

Memorandum City of Lawrence City Auditor

TO: Members of the City Commission

FROM: Michael Eglinski, City Auditor

CC: Tom Markus, City Manager
Diane Stoddard, Interim City Manager
Casey Toomay, Assistant City Manager

Date: April 14, 2016

RE: Audit Recommendation Follow-Up April 2016

Following-up on performance audit recommendations provides the City Commission with information on management’s efforts to implement recommendations. This report covers recommendations from 10 performance audits: Street Lights, Pavement Data Use, Financial Indicators 2011, Cash Handling, Taste of Water, City-County Cooperation, RCP Infrastructure, Financial Indicators 2014, Protecting Personally Identifiable Information, and Lawrence Community Shelter. City Code requires follow-up reporting.

Figure 1 Implementation summary

Status	Number of Recommendations
Implemented	5
Not-Implemented	1
In Progress	13

Figure 2 summarizes the status of all of the recommendations. See Appendix A for the City Manager’s written update on recommendation status.

Action item

The City Commission can direct the City Auditor to “close” the audit recommendations categorized as implemented and the recommendation related to street lights. Closed recommendations won’t be included in future follow-up.

Figure 2 Summary of recommendations

Performance audit	Recommendation	Implemented	Not Implemented	In Progress	Undetermined
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.			<input checked="" type="checkbox"/>	
Pavement Data Use	Develop a maintenance policy for city streets paved in brick and with pavement over brick.			<input checked="" type="checkbox"/>	
Financial Indicators 2011	Prepare and present to the City Commission a 5-year Capital Improvement Plan for the city as a whole.			<input checked="" type="checkbox"/>	
	Prepare and present to the City Commission multi-year financial projections of major revenues and expenditures.			<input checked="" type="checkbox"/>	
Cash Handling	Develop training for employees and managers responsible for handling cash.			<input checked="" type="checkbox"/>	
Taste of Water	Develop and report measures related to taste on a regular basis, such as annually. Sources of data for reporting could include resident surveys, complaints, laboratory testing results and results of sensory tests such as smelling samples of water.	<input checked="" type="checkbox"/>			
City-County Cooperation	Create guidelines for when cooperation should be formalized.			<input checked="" type="checkbox"/>	
	Create guidelines for a consistent method to entering into cooperative agreements.			<input checked="" type="checkbox"/>	
RCP Infrastructure	Develop infrastructure inventory and condition assessment systems for city parking infrastructure.	<input checked="" type="checkbox"/>			
	Develop performance measures related to Rock Chalk Park infrastructure to track and report in the annual staff report on economic development incentives.	<input checked="" type="checkbox"/>			
	Use the city's miscellaneous billing process for economic development incentive application and related fees.		<input checked="" type="checkbox"/>		
	Provide training to city employees who handle cash.			<input checked="" type="checkbox"/>	
Financial Indicators 2014	Report to the City Commission on the pension liability changes in government accounting standards to help understand the changes and implications for the City.	<input checked="" type="checkbox"/>			
Protecting Personally Identifiable Information	The City Manager should develop a city-wide record retention schedule.			<input checked="" type="checkbox"/>	

	The City Manager should work with the Information Technology Department and the City Attorney's Office to establish a framework for safeguarding personally identifiable information.			<input checked="" type="checkbox"/>	
	The City Manager should work with the Information Technology Department and the City Attorney's Office to provide training and communication to employees about the framework.			<input checked="" type="checkbox"/>	
	The City Manager should work with the Information Technology Department and the City Attorney's Office to establish a way to monitor how well the safeguards have been implemented.			<input checked="" type="checkbox"/>	
	The City Manager should work with the Information Technology Department and the City Attorney's Office to develop a plan to respond to a data breach.			<input checked="" type="checkbox"/>	
Lawrence Community Shelter	Require audit access in funding agreements. The audit access language should specify the City Auditor's access, require records be maintained for a specific period of time, and require that records be made available promptly.	<input checked="" type="checkbox"/>			
		Implemented	Not Implemented	In Progress	Undetermined

Recently implemented recommendations

Management implemented five recommendations since the October 2015 audit recommendation follow-up memo:

- The Utilities Department provided additional information about the taste of water and recently issued a notice to proceed for capital improvements at the Clinton plant. Those improvements are expected to allow for better control of taste and odor. Providing customer information and making changes to the treatment process should help the department manage taste and odor of water.
- The Public Works Department use inspections by engineering consultants to assess the condition of parking garages and staff have inspected the parking lots at Rock Chalk Park. The information should help identify maintenance needs and repairs. The City Manager's follow-up response recommends closing this recommendation. While the recommendation to develop an inventory and condition assessment system was not implemented, the available information addresses the main intent of the recommendation. The City Auditor recommends closing this recommendation as "implemented."

