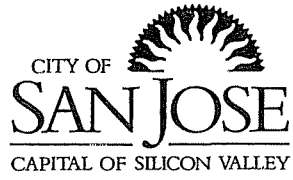
PSFSS COMMITTEE: 12-20-07 #6
CITY COUNCIL AGENDA: 01-08-08



OFFICE OF THE
CITY AUDITOR

SEMI-ANNUAL RECOMMENDATION FOLLOW-UP REPORT ON ALL OUTSTANDING AUDIT RECOMMENDATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2007

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

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor
Steven Hendrickson, Interim City Auditor

December 11, 2007

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 June 30, 2007.*

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 December 20, 2007 meeting. Should you have any questions or need additional information in the interim, please let me know.

Respectfully submitted,

Steven M. Hendrickson

Steven Hendrickson
Interim City Auditor

GS:bh
Jun07

cc: City Manager's Office
and affected departments

EXECUTIVE SUMMARY

In accordance with the City Auditor's approved 2007-08 Workplan, we have prepared a report of the status of open recommendations for the six months ending June 30, 2007. To prepare this report, we met with department staff, reviewed department assessments of audit status, and reviewed documentation provided by departments.

IMPLEMENTATION STATUS OF OPEN RECOMMENDATIONS

During the semi-annual period covering January 1 through June 30, 2007, there were ninety (90) outstanding recommendations of which:

- 43 recommendations were implemented;
- 40 recommendations were partly implemented;
- 5 recommendations were not implemented; and
- 1 recommendation was deferred
- 1 recommendation was dropped.

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

TABLE I
STATUS OF OPEN RECOMMENDATIONS BY AUDIT REPORT ENDING JUNE 30, 2007

Report #	Audit Report	Implemented	Partly Implemented	Not Implemented	Deferred	Dropped
88-03	An Audit Of The Police Department Overtime Controls		1			
95-06	An Audit Of The San Jose Arena Management Agreement	1				
96-07	An Audit Of The City Of San Jose's Open Purchase Order Process	1		1		
97-01	An Audit Of The City Of San Jose's Utility Billing System	1	1			
00-01	An Audit Of The Police Department -Bureau of Field Operations Patrol Division's Staffing and Deployment					1
00-04	An Audit Of The City Of San Jose Building Division's Building Permit Fee Process	1	1			
01-01	An Audit Of The Property Appraisal Process Of The Department Of Public Works—Real Estate Division		1	1		
01-02	An Audit Of The City Of San Jose Fire Department's Overtime Expenditures		3	1		
01-05	An Audit of the City of San Jose Fire Department's Strategic Plan Regarding Proposed Fire Stations		2			
02-02	An Audit Of The San José Arena Management Corporation's Compliance With The San José Arena Management Agreement	3				
02-03	An Audit Of The Property Management Operations Of The City Of San José's Department Of Public Works – Real Estate Division		1			
03-04	An Audit Of The Airport Neighborhood Services Group		1			
03-07	An Audit Of The Neighborhood Development Center Of The Department Of Parks, Recreation, And Neighborhood Services	2				
03-10	An Audit of The San José Fire Department's Bureau of Fire Prevention		4		1	
04-01	An Audit Of The Concentrated Code Enforcement Program	1	1			
04-05	A Review Of The CUSP Request For Proposal Process	14				
04-06	A Review Of The Request For Proposal For The New Civic Center Converged Network System	4	1			
04-07	An Audit Of The City's Cellular Phone Program	4				
04-08	An Audit Of San José Family Camp		2			
04-09	An Audit Of The City Manager's Reforms		1			
05-01	An Audit Of The Public Art Program	1	2			
05-02	An Audit Of The Agreements Between The City And The Filipino American Senior Opportunities Development Council	4	3			
05-03	An Audit Of The Environmental Services Department's Laboratory		1			
06-01	An Audit Of Citywide Grant Oversight		2			
06-02	An Audit Of The San Jose Municipal Water System Fire Hydrant Maintenance And Repair Program			1		
06-03	An Audit Of The City Of San José's Procurement Card Program	3				
06-04	The 2004-05 Annual Performance Audit Of Team San Jose, Inc.	3	7			
07-01	Review Of The Mexican Heritage Corporation		4	1		
07-02	Municipal Water System Consolidated Water Utility Fund		1			
	Totals	**43**	**40**	**5**	**1**	**1**

As of June 30, 2007, the distribution of the forty six (46) recommendations which remain open are as follows:

1	Airport	2	Planning, Building, and Code Enforcement
10	City Administration	1	Police Department
1	Economic Development	5	Parks, Recreation, and Neighborhood Services
2	Environmental Services Department	3	Public Works Department
3	Finance Department	1	Redevelopment Agency
11	Fire Department	5	Team San Jose
1	Mexican Heritage Corporation		

Of the forty six (46) recommendations which remain open:

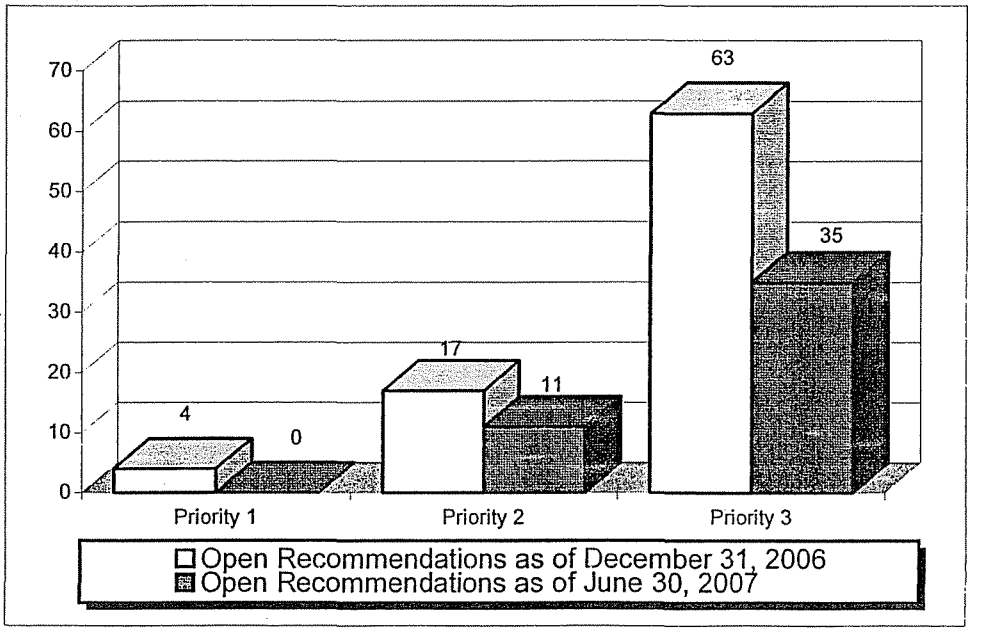
- 0 recommendations are Priority 1;
- 11 recommendations are Priority 2; and
- 35 recommendations are Priority 3.

Of the five (5) recommendations which are "not implemented":

- 0 recommendations are Priority 1;
- 2 recommendations are Priority 2; and
- 3 recommendations are Priority 3.

Graph 1 shows the priority status of recommendations that remained open during the past six months.

GRAPH 1
PRIORITY STATUS OF REMAINING OPEN AUDIT RECOMMENDATIONS

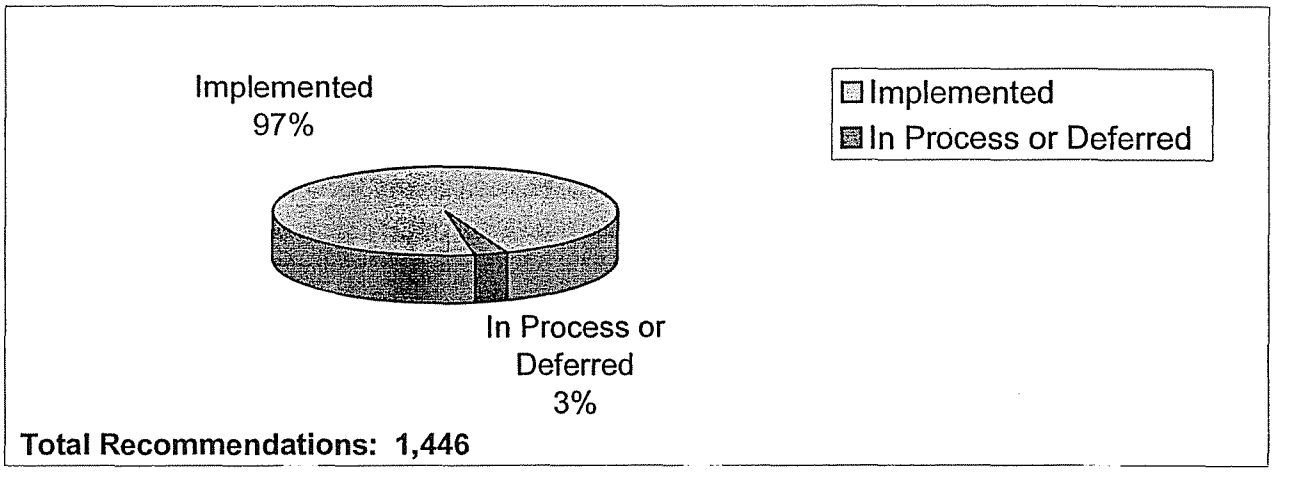


During this semi-annual period, the City Council approved six (6) new recommendations, and the Administration implemented 43 recommendations. We thank the departments for their efforts in implementing these recommendations and toward implementing those 46 recommendations still outstanding.

