



Memorandum

TO: CITY COUNCIL
FROM: Mayor Sam Liccardo
SUBJECT: STATUS OF OPEN AUDIT RECOMMENDATIONS AND PUBLIC ART REQUIREMENTS FOR ENVIRONMENTAL AND WATER UTILITY CAPITAL PROJECTS
DATE: March 27, 2018

APPROVED: 

DATE: 3-27-18

RECOMMENDATION

1. Accept staff recommendation and the recommendation of Vice-Mayor Carrasco and Councilmembers Rocha and Peralez to drop the recommendation from the 2012 Audit of Environmental Services to eliminate the public art requirement for underground ratepayer-funded capital projects.
2. Defer acceptance of the status report of Open Audit Recommendations for sixty (60) days.
3. Direct the City Manager to meet with the City Auditor to jointly develop a priority list of the top three key audit recommendations in each of the following four categories of benefits: budgetary savings/revenue generation, operational efficiency, improved services, and risk mitigation—and reset target dates in accordance with the new priority list.
 - a. When staff returns to Council within sixty (60) days with the list for Council adoption, Council may resolve any disagreement that the City Auditor and City Manager may have about those priorities.
 - b. Future annual reports regarding remaining open audit recommendations shall prominently describe the progress of the City in addressing these priorities, and submit new recommendations to supplant completed priorities.
 - c. Periodic reports to the Rules Committee may also include a discussion of progress on key priorities, as the City Auditor deems appropriate.

DISCUSSION

As management guru Jim Collins urges, “if you have more than three priorities, you don’t have any priorities.” Unfortunately, we’ve muddled our way through hundreds of audit recommendations for several years without setting—and sticking to— any consistent priorities. Today, Council faces a dizzying array 207 unresolved recommendations for consideration. Much gets lost, and overlooked, as a result.

In December of 2015, I suggested and the Council agreed that we create a “top ten” list, based on two criteria: budgetary savings and service improvement. Although the City Auditor complied with that request, that approach was abandoned by the following year.

The Council approved the following direction on September 9, 2016:

- “Direct the City Manager to return to City Council in 30 days with recommendations to:
- a. Drop and/or close specific recommendations no longer active or relevant, given the passage of time.
 - b. Identify a category of pending recommendations which remain outstanding due to the need to resolve through meet & confer procedures with city labor representatives, or due to regulatory or legal obstacles beyond the immediate control of City staff.
 - c. Develop a list of the twenty-five (25) highest-priority recommendations, that do not currently have targets dates in FY 2017-2018, upon which City staff should focus during the remainder of the Fiscal Year 2016-2017, focusing on recommendations
 - i. Provide the largest impact on improving services to residents and businesses;
 - ii. Provide the greatest cost-savings, particularly to the General Fund;
 - iii. Reduce workload or otherwise provide operational efficiencies in the provision of services;
 - iv. Constitute a critical path toward implementation of other recommendations, e.g., filling staff vacancies (*Audit of Employee Hiring, 2015*);
 - v. Increasing employee morale; and
 - vi. Reducing risk to the City.”

That direction was adopted by the Council; shortly thereafter, the City Manager and Audit returned with a decision to prioritize the oldest 26 recommendations. However, despite the fact that these 26 items were prioritized, only 16 were completed, while at the same time, numerous non-priority items were worked on and completed. Also, at that time, the decision was made to set target dates for all audit items.

Now, in this most recent report, the City Auditor has recommended prioritizing certain internal control recommendations and described four categories of audit recommendations similar to

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those listed in my proposed direction, above: budgetary savings/revenue generation, operational efficiency, improved services, and asset preservation.

I am not doctrinal about how to categorize or prioritize these recommendations, but we need to find a path, and stick to it. We must direct our scarce staff time to our highest priorities. The annual tradition of burying Council with a blunderbuss of hundreds of open audit recommendations does not lend itself to progress, so I strongly urge that we prioritize and focus our efforts.