

Memorandum

City of Lawrence

City Auditor

TO: Members of the City Commission

FROM: Michael Eglinski, City Auditor

CC: David L. Corliss, City Manager
Cynthia Wagner, Assistant City Manager
Diane Stoddard, Assistant City Manager
Jonathan Douglass, Assistant to the City Manager

Date: April 14, 2011

RE: Audit Recommendation Follow-Up April 2011

Following-up on performance audit recommendations provides the City Commission with information on management's efforts to implement recommendations. This report covers recommendations from five performance audits: Pavement Condition Measures, Street Lights, Purchasing Cards, Solid Waste and Preventing "Cramming." City Code requires follow-up reporting.

Management has implemented six recommendations, made progress on ten recommendations, and not implemented two recommendations. The status of three recommendations is undetermined/pending. Figure 1 summarizes the status of the recommendations.

Action item

The City Commission can direct the City Auditor to "close" audit recommendations a) through f). Closed recommendations will not be included in future follow-up reporting.

Figure 1 Audit recommendation status

Status	Recommendations
Implemented	<p>Solid Waste (January 2010):</p> <ul style="list-style-type: none"> a) Review the lifetimes used for depreciation calculations for fixed assets in the solid waste division. b) Write policies on overtime for the solid waste division. <p>Preventing Telephone “Cramming” (October 2010)</p> <ul style="list-style-type: none"> c) Contact the companies that placed charges on the most recent phone bill, ask for an explanation of the charges, cancel the services, and request an adjustment for any incorrect charges. d) Request a bill block on third-party charges to the city’s account. e) Provide city staff with information on preventing cramming. f) Review monthly bills to look for cramming in the future
Not implemented	<p>Pavement Condition Measures (October 2008):</p> <ul style="list-style-type: none"> g) The City Manager should develop a method to enforce the ordinance requirement for an excavation permit or consider revising the city’s processes for managing the right-of-way. <p>Street Lights (May 2009):</p> <ul style="list-style-type: none"> h) The City Manager should evaluate the feasibility of acquiring the street lights from the utility company.
In progress	<p>Street Lights (May 2009):</p> <ul style="list-style-type: none"> i) The City Manager should work to ensure that customers are not billed when service or outages fail to meet reasonable expectations. j) The City Manager should request Westar Energy to review the estimates of energy used for area lights, determine why the estimates are too high, and refund customers for excess surcharges if appropriate. k) The City Manager should request Westar Energy to estimate monthly kWh use for street lights based on seasonal variations in the actual use of street lights. l) The City Manager should request Westar Energy to adopt estimated kWh rates for street lights that are consistent with those of other utilities. <p>Solid Waste (January 2010):</p> <ul style="list-style-type: none"> m) Write policies and procedures for provision of free solid waste

	<p>services.</p> <ul style="list-style-type: none"> n) Include additional performance measures and benchmarking information in annual rate memos. o) Analyze costs/benefits and feasibility of implementing more automated collection, routing and vehicle/driver performance monitoring technologies, and residential volume-based collection. p) Write policies and procedures for estimating municipal solid waste and recycling. Policies and procedures should ensure backyard composting is not counted in the recycling rate and address how the city will account for debris from major storms. Policies and procedures could include forms q) Test the conversion factors used for estimating yard waste. Consider estimating yard waste collected at curbside by counting truck loads rather than collected items. <p>Financial Indicators (July 2010)</p> <ul style="list-style-type: none"> r) Present for the City Commission a recommended policy on interfund transfers for enterprise operations
Undetermined/Pending	<p>Solid Waste (January 2010):</p> <ul style="list-style-type: none"> s) Charge enterprise operations for solid waste services. <p>Purchase Card Transactions (March 2010):</p> <ul style="list-style-type: none"> t) Revise Purchase Card Guidelines to address cardholder use of personal "rewards" programs when making city purchases. u) Provide cardholders and supervisors with an explanation of the reason for the purchase card transaction limit. The explanation should be included in the Purchase Card Guidelines and in training for cardholders to ensure that cardholders understand both

Summary of recently implemented recommendations

Management implemented five recommendations since the last audit recommendation follow-up report (October 2010). Implementing the recommendations should ensure consistent depreciation charges for solid waste equipment, strengthen controls over overtime and reduce the chances of unauthorized charges on the city's telephone bills.

Solid Waste

City staff in the Public Works Department reviewed and corrected the city's fixed asset list for solid waste equipment and wrote a policy on overtime. Staff also created a reference document for future solid waste equipment purchases.

