



**OFFICE OF THE  
CITY AUDITOR**

**SEMI-ANNUAL RECOMMENDATION FOLLOW-UP REPORT  
ON ALL OUTSTANDING AUDIT RECOMMENDATIONS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

**A REPORT TO THE  
SAN JOSÉ CITY COUNCIL  
PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE**

March 10, 2010

Honorable Mayor and Members  
of the City Council  
200 East Santa Clara Street  
San José, CA 95113

Transmitted herewith is the *Semi-Annual Follow-Up Report On All Outstanding Audit Recommendations For The Six Months Ended December 31, 2009*.

An Executive Summary is presented on the blue pages in the front of this report. In accordance with procedures, the City Auditor gave the City Manager's Office a preview copy of this report for review.

The format of the Semi-Annual Follow-Up Report is intended to highlight recommendations requiring Public Safety, Finance and Strategic Support Committee attention and report on the status of all open recommendations.

I will present this report to the Public Safety, Finance and Strategic Support Committee at its March 18, 2010 meeting. Should you have any questions or need additional information in the interim, please let me know.

Respectfully submitted,

*Sharon W. Erickson*

Sharon W. Erickson  
City Auditor

SE:bh

cc: City Manager's Office  
and affected departments

## **EXECUTIVE SUMMARY**

In accordance with the City Auditor's approved 2009-10 Workplan, we have prepared a report of the status of open recommendations for the six months ending December 31, 2009. To prepare this report, we met with department staff, reviewed department assessments of audit status, and reviewed documentation provided by departments. The City Auditor's Office would like to thank the City Manager's Office and all of the affected departments for their assistance in compiling this report.

### **IMPLEMENTATION STATUS OF OPEN RECOMMENDATIONS**

During the semi-annual period covering July 1 2009 through December 31, 2009, there were 107 outstanding recommendations. This included 55 recommendations that were outstanding after our last status report as of June 30, 2009, and 52 new recommendations from audits issued during this semi-annual period. Of the 107 outstanding recommendations:

- 23 recommendations were implemented;
- 63 recommendations were partly implemented;
- 20 recommendations were not implemented; and
- 1 recommendation was closed.

Table I summarizes these recommendations by audit report in chronological order.

**TABLE I**  
**STATUS OF OPEN RECOMMENDATIONS BY AUDIT REPORT**  
**ENDING DECEMBER 31, 2009<sup>1</sup>**

Report #	Audit Report	Implemented	Partly Implemented	Not Implemented	Closed
01-02	An Audit Of The City Of San Jose Fire Department's Overtime Expenditures		2		
01-05	An Audit of the City of San Jose Fire Department's Strategic Plan Regarding Proposed Fire Stations		2		
02-03	An Audit Of The Property Management Operations Of The City Of San José's Department Of Public Works – Real Estate Division	1			
03-10	An Audit of The San José Fire Department's Bureau of Fire Prevention	1	4		
06-01	An Audit Of Citywide Grant Oversight	1			
06-02	An Audit Of The San Jose Municipal Water System Fire Hydrant Maintenance And Repair Program		1		
06-04	2004-05 Annual Performance Audit Of Team San Jose		2		
07-03	Audit of Traffic Calming	1			
07-04	An Audit Of DOT's Efforts To Secure Federal Highway Bridge Replacement And Rehabilitation (HBRR) Funds		1		
07-06	City's Tax-Exempt Bond Program and Use of Interfund Loans to Provide Financing for Capital Bond Projects		3		
MEMO 8-8-08	Review of the Department of Public Works' Oversight of the Foxworthy Bridge Project	4			
08-02	Retirement Services' Travel Expenses		4	1	
08-03	Commercial Solid Waste Franchise and AB939 Fees Collection Program		1	1	
08-04	City's Oversight of Financial Assistance to Community-based Organizations	1	13		
09-03	City of San José's Workers' Compensation Program	3	2	1	
09-04	San José Police Department's Auto Theft Unit	1	3	1	
09-05	San Jose Conservation Corps	1	9		
09-06	Employee Medical Benefits	2	9	6	
09-07	Park Trust Fund	2	7	4	1
09-09	Animal Care Services	5		6	
	<b>Totals</b>	<b>23</b>	<b>63</b>	<b>20</b>	<b>1</b>

<sup>1</sup> This list does not include one audit issued shortly before the end of the reporting period: *Audit of Pensionable Earnings and Time Reporting*.

As of December 31, 2009, the distribution of the 83 recommendations which remain open are as follows:

1 Budget Office	14 Human Resources
12 City Administration	11 Parks, Recreation, and Neighborhood Services
1 Economic Development	4 Police
1 Employee Relations	5 Retirement Boards
3 Environmental Services Department	2 Retirement Services
2 Finance Department	2 Team San Jose
8 Fire Department	1 Transportation
16 General Services	

Of the 83 recommendations which remain open:

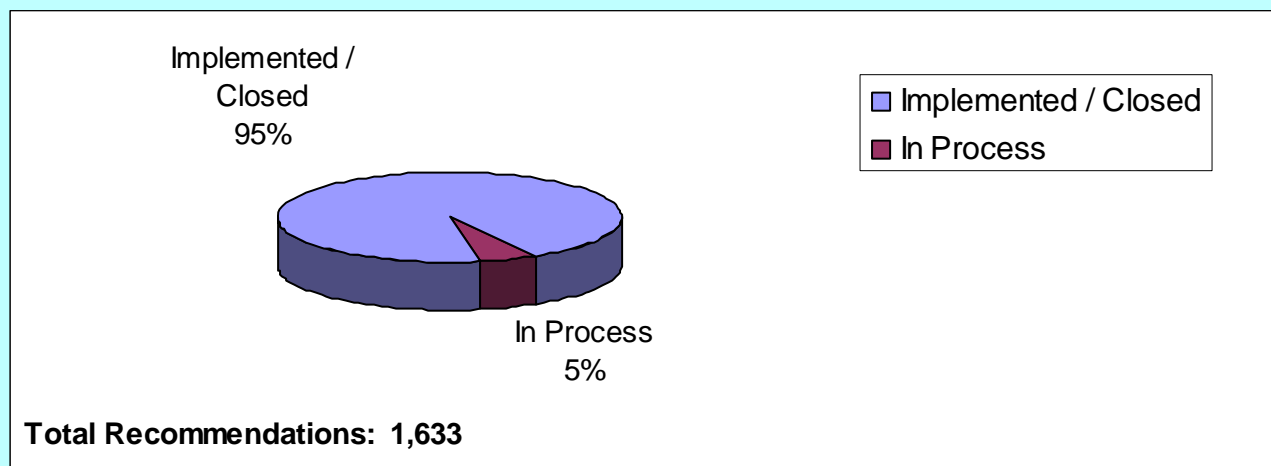
- 3 recommendations are Priority 1;
- 26 recommendations are Priority 2; and
- 54 recommendations are Priority 3.

Of the 20 recommendations which are “not implemented”:

- 0 recommendation is Priority 1;
- 10 recommendations are Priority 2; and
- 10 recommendations are Priority 3.

Graph I shows the number of City Auditor recommendations made and implemented from May 1985 through December 2009.

**GRAPH I**  
**RECOMMENDATIONS IMPLEMENTED**  
**May 1985 through December 2009**



## **RECOMMENDATIONS REQUIRING PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE ATTENTION**

Recommendations requiring Committee attention are those recommendations for which either 1) the City Auditor and the Administration disagree on the recommendation's implementation status, 2) the Administration has not informed the City Auditor as to the status of the recommendation's implementation, 3) the Administration has indicated it cannot or will not implement the recommendation, 4) the recommendation will require additional funding in order to be implemented, 5) implementation would generate additional revenues or cost savings; or 6) the recommendation is no longer relevant. Any recommendations with budget implications are also tracked as part of each year's budget process.

### **01-02: AN AUDIT OF THE CITY OF SAN JOSÉ FIRE DEPARTMENT'S OVERTIME EXPENDITURES**

*#7 (San José Fire Department/GM) - Review sick leave data to establish benchmarks for sick leave use and identify possible patterns of abuse and take appropriate follow-up actions. (Priority 3)*

PARTLY IMPLEMENTED. The Fire Department has completed a review of sick leave usage by personnel assigned to the line. This report is set to automatically generate at the conclusion of each quarter. The report was discussed with the Battalion Chiefs at their monthly meeting with senior SJFD staff. In addition, the SJFD is in the process of programming Telestaff to require a Captain's approval of sick leave usage. Finally, according to the SJFD's Acting Deputy Director, the SJFD is updating the sick leave procedures that are consistent with the SJFD's MOU which allow for the City to require an employee to furnish substantiation for any absence for which sick leave is requested and which allows for the City to require an employee that is sick for more than three days or two consecutive shifts of sick leave to submit a physician's release or sick leave certificate. These procedures will be finalized once they have been reviewed by Local 230. Target date: 6-10.

POTENTIAL BUDGET IMPACT: In January 2010, the Fire Department reported 65,631 hours of sick leave used in FY 2008-09. This is the equivalent of 23 FTE. Reducing the number of hours of sick leave taken can reduce personnel and overtime costs.

*#8 (San José Fire Department/GM) - Implement a proactive sick leave reduction program to inform line personnel of the benefits of conserving sick leave and rewarding personnel with perfect attendance. (Priority 3)*

PARTLY IMPLEMENTED. The Fire Department has completed a review of sick leave usage by personnel assigned to the line. This report is set to automatically generate at the conclusion of each quarter. The report was discussed with the Battalion Chiefs at their monthly meeting with senior SJFD staff. In addition, the SJFD is in the process of programming Telestaff to require a Captain's approval of sick leave usage. Finally, according to the SJFD's Acting Deputy Director, the SJFD

is updating the sick leave procedures that are consistent with the SJFD's MOU which allow for the City to require an employee to furnish substantiation for any absence for which sick leave is requested and which allows for the City to require an employee that is sick for more than three days or two consecutive shifts of sick leave to submit a physician's release or sick leave certificate. These procedures will be finalized once they have been reviewed by Local 230. Target date: 6-10.

POTENTIAL BUDGET IMPACT: In January 2010, the Fire Department reported 65,631 hours of sick leave used in FY 2008-09. This is the equivalent of 23 FTE. Reducing the number of hours of sick leave taken can reduce personnel and overtime costs.

### **01-05: AN AUDIT OF THE CITY OF SAN JOSÉ FIRE DEPARTMENT'S STRATEGIC PLAN REGARDING PROPOSED FIRE STATIONS**

***#3 (San José Fire Department/RM) - 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. (Priority 3)***

PARTLY IMPLEMENTED. Under the Priority Dispatch Omega protocol, a 911 call would receive an alternate response, such as medical advice over the phone from a nurse. The San Jose Fire Department (SJFD) has completed some of the steps necessary to implement the Priority Dispatch Omega protocol. Specifically, it renewed its accreditation as an Accredited Center of Excellence in April 2008; it implemented the new CAD system necessary to integrate ProQA software necessary for the Priority Dispatch Omega protocol; and it has begun using the ProQA software. Currently, the Emergency Medical Services (EMS) Agreement with the County, which expires June 30, 2011, requires that the SJFD respond on all 911 calls received. However, the current EMS agreement gives the Fire Department authorization to respond to lower-priority medical aid service requests, as determined through the Medical Priority Dispatch System, with Basic Life Support resources. The SJFD is actively participating as a stakeholder in the redesign of the current EMS system, which would include expanded use of the Omega protocol. Furthermore, the SJFD is in the process of completing the implementation of its new RMS and has been collecting patient care data since March 2009. The SJFD intends to continue collecting data in support of its efforts to identify Omega responses, which would receive an alternate response in the redesigned EMS system. The SJFD will also continue its efforts to influence the redesign of the EMS system to reduce unnecessary responses and improve the quality of patient care. Target date: 6-11.

POTENTIAL BUDGET IMPACT: The ability to respond by phone would potentially reduce the number of EMS responses, saving wear and tear on vehicles.

***#5 (San José Fire Department/RM) - Implement a pilot project to evaluate the use of SUVs or Light Units to respond to lower priority emergency medical calls. (Priority 3)***

PARTLY IMPLEMENTED. The SJFD completed its operational planning related to temporary redeployment of resources and the use of an alternatively staffed unit to respond to lower priority calls. The pilot program has begun with the relocation of Engine 2 to a temporary facility during Station 2's reconstruction. The SJFD implemented an alternatively-staffed brush patrol equipment unit to respond to lower priority calls in the event a simultaneous request for service was received in Station 2's first-due district. The alternatively-staffed brush patrol unit responds with Engine 2, creating a six-person, two-piece engine company. In the event a second service request occurs during a response, the two-person brush patrol unit, with an Advanced Life Support complement of equipment, can continue responding on the original request or respond separately to the new request; depending on the priority of the response and with supervisory approval. The two-person unit is staffed with an engineer and a paramedic 12 hours per day. This approach was agreed to by the firefighters union and management to address safety concerns until more data on the effectiveness and safety of an alternatively staffed unit could be determined. During this period, the SJFD will collect patient care, and unit availability and location data regarding this deployment model with the incident-reporting module of the Records Management System and Mobile Data Computer. Target date: 3-10.

POTENTIAL BUDGET IMPACT: Alternative staffing during Station 2's reconstruction reduces cost; future impacts TBD.

**03-10: AN AUDIT OF THE SAN JOSÉ FIRE DEPARTMENT'S BUREAU OF FIRE PREVENTION**

***#2 (San José Fire Department/RO) - If Recommendation #1 results in a significant number of facilities being added to the Fire Inspection Billing System (FIBS) database, follow up on the remaining manufacturing facilities in the Business License database that did not have a FIBS number. (Priority 2)***

PARTLY IMPLEMENTED. According to San Jose Fire Department (SJFD) Administration, the SJFD Records Management System (RMS) implementation process has been completed. However, using the Business License database to follow up on the remaining manufacturing facilities that did not have a FIBS number is currently not possible. Specifically, in the past, both the FIBS and Business License applications ran on the City's VAX system and shared common data which linked the databases. With the migration of both applications from the VAX system, the link was broken and the FIBS system can no longer retrieve information from the Business License system. According to SJFD Administration, the Information Technology Department may provide some help in attempting to access this information.