Graph II shows the number of City Auditor recommendations made and implemented from May 1985 through June 2007.

GRAPH II

RECOMMENDATIONS IMPLEMENTED
May 1985 through June 2007



RECOMMENDATIONS REQUIRING PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE ATTENTION

Recommendations requiring City Council 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, or 5) implementation would generate additional revenues or cost savings.

00-02: AN AUDIT OF THE CITY OF SAN JOSE'S MASTER VENDOR FILE

#3 (Finance/ IT Department/RO) - Prepare a proposal and budget requirements to allow for 1) identifying, researching, and purging inactive vendor numbers; "R" vendor numbers; deceased, retired, and former employee numbers; and erroneously assigned vendor numbers from the Master Vendor File and the corresponding records in other modules; 2) Archiving the records taken off the Master Vendor File and the corresponding records; and 3) Using a vendor numbering system for one-time payment of authorized purchases and automatic purging of such vendor numbers. (Priority 3)

IMPLEMENTED. According to the Finance Department, funding was provided for this effort during the 2006-07 budget process and the City's Financial Management System (FMS) was subsequently upgraded. However, the system functionality to allow a clean-up of the Master Vendor File, as we recommended, has not yet occurred.

REQUIRES CITY COUNCIL ATTENTION: Although the Finance Department technically implemented Recommendation #3, the problem the recommendation was intended to correct still remains. Namely, the City's Master Vendor File contains far too many vendors and City employees. As a result, the City is still exposed to fraudulent activities. Accordingly, the City Auditor recommends that his office continue to monitor the Administration's efforts until such time as the Administration successfully ameliorates the City's exposure to fraud via the Master Vendor File.

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

#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 continues to pursue options for implementing a program to address the concerns highlighted in this recommendation. Target date: 7-08.

COST SAVINGS: TBD.

#9 (San José Fire Department/GM) - Evaluate the feasibility of implementing a comprehensive Wellness-Fitness Initiative Program for the San José Fire Department (SJFD) and prepare a budget proposal should the initiative appear cost beneficial. (Priority 3)

PARTLY IMPLEMENTED. In the 2008-09 budget process, the SJFD will be requesting one additional FTE Training Specialist to serve as the Wellness Coordinator. The addition of a Wellness Coordinator would restore services previously eliminated due to a budget reduction in 2001-02. The Wellness Coordinator would coordinate wellness assessments; provide health, fitness, and wellness training programs for all Fire Department personnel to minimize injuries, health risks and improve quality of life; and work with the Department Safety Officer to maximize effectiveness of all safety programs. Full implementation of a Department Wellness-Fitness Initiative Program is pending approval and hire of a Wellness Coordinator/Training specialist. Target date: 7-08.

COUNCIL ATTENTION REQUIRED: Requires funding TBD.

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. 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 February 2005; 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. However, the current EMS Agreement with the County requires that the SJFD respond on all 911 calls received. Under the Priority Dispatch Omega protocol, the 911 call receives an alternate response. The County has approved the County EMS contract extension for three years and the SJFD followed up with data

collection through June 2007. Furthermore, the SJFD was successful in obtaining County EMS Agency authorization to respond to lower-priority medical aid service requests, as determined through the Medical Priority Dispatch System, with Basic Life Support resources. However, a retrospective review of patient care data by the SJFD identified data integrity issues that must be resolved prior to response modification. The SJFD is confident that data integrity features specifications of the Records Management System, that it is in the process of implementing, will ensure its future ability to determine which Omega determinants could safely receive an alternate response. Target date: 12-07.

REQUIRES FUNDING: TBD.

#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. According to FY 2005-06 Manager's Budget Addendum #10, temporary redeployments of existing fire companies are proposed to minimize the General Fund operating costs on a year-by-year basis for the next three years. The SJFD intends to collect data to determine the appropriateness of this strategy. As part of this redeployment, the SJFD plans to staff a two-person Supplemental Transport Ambulance Resource (STAR) unit to independently respond to lower-priority medical calls and service requests with the redeployment of Station 2's resources. Station 2's resources will be redeployed during its construction from March 2008 to March 2009. 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: 6-08.

REQUIRES FUNDING: TBD.

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

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

PARTLY IMPLEMENTED. The Management Agreement between the City and TSJ states, "Operator shall be solely and fully responsible for complying with the Americans with Disabilities Act of 1990 ("ADA") in connection with: (a) any use of the facilities by guests or services provided by Operator to Customers; and (b) modifying its policies, practices, and procedures to comply with the ADA. Operator shall develop a work plan to correct or avoid any violations or non-compliance with the ADA. Operator shall perform an assessment of Facilities for ADA compliance and notify City of any compliance issues..." TSJ has assessed the Convention and Cultural Facilities for ADA compliance. In general, the Convention and Cultural Facilities are ADA compliant; however, several items need correction. According to the City Manager's Office, TSJ has worked with Property Condition Assessment, Inc. (PCA) to complete the list of non-compliant items.

REQUIRES COUNCIL ATTENTION: TSJ is unable to complete the list of non-compliant items and correct any violations or non-compliance with ADA as no City funding is currently available.

COMPLETE LISTING OF THE STATUS
OF OPEN AUDIT RECOMMENDATIONS
AS OF JUNE 30, 2007

88-03: AN AUDIT OF THE POLICE DEPARTMENT OVERTIME CONTROLS

#14 (San José Police Department/RO) - Develop and implement forms for documenting the justification and authorization of all overtime occurrences. (Priority 3)

PARTLY IMPLEMENTED. The City Auditor and members of the San Jose Police Department (SJPD) met with the Rules Committee to discuss this recommendation. As a result, the Rules Committee added an audit of Police Department Overtime to the City Auditor's 2005-06 Audit Workplan, specifically, to conduct a "controls review" of the SJPD's overtime controls. In January 2006, the SJPD requested that the City Auditor's Office delay the audit because it was in the process of deploying a new scheduling software package, which would give the Department the ability to run various analytical reports on a daily, weekly, monthly, bi-monthly, or annual basis. Full deployment, including implementation and training, was planned for September 2006 and the City Auditor was to conduct the audit at that time, making the decision to either close this recommendation or recommend another audit of the SJPD's overtime justification and authorization process. Subsequently, the SJPD was unable to implement the software by September 2006 and a new deployment date of May 2007 was reported. In February 2007, Information Technology (IT) and SJPD staff determined that, until the City completes its ongoing upgrade to the PeopleSoft payroll system, the payroll system and scheduling software cannot be successfully integrated.

According to San Jose Police Department (SJPD) Administration, since this audit recommendation was made in 1988, the SJPD has implemented additional controls to document, justify, and authorize overtime. While ongoing work continues to implement a technology solution for automatic report retrieval, the SJPD has in place overtime controls and documenting processes that include (1) all overtime is pre-approved, (2) pre-approved overtime reported on timesheets (paper and/or electronic) is again reviewed prior to final approval and signature by a supervisor, and (3) overtime expenses are monitored and compared to budget on a bi-weekly basis. When the two systems are integrated, a six-month implementation and usage period will begin and staff now expects a final completion date of March 2008. In the interim, SJPD staff will continue to work with IT and Payroll staff, using the existing timecard system for overtime tracking. The City Auditor will conduct the audit after the six-month implementation and usage period concludes. Target date: 3-08.

95-06: AN AUDIT OF THE SAN JOSÉ ARENA MANAGEMENT AGREEMENT

#4 (City & San José Arena Management Corporation/RO) - Agree on a definition of what the program operating budget in section 9.02 of the Management Agreement should include in order to facilitate the San José Arena Management Corporation preparing the budget and submitting it to the City for review and approval in accordance with the terms of the Management Agreement. (Priority 2)

IMPLEMENTED. In May 2007, the City Council authorized the City Manager to negotiate and execute amendments to the Amended and Restated Arena Management Agreement. In August 2007, the second amendment to the Arena Management Agreement was signed. Per this recommendation, specific agreement language pertaining to the program operating budget was removed by mutual agreement between the City and HP Pavilion Management.

96-07: AN AUDIT OF THE CITY OF SAN JOSÉ'S OPEN PURCHASE ORDER PROCESS

#19 (General Services Purchasing Division/Finance Department/RM) - Develop and implement invoice review and approval procedures to be included in the City Administrative Manual. The procedures should provide assurance that:

- ***goods or services were authorized under the open purchase order;***
- ***goods or services were received;***
- ***on open purchase orders over $5,000, invoiced quantities, prices/rates and terms are in accordance with the terms of the open purchase order;***
- ***invoices are mathematically correct;***
- ***departments receive the pricing and rate documentation necessary to properly review invoices; and***
- ***receiving documents are forwarded to accounting units to match to the invoices.***

(Priority 2)

IMPLEMENTED. The Finance Department published three administrative policies, City Policy Manual (CPM) 5.1.7, Procurement of Supplies, Equipment, and Material; CPM 5.1.8, Procurement of Non-professional Services; and CPM 5.1.9, Procurement of Information Technology. These policies outline the responsibilities among the Finance Department and other departments in the acquisition process, including payment of invoices.

