement or separation from the City, which is at their final rate of pay, which may be a higher rate of pay than the pay rate at which the comp-time was earned. The Police Department’s current comp time liability is \$16.4 million.</p> <p>While this audit recommendation has been implemented for many units of the Police Department, it will not be fully implemented in Patrol and for critical investigations until sworn vacancies are substantially filled, which is anticipated by the</p>	December 2019

<sup>4</sup> “Pavement Maintenance Status Report and Funding Strategy Update,” San José Department of Transportation: <https://sanjose.legistar.com/View.ashx?M=F&ID=5829151&GUID=1870CB0B-7E2A-455E-9CF9-2B843CFC1CF7>

<sup>5</sup> 16-08: <http://www.sanjoseca.gov/DocumentCenter/View/60924>

	<b>Department(s)</b>	<b>Audit &amp; Recommendation</b> <i>Reason Selected</i>	<b>Target Date</b>
		end of 2018-2019, giving the first half of 2019-2020 to complete implementation of the recommendation.	

**Operational Efficiency**

	<b>Department(s)</b>	<b>Audit &amp; Recommendation</b> <i>Reason Selected</i>	<b>Target Date</b>
<b>D</b>	Fire	<p><b>An Audit of the City of San José Fire Department's Strategic Plan Regarding Proposed Fire Stations<sup>6</sup> (01-05)</b></p> <p><i>Recommendation 3: Develop for City Council consideration plans for expanding its use of the Omega priority response level. These plans should include: obtaining the software necessary to fully implement the Omega priority response level; options and costs for dispensing non-emergency medical advice; and any other issues that need to be addressed.</i></p> <p>This audit recommendation is on the Fire Department's work plan to improve emergency medical service response times and meet County and City performance objectives. In FY 2004-05, the Fire Department was the first in the County to adopt and implement the ProQA priority dispatch software which is necessary for the Priority Dispatch Omega protocol. The Fire Department has engaged with the County's Medical Director to perform additional studies to evaluate and expand the use of the Omega protocol. Implementation will require coordination and approval of the County.</p>	December 2018
<b>E</b>	City Manager/ Finance	<p><b>Consulting Agreements: Better Enforcement of Procurement Rules, Monitoring, and Transparency is Needed<sup>7</sup> (13-06)</b></p> <p><i>Recommendation 9: We recommend the Administration develop Citywide policies and procedures on contract monitoring and management including:</i></p> <ul style="list-style-type: none"> <li>- a standardized contract management process,</li> <li>- organization of contract files,</li> </ul>	December 2018

<sup>6</sup> 01-05: <http://www.sanjoseca.gov/DocumentCenter/View/5159>

<sup>7</sup> 13-06: <http://www.sanjoseca.gov/DocumentCenter/View/18349>

	Department(s)	Audit & Recommendation <i>Reason Selected</i>	Target Date
		<p>- checklists for tracking agreed-upon deliverables and line item budgets,                      - components of invoice review which link payments to contract deliverables, and                      - documenting deliverables prior to payment.                      We further recommend that the City require contract administrators to annually certify they have reviewed and understand those policies and procedures.</p> <p>The City Manager’s Office is in the process of updating processes for administering all contracts, including consultant contracts. Having updated policies and documented processes in place is critical to protect the City from liability and ensure fiscal accountability with the approximately 900 contracts the City enters into each year.</p>	
F	City Manager	<p><b>The City’s Use and Coordination of Volunteers: Volunteer Programs Provide Significant Benefits to the Residents of San José<sup>8</sup> (16-03)</b></p> <p><i>Recommendation 3: To assist City staff in managing volunteer programs, the Administration should create and post on the City’s intranet a volunteer guidebook or “toolkit” as a reference for staff during the development and management of volunteer programs.</i></p> <p>At the time of the audit, departments estimated that at least 10,000 individuals volunteered more than 185,000 hours in FY 2014-2015 for City programs and activities. The City is currently working to increase volunteerism, with new initiatives like BeautifySJ and opportunities for community members to volunteer away library fines. Having a consistent policies and procedures manual available to all departments using volunteers is critical.</p>	June 2019

