

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: October 27, 2011

RE: Audit Recommendation Follow-Up October 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, Purchase Card Transactions, Financial Indicators and City Fees. City Code requires follow-up reporting.

Status	Number of Recommendations
Implemented	5
Not-Implemented	1
In Progress	11

Figure 1 summarizes the status of all of the recommendations and the appendix is the City Manager's written update on recommendation status.

Action item

The City Commission can direct the City Auditor to "close" audit recommendations:

- The five recommendations that have been implemented (a through e)
- The one recommendation not implemented (f)
- The recommendation being addressed by the City Commission's Solid Waste Task Force (l)

Figure 1 Audit recommendation status

Status	Recommendations
Implemented	<p>Street Lights (May 2009):</p> <ul style="list-style-type: none"> a) The City Manager should work to ensure that customers are not billed when service or outages fail to meet reasonable expectations. b) 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. c) 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. <p>Purchase Card Transactions (March 2010):</p> <ul style="list-style-type: none"> d) Revise Purchase Card Guidelines to address cardholder use of personal “rewards” programs when making city purchases. e) 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
Not implemented	<p>Pavement Condition Measures (October 2008):</p> <ul style="list-style-type: none"> f) 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.
In progress	<p>Street Lights (May 2009):</p> <ul style="list-style-type: none"> g) The City Manager should evaluate the feasibility of acquiring the street lights from the utility company. h) 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"> i) Write policies and procedures for provision of free solid waste services. j) Charge enterprise operations for solid waste services. k) Include additional performance measures and benchmarking information in annual rate memos. l) Analyze costs/benefits and feasibility of implementing more automated collection, routing and vehicle/driver performance monitoring technologies, and residential volume-based collection. m) Write policies and procedures for estimating municipal solid waste and recycling. Policies and procedures should ensure backyard composting

	<p>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</p> <p>Financial Indicators (July 2010)</p> <p>n) Present for the City Commission a recommended policy on interfund transfers for enterprise operations</p> <p>City Fees (May 2011)</p> <p>o) Prepare a city fee policy for consideration by the City Commission.</p> <p>p) Establish an administrative procedure for staff to follow when preparing information to consider when establishing or eliminating fees; adjusting fee levels; and presenting information to the City Commission.</p> <p>q) Establish a specific review cycle for fees, so that individual fees would be evaluated on a periodic basis.</p>
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Recently implemented recommendations

Management implemented five recommendations since the last audit recommendation follow-up report (April 2011). Implementing the recommendations should set the stage for future consideration of changes to the street light system and strengthen controls over small purchases. In addition, the City Commission's Solid Waste Task Force has been reviewing issues related to an audit recommendation to help control costs of solid waste collection and provide pricing options for customers.

Not implemented recommendation

The recommendation to either enforce the existing excavation permit ordinance or revise the city's process for managing the right-of-way has not been implemented and may be considered to be "closed." If the City Commission closes the recommendation, it will not be considered in future follow-up memos. The recommendation was made in the Pavement Condition Measures performance audit in October 2008. The City Manager's describes the status of the recommendation as:

While revised right-of-way ordinances would have some community benefit, City staff believes implementation of an ordinance would exceed current resources, both financial and staffing. At this time, the benefit of an ordinance is outweighed by the cost of staffing.

2008 Performance Auditing Finding

City should enforce excavation permit requirement

City Code requires people to get permits before excavating on streets or sidewalks, but the city has not been issuing or enforcing the requirement. Street inspectors consider restored excavations when they rate streets and the excavations affect the overall PCI score for a street. Excavation permits help cities manage use of the right-of-way, improve traffic safety, reduce user inconvenience, and minimize damage to city infrastructure.

City Code requires that before digging in or under a city street or sidewalk, a person must have an excavation permit issued by the city. The City Engineer reviews and approves permit applications and the City Clerk issues permits after an applicant pays a \$15 fee.* The city established the requirement in 1904 and most recently updated the ordinance in 1976. Franchised utilities are subject to city rules and ordinances relating to permits such as the excavation permit.

While the city issues permits for temporary use of the right-of-way and constructing driveways, the city does not currently issue excavation permits. City staff was not aware of why the city doesn't issue excavation permits or when the city may have stopped issuing the permits.

Other Kansas municipalities require excavation permits. Searching the web pages of municipal governments found excavation permit requirements for Wichita, Overland Park, Wyandotte County/Kansas City, Topeka, Olathe, Shawnee, Manhattan, Salina, and Lenexa.

The city should issue the permits required by the Code. However, rather than developing a method to issue and enforce the existing excavation permit requirement, the City Manager should consider reviewing the city's overall right-of-way management approach.

Right-of-Way Management

Managing the right-of-way helps a city minimize traffic safety concerns, avoid unnecessary traffic hindrance, and minimize damage to streets, curbs, drainage structures and sidewalks. State law allows cities to collect fees related to right-of-way:

- Permit fee to cover processing
- Excavation fee for pavement cuts to cover costs related to reduced life of the street
- Inspection fee
- Repair and restoration costs related to restoring the public right-of-way

Source: *Guide for Accommodating Utilities within Right-of-Way for Counties & Small Cities in Kansas*, Kansas Local Technical Assistance Program, Kansas University Transportation Center, March 2007.

* The City Commission set the current permit fee of \$15 by ordinance in 1976. The fee was set to cover, in part, the cost of regulations of street excavations and issuing excavation permits. Because of inflation, a \$15 fee in 1976 would have the buying power of \$58 in 2008.