#21 (Finance/RM) - Finalize revisions to the Finance Administrative Manual Accounts Payable Section. (Priority 3)

NOT IMPLEMENTED. The Finance Department hired an Accounts Payable Section Supervisor in July 2007. The supervisor will finalize revisions to the Finance Administrative Manual Accounts Payable Section. Target date: 12-07.

97-01: AN AUDIT OF THE CITY OF SAN JOSÉ'S UTILITY BILLING SYSTEM

#4 (Finance/Environmental Services Department/RO) - The City Council consider combining sewer and storm drain fees with Recycle Plus billings. (Priority 2)

IMPLEMENTED. An October 29, 2007 City Administration memorandum recommended the City Council direct staff to continue the current process of billing and collecting the City's Sanitary Sewer Service and Storm Sewer Service (Sewer) revenues, that is, placing these bills on the Santa Clara County Tax Roll annually. After discussions with the City Auditor's Office (CAO) and review of changes that have taken place since the initial audit recommendation, the CAO and City Administration mutually agreed that the City should not combine these billings with Recycle Plus billings and should continue to place Sewer billings on the County's Tax Roll for collection. The City Council approved the City Administration's memorandum at its November 20, 2007 City Council meeting.

#20 (Finance/Environmental Services Department/RO) - Establish on-going procedures for (1) scanning for errors and correcting customer data in the database, (2) purging unnecessary data, (3) authorizing changes in account status from active to inactive, and (4) routinely reviewing monthly reports for rate code exceptions. (Priority 3)

PARTLY IMPLEMENTED. The Integrated Billing System (IBS) went live in July 2006. According to City Administration, in converting to the new system, the IBS project team implemented steps to correct, clean, and convert information in the database. Automated system features identify billing exceptions, which IBS staff corrects using documented procedures. In addition, the new system has an advanced query capability, being used to meet a goal to produce cleaner data. With system maturation, some standard reports to maximize billing efficiencies and minimize errors have been developed, with additional reports and procedures currently under development. The City Auditor's Office will review controls to ensure that the reliability of the database information is properly maintained. Target date: 12-07.

00-01: AN AUDIT OF THE POLICE DEPARTMENT – BUREAU OF FIELD OPERATIONS PATROL DIVISION'S STAFFING AND DEPLOYMENT

#1 (San José Police Department/City Administration/RM) - Negotiate with the San José Police Officers' Association to modify shift-starting times to provide sufficient flexibility to deploy officers in the most efficient and effective manner. (Priority 2)

DROPPED. The City Council closed out this recommendation on October 30, 2007 based on the Public Safety, Finance and Strategic Support Committee's recommendation to accept the Police Department's response to Audit Recommendation Follow-up: The San Jose Police Department's Staffing and Deployment. Furthermore, the City Council recommended that the Police Department continue to use the police staffing software known as Staff Wizard, and to monitor the inputs and outputs for efficient and effective tracking purposes. Date dropped: 10-07.

00-04: AN AUDIT OF THE CITY OF SAN JOSÉ BUILDING DIVISION'S BUILDING PERMIT FEE PROCESS

#3 (Building Division/GM) - Develop a process for accounting for works-in-progress to ensure a proper matching of Building Program revenues and costs. (Priority 3)

IMPLEMENTED. The Building Division has a model to account for works-in-progress to ensure a proper matching of the building fee program revenues and costs. This model was run in March 2007 and indicated a plan review liability of about five percent of current costs and an inspection liability of 37 percent of current costs. The building fee program works-in-progress liability is about $3.7 million.

#4 (Building Division/GM) - Establish a policy and process to pay for long-term capital or asset acquisitions. (Priority 3)

PARTLY IMPLEMENTED. Staff has completed development of the Financial Consulting Group's model which recommended a sinking fund to pay for long-term capital asset acquisitions. Currently, the Division is in the process of conducting an inventory of assets in order to populate the model with data. Target date: 6-08.

01-01: AN AUDIT OF THE PROPERTY APPRAISAL PROCESS OF THE DEPARTMENT OF PUBLIC WORKS—REAL ESTATE DIVISION

#13 (Public Works Real Estate/GE) - Write current and complete Real Estate Division policies and procedures in the prescribed Department of Public Works format. (Priority 3)

PARTLY IMPLEMENTED. According to Department of Public Works Administration, due to changes in law effective January 1, 2007 and changes in procedures, the Public Works Real Estate Division, coordinating with the City

Attorney's Office, is updating the Property Acquisition Manual the Division developed in September 2005. The revised Property Acquisition Manual is being formatted to be consistent with the City Policy Manual format. Target date: 12-07.

#14 (Public Works Real Estate/GE) - Develop a project tracking system that will track targeted and actual dates on a project by project basis. (Priority 3)

NOT IMPLEMENTED. According to Department of Public Works (DPW) Administration, Real Estate Division staff is currently using the in-house tracking system it developed to record project milestones and has outlined the scope of work necessary to add fields for the tracking of "target" and "actual" milestone dates in the more-widely used DPW Capital Project Management System (CPMS) database. The DPW stated that the real estate milestone tracking enhancements can be accomplished by year end 2007 without additional budget resources. Target date: 12-07.

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

#6 (San José Fire Department/GM) - Update its 1992 study regarding the use of relief staff and overtime to meet minimum staffing requirements and annually determine the most efficient and cost effective mix of relief staff and overtime to meet minimum staffing needs. (Priority 3)

PARTLY IMPLEMENTED. The Fire Department has a process in place for obtaining and reviewing staffing-related information in order to identify overtime and relief staffing levels. The Fire Department has completed a trend analysis of this information for the last two fiscal years. At the end of fiscal year 2006-07, the Fire Department had the required data to make relief staffing level adjustment recommendations. The Fire Department anticipates that it may include relief staffing level recommendations as part of its annual report to the Public Safety, Finance and Strategic Support Committee. If necessary, the Fire Department will include recommended staffing level changes as part of the 2008-09 budget process. Target date: 1-08.

#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)

NOT IMPLEMENTED. According to the Fire Chief and the Administrative Officer, it would be very cumbersome to review the sick leave data per line personnel on a department-wide basis. However, the department has agreed to pursue other options such as developing and implementing a proactive sick leave policy and identifying possible patterns of abuse at individual fire station levels. Target date: 7-08.

#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 continues to pursue options for implementing a program to address the concerns highlighted in this recommendation. Target date: 7-08.

COST SAVINGS: TBD.

#9 (San José Fire Department/GM) - Evaluate the feasibility of implementing a comprehensive Wellness-Fitness Initiative Program for the SJFD and prepare a budget proposal should the initiative appear cost beneficial. (Priority 3)

PARTLY IMPLEMENTED. In the 2008-09 budget process, the SJFD will be requesting one additional FTE Training Specialist to serve as the Wellness Coordinator. The addition of a Wellness Coordinator would restore services previously eliminated due to a budget reduction in 2001-02. The Wellness Coordinator would coordinate wellness assessments; provide health, fitness, and wellness training programs for all Fire Department personnel to minimize injuries, health risks and improve quality of life; and work with the Department Safety Officer to maximize effectiveness of all safety programs. Full implementation of a Department Wellness-Fitness Initiative Program is pending approval and hire of a Wellness Coordinator/Training specialist. Target date: 7-08.

COUNCIL ATTENTION REQUIRED: Requires funding TBD.

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. 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 February 2005; 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. However, the current EMS Agreement with the County requires that the SJFD respond on all 911 calls received. Under the Priority Dispatch Omega protocol, the 911 call receives an alternate response. The County has approved the County EMS contract extension for three years and the SJFD followed up with data collection through June 2007. Furthermore, the SJFD was successful in obtaining County EMS Agency authorization to respond to lower-priority medical aid service

requests, as determined through the Medical Priority Dispatch System, with Basic Life Support resources. However, a retrospective review of patient care data by the SJFD identified data integrity issues that must be resolved prior to response modification. The SJFD is confident that data integrity features specifications of the Records Management System, that it is in the process of implementing, will ensure its future ability to determine which Omega determinants could safely receive an alternate response. Target date: 12-07.

REQUIRES FUNDING: TBD.

#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. According to FY 2005-06 Manager's Budget Addendum #10, temporary redeployments of existing fire companies are proposed to minimize the General Fund operating costs on a year-by-year basis for the next three years. As part of this redeployment, the SJFD intends to collect data to determine the appropriateness of this strategy. The SJFD plans to staff a two-person Supplemental Transport Ambulance Resource (STAR) unit to independently respond to lower-priority medical calls and service requests with the redeployment of Station 2's resources. Station 2's resources will be redeployed during its construction from March 2008 to March 2009. 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: 6-08.

REQUIRES FUNDING: TBD.

02-02: AN AUDIT OF THE SAN JOSÉ ARENA MANAGEMENT CORPORATION'S COMPLIANCE WITH THE SAN JOSÉ ARENA MANAGEMENT AGREEMENT

#1 (Arena Management/RO) - Develop written procedures for calculating the annual Arena fees payment to the City and include in those new procedures estimating luxury suite revenues based upon prior years' luxury suite leasing history. (Priority 2)

IMPLEMENTED. HP Pavilion Management has completed its written procedures for calculating the annual Arena fees payment.

#3 (Arena Management/Arena Authority/City Attorney's Office/RO) - Develop a mutually agreeable delivery schedule regarding the frequency of the detailed reports and records relating to the City Related Accounts. (Priority 3)

IMPLEMENTED. In May 2007, the City Council authorized the City Manager to negotiate and execute amendments to the Amended and Restated Arena Management

Agreement. In August 2007, the second amendment to the Arena Management Agreement was signed, which includes amended language that allows for a delivery schedule determined by the City for reports and records to the City Related Accounts.

