Handout to Item 3

BKD LLP
CPAs & Advisors

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Independent Accountants' Report on Application of Agreed-Upon Procedures

The Honorable Mayor
and Members of the City Council
Engineering Revolving Fund
City of Lincoln, Nebraska

We have performed the procedures enumerated in the attachment to this report, which were agreed to by the management of the City of Lincoln, Nebraska solely to assist you with respect to accounting procedures for the Engineering Revolving Fund for the period of September 1, 2009 through August 31, 2011. The management of the City of Lincoln, Nebraska is responsible for the proper recording of transactions and for financial statement elements and accounts of the Engineering Revolving Fund. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment to this report for the purpose for which this report has been requested or for any other purpose.

There were no exceptions noted in the procedures we performed.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the specified financial statement elements and accounts described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties identified above and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 14, 2012

City of Lincoln, Nebraska
Agreed Upon Procedures – Engineering Revolving Fund

Time Period for all Testing: September 1, 2009 – August 31, 2011

1. Examine and test internal control structure for the following elements:

    - Cost accounting practices and procedures
    - Billing procedures and controls
    - Systems for tracking and allocating direct labor costs
    - Systems for allocating indirect labor costs to appropriate indirect labor categories

2. Track 25 labor samples from employees time records to:

    - The payroll records to assure hours recorded are paid
    - The cost system to assure hours are posted properly to jobs
    - The general ledger to assure the total posted is recorded in the financial accounting system

3. Verify the revenue earned from billable hours is recorded accurately in the general ledger and reconciles to the job cost system. A test of three is required.

4. Verify the accuracy of the calculation of the overhead rate.

5. Verify if costs included in the overhead rate are operational costs incurred by the Fund and are properly included.

Handout to Item (3)

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The Honorable Mayor
and Members of the City Council
Engineering Revolving Fund
City of Lincoln, Nebraska

During our application of agreed-upon procedures with respect to the Engineering Revolving Fund for the period of September 1, 2009 through August 31, 2011, we observed the following matters and offer these comments and suggestions. The matters discussed herein are offered as recommendations to implement certain best practices and to enhance the financial reporting process.

Calculation of the Overhead Rate

Currently, the calculation of the overhead rate for the Engineering Revolving Fund is a detailed calculation which specifies all budgeted costs to be incurred by the Fund, by line item, with a subsequent line item adjustment based on actual results. We found no errors or discrepancies in the calculation during our application of agreed-upon procedures. However, it is our understanding that the process for obtaining and compiling the information necessary for the calculation requires a substantial amount of time on the part of management. We recommend this calculation be simplified to potentially reduce the time burden on management and mitigate the risk of error within the calculation due to its complexity. Several factors to consider when determining what revisions can be made to the calculation are, but are not limited to:

- Utilizing the net change in fund balance to determine adjustments to the overhead rate
- Evaluating what level of detail should be maintained within the calculation as support for management review and other interested parties
- Ensuring any changes to the calculation of the overhead rate conform to state and federal guidelines

Management Review of Hours Utilization

An effective management oversight tool is the evaluation of employee hours charged directly to projects compared to total available employee hours. Such an evaluation provides management with a determination of the utilization of time for certain employees of the Engineering Services Division. It is our understanding this evaluation is performed periodically by management, however, this assessment is not currently being performed on a regular basis. We recommend management consider the feasibility and cost-effectiveness of performing this evaluation more frequently.