- The City's *Annual Report: Economic Development & Compliance* includes information on the number of visits to the City's Sports Pavilion Lawrence recreation center, estimated economic impact of those visits, and attendance at the stadiums from KU Athletics. The report also notes that the City didn't establish job creation or wage targets for the economic development incentives used for the project. This information combined with measures of the condition of the infrastructure provides the City Commission and residents with information to monitor the success of the development.
- City staff revised the agreements with outside agencies to provide the City with clear audit access. The recommendation was based on a performance audit of the Lawrence Community Shelter where audit access was not clearly specified in the agreement. That performance audit wasn't hampered by the lack of clear audit access because the shelter's board and management provided access. Including clear audit access in future agreements will assist the City in its ability to monitor and audit the agreements.
- City staff provided the City Commission with some information about the new requirements for reporting on pensions. In addition, *Performance Audit: Financial Indicators* (July 2015) included some information about the new requirements. The intent of the recommendation was to ensure that the City Commission and public were aware of the change in reporting requirements before the change showed up in the financial statements. Those changes will be included in the financial statements for 2015, which should be released in the first half of 2016.

Financial Audit for 2015 Will Increase Transparency About Pension Obligations

The City's annual financial audit for 2015 will include information on the City's pension obligations. Currently, the City doesn't show the pension liabilities in the financial statements. Under new government accounting standards that will change. The City will have to report its share of the costs and obligations for the Kansas Public Employees Retirement System and the Kansas Police and Firemen's Retirement System.

The change in how the City will report pensions is designed to:

- Improve information about pension costs for decision-making
- Increase the transparency of information about pension costs
- Provide more consistent and comparable information across different local governments

Recommendation to close street light recommendation

I recommend closing the recommendation related to the feasibility of acquiring street lights from the electric utility. The recommendation is almost seven years old. The City Manager's response indicates that the City may revisit the issue in the future.

Scope, method and objectives

Following-up on the status of performance 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 on January 25, 2016, and asked management to provide updates by February 29, 2016. The request covered open recommendations for reports released more than 120 days ago.

The auditor compiled the information but did not verify the information provided by management. The auditor did not verify that policy and procedure recommendations are being followed. 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 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 A: City Manager's update on audit recommendation status

Memorandum City of Lawrence City Manager's Office

TO: Michael Eglinski, City Auditor
FROM: Thomas M. Markus, City Manager
CC: Diane Stoddard, Assistant City Manager
Casey Toomay, Assistant City Manager
Brandon McGuire, Assistant to the City Manager
DATE: April 4, 2016
RE: Response to Audit Recommendation Follow-Up Report February 2016

The following is provided in response to questions posed on the status of outstanding audit recommendation items as of the end of February, 2016. In some instances, there has been no additional progress made since the previous report. As the City Commission begins strategic planning efforts, these recommendations should be considered.

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 and Westar Energy have worked to address some of the items identified in this audit, however, the issue of the estimated kWh rates for street lights remains. Staff will write a letter requesting that Westar bring the rates for street lights more in line with the rates used by other utility providers. The City also needs to work on finding other municipal Westar customers willing to help address our common interests.

While previous analysis of purchase of the street light system was cost prohibitive, staff believes additional analysis would be beneficial and plans to revisit this matter at some point in the future depending on the priorities of the City Commission.

Given the efforts outlined above, staff recommends closing this recommendation.

Pavement Data Use

- **Develop a maintenance policy for city streets paved in brick and with pavement over brick.**

Draft brick street maintenance restoration [guidelines](#) were presented to the City Commission on January 21, 2014. The Historic Resources Commission (HRC) reviewed the draft guidelines on May 15, 2014 and provided suggested revisions. Further review by neighborhood associations, the Lawrence Preservation Alliance and the HRC, along with final review by the City Commission, is anticipated.