At the time of the performance audit, costs of solid waste equipment were allocated based on useful lives that were not consistent with the city's fixed asset policy for vehicles. The performance audit recommended reviewing the useful lives of solid waste equipment to ensure that the information was reasonable. Appropriate useful lives of equipment help ensure the city allocates costs appropriately.

At the time of the performance audit, the solid waste division did not have a written policy on overtime.

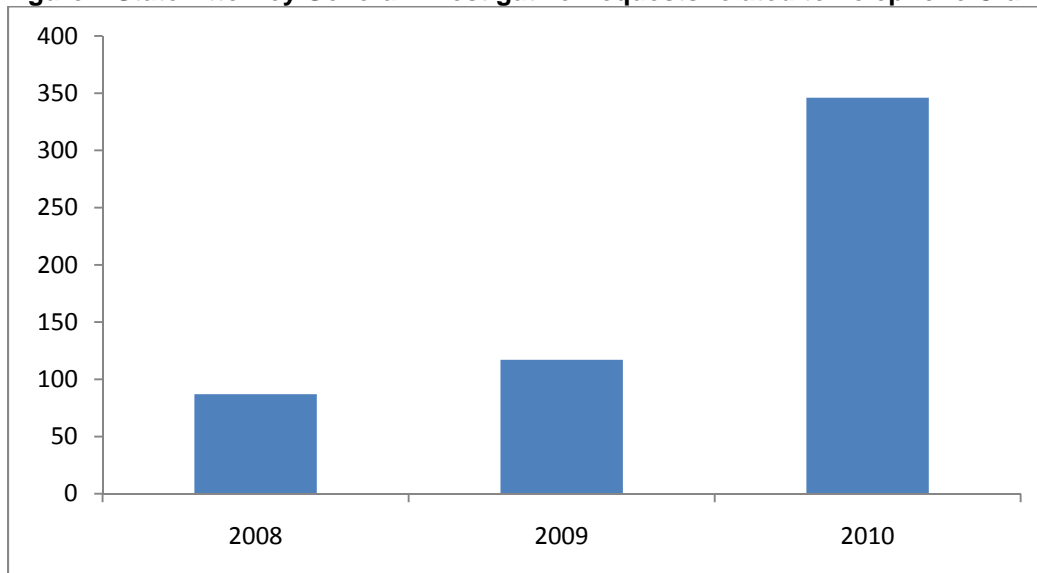
Preventing "Cramming"

City staff reviewed telephone bills, identified unauthorized charges, cancelled those charges, informed city departments of the risks associated with unauthorized charges, and requested AT&T to block "third party" charges.

Cramming happens when a company adds a charge to the city's phone bill for a service the city didn't order, agree to, or use. At the time of the performance audit, several charges on the city's recent telephone bills appeared to be cramming. Monthly charges for these services ranged from \$8.00 to \$49.95.

The steps taken by staff to strengthen controls over cramming took place as the number of complaints about cramming in the state increased sharply. The Kansas Attorney General's investigative requests related to cramming increased substantially in 2010¹. See Figure 2.

Figure 2 State Attorney General Investigative Requests related to Telephone Cramming



¹ Data are from the *Kansas Consumer Protection Division Annual Reports*, Office of Attorney General, for 2008, 2009 and 2010. In 2009 and 2010, the investigative requests include cramming only, while in 2008 the requests include cramming, slamming, 800 numbers and international calls.

Scope, method and objectives

Following-up on the status of audit recommendations provides the City Commission with information about management's efforts to implement audit recommendations. The City Code requires the City Auditor to follow-up on audit recommendations no later than 6-months after issuing an audit, to determine that corrective action was taken and is achieving the desired results. City Code requires that the auditor inform the City Manager and the City Commission of the results of the follow-up.

The City Auditor provided the City Manager with a list of audit recommendations and status on February 24, 2011, and asked management to provide updates. The request covered recommendations for reports released more than 120 days ago and for open recommendations from older reports. The City Manager provided a written update on the status of recommendations to prevent "cramming" on February 15, 2011. This report covers recommendations from five performance audits: Pavement Condition Measures, Street Lights, Purchasing Cards, Solid Waste and Preventing "Cramming."

The auditor compiled the information but did not verify the information provided by management. For each recommendation, the auditor made a judgment about the status of the recommendation.

Figure 3 Implementation Status Definitions

Status	Indicator
Implemented	Management describes steps taken to implement the recommendation.
Not implemented	Management asserts that the recommendation will not be implemented or has not taken steps to implement the recommendations.
In progress	Management describes progress toward implementing the recommendation.
Undetermined/pending	Status cannot be determined, for example, because the recommendation requires future actions or because management describes steps that will be taken in the future.