<sup>8</sup> 16-03: <http://www.sanjoseca.gov/DocumentCenter/View/54695>

*Improved Service Delivery*

	<b>Department(s)</b>	<b>Audit &amp; Recommendation</b> <i>Reason Selected</i>	<b>Target Date</b>
<b>G</b>	Fire	<p><b>Fire Prevention: Improve Follow-up on Fire Code Violations, Prioritize Inspections, and Target Public Education to Reduce Fire Risk<sup>9</sup> (13-04)</b></p> <p><i>Recommendation 19: The Fire Department should develop a public education program based on the fact that many fires and most of the fire deaths in recent years occurred in multifamily residences. Public education efforts should include working with the community to provide education to children and other high-risk groups as well as education about and access to smoke detectors.</i></p> <p>The Fire Department will increase its outreach and education efforts in the year ahead and address this recommendation with a goal of reducing fires and fire-related injuries in multifamily residences and mobile homes.</p>	June 2019
<b>H</b>	Emergency Management	<p><b>The City's Use and Coordination of Volunteers: Volunteer Programs Provide Significant Benefits to the Residents of San José<sup>10</sup> (16-03)</b></p> <p><i>Recommendation 5: The Administration should work with the Fire Department's Office of Emergency Services Management to define specific roles for volunteers in the City's updated emergency operations plan and reactivate the Community Emergency Response Team (CERT) program. [Note: Original recommendation language updated to reflect new departmental organization.]</i></p> <p>This is a high priority for the newly re-formed Office of Emergency Management. The Office will be bringing an updated Emergency Operations Plan to the Council for adoption in fall of 2018. The updated plan will provide a structure for volunteer involvement in emergency response and recovery. The CERT program will be "re-initiated" in Winter 2018-19. It is important to note, that beyond the tasks contained in this audit recommendation, the Office will be re-</p>	June 2019

<sup>9</sup> 13-04 Report: <http://www.sanjoseca.gov/DocumentCenter/View/14917>

Administration Response: <http://www.sanjoseca.gov/DocumentCenter/View/15042>

<sup>10</sup> 16-03: <http://www.sanjoseca.gov/DocumentCenter/View/54695>

	<b>Department(s)</b>	<b>Audit &amp; Recommendation</b> <i>Reason Selected</i>	<b>Target Date</b>
		engaging past CERT participants and those completing the training course with exercises to enable viable response to emergency events.	
<b>I</b>	Housing	<p><b>The Apartment Rent Ordinance: Additional Investment, Improved Processes, and Strategic Resource Deployment Needed to Better Serve Tenants and Landlords<sup>11</sup> (16-10)</b></p> <p><i>Recommendation 3: To improve communication and outreach, the Housing Department should:</i></p> <ul style="list-style-type: none"> <li><i>a) Adopt a targeted approach to tenants and landlords,</i></li> <li><i>b) Improve language accessibility,</i></li> <li><i>c) Improve its lobby space,</i></li> <li><i>d) Improve websites, and</i></li> <li><i>e) Expand its online offerings including an on-line look-up tool, and the ability to file petitions online.</i></li> </ul> <p><i>(16-10 #3)</i></p> <p>This is a high priority for the Housing Department, especially with the recent changes to the Apartment Rent Ordinance. Community outreach is critical so that apartment owners understand the program and their responsibilities under the law, and so that tenants know their rights. The Proposed Operating Budget for 2018-2019 includes additional public outreach staffing and, if approved, this staffing will focus on items a, b, d, and e above.</p>	December 2018

<sup>11</sup> 16-10: <http://www.sanjoseca.gov/DocumentCenter/View/62894>

16-10 Supplemental Administration Response: <http://www.sanjoseca.gov/DocumentCenter/View/65745>



*Citywide Security/Risk Mitigation*

	<b>Department(s)</b>	<b>Audit &amp; Recommendation</b> <i>Reason Selected</i>	<b>Target Date</b>
<b>J</b>	Information Technology	<p><b>Audit of Information Technology General Controls<sup>12</sup> (12-02)</b></p> <p><i>Recommendation 4: In order to fully comply with Data Security Standards (PCI-DSS), immediately develop an Information Security Policy and include within this policy (applicable to all users who are connected to the City’s network) the following minimum standards:</i></p> <ul style="list-style-type: none"> <li><i>a) Updated password and access protocols (see Recommendation #2);</i></li> <li><i>b) Required schedules for periodic reviews of people with access to data center (including restricting the number of people with access);</i></li> <li><i>c) Improved guidelines to departments for facilitating IT network changes during inter-departmental transfers and terminations;</i></li> <li><i>d) Training and implementation of the City’s information security policy;</i></li> <li><i>e) After developing and implementing a Council-adopted Information Security Policy, initiate a citywide data security assessment to identify City’s PCI-DSS status.</i></li> </ul> <p>This is a high priority for the Administration, especially with recent cyber-attacks on major U.S. cities. The City funded a Cybersecurity Office in the IT Department as part of the 2017-2018 Adopted Operating Budget. The City Information Security Officer joined the organization in April 2018 and is leading efforts for resolution on these items by the end of December 2018. Completion of assessment and remediation may carry into 2019.</p>	December 2018
<b>K</b>	Office of Economic Development	<p><b>Audit of the City's Oversight of Financial Assistance to Community-Based Organizations<sup>13</sup> (08-04)</b></p> <p><i>Recommendation 11B: We recommend the Real Estate Division: Bring current all expired leases, rental payments, insurance certificates, and other required reporting</i></p>	December 2018