Financial Indicators 2011

- **Prepare and present to the City Commission a 5-year Capital Improvement Plan for the city as a whole.**

Staff has been working on an improved capital improvement planning process. A presentation to the City Commission on the recommended process and calendar, along with a draft calendar for the 2017 budget planning process, was made on March 1, 2016. Capital Planning software has been purchased and departments have begun entering project information into the system. Public input on potential projects will also be sought and a study session related to the CIP is anticipated for April. Presentation of the plan to the Planning Commission and adoption by the City Commission will follow.

- **Prepare and present to the City Commission Multi-Year Financial Projections of major revenues and expenditures.**

Staff used a multi-year financial projection of revenues and expenditures for the general fund internally as part of the budget process for 2016. Projections for the other budgeted funds as well as the non-budgeted funds were also prepared.

Presentation of these projections as well as a discussion of the assumptions used in the projections will be included in the process for developing the 2017 budget.

Cash Handling

- **Develop training for employees and managers responsible for handling cash.**

Finance did not have the opportunity to work on the cash handling project in 2015. The first step in the procedure review is to conduct a comprehensive review and get a clear understanding of all cash receipts processes across the city. The city's relationship with US Bank includes a cash collections review for all city locations. Staff is in the process of coordinating this review and plan to have this review done in 2016.

Taste of Water

- **Develop and report measures related to taste on a regular basis, such as annually. Sources of data for reporting should include resident surveys, complaints, laboratory testing results and results of sensory tests such as smelling samples of water.**

Efforts aimed at addressing the intent of this recommendation include:

- Publishing the annual Consumer Confidence Report, which includes a description of taste and odor and the causes most commonly experienced in our water system. This Consumer Confidence Report is posted on the Utilities web pages and all customers are made aware of it via a notation on their utilities bill;
- Providing data and information to Lawrence Magazine for an article in their winter issue, discussing water quality and the differences in taste and odor of Lawrence water, as well as other cities. As a follow up to the article, Utilities staff participated in a public "water as wine" event, hosted by the LJWorld and the Lawrence Public Library. The event included presentations by City Staff on the treatment of our drinking water, water quality, and taste and odor considerations and was followed up by a "water" tasting (like a wine tasting) and ranking of Lawrence water vs. several outside water sources;
- Including questions about taste and water quality in the 2015 resident survey;
- Bids were opened for capital improvements to the Clinton Plant chemical feed systems in December 2015 and notice to proceed was given on February 22,

2016. The project is scheduled for completion in early 2017. These improvements will allow operations to optimize water treatment processes to better control taste and odor compounds and other quality variables;

- Continuing to conduct laboratory and sensory testing to aide in faster reaction when a taste and odor event is occurring; and
- Keeping the City Manager informed of taste and odor changes that are observed and providing talking points to assist in fielding customer calls.

During this past year, one taste and odor event was identified, monitored, and the treatment process adjusted to mitigate it. However, no customer calls were received in relation to this taste and odor event. The Department will continue to look for opportunities to improve the quality (including taste and odor) of our water and provide information to the public as appropriate. This includes a public outreach opportunity, based on the 2015 resident survey questions on taste and water quality as planned in conjunction with the City Communication Manager.

Given the efforts outlined above, staff recommends closing this recommendation.

City County Cooperation

- **Create guidelines for when cooperation should be formalized.**

A draft [policy](#) for City-County agreements has been prepared and needs further discussion with the County. The City and County haven't entered into any new cooperative arrangements with the County since the last update provided to the Commission.

- **Create guidelines for a consistent method to entering into cooperative agreements.**

Commissioners have recently expressed interest in revisiting the agreement with Douglas County for EMS service. Staff would suggest using the [key areas to address in cooperative agreements](#) identified by the auditor as a guide for revisions to the agreement. The areas are:

- Clearly defining the service, including addressing service levels
- Specify the funding approach (financing methods or financial performance measures), rather than the allocation method
- Specify relevant administrative approaches to set up day to day management roles, due dates, and policies and procedures to be followed; and
- Establish monitoring mechanisms to improve accountability and provide an opportunity to revisit the agreement and ensure payments align with the benefits of the services.