The City Auditor, with the City Commissions' direction, will "close" a recommendation and exclude it from future follow-up reports. Open recommendations will be included in future follow-up reports.

The follow-up information on the status of implementing recommendations was not conducted as a performance audit under Government Auditing Standards.

The City Auditor shared a draft of this report with the City Manager.

Appendix: City Manager's recommendation status update

The appendix includes the Information Services Director's February 15, 2011, update on audit recommendations related to preventing "cramming." It also includes the City Manager's March 31, 2011, update on audit recommendations.²

² Westar Energy correspondence referenced in the March 31 memo is available in the [October 2010 audit recommendation follow-up report](#).

Memorandum

City of Lawrence

TO: David L. Corliss, City Manager

FROM: James Wisdom, Information Systems Director

Date: February 15, 2011

RE: Follow-up Response to Telephone Cramming Charges

Definition "Cramming" is the name given to the unauthorized, misleading, or deceptive charges placed on the City's telephone bill. As a byproduct of deregulation and to open the system to increased competition, local phone companies must lease their phone lines to outside firms who want to sell competitive services. In the City's case these cramming charges have the potential of appearing on bills for traditional telephone line service, long distance, wireless telephone service, and paging services.

Bill Review A review of the monthly AT&T bills for the previous six months showed the appearance of seven charges that were deemed to be unauthorized charges by third party providers. These third party charges appearing on the AT&T bill were for services including web hosting service, email service, PC tech support, and voice messaging. The monthly charges for these services ranged from a low of \$8.00 for voice messaging to \$49.95 for EFAX service fees.

Staff Response

1. *Cancel charges:* Information Systems staff contacted the third party billing service for each unauthorized charge. In all cases the unauthorized charges were cancelled, and a refund in the form of a billing credit was obtained. The billing customer representatives usually indicated that it would take from one to three billing cycles before the charges would be stopped and credits issued. However, cancellations and credits were observed to be effective in the subsequent billing cycle. Staff continues to review monthly bills for any evidence of third party miscellaneous charges.
2. *Maintain log:* A spreadsheet record has been kept of each incidence of cramming found. The log indicates the billing agent, the third party service provider, the city telephone number allegedly authorizing the charge, the type of service provided, the amount charged, and the resolution and confirmation number for stopping and refunding the charges.
3. *Contact department:* Each department allegedly authorizing the charges for third party services was contacted regarding the charge. The deceptive practice of cramming was explained to the department representative and why it was important to be wary of such practices when dealing with seemingly "free" offers of service.

4. *Block future cramming:* An AT&T representative was contacted regarding the third party cramming charges and what could be done to prevent future unauthorized charges. In response, AT&T has added a “third party block” against future third party miscellaneous charges for all City of Lawrence telephone lines.
5. *Federal Trade Commission complaint:* The Federal Trade Commission maintains a web site for filing complaints of this nature at www.ftc.gov/complaint. Although the Federal Trade Commission does not investigate each individual complaint, the incidents are logged in a database that can be accessed by numerous law enforcement agencies.
6. *Report to City Manager:*

Memorandum

City of Lawrence

City Manager's Office

TO: David L. Corliss, City Manager

FROM: Cynthia Wagner, Assistant City Manager

CC: Diane Stoddard, Assistant City Manager

DATE: March 31, 2011

RE: Response to Audit Recommendation Follow-Up Report March 2011

The following is provided in response to questions posed by City Auditor Michael Eglinski regarding the status of some audit recommendation items.

Pavement Condition Measures

- *The City Manager should develop a method to enforce the ordinance requirement for an excavation permit or consider revising the city's processes for managing the right-of-way.*
A draft ordinance has been prepared. The current economic climate has not been favorable to implementation of new permitting processes, predominantly related to staffing resources.

Street Lights

- *The City Manager should evaluate the feasibility of acquiring the street lights from the utility company.*
The City has not pursued a feasibility of street light acquisition, due in part to current resources. Staff does continue to monitor the status of KCC intervention on rate consolidation. A KCC Staff report on rate consolidation was filed with the KCC on 10/1/2010. A joint motion between Westar and KIC approving a stipulation agreement on high load factor customer classes only was filed on 10/19/2010. An order accepting the staff report was entered on 12/17/2010. It directed staff to file an additional report by April 29, 2011 regarding any remaining issues that need to be addressed in order to achieve rate consolidation.