Target date: 12-10.



POTENTIAL BUDGET IMPACT: In addition to potential safety issues, the Department may be forgoing revenue from unpermitted facilities (annual Fire Safety Permits cost from \$216 to \$1,561 per permit plus applicable inspection fees at an hourly rate of \$82.50 per half-hour or portion thereof).

***#3 (San José Fire Department/RO) - Periodically compare the FIBS database with the Business License database using the SIC Codes that are most likely to require a fire safety inspection. (Priority 2)***

PARTLY IMPLEMENTED. According to San Jose Fire Department (SJFD) Administration, the SJFD Records Management System (RMS) implementation process has been completed and a Fire Prevention Business Plan, which addresses outstanding audit recommendations, has been drafted. However, comparing the FIBS database with the Business License database SIC Codes to determine which are most likely to require a fire safety inspection is currently not possible. Specifically, in the past, both the FIBS and Business License applications ran on the City's VAX system and shared common data which linked the databases. With the migration of both applications from the VAX system, the link was broken and the FIBS system can no longer retrieve information from the Business License system. According to SJFD Administration, the Information Technology Department may provide some help in attempting to access this information. Target date: 12-10.

POTENTIAL BUDGET IMPACT: See Recommendation #2 above.

**07-04: AN AUDIT OF DEPARTMENT OF TRANSPORTATION'S EFFORTS TO SECURE FEDERAL HIGHWAY BRIDGE REPLACEMENT AND REHABILITATION (HBRR) FUNDS**

***#2 (Department of Transportation/RM) - Prepare and submit an indirect cost rate proposal to CALTRANS for approval. (Priority 3)***

PARTLY IMPLEMENTED. An indirect cost rate proposal developed by the city's Finance Department was submitted to Caltrans for approval in September 2008. The indirect rate proposal was not accepted by Caltrans. DOT and the Finance Department will be resubmitting a proposal to Caltrans in March 2010. Target date: 6-10.

POTENTIAL BUDGET IMPACT: The Department estimates this proposal could increase recovery of indirect overhead costs by about \$150,000.

**07-06: AN AUDIT OF THE MANAGEMENT OF THE CITY'S TAX-EXEMPT BOND PROGRAM AND USE OF INTERFUND LOANS TO PROVIDE FINANCING FOR CAPITAL BOND PROJECTS**

***#1 (Finance Department/JL) - Improve controls over the administration of the tax-exempt bond program and processes to mitigate negative cash balances in the City's Cash Pool caused by bond programs and adequately address other negative balances. (Priority 1)***

PARTLY IMPLEMENTED. Debt Management staff developed a negative cash balance report which is reviewed monthly and summarized in the monthly Investment Reports to City Council. They have also implemented an updated Disbursement Procedure to require project departments to submit disbursements within 30 calendar days after the accounting period close. The procedure also includes additional measures to enforce compliance. The disbursement requests for November 2009 for all departments were submitted on or prior to the designated due date. The Department has drafted new interest allocation procedures which, when implemented, should ensure proper allocation of interest. Target date: 7-10.

POTENTIAL BUDGET IMPACT: According to the Finance Department, the average negative cash balance in City bond fund accounts was approximately \$24 million as of December 2009 – decreasing annual interest earnings by about \$700,000 (all funds).

**09-03: AUDIT OF THE CITY OF SAN JOSÉ'S WORKERS' COMPENSATION PROGRAM**

***#1 (Office of Employee Relations/RO) - Propose structural changes to the City's Workers' Compensation Program that would include (1) reducing the City's policy of providing up to nine months of a disability leave supplement pay at 85 percent for non-sworn and one full year at 100 percent for sworn employees and (2) implementing a retirement benefit payment offset for sworn employees receiving disability retirement payments that replicates the offset for retired non-sworn employees. (Priority 2)***

NOT IMPLEMENTED. According to the Office of Employee Relations, the structural changes to the City's Workers' Compensation Program this recommendation proposes are subject to meet and confer with the City's bargaining units. The City is currently in negotiations with various bargaining units but no agreements have been reached yet. Target date: TBD.

POTENTIAL BUDGET IMPACT: A 2008 consultant report estimated that the City pays \$1.7 million per year by not offsetting Police and Fire disability retirement pension benefits when disability benefits are paid.

***#4 (Human Resources/RO) - Reconsider the feasibility of restoring the Wellness Coordinator position for the Wellness Program and implementing a comprehensive Wellness-Fitness Program for the Fire Department. (Priority 3)***

PARTLY IMPLEMENTED. In August 2009, Risk Management requested that the San Jose Fire Department (SJFD) consider the restoration of a comprehensive wellness program. Risk Management researched best practices of similar-sized agencies and prepared a detailed wellness plan proposing that the SJFD consider restoring staffing and resources to wellness. The proposed plan includes the following components: (1) Health and Fitness Coordinator, (2) Mandatory Fitness Training for Sworn Fire Employees, and (3) Mandatory Physical Examinations and Standards.

According to the SJFD Administrative Officer, Fire Administration staff, the Human Resources Safety Division Deputy Director, and the City Physician met to discuss implementing changes to the Annual Medical Exam process and to discuss implementing a comprehensive fitness program. The SJFD will continue to work with the Human Resources Department to implement changes to the Annual Medical Exams and to develop a proposal for a comprehensive fitness program.

Target date: 6-10.

POTENTIAL BUDGET IMPACT: Until FY 2002-03, when Fire lost one of three Training Specialist positions, a Training Specialist served as the Department's Wellness Coordinator focusing on Workers' Compensation case follow-up (current salary range \$64,334 - \$78,208). In FY 2008-09, Fire Department Workers' Compensation costs totaled about \$5 million.

**09-04: AUDIT OF THE SAN JOSÉ POLICE DEPARTMENT'S AUTO THEFT UNIT**

***#5 (San José Police Department/DC) - Explore the feasibility of using specially trained civilian staff for administrative assignments such as in-custody arrest documentation. (Priority 3)***

NOT IMPLEMENTED. The Auditor's Office issued an Audit of Civilianization Opportunities in the San Jose Police Department on January 14, 2010.

Target date: 6-10.

POTENTIAL BUDGET IMPACT: Using civilian staff to perform administrative duties could free up sworn officers and generate cost savings. At the time of the audit, we estimated that using one civilian instead of a sworn officer investigator could save about \$43,000, or 37 percent of the cost of a sworn officer, annually. This position and the related savings are included in the estimated savings related to Report #10-02: *Audit of Civilianization Opportunities in the San Jose Police Department* issued in January 2010.

## **09-06: AUDIT OF EMPLOYEE MEDICAL BENEFITS**

***#5 (Human Resources/MH) - Confirm whether any excess premium payments were made to Kaiser in 2008, and determine if other years' payments should be analyzed as well. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources is currently in the process of identifying training resources and are considering partnering with another department to obtain the necessary skill sets required to confirm whether any excess premium payments were made to Kaiser in 2008. Target date: TBD.

POTENTIAL BUDGET IMPACT: The audit found that in 2008 the City potentially overpaid Kaiser by about \$140,000 for employee coverage.

***#12 (Human Resources/MH) - Prohibit employees from being simultaneously covered by City-provided medical benefits as a City employee, and as a dependent of another City employee, and work with the Office of Employee Relations on potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. The recommendation requires labor negotiations. According to Human Resources, the City Administration will evaluate the recommendation within the context of its overall negotiating strategy with the various bargaining units. Target date: Varies.

POTENTIAL BUDGET IMPACT: At the time of the audit, we estimated that eliminating redundant coverage could save up to \$500,000 during the first year of implementation. It should be noted that as premiums of City-sponsored medical plans rise, so do the potential savings from eliminating redundant medical coverage.

***#13 (Human Resources/MH) - Reduce cash in-lieu payment amounts, and work with the Office of Employee Relations on potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. The recommendation requires labor negotiations. According to Human Resources, the City Administration will evaluate the recommendation within the context of its overall negotiating strategy with the various bargaining units. Target date: Varies.

POTENTIAL BUDGET IMPACT: At the time of our audit, we estimated that if the City reduced its in-lieu payout from 50 percent to 40 percent of the City's contribution rate to medical premiums, the City could save \$1 million per year; or if the City were to reduce its in-lieu payout to 30 percent of the City's contribution rate to medical premiums, the City could save \$2 million per year. It should be noted that as premiums of City-sponsored medical plans rise, so do the potential savings from reducing the in-lieu payout.

***#14 (Human Resources/MH) - Prohibit participation in the Health In-Lieu Plan among City employees who are already receiving other City-provided medical benefits and work with the Office of Employee Relations on potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. The recommendation requires labor negotiations. According to Human Resources, the City Administration will evaluate the recommendation within the context of its overall negotiating strategy with the various bargaining units. Target date: Varies.

POTENTIAL BUDGET IMPACT: At the time of the audit, we estimated that if the City restricted participation in the City's Health In-Lieu Plan to only those who can demonstrate medical coverage through a medical plan outside of the City, the City would reduce its costs by over \$500,000 per year. It should be noted that as premiums of City-sponsored medical plans rise, so do the potential savings from restricting participation in the Health-In-Lieu Plan.

***#15 (Retirement Services & City Attorney/MH) - Clarify the rights of City retirees to suspend and re-enroll in their medical benefits. (Priority 3)***

NOT IMPLEMENTED. The San José Municipal Code allows retirees to suspend and re-enroll in their medical benefits. However, the City Attorney's Office has identified potential problems with encouraging retirees who are covered by outside plans to suspend and re-enroll in their medical benefits if or when they lose their outside coverage.

According to staff at the City Attorney's Office, as of now, medical providers will allow City retirees to suspend and re-enroll in their medical benefits. However, according to the City Attorney's Office, there is no formal assurance from the medical providers that they will continue to allow re-enrollments. The City Attorney's Office is in the process of determining whether or not the City's benefits program contains protections against retirees and their dependents being permanently disqualified from re-enrolling in the medical coverage from which they dis-enrolled.

Secondly, to ensure that qualified City retirees and their dependents retain lifetime medical coverage, the San José Municipal Code requires the City retiree to be enrolled in a City plan at the time of the retirement and at the time of death. If City retirees are not enrolled in a City plan during any of these two periods, dependents may be permanently disqualified for City medical coverage. The City Attorney's Office indicates that this potential impact on dependents may be addressed by amending the Municipal Code. Target date: 7-10.

POTENTIAL BUDGET IMPACT: This recommendation addresses the barriers to establishing a retiree in-lieu program. See Recommendation #16 (below) regarding potential cost savings from establishing a retiree in-lieu program.

***#16 (Retirement Services & Human Resources/MH) - Continue to explore an in-lieu program for qualified City retirees who suspend their medical benefits and work with the Office of Employee Relations on any potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. Human Resources and Retirement Services are actively working to identify issues that would affect the development of an in-lieu program for City retirees. Once they have identified the issues, the departments will prepare a work plan for addressing the issues and present it to the City Administration. Target date: TBD.

POTENTIAL BUDGET IMPACT: At the time of our audit, we estimated potential savings of between \$250,000 and \$1 million in the first year of a retiree in-lieu program. Such a program could also improve the City's projected long-term retiree healthcare liability – potentially impacting long-term retiree health care contribution rates. It should be noted that as premiums of City-sponsored medical plans and the number of qualified City retirees rise, so do the potential savings from implementing an in-lieu program for qualified City retirees.

***#17 (City Administration/MH) - Pursue at least one or a combination of the aforementioned cost-containment strategies and work with the Office of Employee Relations on potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. The recommendation requires labor negotiations. According to Human Resources, the City Administration will evaluate the recommendation within the context of its overall negotiating strategy with the various bargaining units. Target date: Varies.

POTENTIAL BUDGET IMPACT: Our review identified \$16.8 million in potential cost-containment strategies including:

- Potential savings of \$4 million per year by increasing the employees' share of medical premiums from a 90/10 to 80/20 employer-to-employee contribution ratio;
- Potential savings of \$10 million per year by introducing a lower cost deductible plan with a premium 20 percent lower than the existing lowest-cost plan; and
- Potential savings of \$2.8 million per year by increasing co-pays from \$10 to \$25 for most covered employees.

It should be noted that as premiums of City-sponsored medical plans, so do the potential savings from pursuing cost containment strategies. The potential savings would be greater if we considered the cost of covering an ever-growing number of qualified City retirees.

## **09-07: AUDIT OF THE PARK TRUST FUND**

***#6 (City Administration/AY) - Attempt to secure interest accrual on in-lieu fees not yet paid by the Redevelopment Agency. (Priority 3)***

CLOSED. As recommended by the Public Safety, Finance, and Strategic Support Committee on September 17, 2009, the City Council at its September 29, 2009 meeting (Item 3.7) accepted the Audit of the Park Trust Fund with the exception of Recommendation #6.

## **09-09: AUDIT OF ANIMAL CARE & SERVICES**

***#1 (Animal Care & Services Program/GM) - Increase its public education outreach efforts in order to increase animals licensed and vaccinated. (Priority 2)***

NOT IMPLEMENTED: ACS has prioritized the processing of new licenses, payments and rabies vaccination verification and has focused its staff efforts to that end. Staff is following-up on information that is received from veterinarians on new rabies vaccinations and ensuring that all animals that get vaccinations through San Jose veterinarians get licensed. ACS understands the need for increasing its public outreach and the potential for increasing licensing revenues through this outreach and anticipates developing a more comprehensive public outreach component once staff is current with its workload for new licenses through rabies vaccination verification. Target date: 12-10.

POTENTIAL BUDGET IMPACT: At the time of our audit, we estimated that a 25 percent increase in licensing could increase current revenues by as much as \$1.4 million per year. In January 2010, the City Council approved \$80,000 for temporary staffing and non-personal equipment to improve licensing rates.