#4 (Arena Management/RO) - Provide the past and future City Income Reports and Audit Reports in accordance with the Management Agreement. (Priority 3)

IMPLEMENTED. HP Pavilion Management provided past City Income Reports and the Audit Report to the City in October 2007. Agreed upon procedures require that HP Pavilion Management provide the City with all future City Income Reports and Audit Reports.

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

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

PARTLY IMPLEMENTED. The Public Works' Real Estate Division, in coordination with other City departments, has identified and listed 111 leases/operating agreements in which the City is landlord. In a series of meetings during the past three months, the City's Property Acquisition and Disposition Committee has reviewed that list, estimating the amount of time invested in lease negotiation, contract administration, and fiscal administration by each City department. The Property Acquisition and Disposition Committee then divided the list into categories based on the type of leases and discussed whether negotiation/administration of certain types of agreements, such as leases of City-owned office space, should be centralized, while other types of leases, such as operational agreements for City-owned parking lots, are unique to the mission of individual departments and thus should remain decentralized with some review component. The Public Works Real Estate Division plans to meet with each department which currently has oversight of City as Landlord leases/operating agreements, to discuss the appropriate oversight model for each category of leases. Based on these discussions, Public Works Real Estate Division staff will make a recommendation to the Property Acquisition and Disposition Committee this fall and forward a Committee recommendation to the City Manager for implementation consideration. Target date: 12-07.

03-04: AN AUDIT OF THE AIRPORT NEIGHBORHOOD SERVICES GROUP

#1 (Airport Neighborhood Services Group/RM) - Develop a standardized constituent complaint form to document the nature of the complaint, how the issue was resolved, any follow-up action taken, and how long it took to resolve the complaint. (Priority 3)

PARTLY IMPLEMENTED. The Airport continues to track constituent concerns and complaints with an Excel worksheet, documenting and tracking information about each complaint or concern. During the fall of 2006 the Airport filled a newly-created position – Airport Customer Service Director. The Customer Service Director and the Airport Ombudsperson are working with Airport Technology Services (ATS) to evaluate, select, and purchase a software package to electronically standardize and track action related to constituent complaints and inquiries. The Airport is currently in the process of finalizing the RFP documents. The Airport plans to have a complaint queue as part of the Service Desk application. Target date: 4-08.

03-07: AN AUDIT OF THE NEIGHBORHOOD DEVELOPMENT CENTER OF THE DEPARTMENT OF PARKS, RECREATION, AND NEIGHBORHOOD SERVICES

#2 (Department of Parks, Recreation, And Neighborhood Services/GM) - Develop a comprehensive budget for the Project Blossom Program, a formal Project Blossom workplan for each Project Blossom site, and establish guidelines and better supervisory review. (Priority 2)

IMPLEMENTED. PRNS no longer has a Project Blossom component. Code Enforcement maintains its own internal budget for the Project Blossom program and will no longer need a comprehensive budget between the two departments.

#6 (Department of Parks, Recreation, And Neighborhood Services/GM) - Make full use of the grant management oversight clause in its agreement with the Community Foundation Silicon Valley. (Priority 3)

IMPLEMENTED. The Neighborhood Development Center (NDC) moved to the Strong Neighborhoods Team in June 2006. The Strong Neighborhoods program is jointly administered by the RDA and the City Manager's Office. The fiscal agent for the NDC - the Volunteer Center of Silicon Valley (VCSV) distributed the CAP grant awards for Cycle 20 and the current Cycle 21. The VCSV has been providing staff with the required monthly status and financial reports. Finally, according to the Strong Neighborhoods Manager, the department is doing a Request for Qualifications for a new fiscal agent for the CAP program in order to explore other, and possibly more advantageous options.

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 City Council has awarded a contract for the SJFD's Records Management System (RMS) which will help with the automation process. Currently, the City's Information Technology (IT) Department is transferring the SJFD fire prevention inspection database from the City's VAX system to the SJFD's AMANDA system and implementation is expected by the end of the year. In addition, all Fire Inspector positions are currently filled, enhancing the completion of follow-up inspections. Target date: 12-07.

#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)

DEFERRED. The San Jose Fire Department (SJFD) is finalizing its Fire Prevention Business Plan, which addresses outstanding audit recommendations. Relative to this recommendation, the SJFD developed an RFP for a Records Management System (RMS) and the City Council has approved a contract for the system. Currently, the City's Information Technology (IT) Department is transferring the SJFD fire prevention inspection database from the City's VAX to the SJFD's AMANDA system, with implementation projected by the end of the year. The SJFD goal is to use the RMS and AMANDA to better capture business license data and to have it link to the FIBS system. At this time, however, the estimated completion date of this project is unknown. Deferral date: 12-07.

#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 written a Fire Prevention Business Plan, which includes a risk analysis/assessment model for Fire Inspection Frequency. A draft of the Business Plan has been completed. The SJFD has selected a consultant to develop a methodology that will validate the risk assessment model. The Business Plan will use the methodology to rank facilities needing inspections in priority order. Target date: 12-07.

#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 written a draft Fire Prevention Business Plan, now under final review, that recommends inspection frequencies based on a risk analysis and assessment model, and includes an analysis of Inspector time and inspection workload. The SJFD has selected a consultant to develop a methodology that will validate the risk assessment model and identify "best practices" for fire inspection activities, which the SJFD will use to determine its inspection staff needs. Target date: 12-07.

#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)

PARTLY IMPLEMENTED. The San Jose Fire Department (SJFD) has developed an amendment to their Administrative Citation Schedule of Fines (Schedule), which includes fines for failing to maintain an updated Hazardous Materials Management Plan. The SJFD submitted the amended Schedule to the Public Safety, Finance, and Strategic Support (PSFSS) Committee on September 20, 2007 for approval and the PSFSS Committee approved unanimously. The PSFSS-approved amended Schedule was then submitted to the full City Council for approval at their October 2, 2007 meeting; the City Council voted unanimously to approve. In addition, further IT Department system improvements for the SJFD - RMS and AMANDA systems, and possibly Unidocs – will finally allow electronic data tracking. Target date: 12-07.

04-01: AN AUDIT OF THE CONCENTRATED CODE ENFORCEMENT PROGRAM

#2 (Parks, Recreation, and Neighborhood Services/CC) - Ensure that the Concentrated Code Enforcement Program (CCEP) is in full compliance with Federal Office of Management and Budget (OMB) A-87 documentation requirements. (Priority 2)

IMPLEMENTED. Community Development Block Grant (CDBG) staff has developed an hourly tracking form for City personnel working on Housing and Urban Development (HUD) projects, which documents hours by activity codes. Housing is using the form to document eligible hours for City HUD-funded projects. A Memorandum of Performance, an agreement between CDBG and CDBG-funded departments, provides instructions on the completion of hourly tracking forms for employees that are CDBG-funded. Departments are also required to provide copies of the completed and signed timecards on a quarterly basis, along with a budget reconciliation and summary.

#5 (Code Enforcement/CC) - Conduct a comprehensive blight survey of Strong Neighborhood Initiative (SNI) areas every five years beginning in 2007. (Priority 3)

PARTLY IMPLEMENTED. Code Enforcement reports that the Redevelopment Agency provides funding for six inspectors comprising the "Driveway Team." The Driveway Team performs proactive blight sweeps within the Strong Neighborhood Initiative (SNI) Project areas and responds to resident complaints of blighted conditions within the SNI areas. These proactive sweeps consist of a systematic area-by-area survey and identification of blighted conditions and follow-up to eliminate the identified conditions. According to Code Enforcement, the Driveway Team completes a full sweep of all SNI Project areas annually. They maintain detailed records of the blight identified and addressed in each area, broken down by violation. To meet the intent of the recommendation, Code Enforcement should present an annual report to the Neighborhood Services and Education Committee highlighting the effectiveness of the program and the cumulative reduction of blight in the SNI Project areas. Target date: 7-08.

04-05: A REVIEW OF THE CUSP REQUEST FOR PROPOSAL PROCESS

#1 (City Manager/RM) - The City require consultants to complete a conflict of interest questionnaire affirming that he or she has no actual or apparent financial or other conflicts of interest related to any specific project. (Priority 1)

IMPLEMENTED. In February 2007, the City Council approved its Policy 0-35 "Procurement and Contract Process Integrity and Conflict of Interest." This City Council policy requires Council Appointees to take measures to ensure that the City avoid any conflict of interests in procurement processes of City contracts. These measures require paid or unpaid consultants to review this City Council policy and other ethical standards and for the City to elicit such information from them to enable the City to determine if the person's participation would create a conflict of interest. The City Council policy exempts the following from the procedural requirements:

1. Any contracting activity with an estimated value less than $100,000.
2. Disposition of goods as described in the Municipal Code Section 4.16.
3. Award of grants by the City with a value below $10,000.

However, by establishing the exceptions, the policy states that it does not intend to suggest that there is a lesser requirement with regard to ethical standards, but rather a need to have a less burdensome process with regard to certain procurements and contracting activities. Subsequently, as directed by the aforementioned City Council policy, the Administration published City Policy Manual (CPM) Section 5.1.1, "Procurement and Contract Process Integrity and Conflict of Interest – Administrative Procedures", in April 2007. This CPM policy requires consultants and City employees who participate in procurement evaluation processes to sign a "Confidentiality Agreement And Conflict Of Interest Disclosure" and a "Conflict of Interest" form.