Additionally, city staff has been monitoring new Westar vendor work on streetlight maintenance. The City receives monthly reports from Westar and their contractor, Black and McDonald, providing information on the number of streetlights that were out, how they were reported, and how long it took to fix. The contractor drives Lawrence streets monthly and compiles a list of outages as

well as receives calls from the public. Since the contractor began their reviews in August of 2010, 694 street lights have been repaired, more than 99% of which were repaired within 48 hours.

- *The City Manager should request Westar Energy to review the estimates of energy used for area lights, determine why the estimates are too high, and refund customers for excess surcharges if appropriate.*
- *The City Manager should request Westar Energy to estimate monthly kWh use for street lights based on seasonal variations in the actual use of street lights.*
- *The City Manager should request Westar Energy to adopt estimated kWh rates for street lights that are consistent with those of other utilities.*
- *The City Manager should work to ensure that customers are not billed when service or outages fail to meet reasonable expectations.*

These items were requested in a letter to Westar on July 22, 2009. The [letter](#) and Westar's [response](#) are both attached.

Solid Waste

- *Review the lifetimes used for depreciation calculations for fixed assets in the solid waste division.*
The Public Works Department provided life expectancy recommendations for Solid Waste equipment to the Finance Department in September 2010. Public Works provided a list of fixed asset register corrections for existing equipment, and a reference document for future solid waste rolling stock purchases.
- *Write policies and procedures for provision of free solid waste services.*
Data is collected monthly on provision of free services. Based on the current revenue situation, the Division has been limiting free services where possible. This spring, the Solid Waste Division will complete a report including an accounting of free services for special events and regular commercial services provided free of charge (including the number and size of containers, frequency of collection, and value of service if charged). The division will then work with the Department Director to recommend and formalize a policy.
- *Charge enterprise operations for solid waste services.*
This item will be considered during future budget development period.
- *Include additional performance measures and benchmarking information in annual rate memos.*
Additional information was provided to the City Commissioners during the budget process based on Commission request. The Solid Waste Division has not yet formalized additional performance measure or benchmarking information.
- *Analyze costs/benefits and feasibility of implementing more automated collection, routing and vehicle/driver performance monitoring technologies, and residential volume-based collection.*

Utilization of more monitoring and automation is underway. Late in 2010, the Solid Waste Division purchased GPS units for 35 pieces of equipment. The units are being installed by central maintenance garage staff. Training will be conducted by the manufacturer, likely in March 2011.

Solid waste equipment purchases in 2011 will focus on increased automation. The division will purchase a bulk collection truck with an automated grapple arm to replace the current unit that requires manual loading of bulk items. In reviewing equipment for replacement in 2011, staff continues to evaluate the most versatile equipment, mindful of potential operational changes to the collection system, pending recommendations from the Solid Waste Task Force.

Variable rate pricing is an issue of consideration assigned to the Solid Waste Task Force.

- *Write policies and procedures for estimating municipal solid waste and recycling. Policies and procedures should ensure backyard composting is not counted in the recycling rate and address how the city will account for debris from major storms. Policies and procedures could include forms.*

The Solid Waste Division has drafted a preliminary policy which states the City of Lawrence will use the Environmental Protection Agency Measuring Recycling: A Guide for State and Local Governments to estimate municipal solid waste and recycling. This guide is designed to help state and local agencies measure municipal solid waste (MSW) recycling. Instructions, definitions, case studies, tips, forms and worksheets to help calculate an MSW recycling rate are provided in the EPA guidance document.

Local processes will be documented in detail as information is collected from private entities in 2011, for the community wide input measures. Information will be reported as community-wide information only (not by private vendor, company, etc.). Backyard composting and storm debris are addressed in the EPA instructions.

Link to the EPA [Measuring Recycling: A Guide for State and Local Governments](#).

Purchase Card Transactions

- *Revise Purchase Card Guidelines to address cardholder use of personal "rewards" programs when making city purchases.*

This will be addressed with the next revision to purchasing procedures, anticipated this summer.

- *Provide cardholders and supervisors with an explanation of the reason for the purchase card transaction limit. The explanation should be included in the Purchase Card Guidelines.*

To date, the Finance Department has not attempted to explain the \$1,000 limit on purchasing cards. Because this limit also applies to purchase orders, a more

comprehensive response will be provided in the next update to purchasing procedures, anticipated this summer.

Financial Indicators 2010

- *Present for the City Commission a recommended policy on interfund transfers for enterprise operations.*

Staff has reviewed best practices and policies from other communities and continues to work to develop a policy for Lawrence as other pri