***#2 (Animal Care & Services Program/GM) - Either enhance its current database to include online licensing and veterinarian reporting or outsource its licensing services to a vendor that offers those services. (Priority 3)***

NOT IMPLEMENTED: ACS continues to work with the Information Technology Department on issues related to offering online licensing. Target date: 12-10.

POTENTIAL BUDGET IMPACT: See Recommendation #1 above.

**#3 (Animal Care & Services Program/GM) - Improve efforts, such as additional follow-up with non-compliant veterinarians, to increase the compliance rate to the City's ordinance on rabies vaccination reporting. (Priority 2)**

NOT IMPLEMENTED: ACS has prioritized the processing of new licensing, payments and rabies vaccination verification of data already provided by compliant veterinarians. Once ACS staff has caught up with this backlog, the Deputy Director anticipates following-up with the non-compliant veterinarians. Target date: 6-10.

POTENTIAL BUDGET IMPACT: See Recommendation #1 above.

**OTHER PENDING AUDIT RECOMMENDATIONS WITH POTENTIAL BUDGET IMPACTS**

Although not covered during this reporting period, two recent audit reports – *Audit of Pensionable Earnings and Time Reporting* (issued December 2009) and *Audit of Civilianization Opportunities in the San Jose Police Department* (issued January 2010) – have pending audit recommendations with potential budget impacts.

**09-10: AUDIT OF PENSIONABLE EARNINGS AND TIME REPORTING**

The report (issued December 9, 2009) included six recommendations identifying approximately \$5.8 million in potential savings:

- Recommendation #2: Review the highest 12-month salary of all active beneficiaries starting in July 1, 2001 and work with Payroll to adjust those with retroactive lump sum payments to ensure that beneficiaries are receiving accurate pensions (potential estimated savings \$648,518 based on sampled employees only)
- Recommendation #4: To the extent possible, correct pension payments and retirement contributions for the Police and Fire Retirement members and for the Federated Retirement members where higher class pay or management allowances were considered pensionable (potential estimated savings \$925,126 based on sampled employees only)
- Recommendation #6: Adjust the FLSA pension records for retirees and active employees as soon as possible and recalculate pension benefits for retired firefighters (the City has estimated the over-contributions of employees and the City at approximately \$1 million).
- Recommendation #13: Consider amending the Municipal Code to calculate final compensation as the highest base salary received, with suitable exceptions (potential estimated lifetime savings \$717,000 based on sampled employees only).



- Recommendation #14: Consider amending the Municipal Code such that the Retirement Board shall credit a member with one year of federated city service for 2,080 hours of federated city service rendered by the member in any calendar year (potential estimated savings included with Recommendation #13 above).
- Recommendation #15: Consider amending the Municipal Code to return to a three year average in calculating pension benefits in both Retirement Plans (potential estimated savings \$2.5 million based on sampled employees only).

**10-02: AUDIT OF CIVILIANIZATION OPPORTUNITIES IN THE SAN JOSE POLICE DEPARTMENT**

The report (issued January 14, 2010) included 13 recommendations identifying about \$5.1 million in potential savings without decreasing the level of service. Key recommendations with potential budget impacts include:

- Recommendation #3: Seek to increase the number of positions allowed to be civilianized in the Memorandum of Agreement with the SJPOA.
- Recommendation #4: Consider how Community Service Officers and Investigative Aides might be used in the future in San Jose and meet and confer with the SJPOA regarding this provision.
- Recommendation #9: Develop short, medium, and long-term plans to civilianize the positions identified in this audit and/or other positions identified by the Police Department.
- Recommendation #10: Identify partial administrative roles filled by sworn and consider options for civilianization.
- Recommendation #11: Consider outsourcing the helicopter pilot duties as well as the fixed-wing airplane assignments on an hourly basis.
- Recommendation #12: Work with the Police Activities League to determine the most effective and efficient mix of sworn and civilian staff.
- Recommendation #13: Work with the Airport Department to determine the most effective and efficient mix of sworn (SJPD) and civilian (Airport) security required to maintain the Airport's security program, in accordance with TSA regulations.

**COMPLETE LISTING OF THE STATUS  
OF OPEN AUDIT RECOMMENDATIONS  
AS OF DECEMBER 31, 2009**

**01-02: AN AUDIT OF THE CITY OF SAN JOSÉ FIRE DEPARTMENT'S OVERTIME EXPENDITURES**

***#7 (San José Fire Department/GM) - Review sick leave data to establish benchmarks for sick leave use and identify possible patterns of abuse and take appropriate follow-up actions. (Priority 3)***

PARTLY IMPLEMENTED. The Fire Department has completed a review of sick leave usage by personnel assigned to the line. This report is set to automatically generate at the conclusion of each quarter. The report was discussed with the Battalion Chiefs at their monthly meeting with senior SJFD staff. In addition, the SJFD is in the process of programming Telestaff to require a Captain's approval of sick leave usage. Finally, according to the SJFD's Acting Deputy Director, the SJFD is updating the sick leave procedures that are consistent with the SJFD's MOU which allow for the City to require an employee to furnish substantiation for any absence for which sick leave is requested and which allows for the City to require an employee that is sick for more than three days or two consecutive shifts of sick leave to submit a physician's release or sick leave certificate. These procedures will be finalized once they have been reviewed by Local 230. Target date: 6-10.

POTENTIAL BUDGET IMPACT: In January 2010, the Fire Department reported 65,631 hours of sick leave used in FY 2008-09. This is the equivalent of 23 FTE. Reducing the number of hours of sick leave taken can reduce personnel and overtime costs.

***#8 (San José Fire Department/GM) - Implement a proactive sick leave reduction program to inform line personnel of the benefits of conserving sick leave and rewarding personnel with perfect attendance. (Priority 3)***

PARTLY IMPLEMENTED. The Fire Department has completed a review of sick leave usage by personnel assigned to the line. This report is set to automatically generate at the conclusion of each quarter. The report was discussed with the Battalion Chiefs at their monthly meeting with senior SJFD staff. In addition, the SJFD is in the process of programming Telestaff to require a Captain's approval of sick leave usage. Finally, according to the SJFD's Acting Deputy Director, the SJFD is updating the sick leave procedures that are consistent with the SJFD's MOU which allow for the City to require an employee to furnish substantiation for any absence for which sick leave is requested and which allows for the City to require an employee that is sick for more than three days or two consecutive shifts of sick leave to submit a physician's release or sick leave certificate. These procedures will be finalized once they have been reviewed by Local 230. Target date: 6-10.

POTENTIAL BUDGET IMPACT: In January 2010, the Fire Department reported 65,631 hours of sick leave used in FY 2008-09. This is the equivalent of 23 FTE. Reducing the number of hours of sick leave taken can reduce personnel and overtime costs.

**01-05: AN AUDIT OF THE CITY OF SAN JOSÉ FIRE DEPARTMENT'S STRATEGIC PLAN REGARDING PROPOSED FIRE STATIONS**

***#3 (San José Fire Department/RM) - 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. (Priority 3)***

PARTLY IMPLEMENTED. Under the Priority Dispatch Omega protocol, a 911 call would receive an alternate response, such as medical advice over the phone from a nurse. The San Jose Fire Department (SJFD) has completed some of the steps necessary to implement the Priority Dispatch Omega protocol. Specifically, it renewed its accreditation as an Accredited Center of Excellence in April 2008; it implemented the new CAD system necessary to integrate ProQA software necessary for the Priority Dispatch Omega protocol; and it has begun using the ProQA software. Currently, the Emergency Medical Services (EMS) Agreement with the County, which expires June 30, 2011, requires that the SJFD respond on all 911 calls received. However, the current EMS agreement gives the Fire Department authorization to respond to lower-priority medical aid service requests, as determined through the Medical Priority Dispatch System, with Basic Life Support resources. The SJFD is actively participating as a stakeholder in the redesign of the current EMS system, which would include expanded use of the Omega protocol. Furthermore, the SJFD is in the process of completing the implementation of its new RMS and has been collecting patient care data since March 2009. The SJFD intends to continue collecting data in support of its efforts to identify Omega responses, which would receive an alternate response in the redesigned EMS system. The SJFD will also continue its efforts to influence the redesign of the EMS system to reduce unnecessary responses and improve the quality of patient care. Target date: 6-11.

POTENTIAL BUDGET IMPACT: The ability to respond by phone would potentially reduce the number of EMS responses, saving wear and tear on vehicles.

***#5 (San José Fire Department/RM) - Implement a pilot project to evaluate the use of SUVs or Light Units to respond to lower priority emergency medical calls. (Priority 3)***

PARTLY IMPLEMENTED. The SJFD completed its operational planning related to temporary redeployment of resources and the use of an alternatively staffed unit to respond to lower priority calls. The pilot program has begun with the relocation of Engine 2 to a temporary facility during Station 2's reconstruction. The SJFD implemented an alternatively-staffed brush patrol equipment unit to respond to lower

priority calls in the event a simultaneous request for service was received in Station 2's first-due district. The alternatively-staffed brush patrol unit responds with Engine 2, creating a six-person, two-piece engine company. In the event a second service request occurs during a response, the two-person brush patrol unit, with an Advanced Life Support complement of equipment, can continue responding on the original request or respond separately to the new request; depending on the priority of the response and with supervisory approval. The two-person unit is staffed with an engineer and a paramedic 12 hours per day. This approach was agreed to by the firefighters union and management to address safety concerns until more data on the effectiveness and safety of an alternatively staffed unit could be determined. During this period, the SJFD will collect patient care, and unit availability and location data regarding this deployment model with the incident-reporting module of the Records Management System and Mobile Data Computer. Target date: 3-10.

POTENTIAL BUDGET IMPACT: Alternative staffing during Station 2's reconstruction reduces cost; future impacts TBD.

**02-03: AN AUDIT OF THE PROPERTY MANAGEMENT OPERATIONS OF THE CITY OF SAN JOSÉ'S DEPARTMENT OF PUBLIC WORKS – REAL ESTATE DIVISION**

***#12 (General Services/RO) - Assign to the Real Estate Division the responsibility for providing oversight over leases of City-owned property. (Priority 2)***

IMPLEMENTED. The transfer of the Real Estate Asset Management Division from the Department of Public Works to General Services was completed on July 1, 2009. According to General Services Administration, the Division has also completed an assessment of leases across non-enterprise fund departments for tracking purposes. In addition, a master list of leases has been created that documents the lessee name, type, property address, base and annualized rent amounts, lessee contact, existing use, responsible City department, and other pertinent information. While day-to-day management of these leases will remain in the departments currently managing them, the Real Estate Asset Management Division will provide oversight of all leases by leading the effort of gathering and consolidating lessee data and coordinating with the departments responsible for monitoring leases. Also see recommendations #8-17, Report #08-04: *Audit of the City's Oversight of Financial Assistance to Community-Based Organizations.*

**03-10: AN AUDIT OF THE SAN JOSÉ FIRE DEPARTMENT'S BUREAU OF FIRE PREVENTION**

***#2 (San José Fire Department/RO) - If Recommendation #1 results in a significant number of facilities being added to the Fire Inspection Billing System (FIBS) database, follow up on the remaining manufacturing facilities in the Business License database that did not have a FIBS number. (Priority 2)***

PARTLY IMPLEMENTED. According to San Jose Fire Department (SJFD) Administration, the SJFD Records Management System (RMS) implementation process has been completed. However, using the Business License database to follow up on the remaining manufacturing facilities that did not have a FIBS number is currently not possible. Specifically, in the past, both the FIBS and Business License applications ran on the City's VAX system and shared common data which linked the databases. With the migration of both applications from the VAX system, the link was broken and the FIBS system can no longer retrieve information from the Business License system. According to SJFD Administration, the Information Technology Department may provide some help in attempting to access this information.

Target date: 12-10.

POTENTIAL BUDGET IMPACT: In addition to potential safety issues, the Department may be forgoing revenue from unpermitted facilities (annual Fire Safety Permits cost from \$216 to \$1,561 per permit plus applicable inspection fees at an hourly rate of \$82.50 per half-hour or portion thereof).

***#3 (San José Fire Department/RO) - Periodically compare the FIBS database with the Business License database using the SIC Codes that are most likely to require a fire safety inspection. (Priority 2)***

PARTLY IMPLEMENTED. According to San Jose Fire Department (SJFD) Administration, the SJFD Records Management System (RMS) implementation process has been completed and a Fire Prevention Business Plan, which addresses outstanding audit recommendations, has been drafted. However, comparing the FIBS database with the Business License database SIC Codes to determine which are most likely to require a fire safety inspection is currently not possible. Specifically, in the past, both the FIBS and Business License applications ran on the City's VAX system and shared common data which linked the databases. With the migration of both applications from the VAX system, the link was broken and the FIBS system can no longer retrieve information from the Business License system. According to SJFD Administration, the Information Technology Department may provide some help in attempting to access this information. Target date: 12-10.

POTENTIAL BUDGET IMPACT: See Recommendation #2 above.

***#10 (San José Fire Department/RO) - Develop a risk assessment methodology to assign facility inspection frequencies. (Priority 3)***

PARTLY IMPLEMENTED. The San Jose Fire Department (SJFD) has drafted a Fire Prevention Business Plan which includes a risk analysis/assessment model for Fire Inspection Frequency. The SJFD sought the services of a consultant to develop a methodology to validate the risk assessment model in comparison with other target departments to identify “best practices” for fire inspection activities. According to the SJFD, the completed work the consultant submitted was incomplete in multiple task objectives and failed to provide definitive direction. The SJFD will either conduct this assessment in-house or will obtain the services of a new consultant to identify “best practices.” Target date: 9-10.