#2 (City Manager/RM) - The City require all City personnel who participate in an evaluation process to complete a similar questionnaire. (Priority 1)

IMPLEMENTED. In February 2007, the City Council approved its Policy 0-35 "Procurement and Contract Process Integrity and Conflict of Interest." This City Council policy requires Council Appointees to take measures to ensure that the City avoid any conflict of interests in procurement processes of City contracts. These measures require paid or unpaid consultants to review this City Council policy and other ethical standards and for the City to elicit such information from them to enable the City to determine if the person's participation would create a conflict of interest. The City Council policy exempts the following from the procedural requirements:

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#3 (City Manager/RM) - City staff should immediately request a formal City Attorney opinion when any conflict of interest issues arise. (Priority 1)

IMPLEMENTED. In February 2007, the City Council approved its Policy 0-35 "Procurement and Contract Process Integrity and Conflict of Interest." The City Council policy exempts the following from the procedural requirements:

1. Any contracting activity with an estimated value less than $100,000.
2. Disposition of goods as described in the Municipal Code Section 4.16.
3. Award of grants by the City with a value below $10,000.

However, by establishing the exceptions, the policy states that it does not intend to suggest that there is a lesser requirement with regard to ethical standards, but rather a need to have a less burdensome process with regard to certain procurements and contracting activities. Subsequently, as directed by the aforementioned City Council policy, the Administration published City Policy Manual (CPM) Section 5.1.1, "Procurement and Contract Process Integrity and Conflict of Interest – Administrative Procedures", in April 2007. This CPM policy requires the Procurement Authority to review the conflict of interest forms described in Recommendations 1 and 2. It also

requires the Procurement Authority to discuss any potential conflict of interest with the City Attorney's Office to document the resulting determination and to set the appropriate actions.

#4 (City Manager/RM) - City staff level[1] future vendor cost proposals only for budgeting purposes and after the City has selected a vendor. (Priority 3)

IMPLEMENTED. The Finance Department developed a new online RFP manual. The online RFP manual requires that price submissions allow for a complete and accurate comparison. If they do not because the price submissions did not follow the pricing sheet instructions, then the cost proposal may be non-responsive to the RFP instructions. The online RFP manual further requires that the Project Manager cannot engage in leveling, that is, adjust any price submissions, to allow for cost comparisons.

#5 (City Manager/RM) - The City develop a formal policy regarding when it is appropriate for City staff to question and/or communicate with respondents to City RFPs. (Priority 3)

IMPLEMENTED. In February 2007, the City Council approved the Council policy titled "Procurement and Contract Process Integrity and Conflict of Interest." In April 2007, as directed by the aforementioned City Council policy, the Administration published City Policy Manual Section 5.1.1. The Council policy outlines the procurement and contract process communication protocol between respondents and the City during various phases of a solicitation.

#6 (City Manager/RM) - The General Services Purchasing Division should be the City's primary point of contact and the manager of the RFP process for all RFPs in which general services and commodities are being procured. (Priority 3)

IMPLEMENTED. In February 2007, the City Council approved the Council Policy 0-35 titled "Procurement and Contract Process Integrity and Conflict of Interest." In April 2007, as directed by the aforementioned City Council policy, the Administration published City Policy Manual (CPM) Section 5.1.1. The Council policy outlines the procurement and contract process communication protocol between respondents and the City during various phases of a solicitation. The Administration also issued CPM 5.1.8 "Procurement of Non-Professional Services" and CPM 5.1.9 "Procurement of Information Technology." CPMs 5.1.8 and 5.1.9 indicate that the Finance Department's Purchasing Division will act as the single point of contact for the solicitation and any questions or clarifications about the solicitation with the department contact for non-professional services and IT procurement, respectively.

[1] That is, adjust any price submissions.

#7 (City Manager/RM) - When the City uses a consensus scoring system it should document why the team members gave specific scores. (Priority 3)

IMPLEMENTED. The Administration no longer uses consensus scoring for procurements or contracts. Consensus scoring occurs when evaluators score proposals as a group. The Finance Department incorporated this policy into the new online RFP manual. Specifically, it states that each evaluation committee member will evaluate all or portions of all responses independent of the other committee members.

#8 (City Manager/RM) - The City should retain all individual scoring cards and note sheets. (Priority 3)

IMPLEMENTED. The Finance Department incorporated a "Records Retention Policy for Procurements" section into the new online RFP manual. The records retention policy requires that the individual scoring records be retained.

#9 (City Manager/RM) - City Evaluation Teams and Committees should keep attendance records and minutes. (Priority 3)

IMPLEMENTED. The Finance Department incorporated a "Records Retention Policy for Procurements" section into the new online RFP manual. The records retention policy requires that attendance and minutes of all evaluation meetings be retained.

#10 (City Manager/RM) - The City should structure its RFPs to facilitate the scoring of responses. (Priority 3)

IMPLEMENTED. The Finance Department incorporated an RFP template into the new online RFP manual that will facilitate scoring of responses. The RFP template includes a Proposal Evaluation Weighting Criteria section. The RFP manual also requires documents for evaluating proposals, which are aligned with the RFP Proposal Evaluation Weighting Criteria section.

#11 (City Manager/RM) - Evaluation Teams or Committees should score all of the vendors that make product demonstrations. (Priority 3)

IMPLEMENTED. The Finance Department developed a new online RFP manual. The "Evaluating the Responses" section of the manual requires evaluation team members to evaluate all proposer responses that submitted all mandatory documents. Therefore, given that vendors who make product demonstrations would have submitted all mandatory documents, then the new RFP manual addresses this recommendation.

#12 (City Manager/RM) - Evaluation Teams and Committees should comply with the City's Request For Proposal Procedures Manual. (Priority 3)

IMPLEMENTED. The Finance Department developed a new online RFP manual. The Administration appointed and trained a set of Certified Contract Specialists. The Specialists are responsible for ensuring that their departments' RFPs comply with the online RFP manual.

#13 (City Manager/RM) - The City should implement procedures to insure that City staff or consultants compile comparative vendor cost information that is complete and accurate. (Priority 3)

IMPLEMENTED. The Finance Department developed a new online RFP manual. The online RFP manual requires that price submissions allow for a complete and accurate comparison. If they do not because the price submissions did not follow the pricing sheet instructions, then the cost proposal may be non-responsive to the RFP instructions. The Project Manager cannot adjust any price submission to allow for cost comparisons.

#15 (City Manager/RM) - The City ensure that City staff adequately check proposer references for future RFPs. (Priority 3)

IMPLEMENTED. The Finance Department developed a new online RFP manual. The online RFP manual has a section on guidelines for reference checks. The manual requires that reference checks be performed prior to determining the final award recommendation.

04-06: A REVIEW OF THE REQUEST FOR PROPOSAL FOR THE NEW CIVIC CENTER CONVERGED NETWORK SYSTEM

#2 (Administration/GM) - Develop a policy to require a formal contract with scope of service and nondisclosure provisions for non-compensated outside parties who are providing technical or specialized assistance to the City. (Priority 3)

IMPLEMENTED. On February 6, 2007, the City Council approved Council Policy 0-35 titled, "Procurement and Contract Process Integrity and Conflict of Interest-Administrative Procedures." Specifically all persons who may not be regularly involved in City procurements are required to review the Council policy and other ethical standards and to elicit such information from them to enable the City to determine if the person's participation would create a conflict of interest. Such persons would include: 1) authors of specifications, 2) paid and unpaid evaluators, and 3) paid and unpaid consultants who assist in the procurement process. Furthermore, all participants in the RFP process including non-compensated outside parties will be required to complete a comprehensive Conflict of Interest form and a

Confidentiality Agreement. In our opinion, this Council policy and the Conflict of Interest form and Confidentiality Agreement sufficiently address the intent of our recommendation.

#3 (City/GM) - Structure its RFPs to facilitate the evaluations of minimum qualifications requirements. (Priority 3)

PARTLY IMPLEMENTED. Finance incorporated this audit recommendation in RFPs and will address this audit recommendation through forthcoming revisions of the Procurement staff manual. Target date: 12-07.

#4 (City/GM) - Include in its RFPs the relative importance of price and other factors and subfactors. (Priority 3)

IMPLEMENTED. On February 27, 2007, the City Council approved comprehensive changes in the Municipal Code governing procurement of goods and services. Staff has developed a comprehensive online procurement manual which addresses this recommendation. According to the RFP templates in the procurement manual, the relative importance of each evaluation criterion including cost and sub-factors if applicable, should be identified in the RFP.

#5 (General Services Department/GM) - Work with the City Attorney to look for ways to improve how the City evaluates and scores responses to RFPs and considers price relative to other evaluative factors. (Priority 3)

IMPLEMENTED. On February 27, 2007, the City Council approved comprehensive changes in the Municipal Code governing procurement of goods and services. Staff has developed a comprehensive online procurement manual which addresses this recommendation. According to the RFP templates in the procurement manual, the relative importance of each evaluation criterion including cost and sub-factors if applicable, should be identified in the RFP. Additionally, for high profile and complex RFPs, the procurement Project Manager must seek approval of the RFP and related addenda from the Department's Certified Contracting Specialist, Finance Department, City Attorney's Office, and the City Auditor's Office to proceed with the issuance of the solicitation.