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 September 9, 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 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 2 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 unless "closed" by the City Commission.

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

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: October 21, 2011

RE: Response to Audit Recommendation Follow-Up Report October 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.**

While revised right-of-way ordinances would have some community benefit, City staff believes implementation of an ordinance would exceed current resources, both financial and staffing. At this time, the benefit of an ordinance is outweighed by the cost of staffing.

Street Lights

- **The City Manager should evaluate the feasibility of acquiring the street lights from the utility company.**

At this time of reduced staffing and services, the City is not in a position to acquire and plan for maintenance of another aging infrastructure. However, once a new Assistant Finance Director is hired, a work plan item for that position will to analyze what would be required for the City to acquire the system. Such review would include, but would not necessarily be limited to: a determination of the fair market value of the existing system, estimated costs of operations, including electricity costs for lights; estimated cost of maintenance; and, a benefit/cost analysis of the Westar system related to City-ownership. Depending upon timing of hire, this project should be completed by the end of the first quarter of 2012.

- **The City Manager should work to ensure that customers are not billed when service or outages fail to meet reasonable expectations.**

In 2010, Westar began contracting with Black & McDonald to maintain the streetlights in Lawrence. Staff receives monthly reports from Westar on the performance of Black &

McDonald. In 2011 (through August) approximately 20% of the streetlights have been repaired. Monthly reports indicate that approximately 80% of the lights repaired are identified by Black & McDonald, 16% by residents, and the remaining 4% are reported by others. Approximately 99% of problems with streetlights are responded to and repaired within 48 hours. *Staff believes that Westar has taken appropriate action to respond to outages.*

- **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.**

In September 2009, at the City's request, Westar measured the power consumption of five standard light fixtures used in Lawrence. The test results indicated that the estimated energy used for streetlights was appropriate. The testing was completed in a controlled environment and with new ballasts. *The fixtures (bulbs and ballasts) will become less efficient with age and weather; therefore, the energy consumed in the field would be higher and staff is satisfied with these findings. In addition, we have been informed that the Kansas Corporation Commission staff is aware of this issue and is monitoring.*

- **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.**

Westar estimates 4,000 kWh of use annually for calculation of energy for street lights. Street lights come on 30 minutes before sunrise and stay on 30 minutes after sunset. Other weather conditions may also prompt the sensor to activate the light. The only true way to realize actual usage is to meter the lights. This is not a practical/economically feasible option. *Staff has reviewed this information and is satisfied with Westar's estimate of usage.*

- **The City Manager should request Westar Energy to adopt estimated kWh rates for street lights that are consistent with those of other utilities.**

Review of these issues are planned to be included in the analysis of system ownership to be conducted by a new Assistant Finance Director.

Solid Waste

- **Write policies and procedures for provision of free solid waste services.**

All solid waste services are generally part of the review currently being conducted by the Solid Waste Task Force. A draft policy has been prepared and is being circulated for review and comment.

- **Charge enterprise operations for solid waste services.**

While the City will continue the practice of providing solid waste services to City departments, the transfer policy presented to the City Commission September 27 takes into account services provided to City enterprise functions.

- **Include additional performance measures and benchmarking information in annual rate memos.**

While some benchmarks currently exist, additional or revised benchmarks are under development and will be included in the rate memo for establishment of the 2013 solid waste rates.

- **Analyze costs/benefits and feasibility of implementing more automated collection, routing and vehicle/driver performance monitoring technologies, and residential volume-based collection.**
 - Staff requests that this item be closed if feasible, as these elements are being addressed operationally and through the Solid Waste Task Force.
 - The Solid Waste Division has installed 57 GPS units. Monitoring rolling stock through use of technology is now part of operations.
 - The equipment purchases in 2011 focused on increased automation. The division purchased a bulk collection truck with an automated grapple arm and a dual-side loader. Staff continues to evaluate automated technology, including on-site demonstrations of a rear-loader with a side loading arm and a fully automated side loader.
 - Staff presented cost estimates to the Solid Waste Task Force regarding containerization for trash, which is a critical component in future automation. The task force plans to make recommendations to the City Commission on this element.
 - 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 and new recycling rate calculations will be completed by the end of 2011.

Purchase Card Transactions

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

Finance has added the following language to the purchasing procedures addressing rewards programs.

2.4 REWARDS POINTS

Some vendors offer rewards points on purchases made at their establishment. The City's phone number, 832-3000, should be provided to the vendor to ensure the City will receive the points for that purchase. Periodically rewards cards are sent to Finance to distribute to departments. It is against the City policy and is unethical for employees to receive points or rewards cards as the result of City purchases.

- **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.**

Finance has added the following language to the purchasing procedures addressing purchasing limits.

The City of Lawrence has established a \$1,000 maximum limit on credit card purchases to coincide with the lower limit placed on purchase orders. These limits have been established in order to provide the desired degree of accountability for the expenditure of public funds.

Financial Indicators 2010

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

A transfer policy has been developed and was presented to the City Commission September 27, 2011.

City Fees 2011

- **Prepare a city fee policy for consideration by the City Commission.**
- **Establish an administrative procedure for staff to follow when preparing information to consider when establishing or eliminating fees; adjusting fee levels; and presenting information to the City Commission. The procedure should instruct staff to provide information consistent with the best**
- **Establish a specific review cycle for fees, so that individual fees would be evaluated on a periodic basis.**

A fee policy has been developed and was presented to the City Commission September 27, 2011.