***#12 (San José Fire Department/RO) - Develop a workload analysis to determine its inspection staff needs to achieve its inspection goals and objectives. (Priority 3)***

PARTLY IMPLEMENTED. The San Jose Fire Department (SJFD) has drafted a Fire Prevention Business Plan that recommends inspection frequencies based on a risk analysis and assessment model, and includes an analysis of Inspector time and inspection workload. The SJFD sought the services of a consultant to develop a methodology to validate the risk assessment model in comparison to other target departments to identify “best practices” for fire inspection activities. According to the SJFD, the completed work the consultant submitted was incomplete in multiple task objectives and failed to provide definitive direction. The SJFD will either conduct this assessment in-house or will obtain the services of a new consultant to identify “best practices” for fire inspection activities. Target date: 9-10.

***#16 (San José Fire Department/RO) - Develop procedures and controls to reduce the number of times inspectors return to facilities to confirm that an Hazardous Materials Business Plan (HMBP) is in place and to ensure that facilities submit their HMBP in a timely manner. (Priority 3)***

IMPLEMENTED. The City Council approved an update to the San Jose Fire Department (SJFD) Administrative Citation Schedule of Fines, which includes fines for failing to maintain an updated Hazardous Materials Business Plan (HMBP). According to SJFD Administration, this provides the Hazardous Materials Inspectors with an enforcement tool that was lacking in the past. In addition, the SJFD has implemented its Records Management System (RMS) which allows electronic data tracking of facilities’ inspections to confirm that an HMBP is in place and was submitted timely.

## **06-01: AN AUDIT OF CITYWIDE GRANT OVERSIGHT**

***#2 (Office of Economic Development/GM) – Develop a Citywide grant database to provide comprehensive grant information, facilitate better grant awarding decisions and grantee monitoring, and help ensure grantee compliance with grant requirements. (Priority 3)***

IMPLEMENTED. The citywide grants database has been implemented – the grants database, WebGrants, began servicing the City’s grant-making business via the Internet in January 2010. According to the Program Manager, the Safe Summer Initiative Grant (SSIG) of the Parks, Recreation, and Neighborhood Services Department will be the first grant-making program to use the software in February 2010. Data will be populated as grants are awarded. Grantees can register and apply for various grants through this Web-based/database system. Staff expects that the database will be able to provide program staff with a “one-stop” view of each grantee’s history irrespective of the grant-making program that awarded the grant. Also see open audit recommendations from Report #08-04: *Audit of the City’s Oversight of Financial Assistance to Community-Based Organizations*.

## **06-02: AN AUDIT OF THE SAN JOSE MUNICIPAL WATER SYSTEM FIRE HYDRANT MAINTENANCE AND REPAIR PROGRAM**

***#5 (Environmental Services Department/RO) – Negotiate the ownership, maintenance, and replacement of about 13,500 fire hydrants with the private water companies in San Jose service areas. (Priority 2)***

PARTLY IMPLEMENTED. According to the Environmental Services Department (ESD), both private water companies, San Jose Water Company (SJWC) and Great Oaks Water Company (GOWC), have taken maintenance and replacement responsibilities for the fire hydrants in their respective areas. Regarding ownership of the fire hydrants, SJWC informed ESD it is willing to pay the City \$1 for each remaining City-owned hydrant in the SJWC service area. GOWC stated it has no interest in taking ownership of the City’s fire hydrants in its service area. ESD plans to meet with the Department of Transportation to determine the number of City-owned hydrants remaining in the SJWC service area and then request the City Attorney’s Office to draft an ownership agreement with SJWC. Target date: 12-10.

## **06-04: THE 2004-05 ANNUAL PERFORMANCE AUDIT OF TEAM SAN JOSE, INC.**

***#14 (Team San Jose/CH) – Work with the Office of Equality Assurance and provide required documentation in order to fully meet the City’s Living Wage and Prevailing Wage Policies as required in the Management Agreement. (Priority 3)***

PARTLY IMPLEMENTED. The director of the Office of Equality Assurance (OEA) met with representatives from Team San Jose on 2/25/09 to discuss Team San Jose’s obligations as it relates to prevailing wage and living wage requirements in their

contract with the City. OEA provided TSJ with wording to include in their quotes and service orders as it relates to prevailing wage or living wage as well as soft copies of relevant forms and instructions. Following this meeting, TSJ provided OEA with all of its contracts for review. OEA review to make a determination of whether TSJ is in compliance with these policies is pending. Target date: 6-10.

***#16 (Team San Jose/CH) – Develop and implement a workplan to correct ADA noncompliant items and notify the City accordingly. (Priority 3)***

PARTLY IMPLEMENTED. The previous Management Agreement between the City and TSJ required that TSJ develop a work plan to correct or avoid any violations or non-compliance with the Americans Disabilities Act of 1990 (ADA). TSJ has completed the ADA accessibility survey in November 2008. Some items were to be addressed during the convention center expansion process with improvement and upgrades; however the funds for the expansion and renovation have now been greatly decreased. A proposed funding plan will be presented to Council in March for approval. The RDA will re-determine its scope of work and coordinate a meeting with other City departments and TSJ to develop a workplan and timeline to identify and address all other ADA items. The Convention Center Capital Facilities Advisory Committee will also address this issue as the expansion project is further developed. Target date: 12-10.

**07-03: AN AUDIT OF THE TRAFFIC CALMING PROGRAM**

***#11 (San Jose Police Department/RM) - Develop a performance measure to monitor the three Traffic Enforcement Unit officers that replaced the NASCOP program. (Priority 3) [Revised at 6/21/07 PSFSS Committee meeting]***

IMPLEMENTED. The three new Traffic Enforcement Officers were deployed in early February 2009 and dedicated to the School and Neighborhood Enforcement program (SNE). The SNE addresses traffic safety concerns and responds efficiently to residents requests for traffic enforcement on residential streets. The Traffic Enforcement Unit has an objective of 24 operations annually to address chronic complaints in neighborhoods. The TEU accomplishes the objective by deploying six traffic teams to four operations each weekly in their assigned SNE zone. There are six SNE zone areas. The zones are rotated quarterly and are selected based on three factors: 1) highest number of requests for enforcement within a geographic area; 2) the proximity to schools, and 3) seriousness or danger the condition creates for the residents. According to the Police Department, this program differs from the NASCOP program by encouraging community involvement through contact with the SNE Zone team sergeant and by providing satisfaction surveys to be completed by the residents who request the enforcement. The SNE program can be accessed online at SJPD.org, where residents can learn about neighborhood enforcement services and request enforcement by completing an on-line form. Residents can also see where the current SNE zones are located within the City by viewing SNE maps on-line.



**07-04: AN AUDIT OF DEPARTMENT OF TRANSPORTATION'S EFFORTS TO SECURE FEDERAL HIGHWAY BRIDGE REPLACEMENT AND REHABILITATION (HBRR) FUNDS**

*#2 (Department of Transportation/RM) - Prepare and submit an indirect cost rate proposal to Caltrans for approval. (Priority 3)*

PARTLY IMPLEMENTED. An indirect cost rate proposal developed by the city's Finance Department was submitted to Caltrans for approval in September 2008. The indirect rate proposal was not accepted by Caltrans. DOT and the Finance Department will be resubmitting a proposal to Caltrans in March 2010. Target date: 6-10.

POTENTIAL BUDGET IMPACT: The Department estimates this proposal could increase recovery of indirect overhead costs by about \$150,000.

**07-06: AN AUDIT OF THE MANAGEMENT OF THE CITY'S TAX-EXEMPT BOND PROGRAM AND USE OF INTERFUND LOANS TO PROVIDE FINANCING FOR CAPITAL BOND PROJECTS**

*#1 (Finance Department/JL) - Improve controls over the administration of the tax-exempt bond program and processes to mitigate negative cash balances in the City's Cash Pool caused by bond programs and adequately address other negative balances. (Priority 1)*

PARTLY IMPLEMENTED. Debt Management staff developed a negative cash balance report which is reviewed monthly and summarized in the monthly Investment Reports to City Council. They have also implemented an updated Disbursement Procedure to require project departments to submit disbursements within 30 calendar days after the accounting period close. The procedure also includes additional measures to enforce compliance. The disbursement requests for November 2009 for all departments were submitted on or prior to the designated due date. The Department has drafted new interest allocation procedures which, when implemented, should ensure proper allocation of interest. Target date: 7-10.

POTENTIAL BUDGET IMPACT: According to the Finance Department, the average negative cash balance in City bond fund accounts was approximately \$24 million as of December 2009 – decreasing annual interest earnings by about \$700,000 (all funds).

***#3 (Finance Department/JL) - Develop and implement procedures to ensure proper allocation of interest to restricted funds held within the City Cash Pool. (Priority 1 – may require additional staff resources)***

PARTLY IMPLEMENTED. According to the Finance Department, a draft policy and procedures are in progress; they are currently working on an implantation plan. We will continue to work with the Finance Department towards resolving any outstanding audit related issues. Target date: 7-10.

***#9 (Budget Office/JL) - Develop and implement a formal written policy on interfund loans, including the establishment of a prudent investor standard, and written procedures on how to manage and enforce such a policy. (Priority 1)***

PARTLY IMPLEMENTED. The Administration amended the City's Operating Budget and Capital Improvement Program Policy to incorporate the treatment of Interfund Loans as part of the 2007-08 Annual Report actions that were approved by the City Council on October 21, 2008. Staff from the Finance Department and the Budget Office will work together to draft procedures to manage and enforce the policy. This policy is particularly critical as the City expands the interfund loan program to fund the Redevelopment Agency's \$75 million payment to the State Supplemental Educational Revenue Augmentation Fund ("SERAF"). According to the Budget Office, workload demands from the economic downturn have impacted the ability of staff to prepare these procedures. Target date: 6-10.

**MEMO 8-8-08: A REVIEW OF THE DEPARTMENT OF PUBLIC WORKS' OVERSIGHT OF THE FOXWORTHY BRIDGE PROJECT**

***#1 (Planning, Building and Code Enforcement Department, in cooperation with the Department of Public Works/RM) - Ensure that the language in the General Development Plans conditions of approval is clear and sufficiently detailed as to what conditions have been approved by the City Council, and that significant changes are returned to the City Council. (Priority 2)***

IMPLEMENTED. On December 15, 2009, the City Council adopted Ordinance 28677 amending Title 20 of the San Jose Municipal Code relating to alternative means of compliance with General Development Plans. This ordinance provides greater clarity regarding the requirements for General Development Plans. The ordinance also stipulates that any change to an adopted General Development Plan would require petition before the City Council in the form of a rezoning.

***#2 (Planning, Building and Code Enforcement Department/RM) - Affirmatively state findings for required off-site improvements (“exactions”) when the substitution of improvements or mitigation is included in the permit. Furthermore, such findings should show a reasonable connection (“nexus”) between the impact caused by the project and the exaction. This may require the City Council to revise Title 20 of the Municipal Code. (Priority 2)***

IMPLEMENTED. On December 15, 2009, the City Council adopted Ordinance 28677 amending Title 20 of the San Jose Municipal Code relating to alternative means of compliance with General Development Plans. This ordinance provides greater clarity regarding the requirements for General Development Plans. The ordinance also stipulates that the director and the planning commission may recommend and/or the city council may adopt conditions of approval that include alternative means of compliance for a specific project impact where each alternative adequately addresses the same specific project impact.

***#3 (Department of Public Works/RM) - Use Title 19 procedures to require off-site improvements, and develop procedures that limit use of City-Private developer agreements to insure consistency and conformity with: (1) the requirements of the land use approvals for the project and (2) all the requirements needed for Council authorization for such agreements under the circumstances specified in Title 14 of the Municipal Code. (Priority 3)***

IMPLEMENTED. On December 15, 2009, the City Council adopted Ordinance 28676 amending Titles 14 and 19 of the San Jose Municipal Code to address this recommendation. The Title 19 amendments provide the specific requirements for any agreements to construct public improvements in advance of the recordation of the project subdivision map. This will provide for a more proper and orderly means of securing public improvements by ensuring that any agreements entered into by the City for advance construction of subdivision related public improvements is done in accordance with Title 19. Furthermore, Public Works staff will work with the City Attorney’s Office to determine the need for, and if necessary, to create a third type of agreement to cover the situation described in this audit.

***#4 (Department of Public Works/RM) - Propose revisions to Municipal Code Sections 14.04.490 and 14.04.510 to streamline the quarterly reporting requirements for City-Private Developer Agreements, and to delete the requirement for DPW to file the City-Private developer agreements with the Department of Finance within five days of executing the agreements. (Priority 3)***

IMPLEMENTED. On December 15, 2009, the City Council adopted Ordinance 28676 amending Titles 14 and 19 of the San Jose Municipal Code. The Title 14 amendments changed the reporting requirements for City-Private Developer Agreements from quarterly reporting to the City Council to bi-annual reporting on the Public Works website. The ordinance also deleted the requirement to file these reports with the Department of Finance as they can be obtained using other City processes.

## **08-02: AN AUDIT OF RETIREMENT SERVICES' TRAVEL EXPENSES**

### ***#6 (Boards/MH) - Establish reasonable parameters for travel and training. (Priority 3)***

PARTLY IMPLEMENTED. Board travel is approved by the board after it is proposed and discussed at public board meetings. In addition, the Federated Board and the Police & Fire Board are drafting supplemental policies that may define reasonable travel activity. Target date: 6-10.

### ***#7 (Boards/MH) - Require mandatory training on travel policies for Boardmembers and Staff. (Priority 3)***

PARTLY IMPLEMENTED. Retirement Services staff provide training on travel policies for boardmembers and staff once the Boards approve travel activity. In addition, both retirement boards are drafting supplemental policies that outline travelers' responsibility to travel in accordance with the City's travel policy, which both of the boards have adopted as their own. Target date: 6-10.

### ***#16 (Boards/MH) - Establish controls to ensure compliance with the San José Municipal Code Chapter 12.08 Prohibition of Gifts. (Priority 2)***

PARTLY IMPLEMENTED. The Federated Board and the Police & Fire Board are drafting supplemental policies that inform boardmembers of their obligations to comply with the San José Municipal Code Chapter 12.08: Prohibition of Gifts. Target date: 6-10.