<sup>12</sup> 12-02: <http://www.sanjoseca.gov/DocumentCenter/View/3168>

<sup>13</sup> 08-04: <http://www.sanjoseca.gov/DocumentCenter/View/3265>

	<b>Department(s)</b>	<b>Audit &amp; Recommendation</b> <i>Reason Selected</i>	<b>Target Date</b>
		<p><i>documentation [for leases with community-based organizations].</i></p> <p>The Office of Economic Development is in the process of updating or negotiating new leases, which will then be brought to the City Council for approval. The goal is to implement this recommendation by December 2018.</p>	
<b>L</b>	Information Technology	<p><b>Audit of Information Technology General Controls<sup>14</sup> (12-02)</b></p> <p><i>Recommendation 8: ITD [Information Technology Department] take the lead to develop (and test) a Disaster Data Recovery Plan and ensure that end-user business needs are included in the final plan.</i></p> <p>This is a high priority for the Administration, especially with recent cyber-attacks on major U.S. cities and the high disaster risks San José is likely to encounter based on its location and target profile.</p> <p>The IT Department updated backup protocols and practices in 2017-2018 to provide recoverability of data from critical systems, stored on-cloud. This was an interim step to make progress on the Audit recommendation from 2012 and left untouched until 2017 due to budget deficits.</p> <p>An RFP is currently underway to refresh the City’s server, storage, and virtualization assets, providing high-availability, on-cloud, and security features. These systemic fixes will provide superior recovery point and recovery time objectives, along with test recovery options, to resolve the Audit recommendation.</p> <p>IT will update the IT Disaster Recovery/Business Resumption Plan upon completion of that modernization project. Initial estimates for completion of the project are December 2018.</p>	December 2018

<sup>14</sup> 12-02: <http://www.sanjoseca.gov/DocumentCenter/View/3168>

### ***Conclusion***

If approved by the City Council, the Administration intends to work diligently to close out the above audit priorities while continuing to address other outstanding recommendations. The City Manager and City Auditor have agreed to a list that includes open audit recommendations that are both significant and, in most cases, doable, primarily over the next twelve months (June 2019) with two items trailing into 2019-2020. However, it is important to note that the timelines outlined above can shift due to changing circumstances.

It should be noted that the above list does not include any outstanding audit recommendations pertaining to other Council Appointees, as those offices do not report to the City Manager. Item A of for this agenda item is the City Auditor's Status Report on Open Audit Recommendations as of December 31, 2017, which lists all open recommendations, including those directed to other City Council appointees.

The above recommendations also do not include any outstanding audit recommendations that require the City to meet and confer with employee bargaining units. Outstanding recommendations with meet and confer implications are noted in Attachment A of the 2018 Annual Summary of Labor Negotiations<sup>15</sup> and are addressed separately through the labor negotiation process in Closed Session.

### **EVALUATION AND FOLLOW-UP**

If approved, the City Auditor and City Manager will return to Council with updates on these Open Audit Recommendation Priorities with the City Auditor's next Status of Open Audit Recommendations report, which is anticipated to be brought forward for City Council review in September 2018.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's Council meeting agenda website for June 5, 2018.

### **COORDINATION**

This memorandum has been coordinated with the Office of Economic Development, Office of Emergency Management, and the Finance, Fire, Housing, Information Technology, Police, and Transportation Departments.

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<sup>15</sup> 2018 Annual Summary of Labor Negotiations:

<https://sanjose.legistar.com/View.ashx?M=F&ID=5784755&GUID=75159950-B90A-4948-A20D-A0DC7C0C464F>

**COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

**CEQA**

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.



DAVID SYKES  
City Manager



SHARON ERICKSON  
City Auditor

For questions, please contact Sharon Erickson, City Auditor, at (408) 535-1250, Jennifer Maguire, Assistant City Manager, at 408-535-8185, or Michelle McGurk, Assistant to the City Manager, at 408-535-8254.

Attachment A: Open Audit Recommendations with Meet and Confer Implications.