#6 (City/GM) - San José Municipal Code Section 4.13.010 be amended to clarify that the request for proposal method of procurement is authorized where the provision of services and the purchase of equipment are integral to each other in accomplishing the purpose of the project and the services are not merely incidental to the equipment purchase. (Priority 3)

IMPLEMENTED. On February 27, 2007, the City Council approved comprehensive changes in the Municipal Code governing procurement of goods and services. The new Municipal Code replaces Chapter 4.13 of Title 4 of the San Jose Municipal Code in its entirety. The ordinance became effective on April 12, 2007. Municipal Code section 4.12.210 addresses this recommendation.

04-07: AN AUDIT OF THE CITY'S CELLULAR PHONE PROGRAM

#2 (City Administration and Departments/CC) -

- ***Develop a process to guide departments in identifying cellular phone abuse and***
- ***Review exisiting City-issued cellular phones to identify users'/departments' ownership and update vendor records to include current information. (Priority 2)***

IMPLEMENTED. According to City Administration, all departments have been asked to update vendor records to include current information including the department name, the cell phone user's name, and the cell phone number. In addition, the City requires employees to review telephone bills and identify/reimburse personal calls. The Office of Employee Relations (OER) developed and provided criteria for identifying cellular phone abuse.

#3 (Departments/CC) – Properly document that employee reimbursements for personal use of City-issued cellular phones are made, received, and posted to the City financial records. (Priority 2)

IMPLEMENTED. The City's Cellular Telephone Policy establishes procedures and forms to be used to ensure that any employee reimbursements are made, received, and posted. Department liaisons review reimbursement forms and process employee reimbursements.

#5 (City Administration/CC) –

- ***Consider changing the reimbursement rate for personal use of City-issued cellular phones to reflect the actual cost of cellular phone usage and***
- ***Consider alternatives to reduce personal call subsidies and Cellular Phone Program administration costs. (Priority 1)***

IMPLEMENTED. The Finance Department released an RFP to solicit proposals for Citywide pooling of cell phone minutes which included options for cell phone and push-to-talk service. Pooling of cell phone minutes would reduce overall cell phone costs. The RFP was released in July 2006. Finance received and evaluated several proposals. The City Council awarded a new contract for cellular phone service on June 12, 2007. Based on the award of contract, the Administration changed the reimbursement rate to six cents per minute to reflect the lower cost of the new contract. Additionally, City policy defines the use of cellular phones for City business only.

#6 (City Administration/CC) – Update the City's Wireless Telephone Policy to reflect new information and reflect Recommendations 1 to 5 in this report. (Priority 3)

IMPLEMENTED. The City revised the City's Cellular Telephone Policy in January 2005. The policy addresses new information and Recommendations 1 to 5 in the original Cellular Phone Program audit.

04-08 AN AUDIT OF SAN JOSÉ FAMILY CAMP

#2 (Parks, Recreation, And Neighborhood Services (PRNS)/CC) - Upgrade camp staff housing. (Priority 3)

PARTLY IMPLEMENTED. According to PRNS, 21 of 27 housing units have already been upgraded. The remaining six units are scheduled for completion in time for the summer 2008 Family Camp session. The City Auditor's Office will conduct a site visit in 2008 to verify completed upgrades. Target date: 5-08.

#5 (Parks, Recreation, And Neighborhood Services/CC) - Reconcile permitted camp tent platforms with U.S. Forest Service Permit. Remove non-permitted tent platforms or obtain permit amendment to allow additional platforms. (Priority 3)

PARTLY IMPLEMENTED. PRNS staff has had continued discussion with U.S. Forest Service representatives to discuss camp operations. A U.S. Forest Service representative advised a PRNS manager that existing structures may remain in place until a new agreement is reached with the U.S. Forest Service. The current U.S. Forest Service permit expires in December 2007. PRNS has requested that the U.S. Forest Service begin the process to reissue a 20-year use permit. Renewal of the permit will be submitted to the City Council approximately 60 days after receiving the U.S. Forest Service permit. Target date: 12-07.

04-09: AN AUDIT OF THE CITY MANAGER'S REFORMS

#1 (Finance/RM) - Establish policies and procedures to ensure that the Purchasing function is adequately segregated from the Accounts Payable function. (Priority 3)

PARTLY IMPLEMENTED. Finance has developed a security matrix that defines access profiles to the Financial Management System (FMS). The profiles (3 digit numbers) are assigned varying levels of security within each module which are: General Ledger, Cash Collection, Purchase Orders, and Accounts Payable. The Accounts Payable and Purchasing Divisions will document procedural controls beyond the FMS security matrix in conjunction with the updating of the Finance Administrative Manual. Target date: 12-07.

05-01: AN AUDIT OF THE PUBLIC ART PROGRAM

#4 (City Manager's Office/CC) - Require departments to coordinate with the Public Art Program Director prior to proposing any public art allocation reductions. (Priority 3)

PARTLY IMPLEMENTED. According to the City Manager's Office (CMO), a new formula for Capital Improvement Projects was used for the 2007-08 Capital Budget. City Administration is working with the City Attorney's Office on ordinances and resolutions that will go forward to the City Council. Target date: 12-07.

#5 (Program/CC) - Develop a means to track and monitor administrative cost information for each individual public art project. (Priority 3)

IMPLEMENTED. As a result of its work with the City Manager's Budget Office on the Public Art Master Plan, the Office of Cultural Affairs has determined that it is more appropriate to track and monitor administrative cost information by Capital Program rather than within individual public art project budgets. The Office of Economic Development tracks public art projects through the City's Capital Project Management System.

#6 (Program Staff/CC) - Track and report information on pooled public art project funds to the City Council and the City Manager's Budget Office. (Priority 3)

PARTLY IMPLEMENTED. According to the Office of Economic Development (OED), OED completed tracking of public art projects through the City's Capital Project Management System. OED will incorporate the tracking into the Five-Year Public Art Work Plan. Target date: 12-07.

05-02: AN AUDIT OF THE AGREEMENTS BETWEEN THE CITY AND THE FILIPINO AMERICAN SENIOR OPPORTUNITIES DEVELOPMENT COUNCIL (FIL-AM SODC)

#6 (Parks, Recreation, And Neighborhood Services(PRNS)/LB) - Amend its grant agreements to require organizations to disclose non-City grant sources of funding and identify all sources of funding for City-funded activities. (Priority 3)

IMPLEMENTED. According to PRNS, during the contract development process, PRNS staff reviews funding overlap and documents that this review was completed on a "Contract Development Sheet." PRNS's Healthy Neighborhoods Venture Fund (HNVF) grant agreement includes Form 2.2 in an incorporated exhibit, which includes a template of the quarterly financial report and a Source of Funds statement. The Source of Funds statement requires applicants to disclose all sources of funding, including City and non-City sources of funding, and subsidies such as rent and utilities. PRNS also requires agencies to submit quarterly financial reports that show the financial costs attributed to the grant for each quarter. If a cost is shared or is an indirect cost, the grantee is directed to include the cost allocation formula. PRNS provided our office with a copy of a Source of Funds statement and a financial report

template that had been incorporated and utilized in the grant agreement for 2007-08. These controls should help PRNS identify and prevent any potential duplicate funding requests, as noted in our audit.

#7 (Parks, Recreation, And Neighborhood Services/LB) - Consolidate HNVF-funded tutoring programs at Independence High School and ensure there are no additional funding overlaps at other schools. (Priority 3)

IMPLEMENTED. According to PRNS, as of February 28, 2007, the Healthy Neighborhoods Venture Fund (HNVF), Bringing Everyone's Strengths Together (BEST) Program, San Jose After School (SJAS) Program and Community Development Block Grant (CDBG) have begun sharing information with each other, at the application review level, to determine if any funding overlaps exist. PRNS also requires applicants to disclose all sources of funding, including City and non-City sources, in the Source of Funds statements. These controls should help PRNS identify and prevent any potential duplicate funding requests for tutoring programs, as noted in our audit.

#8 (Parks, Recreation, And Neighborhood Services/LB) - Require grant recipients to provide a list of the activities and units of service performed under their grant agreements with the City, and compare these lists to recipients' quarterly reports to the City to verify that reported participants are eligible. (Priority 3)

PARTLY IMPLEMENTED. To implement this recommendation, during the next follow-up process we will meet with PRNS Grant staff and review the monitoring forms and activity reports to compare with the supporting list of activities to verify that the reported figures are accurate and that PRNS' new procedures can identify errors in agencies' reports. Target date: 12-07.

#9 (Parks, Recreation, And Neighborhood Services/LB) - Enforce the requirement that grant recipients submit a cost allocation plan and that grant recipients also request prior PRNS approval of any changes or shifts in funding or budgeted amounts. (Priority 3)

PARTLY IMPLEMENTED. According to PRNS, all changes or shifts in funding above 10% of the total grant amount must be requested in writing by the funded agency. The Deputy Director in PRNS reviews these requests and approves them. All current contracts allow for changes less than 10% of the grant amount. During the next follow-up process, we will meet with PRNS Grant staff to review a sample of requests and financial reports to test for compliance with this control. Target date: 12-07.