### ***#21 (Boards/MH) - Develop and enforce travel report guidelines for all board-funded travel activities per AB 1234. (Priority 2)***

PARTLY IMPLEMENTED. According to Retirement Services staff, the Federated board is enforcing travel reporting requirements. In February 2010, audit staff confirmed that traveling boardmembers and staff were reporting on their travel activities per AB 1234, and Retirement Services staff were placing outstanding travel reports on board agendas as "pending actions." According to Retirement Services staff, once board vacancies are filled, both boards plan to develop supplemental policies that outline reporting guidelines for all board-funded travel activities. Target date: 6-10.

### ***#23 (Boards/MH) - Adopt supplemental policies to limit the number of Boardmembers traveling together and post events as required by the Brown Act. (Priority 3)***

NOT IMPLEMENTED. According to Retirement Services staff, once board vacancies are filled, both boards plan to develop supplemental policies that outline guidelines on many travel-related matters for board travel including placing limits on boardmembers traveling together. Target date: 6-10.

**08-03: AN AUDIT OF COMMERCIAL SOLID WASTE FRANCHISE AND AB 939 FEE COLLECTION PROGRAM**

***#1 (Environmental Services Department/CH) - A resolution to the City's dispute with Allied Waste to ensure that the monies that school districts have already paid to Allied Waste are paid to the City and reimbursed to the school districts in a timely manner including outstanding disputes with other franchise haulers. (Priority 3)***

PARTLY IMPLEMENTED. In November 2008, the City and Allied Waste settled the dispute regarding fees associated with the service to school districts. Fees have been paid by Allied Waste to the City for those 16 schools districts which have agreements to the City. All school districts have now been reimbursed. Stevens Creek Disposal and Recycling has submitted an official request for settlement to the City. The City Attorney's Office is currently working with staff from Stevens Creek to address the details of a settlement. Target date: 6-10.

***#3 (Environmental Services Department in consultation with the City Attorney's Office/CH) - Propose to the City Council that the City's agreement with the County of Santa Clara be amended to clarify whether the County should pay the AB 939 fees, and consider including reporting requirements in return for the City reimbursement of the County's franchise fees. (Priority 3)***

NOT IMPLEMENTED. The Administration, in coordination, with the City Attorney's Office, will be discussing this issue with the County. Target date: 6-10.

**08-04: AN AUDIT OF THE CITY'S OVERSIGHT OF FINANCIAL ASSISTANCE TO COMMUNITY-BASED ORGANIZATIONS**

***#1 (City Administration/CH) - Complete and expand the grants manual and proposed grants database to cover other forms of financial assistance. (Priority 3)***

IMPLEMENTED. The grants manual, as originally envisioned, is now complete – updates will be ongoing. The grants database, WebGrants, began servicing the City's grant-making business via the Internet on January 25, 2010 (see Recommendation #2, Report #06-01: *Audit of Citywide Grant Oversight*). Current fiscal year or historical data will require each grant-making program to manually enter information into the system to assist with compiling and reporting of awarded amount, grant amount requested, program area, project title and scope of work. Also see open audit recommendations from Report #08-04: *Audit of the City's Oversight of Financial Assistance to Community-Based Organizations*.

***#3 (City Administration/CH) - Develop an annual summary of funding by recipient (perhaps in the annual operating budget) that shows all forms of financial assistance. (Priority 3)***

PARTLY IMPLEMENTED. An annual summary of funding by recipient in the form of grants, operations and maintenance funding and subsidies associated with below-market leases has been developed. A summary of other forms of financial assistance (e.g. in-kind donations) has not been determined at this time due to internal staffing and resource limitations. Target date: 6-10.

***#5 (City Administration or the City Auditor/CH) - Prepare an annual report to City Council based on a review of the financial audits of community-based organizations that meet the criteria established by Recommendation # 4 including:***

- ***Financial ratios;***
- ***Summary of external audit findings; and***
- ***Percentage of agency revenue comprised of City funding. (Priority 3)***

PARTLY IMPLEMENTED. The Office of the City Auditor is currently conducting *The Annual Financial Scan of City-Funded Community-Based Organizations* which will be a review and analysis of the annual financial statements submitted by outside organizations receiving \$250,000 or more in grants, operations and maintenance funding, and subsidies associated with below-market leases in FY 2009-10. The report will summarize key financial information, findings of the agencies' external auditors, and percentage of revenue comprised of City funding. Target date: 6-10.

***#8 (General Services & City Administration/CH) - Track maintenance of all CBO-operated facilities to identify deferred maintenance and enforce operating and maintenance agreement provisions if the scheduled maintenance is not performed. (Priority 3)***

PARTLY IMPLEMENTED. Review of the Manual for the Management and Operations and Maintenance Agreements section pertaining to tracking maintenance has been completed. Details related to identification of deferred maintenance and enforcement of operating and maintenance agreement provision are included. According to GSD, maintenance assessments have been conducted for some of the facilities. Target date: 6-10.

***#9 (General Services/CH) - Clarify when the 7-1 policy should apply to leases with CBOs of City facilities. (Priority 3)***

PARTLY IMPLEMENTED. Amendments to Council Policy 7-1 (below-market leases) has been drafted which clarify when Council Policy 7-1 should apply to leases with CBOs of City facilities. This policy establishes a set of eligibility criteria, lessee selection process, guidelines, and requirements for below-market leases. Staff plans to present the policy amendments to Council for approval within the next 60 days. Target date: 6-10.

**#10 (General Services/CH) - Identify all the CBO leases and other agreements for long-term use of City-owned properties, and assign responsibility for monitoring each of them. (Priority 3)**

PARTLY IMPLEMENTED. Staff identified approximately 80 below-market rate leases and other long-term use agreements. Although below-market rate leases on community center reuse sites adheres to Council Policy 7-12, these facilities should also be included among the total list of agreements for the long-term use of City-owned properties.

The revised Council Policy 7-1 and corresponding guidelines call for all new below-market rate leases to be negotiated and managed by General Services (GS), however, it leaves the day-to-day oversight of program activities with the departments backing the use of City-owned property for nonprofit lessee activities. GS will collaborate with these departments on lease oversight and operations. Current lease managers will follow the procedures established by GS. We will consider this recommendation implemented once we have assurance that all appropriate facilities are being tracked (including community centers under the reuse policy and others).

**#11 (General Services/CH) –**

- 1) Develop a centralized spreadsheet to track the status of CBO leases and other long-term use agreements for City-owned properties with CBOs including key terms and rental payments.**
- 2) Bring current all expired leases, rental payments, insurance certificates, and other required reporting documentation. (Priority 3)**

PARTLY IMPLEMENTED. Staff identified approximately 80 below-market rate leases and other long-term use agreements. Although below-market rate leases on community center reuse sites adheres to Council Policy 7-12, these facilities should also be included among the total list of agreements for the long-term use of City-owned properties.

Staff has identified the status of these leases/agreements, including key terms, rental payments, and those responsible for monitoring them. Staff is currently working on bringing current all expired leases, rental payments, insurance certificates, and other required reporting documents. We will consider this recommendation implemented once we have assurance that all appropriate facilities are being tracked (including community centers under the reuse policy and others). Target date: 6-10.

**#12 (General Services/CH) - Establish policies and procedures regarding billing and collection for CBO leases and other agreements with CBOs for the long-term use for City-owned properties. (Priority 3)**

PARTLY IMPLEMENTED. Development of billing and collection procedures for below-market leases and other long-term use agreements has been completed. The collection of rental payments procedures currently used by the General Services Department's accounting staff are based on staff's experience on how best to perform the billing and collection of lease payments for properties that are managed by

General Services Department. Staff will advise other departments monitoring CBO leases to use these as guidelines on how to process billing and collection of lease payments. Target date: 6-10.

***#13 (General Services/CH) - Establish a Citywide policy for enforcement of lease provisions and include provisions for non-compliance in future leases. (Priority 3)***

PARTLY IMPLEMENTED. Amendments to Council Policy 7-1 have been drafted. Included in these amendments are enforcement of lease provisions for non-compliance. The policy outlines a provision where below market lease agreements may be terminated by the City at any time for any of the reasons established within that agreement. Target date: 6-10.

***#14 (General Services/CH) - Centralize basic real estate functions or train City department staff on consistent implementation and monitoring of CBO leases and other agreements. (Priority 3)***

PARTLY IMPLEMENTED. Staff is currently establishing a process on how to effectively manage the properties to ensure consistency among City departments in implementing all provisions within the lease agreements. The process, to be used by each department as a guideline on managing leases, will include procedures for collection of lease payments, lease renewal process, and maintenance oversight. The Real Estate Division will provide oversight of all leases by gathering and consolidating data and coordinate with other departments responsible for monitoring leases. However, day-to-day management of these leases will remain with the departments who currently monitor those CBOs. Target date: 6-10.

***#15 (General Services/CH) - Develop a process to ensure that the City coordinates its oversight and monitoring of individual CBO leases and other long-term use agreements for City-owned properties with the oversight and monitoring of individual CBO grants or other forms of financial assistance. (Priority 3)***

PARTLY IMPLEMENTED. Staff identified approximately 80 below-market rate leases and other long-term use agreements. Although below-market rate leases on community center reuse sites adheres to Council Policy 7-12, these facilities should be included among the total list of agreements for the long-term use of City-owned properties as well as the estimates for their fair-market value of leases.

Staff has been coordinating with the Office of Economic Development and other departments responsible for the oversight and monitoring of individual CBO grants through the Non-profit Strategic Engagement Platform. We will consider this recommendation implemented once we have assurance that all appropriate facilities are being tracked (including community centers under the reuse policy and others).



***#16 (General Services/CH) - Identify all of the City's leases to CBO organizations, estimate the rental subsidy of these leases, and prepare an annual public report listing each CBO organization and the estimated amount of the subsidy. (Priority 3)***

PARTLY IMPLEMENTED. Staff identified approximately 80 below-market rate leases and other long-term use agreements. Although below-market rate leases on community center reuse sites adheres to Council Policy 7-12, these facilities should also be included among the total list of agreements for the long-term use of City-owned properties. Also see Audit Report #09-02 on the Public, Safety, Finance, and Strategic Support Committee agenda for 3-18-10.

Staff provided information to the PSFSS Committee, CBOs and Office of Economic Development regarding estimated subsidies for CBO lease and other agreements managed by the General Services Department. However, this list does not include community center reuse sites as mentioned above. Ongoing coordination with other departments who manage other CBO leases and agreements will be established. Target date: 6-10.

***#17 (General Services/CH) - Establish an approval/renewal process for CBO leases and other agreements for long-term use for City-owned properties as they come due. (Priority 3)***

PARTLY IMPLEMENTED. Amendments to Council Policy 7-1 have been drafted. Amendments to the policy include an approval/renewal criteria and process for CBO leases/agreements as they come due. The City's policies and procedures for below-market lease agreements states that the General Services Department will review below-market rate lease agreements and serve as the lead department in the process of determining recommended selection of lessees. Further, if the City decides to lease City-owned property at a below-market rate rent to qualifying nonprofit organizations, it is the City's policy to also monitor lessees for compliance with below-market rate lease provisions. Target date: 6-10.

***#20 (City Administration/CH) - Consider other alternatives to fiscal agents and explore alternative methods to provide insurance coverage for smaller grant programs. (Priority 3)***

PARTLY IMPLEMENTED. A working group has been established, which consists of representatives from Risk Management, the City Attorney's office, Office of Cultural Affairs, Housing, PRNS, and Office of Economic Development, to consider alternatives to fiscal agents. This group will also develop policies and procedures which will be applied to the Grants Manual.

The group is currently in the process examining the current and historical reasons behind grantees' use of fiscal agents. As the risks to the City become evident, they will compile a summary document with recommended mitigations for each risk identified. The group is also evaluating local best practices for benchmarking purposes. A comprehensive set of controls will be incorporated into each fiscal agent agreement. Target date: 6-10.

## **09-03: AUDIT OF THE CITY OF SAN JOSÉ'S WORKERS' COMPENSATION PROGRAM**

***#1 (Office of Employee Relations/RO) - Propose structural changes to the City's Workers' Compensation Program that would include (1) reducing the City's policy of providing up to nine months of a disability leave supplement pay at 85 percent for non-sworn and one full year at 100 percent for sworn employees and (2) implementing a retirement benefit payment offset for sworn employees receiving disability retirement payments that replicates the offset for retired non-sworn employees. (Priority 2)***

NOT IMPLEMENTED. According to the Office of Employee Relations, the structural changes to the City's Workers' Compensation Program this recommendation proposes are subject to meet and confer with the City's bargaining units. The City is currently in negotiations with various bargaining units but no agreements have been reached yet. Target date: TBD.

POTENTIAL BUDGET IMPACT: A 2008 consultant report estimated that the City pays \$1.7 million per year by not offsetting Police and Fire disability retirement pension benefits when disability benefits are paid.

***#2 (Risk Management & Human Resources/RO) - Assign to the City's Return-To-Work Coordinator the responsibility for identifying for each of the departments, with the highest frequency of workers' compensation claims, the number of lost work hours attributable to employees off work due to a workplace injury. Each month, this report shall be made available to the City Manager and to each department director to facilitate the department directors' efforts to have the injured employees return to work as soon as the workers' medical conditions allow. (Priority 3)***

IMPLEMENTED. According to the Human Resources Department Risk Management Division, each department currently receives disability leave reports outlining usage for each employee. These reports are being produced and distributed on a bi-weekly basis. Risk Management staff has also developed an enhanced disability leave report which Department Directors receive on a quarterly basis. This report identifies injury and accident causes in association with individuals that use the most disability leave.

***#3 (San José Police and Fire Departments & Human Resources/RO) - The Police Chief and the Fire Chief work with Risk Management to identify the reasons for the recent significant increase in the time away from work among their injured police officers and firefighters, so that they may be in a better position to address the escalating cost of disability leave payments in their departments. (Priority 3)***

IMPLEMENTED. Risk Management conducts quarterly meetings with Police and Fire to discuss safety, disability leave, and other workers' compensation issues. Risk Management prepares an agenda and produces accident statistic reports, enhanced disability leave reports, and workers' compensation cost allocation reports for each quarterly meeting to facilitate discussion of accident prevention, ways to increase

safety, and to identify and take disciplinary action against individuals with multiple claims and high disability leave usage. At the end of each quarterly meeting, discussion items are reviewed and action items for the next quarterly meeting are assigned.

