

Memorandum

City of Lawrence

City Auditor

TO: Members of the City Commission

FROM: Michael Eglinski, City Auditor

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

Date: October 27, 2016

RE: Audit Recommendation Follow-Up October 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 six performance audits: Pavement Data Use, Financial Indicators 2011, Cash Handling, City-County Cooperation, RCP Infrastructure, and Protecting Personally Identifiable Information. City Code requires follow-up reporting.

Figure 1 Implementation summary

Status	Number of Recommendations
Implemented	4
Not-Implemented	1
In Progress	8

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" or "not implemented." Closed recommendations won't be included in future follow-up.

Figure 2 Summary of recommendations

Performance audit	Recommendation	Implemented	Not Implemented	In Progress	Undetermined
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"/>	
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	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"/>	
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"/>	

Recently implemented recommendations

Management implemented four recommendations since the April 2016 audit recommendation follow-up memo.

The City prepared a 5-year Capital Improvement Plan and multi-year financial forecast in 2016. Both documents provide forward-looking information and are important for evaluating fiscal sustainability.

The City Manager's response indicates that the City will require written agreements when the City-County enter into agreements that exceed \$50,000. The terms of agreements will be subject to negotiations with the County. The City Manager's response is consistent with the performance audit recommendation which was to establish guidance for when agreements should be formalized. The performance audit noted that a number of agreements with the County were "handshake" agreements that hadn't been formalized.¹ Formalizing agreements helps provide validity, improve operations of the service, and avoid turf issues. The City Manager's response is consistent with the recommendation in the performance audit which was intended to reduce ambiguity, ensure smooth administrative processes and improve oversight mechanisms.

The City recently began using the miscellaneous billing process for economic development application fees. The City will be able to review outstanding invoices on a regular basis and follow up as needed when payments are delinquent. The recommendation to use the billing system was intended to strengthen controls over receiving and recording application fees.

Recommendation not implemented

The City Manager's response indicates that agreements will be subject to negotiation and the complexity of the subject issue, but does not indicate that the City will adopt guidelines as recommended in the performance audit. The performance audit found gaps between some City-County agreements and good practices for cooperative agreements.² The City didn't have a consistent approach for considering key elements of cooperative agreements:

- Clearly define the service
- Specify the funding approach
- Specify relevant administrative approaches
- Establish monitoring mechanisms

Guidelines to ensure these areas were considered in every agreement were intended to reduce ambiguity, ensure smooth administrative processes, improve the ability of residents and governing bodies to monitor services, and improve the quality of services.

¹ Handshake agreements identified in 2014 addressed: fiber sharing; community service work; miscellaneous purchasing of goods and services; police records management; maintenance and snow removal on boundary roads; joint law enforcement crisis response team, dive team and justice assistance grants; and law enforcement property and evidence.

² Good practices were based on information from the Kansas Legislative Post Auditor, the U.S. Government Accountability Office, the Australian National Audit Office, the Government Finance Officers Association, the National League of Cities, and the IBM Center for the Business of Government.

Incomplete agreements can have significant financial implications

Clear administrative procedures outlined in formal cooperative agreements help avoid problems, including problems with significant financial implications. The *Performance Audit: City Needs a Consistent Method for Cooperating with the County* (August 2013) highlighted an example related to Fire Station 5.

The City and County agreed on a funding mechanism for building Fire Station 5 in 2004. The County would provide \$1,260,600. The County Commission approved the concept of the payment in 2004 and described it in a letter to the City Commission. The City and the County did not formalize the agreement. A formal agreement could have included a funding approach, administrative responsibilities, and details of how and when the financial commitment would be due. The letter did not cover those details.

Fire Station 5 opened two years later, in April 2006, but the City never received payment, instead receiving a credit for the amount six years later. Delaying payment or credit by six years would cost \$175,000 in inflation or about \$300,000 at a low interest rate.³

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 August 8, 2016, and asked management to provide updates by September 15, 2016. The City Manager provided an update on August 15, 2016. The City Manager provided a revised update on October 11, 2016. The recommendation follow-up covered open recommendations for reports released more than 120 days prior to August 8, 2016.

The City Auditor reviewed relevant audit reports related to recommendations included in this follow-up. The auditor calculated the costs related to delaying payment for the County contribution for Fire Station 5. The auditor reviewed information in the City's miscellaneous billing system to confirm implementation of a recommendation.

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.

³ The inflation cost totaled \$175,000 based on the consumer price index. If an estimate includes a modest interest rate, then the estimated cost totaled \$298,000. That calculation is based on an interest rate of 3.6 percent (the minimum interest rate for state and local government bonds in the Bond Buyer index during the period of April 2006 through April 2012).

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: October 11, 2016
RE: Response to Audit Recommendation Follow-Up Report October 2016

The following is provided in response to questions posed on the status of outstanding audit recommendation items as of the end of September 2016. My responses are noted in italics. There are a number of items that I am recommending be retired for follow-up purposes.

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. Prior to that occurring, the City Commission should direct whether this is a priority given other goals.

Financial Indicators 2011

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

*Staff and the City Commission implemented a new capital improvement planning process. Capital Planning software was purchased to assist with the organization of the planning. Public input on potential projects was sought and the budget and updated CIP was approved in mid-August 2016. **I recommend retiring this recommendation for follow up purposes.***

- **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, other budgeted funds, and non-budgeted funds as part of the budget process for 2017. **I recommend retiring this recommendation for follow up purposes.***

Cash Handling

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

This task is a top priority for the new accountant recently hired in the Finance Department. 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/early 2017.

City County Cooperation

- **Create guidelines for when cooperation should be formalized.**
- **Create guidelines for a consistent method to entering into cooperative agreements.**

*It shall be the policy of the City Manager to require (assuming the manager can secure concurrence of the County Administrator) a written agreement when the amount of the subject arrangement/agreement between the City and County exceeds \$50,000. The form of the agreement may range from a simple letter of understanding to a formal written agreement. The terms of the arrangement/agreement will be subject to the negotiation between the two governmental jurisdictions and the complexity of the subject issue. For arrangements involving amounts less than \$50,000 an agreement is not required. However, the manager may enter into an agreement if the manager deems it appropriate considering the complexity of the arrangement and other term details that may need to be memorialized. **I recommend retiring this recommendation for follow up purposes.***

RCP Infrastructure

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

*It shall be the policy of the City Manager that economic development incentive fees will be collected when the application for incentives are filed with the city. The application form will stipulate that the fees must accompany the application. No application will be accepted unless the appropriate fees accompany the application. Upon receipt of the application and the fees, the fees will be delivered to the Finance department for deposit while recurring fees (if any) are billed through the miscellaneous billing system. **I recommend retiring this recommendation for follow-up purposes.***

- **Provide training to city employees who handle cash.**
See prior response to Cash Handling recommendation.

Protecting Personally Identifiable Information

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

- **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.**
- **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.**

Staff has begun to work on this and the general review of the issue. We are exploring the purchase of insurance to cover the City for such events. Our initial research has found a few cities that have formal policies on protecting personally identifiable information, however, given other more pressing priorities, we have not been able to fully review this issue or develop policy recommendations. While this is an important issue, it requires a city-wide focus and staff has other more pressing priorities at this time.