#10 (Parks, Recreation, And Neighborhood Services/LB) - Develop a monitoring process and appropriate documentation to review audited financial statements and compliance audits. (Priority 3)

IMPLEMENTED. As noted in previous follow-ups, the City Auditor's Office provided a training session for PRNS staff on March 14, 2006 on reviewing audited

financial statements and compliance. According to PRNS, PRNS staff also attended additional training. As of the last review, PRNS was in the process of updating its audit checklist and was in discussion with the Finance Department to identify additional resources for assisting in the review of agency audits. Since the last follow-up process, PRNS updated the "Audit Review Checklist." The checklist includes controls to identify potential financial weaknesses and reportable conditions. It also requires PRNS staff to document follow-up steps as appropriate. According to PRNS, if PRNS staff identifies anomalies in the audited financial statements, they will refer the agency's financial statements to the Finance Department for further evaluation and action as appropriate.

#12 (Parks, Recreation, And Neighborhood Services/LB) - Develop and implement procedures that incorporate the City's total support of an organization, including free rent and payment of utilities as part of the grant review process. (Priority 3)

IMPLEMENTED. PRNS' HNVF grant agreement includes Form 2.2 in an incorporated exhibit, which includes a template of the quarterly financial report and a Source of Funds statement. The Source of Funds statement requires applicants to disclose all sources of funding, including City and non-City sources of funding, and subsidies such as rent and utilities. According to PRNS, the Source of Funds statements is required as part of the application and is updated at the final contract creation stage.

#13 (Parks, Recreation, And Neighborhood Services/LB) - Work with the City Attorney's Office and City Manager's Office to develop and implement procedures to ensure organizations do not occupy City facilities without the benefit and protection of a current operating or facility use agreement. (Priority 2)

PARTLY IMPLEMENTED. According to PRNS, it developed and submitted a draft Rules and Regulation for Facility Use of Community Centers and PRNS Facility Use guideline procedures to the City Attorney for a second review. PRNS anticipates approval to implement these procedures by December 2007. Target date: 12-07.

05-03: AN AUDIT OF THE ENVIRONMENTAL SERVICES DEPARTMENT'S LABORATORY

#1 (Environmental Services Department's Laboratory/LB) –

- ***Continue to develop the procedures and controls to mitigate the threats we identified.***
- ***Revisit its workload analysis and resource allocation after the new Laboratory Information Management System (LIMS) is fully operational. (Priority 2)***

PARTLY IMPLEMENTED. According to the Administration response, the Laboratory's LIMS database has been fully operational since December 2006, with the final system acceptance and certification still pending due to data migration problems. After the recommendation follow-up, on October 18, 2007, ESD sent a

"Certification of Completion and Final Acceptance of the Laboratory Information Management System (LIMS)" to the vendor, PerkinElmer LAS, for final signature. With the final approval of the LIMS database nearing completion, the remaining steps to finish implementation of this audit recommendation include revisiting the workload analysis results and resource allocation based on the LIMS management reports, and finalizing the draft procedure for the "Special Project Approval Policy" and any other outstanding draft procedures pertaining to the threats identified in the audit report. Target date: 12-07.

06-01: AN AUDIT OF CITYWIDE GRANT OVERSIGHT

#1 (City Departments/GM) – Develop a procedures manual to formally document the City's policies and procedures regarding grant oversight. (Priority 3)

PARTLY IMPLEMENTED. The City Manager's Office has continued to work on developing a comprehensive procedures manual to formally document the City's grant oversight policies and procedures and expects that the manual will be completed by December 2007. Target date: 12-07.

#2 (Administration/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)

PARTLY IMPLEMENTED. The City Manager's Office is in the process of finalizing options for a comprehensive Citywide grants database. Staff is reviewing alternatives such as utilizing the Housing Department's database and purchasing off-the-shelf grant management software. The City Manager's Office expects staff to make final recommendations by December 2007. Target date: 12-07.

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

#5 (City/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)

NOT IMPLEMENTED. The City Manager's Office will work with the Environmental Services Department to implement a process to contact private water companies and inquire about their interest in purchasing, maintaining, and replacing the 13,500 fire hydrants in the San Jose service areas. Target date: 3-08.

06-03: AN AUDIT OF THE CITY OF SAN JOSÉ'S PROCUREMENT CARD PROGRAM

#1 (Finance Department/CC) – 1) Strengthen controls to address the identified weaknesses and vulnerabilities; 2) incorporate in the City's Policy Manual procedures for the Procurement Card Program which provide adequate guidance for employees; and 3) use the procedures to advise and train City staff on the proper uses and restrictions of Procurement Cards. (Priority 2)

IMPLEMENTED. On December 7, 2006, the Finance Department published the revised Procurement Card Policy as part of the City Policy Manual, addressing the identified weaknesses and vulnerabilities and incorporating procedures into the policy. On December 18, 2006, Finance launched the first Citywide training on the new policy, with subsequent training in January 2007. Additionally, Finance launched a website for its Procurement Card Policy which includes a description of the program, the policy, the applicable forms, and a training video.

#3 (City Administration /CC) – Develop a policy to guide City officials when giving gifts to visiting VIPs and dignitaries. (Priority 2)

IMPLEMENTED. On July 10, 2007, the Director of Aviation signed the Airport Protocol Gift Giving Policy. The policy describes the guidelines and procedures for providing protocol gifts to Airport VIP clients, including executives and dignitaries. The policy establishes a $200 maximum gift value and identifies the recipients of the gifts as having significant impacts in helping the Airport achieve its financial and economic goals and objectives. The Airport should make clear the criteria for providing a gift and ensure the criteria represents a public benefit.

#4 (Federated and Police and Fire Retirement/CC) – Request that the City Council's Rules Committee add to the City Auditor's 2006-07 Audit Workplan, an audit of the Retirement Services Department's travel-related expenses. (Priority 3)

IMPLEMENTED. On June 21, 2007, the City Auditor presented a Semi-Annual Recommendation Follow-Up Report on All Outstanding Audit Recommendations to the Public Safety, Finance, and Strategic Support (PSFSS) Committee. The PSFSS Committee approved recommending the Rules and Open Government Committee to add a Retirement Services travel-related expenses audit to the City Auditor's workplan. On September 5, 2007, the Rules and Open Government Committee convened and approved the City Auditor's 2007-08 Workplan. The workplan included the Retirement Services Travel Expenses audit.

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

#2 (Team San Jose/BS) – Develop a new Economic Impact Performance Measure Target based on factors such as historical data, the capacity of the Facilities, and the potential for future growth and amend the Management Agreement accordingly. This target should also include the actual number of room nights booked for events held in the Facilities. (Priority 3)

PARTLY IMPLEMENTED. According to City Administration, Team San Jose is working with the City to develop a new Economic Impact Performance Measure Target based on factors such as historical data, the capacity of the Facilities, room nights, hotel occupancy, and the potential for future growth. Once new Economic Impact Performance Measure Targets are developed and agreed to by both parties, the Management Agreement will be amended. Target date: 12-07.

#5 (City Administration & Team San Jose/BS) – Develop a clearer and more specific Customer Service Results Performance Measure Target and amend the Management Agreement accordingly. (Priority 3)

PARTLY IMPLEMENTED. According to City Administration, Team San Jose (TSJ) is working with the City to develop a clearer and more specific Customer Service Results Performance Measure Target and will amend the Management Agreement accordingly. Target date: 12-07.

#6 (Team San Jose/BS) – Complete the Operations Manual and obtain formal approval from the City's Contract Administrator. (Priority 3)

IMPLEMENTED. In September 2007, TSJ submitted an updated Operations Manual to the City Manager's Office, which was subsequently approved. According to the City Manager's Office, TSJ will make future updates and revisions as needed in order to fully encompass all areas of operations.

#8 (Team San Jose/BS) – Develop short- and long-term objectives for the Facilities and report annually to the City. (Priority 3)

IMPLEMENTED. According to the Office of Economic Development, the office to which TSJ now reports this information, TSJ submitted its short- and long-term objectives in their August 2007 monthly report.

#9 (Team San Jose/BS) – Develop a schedule of planned maintenance for the year and report annually to the City whether the planned maintenance was completed. (Priority 3)

IMPLEMENTED. TSJ has developed yearly maintenance schedules for each of the Convention and Cultural Facilities. Additionally, TSJ commissioned Property Condition Assessment, Inc. (PCA) to complete a facility needs study. Based on PCA's work, TSJ created a two-year Capital Improvement Program (CIP) for the facilities TSJ manages. The CIP was submitted to both the City Manager's Office and the San Jose Redevelopment Agency in May 2007 and reported to the

Community and Economic Development Committee in September of 2007. In addition, we found that in 2006-07, TSJ provided a status update of pertinent maintenance issues in its monthly report to the City. TSJ has developed yearly maintenance schedules for each of the Convention and Cultural Facilities.

#11 (Team San Jose/BS) – Include in its annual report to the City Manager a clear comparison of its actual performance to the Management Agreement Performance Measure Targets. (Priority 3)

PARTLY IMPLEMENTED. As noted in the 2005-06 and 2006-07 Annual Performance Audit of Team San Jose, Inc., we reviewed TSJ's June 2007 year-end report to the City Manager and found that while TSJ provided a Performance Measure Section and a Financial Section in its report, it did not provide a clear comparison demonstrating the extent to which it has met the Management Agreement Performance Measure Targets as required by the Management Agreement. While TSJ provides a June 2007 Performance Measures matrix which includes a year-to-date analysis of TSJ's "Actual" performance to "Budget" and "Management Agreement" or "Contract/Goal," no written analysis accompanies the matrices to detail the extent to which TSJ has met the Performance Measures. TSJ provides a year-to-date income statement which details individual revenue and expense components in a column entitled "Budget per Management" which mirrors the Gross Revenues and Net Loss Management Agreement Performance Targets. However, the extent to which it met its Gross Revenues and Net Loss Performance Targets is not addressed in the income statement. Therefore, in our opinion, TSJ's year-end report "Executive Summary Performance Measures Year-to-Date" should 1) mirror the performance measures stated in Section 4.8 of the Management Agreement, 2) compare performance to the Management Agreement Performance Targets only, removing actual to budget comparisons, and 3) provide a clearly written analysis comparing TSJ's actual performance to each performance measure's Management Agreement Targets. Target date: 7-08.