***#4 (Human Resources/RO) - Reconsider the feasibility of restoring the Wellness Coordinator position for the Wellness Program and implementing a comprehensive Wellness-Fitness Program for the Fire Department. (Priority 3)***

PARTLY IMPLEMENTED. In August 2009, Risk Management requested that the San Jose Fire Department (SJFD) consider the restoration of a comprehensive wellness program. Risk Management researched best practices of similar-sized agencies and prepared a detailed wellness plan proposing that the SJFD consider restoring staffing and resources to wellness. The proposed plan includes the following components: (1) Health and Fitness Coordinator, (2) Mandatory Fitness Training for Sworn Fire Employees, and (3) Mandatory Physical Examinations and Standards.

According to the SJFD Administrative Officer, Fire Administration staff, the Human Resources Safety Division Deputy Director, and the City Physician met to discuss implementing changes to the Annual Medical Exam process and to discuss implementing a comprehensive fitness program. The SJFD will continue to work with the Human Resources Department to implement changes to the Annual Medical Exams and to develop a proposal for a comprehensive fitness program.

Target date: 6-10.

POTENTIAL BUDGET IMPACT: Until FY 2002-03, when Fire lost one of three Training Specialist positions, a Training Specialist served as the Department's Wellness Coordinator focusing on Workers' Compensation case follow-up (current salary range \$64,334 - \$78,208). In FY 2008-09, Fire Department Workers' Compensation costs totaled about \$5 million.

***#5 (Human Resources/RO) - Implement the 2007 consultant recommendation to include the accomplishment of safety goals as one of the goals to be considered in the City's performance review process in which the City Council reviews each department's performance during the budget study sessions each spring. (Priority 3)***

PARTLY IMPLEMENTED. In August 2009, Risk Management prepared a memorandum notifying the five most risk-exposed City departments – Fire; Police; General Services; Parks, Recreation and Neighborhood Services; and Transportation – that the departments will be responsible for reporting safety goals, investigations, and disciplines as outlined by Risk Management's 8 Point Safety Plan. Target date: 6-10.

***#7 (Risk Management & Human Resources/RO) - Prepare a quarterly report to the Public Safety, Finance, and Strategic Support Committee that covers the City's Workers' Compensation Program. This report should identify (1) workers' compensation claims costs for each of the City departments who have the highest frequency of workers' compensation claims, (2) total costs compared to the budgeted costs for each department, and (3) significant components of cost (e.g., the cost for medical treatments, payments of temporary disability, payments of disability leave supplements, and/or payments for permanent disabilities). Risk Management should also make this report available to each of the department directors, whose departments account for the bulk of the City's claims, as a way to closely monitor the City's overall and departmental costs of workers' compensation. (Priority 3)***

IMPLEMENTED. According to Risk Management, the first comprehensive quarterly report was presented to the Public Safety, Finance, and Strategic Support Committee in February 2010 and will henceforth be updated and presented to the committee quarterly.

#### **09-04: AUDIT OF THE SAN JOSÉ POLICE DEPARTMENT'S AUTO THEFT UNIT**

***#1 (San José Police Department & Auto Theft Unit/RM) - Periodically brief patrol on auto theft trends and utilize real-time mapped information and communicate this information to the Regional Auto Theft Task Force. (Priority 3)***

PARTLY IMPLEMENTED. Auto Theft Unit investigators brief patrol and Regional Auto Theft Task Force personnel on auto theft trends as they are identified. This is accomplished by investigators attending patrol briefings and by providing alert bulletins, which are posted in the patrol briefing room. Procedures for this process have been formally documented and are included in the Auto Theft Unit Procedures Manual.

The Automated Field Reporting/Records Management System (AFR/RMS) Request for Proposal (RFP) was finalized and released on 12/18/09. The system will allow for limited near real-time mapping capabilities to Crime Analysts in the Crime Analysis Unit. This information will be disseminated to the Auto Theft Unit. The estimated implementation date of the AFR/RMS is September 2012. Once the full AFR/RMS system is in place, officers will have immediate mapping access. Target date: 11-12.

***#5 (San José Police Department/DC) - Explore the feasibility of using specially trained civilian staff for administrative assignments such as in-custody arrest documentation. (Priority 3)***

NOT IMPLEMENTED. The Auditor's Office issued an Audit of Civilianization Opportunities in the San Jose Police Department on January 14, 2010. Target date: 6-10.

POTENTIAL BUDGET IMPACT: Using civilian staff to perform administrative duties could free up sworn officers and generate cost savings. At the time of the audit, we estimated that using one civilian instead of a sworn officer investigator

could save about \$43,000, or 37 percent of the cost of a sworn officer, annually. This position and the related savings are included in the estimated savings related to Report #10-02: *Audit of Civilianization Opportunities in the San Jose Police Department* issued in January 2010.

***#6 (San José Police Department/DC) - To the extent possible, ensure that the proposed automated field reporting and records management system reduces duplication of auto theft data entry and automates quality control processes. (Priority 3)***

PARTLY IMPLEMENTED. On December 18, 2009 the City issued a Request for Proposal (RFP) for the Automated Field Reporting and Records Management System (AFR/RMS). Quality control processes and elimination of redundancy are requirements in the RFP. The estimated implementation of the AFR/RMS is September 2012. Target date: 9-12.

***#11 (San José Police Department & Auto Theft Unit/RM) - Use the number of open cases from investigator spreadsheets as of the end of the quarter to report the number of open cases in the Quarterly Program Management Report to the Chief. (Priority 3)***

IMPLEMENTED. The Auto Theft Unit has developed procedures to document the number of open cases, and is including the total number of open cases from the investigator spreadsheets in the Quarterly Program Management Report to the Chief.

***#13 (San José Police Department/RM) - Consider adding a classification for cases that are not investigated due to limited solvability or conviction factors in the proposed records management system. (Priority 3)***

PARTLY IMPLEMENTED. The Automated Field Reporting/Records Management System (AFR/RMS) Request for Proposal (RFP) was finalized and released on 12/18/09. The Police Department will have the option to change or add classifications in the new AFR/RMS system. The AFR/RMS Project Manager indicated that once the AFR/RMS is fully implemented, specific Department/Bureau/Unit needs and programming will be assessed. The estimated implementation date of the AFR/RMS is November 2012. Target date: 11-12.

## **09-05: AUDIT OF THE SAN JOSÉ CONSERVATION CORPS**

***#1 (City/AY) - Attempt to recover the \$200,685 that was not reflected in Corps accounting records for services provided under ESD contracts. In addition, the City should attempt to recover the \$133,140 in City-related expenditures that were already reimbursed by the California Department of Conservation. If within 60 days the Corps provides additional documentation supporting expenditures on City projects that were not reimbursed by others, we agree to reevaluate the amount that the City should attempt to recover from the Corps. (Priority 2)***

PARTLY IMPLEMENTED. On January 12, 2010 the City Council approved a Settlement Agreement between the City and the San José Conservation Corps (Corps). Subject to compliance with the terms of the Settlement Agreement, the City will accept the documentation and further explanation provided by the Corps concerning Environmental Services Department (ESD) charges. The documentation demonstrated that the work was done by the Corps within the City of San José – thereby benefiting the City in a general manner even if not technically in compliance with the terms of the Master Agreement. The documentation also showed that the \$133,140 of additional ESD recycling work, identified in the audit as having been already reimbursed by the State of California, was a financial misstatement and that unrestricted State reimbursements for recyclables should not have been applied to the Master Agreement projects paid for by the City. We will consider this recommendation implemented when the Corps has fulfilled its obligations under the Settlement Agreement. Target date: 7-11.

***#2 (City/AY) - Attempt to recover the \$76,117 it overpaid for services provided under Fire Department contracts. If within 60 days the Corps provides additional documentation supporting expenditures on City projects that were not reimbursed by others, we agree to reevaluate the amount that the City should attempt to recover from the Corps. (Priority 2)***

PARTLY IMPLEMENTED. On January 12, 2010 the City Council approved a Settlement Agreement between the City and the Corps. The Settlement Agreement requires the Corps to repay \$160,000 for payments made under Fire Department contracts and for indirect costs for work not described in City contracts. The Settlement Agreement allows the Corps to repay the City through in-kind services. Under the Settlement Agreement the in-kind services must be completed by July 1, 2011. A six-month extension may be provided with City Council approval. We will consider this recommendation implemented when the Corps has fulfilled its obligations under the Settlement Agreement. Target date: 7-11.

***#3 (City/AY) - Establish and enforce specific guidelines for reporting and justifying actual costs under the current Master Agreement. (Priority 3)***

PARTLY IMPLEMENTED. In December 2009 the Administration decided not to proceed with a Master Agreement with the Corps; instead, beginning July 2010, departments will use a draft City-wide contract template for agreements with the Corps. The draft contract template provides specific guidelines for reporting and

justifying invoices. In the interim, the Administration has extended the existing Master Agreement with the Corps through June 2010, and provided additional guidance on justifying invoices for reimbursement. We will consider this recommendation implemented when the Administration executes agreements with the Corps based on the draft City-wide contract template, and provides evidence that it enforces the specific guidelines for reporting and justifying invoices.

Target date: 7-10.

***#4 (City/AY) - Require the Corps to account for City activities separately from non-City activities. (Priority 3)***

PARTLY IMPLEMENTED. The Administration drafted a City-wide contract template for future agreements with the Corps that requires the Corps to account for City activities separately from non-City activities. According to City staff, the City-wide contract template will be included in department-specific agreements beginning July 2010. We will consider this recommendation implemented when the Administration executes agreements with the Corps based on the draft City-wide contract template. Target date: 7-10.

***#5 (Office of Economic Development/AY) - Follow up and resolve the personnel billing issue we identified. In the future, OED should require the Corps to provide substantiating documentation regarding the total activity and cost for Corps employees whose salaries are funded by Workforce Investment Act contracts. (Priority 3)***

PARTLY IMPLEMENTED. The Office of Economic Development (OED) conducted a follow-up visit with the Corps and reviewed internal personnel activity sheets of employees charging time to the Workforce Investment Act (WIA) program. The review revealed that there were discrepancies between time entered into the internal tracking system called KRONOS and the time charged to the WIA program from July 2008 to January 2009 for two employees for whom the Corps received \$18,103.73 in WIA funds. In December 2009 OED received additional back-up documentation from the Corps to support \$3,903.61 in WIA funds and a refund check of \$14,229.12 for the remainder. Additionally, beginning March 2009, OED required the Corps to provide additional documentation to support the total activity and cost for Corps employees whose salaries are funded from the WIA program.

However, the personnel billing issue for time charged to the WIA program during fiscal year 2007-08 has not been addressed. According to OED, staff will review 2007-08 timekeeping data and other pertinent activity reports in a future monitoring visit. We will consider this recommendation implemented when OED resolves the personnel billing issue for fiscal year 2007-08. Target date: 5-10.

**#6 (City/AY) - Attempt to recover the \$98,325 paid in indirect costs for work not described in City contracts. If within 60 days the Corps provides additional documentation supporting expenditures on City projects that were not reimbursed by others, we agree to reevaluate the amount that the City should attempt to recover from the Corps. (Priority 2)**

PARTLY IMPLEMENTED. On January 12, 2010 the City Council approved a Settlement Agreement between the City and the Corps. The Settlement Agreement requires the Corps to repay \$160,000 for payments made under Fire Department contracts and for indirect costs for work not described in City contracts. The Settlement Agreement allows the Corps to repay the City through in-kind services. Under the Settlement Agreement the in-kind services must be completed by July 1, 2011. A six-month extension may be provided with City Council approval. We will consider this recommendation implemented when the Corps has fulfilled its obligations under the Settlement Agreement. Target date: 7-11.

**#7 (City/AY) - Revise and simplify the Master Agreement to:**

- 1. Establish guidance defining what costs are allowable and unallowable for inclusion in an indirect cost pool. Further, the guidance should detail restrictions of how indirect costs can be allocated to specific City projects;**
- 2. Annually require the Corps to develop and justify an indirect cost rate proposal and/or an hourly billing rate. (Priority 3)**

PARTLY IMPLEMENTED. In December 2009 the Administration decided not to proceed with the use of a Master Agreement with the Corps; instead, beginning July 2010, departments will use a draft City-wide contract template for agreements with the Corps. The draft contract template includes a placeholder for an hourly billing rate, an indirect cost rate plan used to calculate the hourly billing rate, and a definition—based on the indirect cost rate plan—of what costs are allowable and unallowable for inclusion in an indirect cost pool and which indirect costs can be allocated to specific City projects. Additionally, the draft contract template annually requires the Corps to evaluate the hourly billing rate and provide a Certified Public Accountant's certification that the methodology to calculate the rate is in compliance with the direct and indirect cost guidelines of the Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, and Generally Accepted Accounting Practices (GAAP). Under the draft framework, adjustments to the hourly billing rate are subject to the City's prior approval. However, the City needs a reasonable basis for establishing or adjusting an hourly billing rate for a non-profit organization.

We will consider the recommendation implemented when the Administration executes agreements with the Corps based on the draft City-wide contract template and establishes or adjusts the hourly billing rate using a reasonable basis.  
Target date: 7-10.



***#8 (City/AY) - Clarify and amend the Master Agreement to include performance standards to ensure the Corps maintains the desired balance between work and education. (Priority 3)***

PARTLY IMPLEMENTED. In December 2009 the Administration decided not to proceed with the use of a Master Agreement with the Corps; instead, beginning July 2010, departments will use a City-wide contract template for agreements with the Corps. The draft contract template includes a standard for maintaining the desired balance between work and education. Specifically, the standard requires students without a diploma to work one week on-the-job and one week in the classroom while working to pass the high school exit exam. Students who are waiting for the results of their exam, or who have passed the exit exam may work full time while seeking full-time employment. We will consider this recommendation implemented when the Administration executes agreements with the Corps based on the draft City-wide contract template. Target date: 7-10.