Staff would also suggest the questions contained in [Appendix A of the audit](#) be used as a checklist to review when drafting future cooperative agreements.

RCP Infrastructure

- **Develop infrastructure inventory and condition assessment systems for city parking infrastructure.**

While there is no centralized inventory or condition assessment system for city parking lots, all city parking lots are inventoried and assessed. The departments of public works, utilities, and parks and recreation are each responsible for the inventory and condition assessment of their facilities. Staff will continue exploring creation of a centralized assessment system for parking lots.

The three parking structures owned by the City are separately inventoried and assessed per industry recommended standards.

Given the efforts outlined above, staff recommends closing this recommendation.

- **Develop performance measures related to Rock Chalk Park infrastructure to track and report in the annual staff report on economic development incentives.**

The 2015 Economic Development report is currently under development, but will contain the below usage information for RCP/SPL:

2015 Attendance: Sports Pavilion Lawrence						
Year	Avg Monthly Visits	Key Card Holders				Estimated Annual Economic Impact
		# Key Card Holders	Avg Age	% Female	% Male	
2015	40,000	27,011	40	56.3%	43.7%	\$5,000,000

Source: Parks and Rec Dept., City of Lawrence

2015 Attendance: RCP Softball, Soccer, Track & Field Events		
Year	# Events	# Attendees
2015	39	32,722

Source: Kansas Athletics

Given the efforts outlined above, staff recommends closing this recommendation.

- **Use the city’s miscellaneous billing process for economic development incentive application and related fees.**

Miscellaneous billing is now used for recurring economic development items. Applicable incentive application fees are collected at the time the final incentives application is received and prior to when the City Commission receives the application and request for incentives. Upon receipt, payments are delivered to Finance for deposit.

- **Provide training to city employees who handle cash.**

As mentioned previously, finance did not have the opportunity to work on the cash handling project in 2015. There have been individual trainings on cash handling but not a comprehensive training program.

Financial Indicators 2014

- **Report to the City Commission on the pension liability changes in government accounting standards to help understand the changes and implications for the City.**

Presentation of the 2015 audited financial statements, expected in June of 2016, will include a discussion of the new governmental accounting standards as it relates to pension disclosure.

Protecting Personally Identifiable Information

- **The City Manager should develop a city-wide record retention schedule.**

Preliminary research has been conducted to support the development of a city-wide records retention policy and schedule. The City Clerk's Office is coordinating the effort to finalize this schedule and implement it as an administrative policy with expected completion in 2016.

- **The City Manager should work with the Information Technology Department and the City Attorney's Office to establish a framework for safeguarding personally identifiable information.**

Staff in the Information Technology Department is working through an information systems security audit for insurance purposes which includes assessing the security of personally identifiable information. The audit is expected to provide a baseline from which a safeguarding framework can be developed. Staff in the City Attorney's Office and City Clerk's Office plan to conduct an organizational survey to identify personally identifiable information collected by the city staff. The information systems audit and the organizational survey will provide a baseline for a city-wide safeguarding framework. These projects are expected to be complete in 2016 depending on available resources.

- **The City Manager should work with the Information Technology Department and the City Attorney's Office to provide training and communication to employees about the framework.**

Training and communication strategies will be developed to disseminate the framework upon completion.

- **The City Manager should work with the Information Technology Department and the City Attorney's Office to establish a way to monitor how well the safeguards have been implemented.**

Once baseline performance is assessed and the safeguarding framework is developed, the project team will monitor its implementation.

- **The City Manager should work with the Information Technology Department and the City Attorney's Office to develop a plan to respond to a data breach.**

The project team is researching opportunities to purchase an information systems insurance policy which will include expert resources to develop and implement a data breach response plan.

Lawrence Community Shelter

- **The City Manager should require audit access in funding agreements. The audit access language should specify the City Auditor's access, require records be maintained for a specific period of time, and require that records be made available promptly.**

Language was added to the funding agreements for agencies allocated funds as part of the 2016 budget. The language clarifies that the City Auditor, as an authorized representative of the City, has access to and the right to examine all records related to the expenditure of City funds. Additionally, the City requires that agencies keep records pertaining to the project for a minimum of three years and that records be made available promptly. The City Commission received the draft agreements and authorized their distribution on [December 15, 2015](#). Therefore, staff recommends closing this recommendation.