#12 (City Administration/BS) – Review and present TSJ's year-end report, along with any analysis, to the City Council. The City Administration's analysis should include TSJ's performance as contrasted with its Management Agreement Performance Measure Targets. (Priority 3)

PARTLY IMPLEMENTED. According to the Management Agreement (Agreement), Team San Jose (TSJ) shall present a year-end report to the City Manager demonstrating the extent to which it has met its Agreement Performance Measures no later than July 31st of each year of the term of the Agreement and the City Manager shall review and present the report together with any comment or analysis by City staff to the City Council. TSJ presented an "Update on Team San Jose" to the Community and Economic Development Committee on March 19, 2007. Although it reported on revenues, net loss, attendance, and customer satisfaction survey results, it did not specifically include its performance as contrasted with its Management Agreement Performance Measure Targets. Accordingly, City Administration did not provide an analysis of the same. According to the City Manager's Office, after

reviewing TSJ's year-end report and further identifying some of the challenges that they have experienced over the course of the past year, they will be recommending the contract with TSJ, including the Performance Measure Targets, be revamped as a part of upcoming discussions regarding the proposed expansion of the Convention Center. Target date: 12-07.

#14 (Team San Jose/BS) – 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. As of October 1, 2007, TSJ had provided a listing of the companies with which Team San Jose contracts and the services these companies provide to the Office of Equality Assurance. However, according to the Office of Equality Assurance, in order to determine if TSJ is in compliance with the City's Living Wage and Prevailing Wage Policies, additional information, such as the terms of these contracts, copies of the contracts, and what TSJ does to ensure that compliance has been achieved, is required. Additionally, TSJ will need to provide information regarding its employees. Target date: 12-07.

#15 (Team San Jose/BS) – Work with the City to amend the Management Agreement to allow TSJ to store and use any hazardous materials that are needed to operate and maintain the facilities. (Priority 3)

PARTLY IMPLEMENTED. In operating and maintaining the Convention and Cultural Facilities (Facilities), TSJ stores and uses chemicals and materials that are classified as hazardous materials. TSJ has provided the City with a list of hazardous materials it stores and uses at the Facilities. In addition, TSJ has developed a written procedure to notify the City and other appropriate public agencies should an accidental hazardous materials release occur. While the City has detailed its understanding that TSJ requires authorization to store hazardous materials needed to operate and maintain the Facilities, the Management Agreement has not yet been amended to reflect this understanding. City Administration plans to bring this issue before the City Council for approval. Target date: 12-07.

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

PARTLY IMPLEMENTED. The Management Agreement between the City and TSJ states, "Operator shall be solely and fully responsible for complying with the Americans with Disabilities Act of 1990 ("ADA") in connection with: (a) any use of the facilities by guests or services provided by Operator to Customers; and (b) modifying its policies, practices, and procedures to comply with the ADA. Operator shall develop a work plan to correct or avoid any violations or non-compliance with the ADA. Operator shall perform an assessment of Facilities for ADA compliance and notify City of any compliance issues..." TSJ has assessed the Convention and Cultural Facilities for ADA compliance. In general, the Convention and Cultural Facilities are ADA compliant; however, several items need correction. According to

the City Manager's Office, TSJ has worked with Property Condition Assessment, Inc. (PCA) to complete the list of non-compliant items.

REQUIRES COUNCIL ATTENTION: TSJ is unable to complete the list of non-compliant items and correct any violations or non-compliance with ADA as no City funding is currently available.

07-01: A REVIEW OF THE MEXICAN HERITAGE CORPORATION'S ABILITY TO OPERATE AND MAINTAIN THE MEXICAN HERITAGE PLAZA

#1 (San Jose Redevelopment Agency/GM) - Amend its agreement with the Mexican Hertiage Corporation (MHC) and work with the MHC to use State funding for the $530,000 Heating, Ventilation, and Cooling (HVAC) work at the Mexican Heritage Plaza (MHP). (Priority 2)

PARTLY IMPLEMENTED. The Redevelopment Agency (Agency) Board and City Council approved the Amended Restated Cooperation Agreement. Per the Agreement, the Agency entered into contracts and encumbered contingencies in the total amount of $545,485, which would be reimbursed by the MHC with State grant funds. The State grant allows the MHC to request 90 percent of the total contract amount upon award of contract and issuance of a Notice to Proceed to the contractor. The Agency has provided evidence of the HVAC contract and Notice to Proceed to the MHC. According to Agency staff, the MHC submitted all necessary paperwork to the State for reimbursement of the Agency's contribution. The Agency received a check in the amount of $488,300 from the MHC in June, 2007. The Agency expects to receive the remainder as soon as the State releases the funds. We will consider this recommendation implemented once the Agency has received the entire $545,485. Target date: 7-08.

#2 (City Administration/Mexican Heritage Corporation/GM) - Revisit its agreement with the Resident Art Partners (RAPs) to maximize the MHC's use of the MHP. (Priority 2)

PARTLY IMPLEMENTED. Through RFP # 06-07-MG, " San Jose Mexican Heritage Plaza And Mexican Heritage Corporation Assessments", the City and the Redevelopment Agency enlisted the expertise of external consultants to :

1. Conduct an assessment of the Mexican Heritage Plaza to determine the optimal uses for the facility and
2. Conduct an assessment of the current organizational capacity of the Mexican Heritage Corporation (MHC) with an identification of areas that may require changes to their current operational model.

The current RAP agreements will be among the agreements that will be reviewed as part of the upcoming work of the selected consultant team. We will review this recommendation once the consultants complete their report and present their findings to the Administration. Target date: 7-08.

#3 (City Administration/GM) - Revisit its agreement with the MHC and review whether it should revise or cancel its agreement regarding the Neighborhood Development Center (NDC)'s use of space at the MHC's facility. (Priority 2)

PARTLY IMPLEMENTED. As part of the scope of work outlined in the RFP # 06-07-MG, "San Jose Mexican Heritage Plaza and Mexican Heritage Corporation Assessments", the City intends for a consultant team or teams to revisit agreement that dictate the use of space at the MHP. Staff anticipates that the current agreement between the MHC and the NDC to be just one of the many agreements to be reviewed and analyzed. Target date: 6-08.

#4 (City Administration/GM) - Monitor and ensure compliance with the terms of the $650,000 loan agreement. (Priority 2)

NOT IMPLEMENTED. At its May 22, 2007 meeting, the San Jose City Council directed the City Administration to allow the MHC to defer repayment of its loan until fiscal year 2008-09. According to staff, it intends to revise the loan repayment schedule, make corresponding amendments to the Promissory Note, and revise the Loan Agreement to incorporate the audit recommendations. We will review this recommendation in 2008-09 when staff revisits the Loan Agreement.
Target date: 6-08.

#5 (City Council/GM) - Consider the following options regarding the MHC and operation and maintenance of the MHP. These options include but are not limited to the City:

- *Providing the MHC with its requested subsidy and financial support;*
- *Providing one-time financial relief to the MHC to allow it time to develop a strategic plan or business model for City review and approval;*
- *Assuming responsibility for the operation and maintenance of the MHP while allowing the MHC to remain at the MHP as a tenant; and*
- *Hiring a consultant to do an in-depth organizational and structural assessment of the MHP and report back to the City Council with recommendations regarding the highest and best use of the facility. (Priority 2)*

PARTLY IMPLEMENTED. The City provided the MHC with a one-time relief of $175,000 in April 2007 to allow it time to develop a strategic plan or business model for City review and approval. In addition, the City has provided the MHC with the option of receiving advances on its yearly annual operating subsidy of $413,783 for FY 2007-08 based on two MHC staff positions related to fund development and financial management. Finally, the City issued RFP # 06-07-MG, "San Jose Mexican Heritage Plaza And Mexican Heritage Corporation Assessments", seeking consultants to conduct an assessment of the MHP to determine its optimal use and the MHC's organizational capacity to identify areas that may require changes to their operational model. Staff anticipates the consultants hired as a result of this RFP will do an in-depth organizational and structural assessment of the MHP and propose alternate operating models to ensure the highest and best use of the facility. Target date: 8-08.

07-02: AN AUDIT OF THE SAN JOSE MUNICIPAL WATER SYSTEM CONSOLIDATED WATER UTILITY FUND TRANSFERS

#1 (City Council/RO) - Adopt a policy regarding the use and replenishment of the System Rehabilitation/Replacement Reserve Fund and the Rate Stabilization Reserve Fund. (Priority 3)

PARTLY IMPLEMENTED. Staff has contacted other agencies and jurisdictions and is conducting an analysis and review of their policies. A draft policy for the San Jose Municipal Water System Utility Fund is currently being developed.
Target date: 1-08.

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

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

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

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1 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. **(CAM 196.4)**

2 For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of $25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of $50,000 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. **(CAM 196.4)**

3 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. **(CAM 196.4)**