***#9 (City/AY) - Ensure that there are controls in place to ensure that the Corps does not exceed estimated costs for contracts under the Master Agreement. (Priority 3)***

PARTLY IMPLEMENTED. In December 2009 the Administration decided not to proceed with the use of a Master Agreement with the Corps; instead, beginning July 2010, departments will use a draft City-wide contract template for agreements with the Corps. The draft contract template includes a placeholder for a “not to exceed” amount. We will consider the recommendation implemented when the Administration executes agreements with the Corps based on the draft City-wide contract template. Target date: 7-10.

***#10 (City/AY) - Consider providing guidance to the Corps regarding the practice of providing loans to key individuals responsible for accountability and reporting. (Priority 2)***

IMPLEMENTED. According to the Administration, staff discussed with the Corps the provision of loans to key individuals responsible for accounting and reporting during broader discussions with the Corps’ about their financial management capacity.

**09-06: AUDIT OF EMPLOYEE MEDICAL BENEFITS**

***#1 (Human Resources/MH) - Establish a written procedure for submitting eligibility files and institute a single methodology to be used by Benefits staff to determine eligibility and premiums owed for both medical providers. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources has completed written procedures for submitting eligibility files, and staff has determined a single methodology for determining medical plan eligibility and premiums owed. Human Resources has submitted a programming request to the Department of Information Technology. According to Human Resources, staff will be able to implement the recommendation once the programming request has been completed. Target date: 7-10.

***#2 (Human Resources/MH) - Prepare and submit electronic eligibility reports to the medical providers at least twice each month. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources has submitted a programming request to the Department of Information Technology. According to Human Resources, staff will be able to implement the recommendation once the programming request has been completed. Target date: 5-10.

***#3 (Human Resources/MH) - Produce the eligibility files in a format that can be analyzed by HR staff. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources has submitted a programming request to the Department of Information Technology. According to Human Resources, staff will be able to implement the recommendation once the programming request has been completed. Target date: 7-10.

***#4 (Human Resources/MH) - Create an internal process for identifying discrepancies between the monthly eligibility report and the premium reports. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources has created a methodology for identifying discrepancies between the monthly eligibility reports and the premium reports. Human Resources has drafted written procedures for the process, and has submitted a programming request to the Department of Information Technology. According to Human Resources, staff will be able to implement the recommendation once the programming request has been completed. Target date: 7-10.

***#5 (Human Resources/MH) - Confirm whether any excess premium payments were made to Kaiser in 2008, and determine if other years' payments should be analyzed as well. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources is currently in the process of identifying training resources and are considering partnering with another department to obtain the necessary skill sets required to confirm whether any excess premium payments were made to Kaiser in 2008. Target date: TBD.

POTENTIAL BUDGET IMPACT: The audit found that in 2008 the City potentially overpaid Kaiser by about \$140,000 for employee coverage.

***#6 (Human Resources/MH) - Continue providing training to ensure HR liaisons are regularly and accurately reporting changes to employees' status. (Priority 3)***

IMPLEMENTED. On February 9, 2010 Human Resources held a training session for department liaisons on timely and accurate submission of employee status changes.

***#7 (Human Resources/MH) - Coordinate with the Finance Department and IT to improve processes for collecting outstanding premiums. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources has adopted a single methodology for determining medical plan eligibility and premiums owed to both providers. Human Resources has submitted a programming request to the Department of Information Technology. According to Human Resources, staff will be able to implement the recommendation once the programming request has been completed. Target date: 1-10.

***#8 (Human Resources/MH) - Continue monitoring the accuracy of the premium payment reports and modify the report if other issues are identified. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources has submitted a programming request to the Department of Information Technology. According to Human Resources, staff will be able to implement the recommendation once the programming request has been completed. Target date: 7-10.

***#9 (Human Resources/MH) - Develop and implement a policies and procedures manual that includes data entry processes, preparing reconciliations, and documenting adjustments. (Priority 3)***

PARTLY IMPLEMENTED. Human Resources has completed written procedures for submitting eligibility files, and staff has determined a single methodology for determining medical plan eligibility and premiums owed. Human Resources has submitted a programming request to the Department of Information Technology. According to Human Resources, staff will be able to implement the recommendation once the programming request has been completed. Target date: 7-10.

***#10 (Human Resources/MH) - Monitor the eligibility of college-aged dependents on a semi-annual basis. (Priority 2)***

PARTLY IMPLEMENTED. Human Resources has indicated that it has evaluated ways to verify eligibility of college-aged dependents on a semi-annual basis. Staff has identified a vendor which could reduce, but not eliminate, staff time in collecting student verifications, and is researching to determine the best price for outsourcing student verification. Target date: 7-10.

***#11 (Human Resources/MH) - In structuring a contract with the City's medical expert, the City should compensate the selected expert directly. (Priority 3)***

IMPLEMENTED. Effective, January 1, 2010, Human Resources contracts with Buck Consultants, LLC and Keenan & Associates. The City pays these consultants directly. Human Resources estimates this change will save more than \$1.7 million over the next 4 years with no reduction in service levels.

***#12 (Human Resources/MH) - Prohibit employees from being simultaneously covered by City-provided medical benefits as a City employee, and as a dependent of another City employee, and work with the Office of Employee Relations on potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. The recommendation requires labor negotiations. According to Human Resources, the City Administration will evaluate the recommendation within the context of its overall negotiating strategy with the various bargaining units. Target date: Varies.

POTENTIAL BUDGET IMPACT: At the time of the audit, we estimated that eliminating redundant coverage could save up to \$500,000 during the first year of implementation. It should be noted that as premiums of City-sponsored medical plans rise, so do the potential savings from eliminating redundant medical coverage.

***#13 (Human Resources/MH) - Reduce cash in-lieu payment amounts, and work with the Office of Employee Relations on potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. The recommendation requires labor negotiations. According to Human Resources, the City Administration will evaluate the recommendation within the context of its overall negotiating strategy with the various bargaining units. Target date: Varies.

POTENTIAL BUDGET IMPACT: At the time of our audit, we estimated that if the City reduced its in-lieu payout from 50 percent to 40 percent of the City's contribution rate to medical premiums, the City could save \$1 million per year; or if the City were to reduce its in-lieu payout to 30 percent of the City's contribution rate to medical premiums, the City could save \$2 million per year. It should be noted that as premiums of City-sponsored medical plans rise, so do the potential savings from reducing the in-lieu payout.

***#14 (Human Resources/MH) - Prohibit participation in the Health In-Lieu Plan among City employees who are already receiving other City-provided medical benefits and work with the Office of Employee Relations on potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. The recommendation requires labor negotiations. According to Human Resources, the City Administration will evaluate the recommendation within the context of its overall negotiating strategy with the various bargaining units. Target date: Varies.

POTENTIAL BUDGET IMPACT: At the time of the audit, we estimated that if the City restricted participation in the City's Health In-Lieu Plan to only those who can demonstrate medical coverage through a medical plan outside of the City, the City would reduce its costs by over \$500,000 per year. It should be noted that as

premiums of City-sponsored medical plans rise, so do the potential savings from restricting participation in the Health-In-Lieu Plan.

***#15 (Retirement Services & City Attorney/MH) - Clarify the rights of City retirees to suspend and re-enroll in their medical benefits. (Priority 3)***

NOT IMPLEMENTED. The San José Municipal Code allows retirees to suspend and re-enroll in their medical benefits. However, the City Attorney's Office has identified potential problems with encouraging retirees who are covered by outside plans to suspend and re-enroll in their medical benefits if or when they lose their outside coverage.

According to staff at the City Attorney's Office, as of now, medical providers will allow City retirees to suspend and re-enroll in their medical benefits. However, according to the City Attorney's Office, there is no formal assurance from the medical providers that they will continue to allow re-enrollments. The City Attorney's Office is in the process of determining whether or not the City's benefits program contains protections against retirees and their dependents being permanently disqualified from re-enrolling in the medical coverage from which they dis-enrolled.

Secondly, to ensure that qualified City retirees and their dependents retain lifetime medical coverage, the San José Municipal Code requires the City retiree to be enrolled in a City plan at the time of the retirement and at the time of death. If City retirees are not enrolled in a City plan during any of these two periods, dependents may be permanently disqualified for City medical coverage. The City Attorney's Office indicates that this potential impact on dependents may be addressed by amending the Municipal Code. Target date: 7-10.

POTENTIAL BUDGET IMPACT: This recommendation addresses the barriers to establishing a retiree in-lieu program. See Recommendation #16 (below) regarding potential cost savings from establishing a retiree in-lieu program.

***#16 (Retirement Services & Human Resources/MH) - Continue to explore an in-lieu program for qualified City retirees who suspend their medical benefits and work with the Office of Employee Relations on any potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. Human Resources and Retirement Services are actively working to identify issues that would affect the development of an in-lieu program for City retirees. Once they have identified the issues, the departments will prepare a work plan for addressing the issues and present it to the City Administration. Target date: TBD.

POTENTIAL BUDGET IMPACT: At the time of our audit, we estimated potential savings of between \$250,000 and \$1 million in the first year of a retiree in-lieu program. Such a program could also improve the City's projected long-term retiree healthcare liability – potentially impacting long-term retiree health care contribution rates. It should be noted that as premiums of City-sponsored medical plans and the

number of qualified City retirees rise, so do the potential savings from implementing an in-lieu program for qualified City retirees.

***#17 (City Administration/MH) - Pursue at least one or a combination of the aforementioned cost-containment strategies and work with the Office of Employee Relations on potential meet-and-confer issues that such a change would present. (Priority 2)***

NOT IMPLEMENTED. The recommendation requires labor negotiations. According to Human Resources, the City Administration will evaluate the recommendation within the context of its overall negotiating strategy with the various bargaining units. Target date: Varies.

POTENTIAL BUDGET IMPACT: Our review identified \$16.8 million in potential cost-containment strategies including:

- Potential savings of \$4 million per year by increasing the employees' share of medical premiums from a 90/10 to 80/20 employer-to-employee contribution ratio;
- Potential savings of \$10 million per year by introducing a lower cost deductible plan with a premium 20 percent lower than the existing lowest-cost plan; and
- Potential savings of \$2.8 million per year by increasing co-pays from \$10 to \$25 for most covered employees.

It should be noted that as premiums of City-sponsored medical plans, so do the potential savings from pursuing cost containment strategies. The potential savings would be greater if we considered the cost of covering an ever-growing number of qualified City retirees.

#### **09-07: AUDIT OF THE PARK TRUST FUND**

***#1 (Parks, Recreation, and Neighborhood Services/AY) - Formalize an administrative fee assessment policy which better aligns when fees are assessed with project activity. (Priority 3)***

NOT IMPLEMENTED. According to PRNS, to better align when administrative charges are assessed based on project activity, staff will identify administrative activities associated with the Park Trust Fund; determine the timing and appropriate allocations for each activity; develop and pre-test the alternative method; and obtain PRNS senior staff and City Attorney's Office review and approval. Target date: 6-10.

***#2 (Parks, Recreation, and Neighborhood Services/AY) - Update the final Policies and Procedures Manual to include criteria for justifiable administration costs, and describe the process for defining and reporting administration costs to the City Council. (Priority 3)***

NOT IMPLEMENTED. According to PRNS, staff is currently in the process of documenting justifiable administrative costs. Activities include reviewing applicable regulations, the Quimby Act, the San José Municipal Code, and Generally Accepted

Accounting Principles; reviewing all current administrative costs and documenting the applicable regulation allowing for the cost; developing a draft of the section of the Policies and Procedures Manual addressing the criteria for justifiable administrative costs and documenting the current practice of reporting administration costs to the City Council on an annual basis as part of the Park Trust Fund Annual Report; and obtaining PRNS senior staff and City Attorney's Office review and approval of the draft. Target date: 6-10.

***#3 (Parks, Recreation, and Neighborhood Services/AY) - Formalize an accrued interest allocation policy which allocates accrued interest to projects on a monthly rather than quarterly basis, accounts for the timing of in-lieu fee deposits, and documents accrued interest allocations in the City's Financial Management System. (Priority 3)***

PARTLY IMPLEMENTED. PRNS staff began allocating accrued interest to projects on a monthly basis, taking into account the timing of in-lieu fee deposits, in the department's internal database. According to PRNS, staff will incorporate procedures for the revised allocation method into the Policies and Procedures Manual and is evaluating the feasibility of documenting accrued interest allocations at the project level in the City's Financial Management System. Target date: 6-10.

***#4 (Parks, Recreation, and Neighborhood Services/AY) - Develop and maintain numerically-sequenced memoranda of commitments and amendments for each Park Trust Fund project documenting the following:***

- ***Date of Commitment,***
- ***Project Name,***
- ***Purpose of project,***
- ***Location of project and compliance with the nexus requirement,***
- ***Amount of in-lieu fees paid by developer, and***
- ***PRNS Director, or designee, signed approval of the memorandum. (Priority 3)***

PARTLY IMPLEMENTED. PRNS developed the first numerically-sequenced memorandum of commitment in September 2009. The memorandum documented current commitments made to date, including the date of the commitment; project name, purpose, and location; in-lieu fees paid by the developer; and approval by the PRNS Director. According to PRNS staff, future commitments will be documented on a quarterly basis and submitted to the Director for approval. PRNS staff stated that future memoranda of commitment will also document compliance with the nexus requirement. Target date: 6-10.

***#5 (Parks, Recreation, and Neighborhood Services/AY) – Cross-reference commitment and amendment memoranda to projects shown on internal record keeping systems. (Priority 3)***

IMPLEMENTED. PRNS cross-referenced projects shown in the department's internal database to commitments documented in the first memorandum of commitment in September 2009 and made during the Mid-year Budget Review.

***#6 (City Administration/AY) - Attempt to secure interest accrual on in-lieu fees not yet paid by the Redevelopment Agency. (Priority 3)***

CLOSED. As recommended by the Public Safety, Finance, and Strategic Support Committee on September 17, 2009, the City Council at its September 29, 2009 meeting (Item 3.7) accepted the Audit of the Park Trust Fund with the exception of Recommendation #6.

***#7 (City Administration/AY) - Develop and make publicly available the required annual Mitigation Fee Act report with all the required elements. (Priority 3)***

IMPLEMENTED. PRNS developed and made publicly available the required annual Mitigation Fee Act report with all required elements as part of its Park Trust Fund Annual Report for FY 2008-09 provided to the City Council in February 2010.

***#8 (Parks, Recreation, and Neighborhood Services/AY) - Formalize and document within the Park Trust Fund Policies and Procedures Manual an internal notification system to inform the PRNS Director, or designee, when uncommitted projects reach 18, 12, and 6 months from the 5-year commitment limit. (Priority 3)***

PARTLY IMPLEMENTED. PRNS staff incorporated into the department's internal database a field that notifies staff when in-lieu fee collections reach 18, 12, and 6 months from the 5-year commitment limit. In September 2009, staff sent its first memorandum notifying the PRNS Director of unallocated collections that reached these thresholds. According to PRNS, to fully implement the recommendation, staff will document the existing notification procedures in the Policies and Procedures Manual, and obtain PRNS senior staff and City Attorney's Office review and approval. Target date: 6-10.

***#9 (Parks, Recreation, and Neighborhood Services/AY) - Finalize the Park Trust Fund Policies and Procedures Manual and document approval by the department director. (Priority 3)***

NOT IMPLEMENTED. According to PRNS, staff is currently incorporating changes to the draft Policies and Procedures Manual. Outstanding tasks include developing drafts of sections of the Policies and Procedures Manual to incorporate all recommendations, obtaining PRNS senior staff and City Attorney's Office review and approval of the draft, and obtaining PRNS Director's approval of the final document. Target date: 6-10.

***#10 (Parks, Recreation, and Neighborhood Services/AY) - Update the dedication and in-lieu determination procedure language to match the Municipal Code. (Priority 3)***

PARTLY IMPLEMENTED. PRNS has completed a draft revision of the "Determination of Land Dedication and/or Payment of Parkland Fees" section of the Policies and Procedures Manual. According to PRNS staff, remaining tasks include finalizing the procedures, obtaining PRNS senior staff and City Attorney's Office review and approval, and obtaining PRNS Director's approval of the final document. Target date: 6-10.



***#11 (Parks, Recreation, and Neighborhood Services/AY) - Update the final Policies and Procedures Manual to include a description of the Department of Public Works fee collection process. (Priority 3)***

PARTLY IMPLEMENTED. PRNS has drafted an overview of the Department of Public Works (DPW) fee collection process for the Policies and Procedures Manual. According to PRNS, additional tasks include reviewing and finalizing the DPW fee collection process, obtaining PRNS senior staff and City Attorney's Office review and approval of the draft DPW collection process, and obtaining PRNS Director's approval of the final document. Target date: 6-10.

***#12 (Parks, Recreation, and Neighborhood Services/AY) - Update the final Policies and Procedures Manual to include a discussion of restrictions on the use of savings from completed projects. (Priority 3)***

PARTLY IMPLEMENTED. According to PRNS, staff has held discussions with the City Attorney's Office concerning tentative language on the use of savings from completed projects. To fully implement the recommendation, PRNS staff will draft procedures for documenting that a project has been completed and reallocating the project's savings; obtain PRNS senior staff and City Attorney's Office review and approval; and obtain PRNS Director's approval of the final document. Target date: 6-10.

***#13 (Parks, Recreation, and Neighborhood Services/AY) - Update the final Policies and Procedures Manual to define the process for calculating credits to ensure consistency across turnkey agreements. (Priority 3)***

NOT IMPLEMENTED. According to PRNS, staff will update the Policies and Procedures Manual to clarify the process for calculating credits for turnkey agreements; obtain PRNS senior staff and City Attorney's Office review and approval of the clarification; and obtain PRNS Director's approval of the final document. Target date: 6-10.

***#14 (Parks, Recreation, and Neighborhood Services/AY) - Update the final Policies and Procedures Manual to include justification and procedures for offering reimbursements to developers from the Park Trust Fund, and for validating expenses developers claim. (Priority 3)***

PARTLY IMPLEMENTED. PRNS has drafted a procedure for reimbursing developers from the Park Trust Fund for payments made to the City beyond their obligation. According to PRNS, remaining steps to implement the recommendation include obtaining PRNS senior staff and City Attorney's Office review and approval, and obtaining PRNS Director's approval of the final document. Target date: 6-10.

## **09-09: AUDIT OF ANIMAL CARE & SERVICES**

### ***#1 (Animal Care & Services Program/GM) - Increase its public education outreach efforts in order to increase animals licensed and vaccinated. (Priority 2)***

NOT IMPLEMENTED: ACS has prioritized the processing of new licenses, payments and rabies vaccination verification and has focused its staff efforts to that end. Staff is following-up on information that is received from veterinarians on new rabies vaccinations and ensuring that all animals that get vaccinations through San Jose veterinarians get licensed. ACS understands the need for increasing its public outreach and the potential for increasing licensing revenues through this outreach and anticipates developing a more comprehensive public outreach component once staff is current with its workload for new licenses through rabies vaccination verification. Target date: 12-10.

POTENTIAL BUDGET IMPACT: At the time of our audit, we estimated that a 25 percent increase in licensing could increase current revenues by as much as \$1.4 million per year. In January 2010, the City Council approved \$80,000 for temporary staffing and non-personal equipment to improve licensing rates.

### ***#2 (Animal Care & Services Program/GM) - Either enhance its current database to include online licensing and veterinarian reporting or outsource its licensing services to a vendor that offers those services. (Priority 3)***

NOT IMPLEMENTED: ACS continues to work with the Information Technology Department on issues related to offering online licensing. Target date: 12-10.

POTENTIAL BUDGET IMPACT: See Recommendation #1 above.

### ***#3 (Animal Care & Services Program/GM) - Improve efforts, such as additional follow-up with non-compliant veterinarians, to increase the compliance rate to the City's ordinance on rabies vaccination reporting. (Priority 2)***

NOT IMPLEMENTED: ACS has prioritized the processing of new licensing, payments and rabies vaccination verification of data already provided by compliant veterinarians. Once ACS staff has caught up with this backlog, the Deputy Director anticipates following-up with the non-compliant veterinarians. Target date: 6-10.

POTENTIAL BUDGET IMPACT: See Recommendation #1 above.

### ***#4 (Animal Care & Services Program/GM) - Determine the entire cost of the program, including an accurate overhead rate and number of FTEs while calculating its cost recovery ratio. (Priority 2)***

NOT IMPLEMENTED: Staff will continue to work with the Finance Department and the Budget Office to ensure that the overhead rate and the cost-recovery calculation are accurate in the 2010-11 Fees and Charges report. Target date: 12-10.

**#5 (Animal Care & Services Program/GM) -**

- ***Develop a policy to determine ACS program wide cost-recovery goals; and***
- ***Annually review and update a program wide cost recovery (similar to that provided by the City Auditor's Office) prior to setting fees. (Priority 3)***

NOT IMPLEMENTED: Staffing constraints have delayed implementation of this recommendation. Staff continues to work with the Finance Department and the Budget Office to ensure that the overhead rate and the cost-recovery calculations are accurate in the 2010-2011 Fees and Charges Report. However, the broader analysis of the program wide cost-recovery goals will be developed in 2010-11 as long as staffing resources are available. Target date: 12-10.

**#6 (Animal Care & Services Program/GM) - Determine the feasibility of establishing a separate fund to account for all ACS costs. (Priority 2)**

IMPLEMENTED: The feasibility of establishing a special fund was reviewed. This review determined that the establishment of a special fund for ACS would be problematic due to certain accounting rules and various considerations related to special funds. However, as a result of issues highlighted by the audit, consideration has been given to the mandated and revenue generating portions of the ACS and budgets adjusted accordingly.

**#7 (Animal Care & Services Program/GM) - Should count all monies collected from animal care citations as ACS revenues for purposes of ACS's calculation of its cost-recovery. (Priority 3)**

IMPLEMENTED: Beginning in 2009-10, all monies from animal care citations are now included in the ACS calculations of cost-recovery purposes.

**#8 (Animal Care & Services Program/GM) –**

- ***Continue to review and document contract city costs for a pre-determined time period; and***
- ***Explore the possibility of either increasing the reimbursement rates or reducing the level of service to the contract cities if the costs continue to be higher than the reimbursements. (Priority 2)***

NOT IMPLEMENTED: The next contract set to expire is the City of Milpitas in 2012. Staff anticipates that it will review and analyze service and cost data for the City of Milpitas prior to renewing this contract. However, staff has not yet begun to review and document contract city costs for a pre-determined period. The Deputy Director agrees with the value of doing this analysis however, staffing constraints may delay implementation of this recommendation. Target date: 12-10.

**#9 (Animal Care & Services Program/GM) –**

- ***Review and determine the staffing impact of responding to Priority 3 calls by letter or phone; and***
- ***Develop formal policies and procedures on responding to calls for service, including calls that are handled by letter or phone. (Priority 3)***

IMPLEMENTED: ACS finalized and distributed policies and procedures for handling many Priority 3 calls for service by letter or phone. Further, some Priority 3 calls, such as unknown stray animals running at large, will only be kept open for 7 days. The pending call load is still between 200-300 calls per day, but the response time to Priority 1 calls has improved since November 2009 to 94 percent response within one hour in January 2010. We should note that 4 of ACS's 13 Animal Care Officer are out on short-term leave; this may have impacted the response to calls. Staff will continue to analyze service impact once staffing has returned to its normal levels.

**#10 (Finance/GM) – *Routinely send delinquent accounts to a collections agency for enforcement. (Priority 2)***

IMPLEMENTED: Finance has agreed to routinely send all ACS unpaid accounts over 75 days past due and under \$500 to the collection agency. As of January 2010, Finance has sent about 1,400 accounts to the collection agency and will continue to do so on a routine basis.

**#11 (Animal Care & Services Program/GM) – *Reconsider whether expired licenses should routinely turn into administrative citations, and/or whether to suspend collection efforts for expired licenses. (Priority 3)***

IMPLEMENTED: ACS no longer prioritizes the enforcement of expired licenses and does not currently issue routine administrative citations for an owner's failure to renew a license. Instead, as mentioned in Recommendation #1, ACS staff is focusing its efforts on increasing the number of new licensed animals.

## **OTHER PENDING AUDIT RECOMMENDATIONS WITH POTENTIAL BUDGET IMPACTS**

Although not covered during this reporting period, two recent audit reports – *Audit of Pensionable Earnings and Time Reporting* (issued December 2009) and *Audit of Civilianization Opportunities in the San Jose Police Department* (issued January 2010) – have pending audit recommendations with potential budget impacts.

### **09-10: AUDIT OF PENSIONABLE EARNINGS AND TIME REPORTING**

The report (issued December 9, 2009) included six recommendations identifying approximately \$5.8 million in potential savings:

- Recommendation #2: Review the highest 12-month salary of all active beneficiaries starting in July 1, 2001 and work with Payroll to adjust those with retroactive lump sum payments to ensure that beneficiaries are receiving accurate pensions (potential estimated savings \$648,518 based on sampled employees only)
- Recommendation #4: To the extent possible, correct pension payments and retirement contributions for the Police and Fire Retirement members and for the Federated Retirement members where higher class pay or management allowances were considered pensionable (potential estimated savings \$925,126 based on sampled employees only)
- Recommendation #6: Adjust the FLSA pension records for retirees and active employees as soon as possible and recalculate pension benefits for retired firefighters (the City has estimated the over-contributions of employees and the City at approximately \$1 million).
- Recommendation #13: Consider amending the Municipal Code to calculate final compensation as the highest base salary received, with suitable exceptions (potential estimated lifetime savings \$717,000 based on sampled employees only).
- Recommendation #14: Consider amending the Municipal Code such that the Retirement Board shall credit a member with one year of federated city service for 2,080 hours of federated city service rendered by the member in any calendar year (potential estimated savings included with Recommendation #13 above).
- Recommendation #15: Consider amending the Municipal Code to return to a three year average in calculating pension benefits in both Retirement Plans (potential estimated savings \$2.5 million based on sampled employees only).

**10-02: AUDIT OF CIVILIANIZATION OPPORTUNITIES IN THE SAN JOSE POLICE DEPARTMENT**

The report (issued January 14, 2010) included 13 recommendations identifying about \$5.1 million in potential savings without decreasing the level of service. Key recommendations with potential budget impacts include:

- Recommendation #3: Seek to increase the number of positions allowed to be civilianized in the Memorandum of Agreement with the SJPOA.
- Recommendation #4: Consider how Community Service Officers and Investigative Aides might be used in the future in San Jose and meet and confer with the SJPOA regarding this provision.
- Recommendation #9: Develop short, medium, and long-term plans to civilianize the positions identified in this audit and/or other positions identified by the Police Department.
- Recommendation #10: Identify partial administrative roles filled by sworn and consider options for civilianization.
- Recommendation #11: Consider outsourcing the helicopter pilot duties as well as the fixed-wing airplane assignments on an hourly basis.
- Recommendation #12: Work with the Police Activities League to determine the most effective and efficient mix of sworn and civilian staff.
- Recommendation #13: Work with the Airport Department to determine the most effective and efficient mix of sworn (SJPD) and civilian (Airport) security required to maintain the Airport's security program, in accordance with TSA regulations.

## APPENDIX A

### DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

<b>Priority Class<sup>1</sup></b>	<b>Description</b>	<b>Implementation Category</b>	<b>Implementation Action<sup>3</sup></b>
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. <sup>2</sup>	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. <sup>2</sup>	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

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<sup>1</sup> The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

<sup>2</sup> For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

<sup>3</sup> The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.