* * * *

We appreciate the opportunity to present these comments and suggestions. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

This communication is intended solely for the information and use of management, the Mayor and members of the City Council and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 14, 2012

Handout to Item (4)

MEMORANDUM

To:	Audit Advisory Board
From:	Miki Esposito, Director of Public Works and Utilities (PWU)
cc:	Rick Hoppe – Mayor's Office; Gene Carroll – City Council; Larry Worth – StarTran; Steve Hubka – Finance
Date:	April 18, 2012
Subject:	Financial, Marketing, Management & Operational Analysis of StarTran

On March 5, 2012, the SRF Consulting Team presented the Financial, Marketing, Management and Operational Analysis of StarTran to the Audit Advisory Board. In accordance with Lincoln Municipal Code section 4.66.110, this memo responds to the subject report as follows:

a) Whether StarTran agrees or disagrees with the subject report.
b) Reason(s) for disagreement, as appropriate.
c) Recommendations/plans for implementing recommendation.
d) Estimated time table for implementation of recommendation.
e) Estimated cost of implementation.
f) StarTran staff person responsible for implementation.

Oversight, Guidance and Management Recommendations

1. The Mayor and City Council should quickly act to establish a clear policy and mission for the operation of public transit services within Lincoln. At the beginning of each budget preparation period any revisions to the mission should be articulated so that operations can be adjusted to meet current expectations.
   a) Agree
   b) N/A
   c) As determined by Mayor and City Council, with input by StarTran staff & PWU Director
   d) As determined by Mayor and City Council
   e) N/A
   f) N/A

2. The Mayor should fill any future vacancies on the Transit Advisory Board as quickly as possible to maximize opportunities for community input on potential service and fare changes.
   a) Agree
   b) N/A
   c) As determined by Mayor
   d) As determined by Mayor
   e) N/A
   f) N/A

3. The Mayor should clarify the roles and responsibilities of the Transit Advisory Board to establish clear policy direction and reporting requirements. Options include:
   - Limit the Board to advise on service policies that impact passengers
   - Have the Board increase activities to advocate for transit within the community
   - Expand the Board role to include budget, service and performance oversight with more direct ties to City Council

a) **Agree**
b) **N/A**
c) **As determined by Mayor and City Council**
d) **As determined by Mayor and City Council**
e) **N/A**
f) **N/A**

4. The Mayor, with City Council oversight, should reconfirm policy intent on fare levels and service standards for all transit user groups before any significant service or pricing adjustments are made.
a) **Agree**
b) **N/A**
c) **Determined through budget development process**
d) **Annually**
e) **N/A**
f) **N/A**

5. The Mayor and City Council should provide clear policy direction for frequency of StarTran performance and management reporting. StarTran should develop a straightforward set of statistics and measures to report current performance as well as long term trends (minimum of 5 years) to the Director of Public Works, Mayor and City Council to gauge the overall health of the system.
a) **Agree, that StarTran should *continue* performance and management reporting, as directed by Mayor.**
b) **N/A**
c) **Annually, as directed by Mayor, StarTran develops indicators for performance and management reporting as part of the City's "Taking Charge" process. StarTran agrees that it should evaluate those indicators for both annual and long term trends.**
d) **As determined by PWU Director, Mayor, and City Council**
e) **N/A**
f) **N/A**

6. StarTran should be at the bargaining table throughout labor contract negotiations to be able to deal with transit specific issues.
a) **Agree**
b) **N/A**
c) **As determined by Personnel Dept**
d) **N/A**
e) **N/A**
f) **N/A**

7. StarTran should develop and utilize a standard analysis format when presenting proposed fare and service change information to the Advisory Board and other stakeholders. The standard form should include information such as background, alternatives considered (cost, revenue, impacts to schedule of each), and a staff recommendation.
a) **Agree**
b) **N/A**
c) **Utilize example format, and revise/affirm with Advisory Board**

d) **Estimated, 90 days**
e) **N/A**
f) **Connie Thoreson**

8. StarTran should refine the approach to internal communication for drivers and maintenance employees to provide clearer, more consistent and updated policy direction.

a) **Agree**
b) **N/A**
c) **Variable shifts and work assignments result in the driver and maintenance employee bulletin boards being the primary means of communication with those employees. In order to maximize the clarity, consistency, and timeliness of this means of communication, there will be a reorganization of the bulletin boards by subject, priority, and timeliness, while emphasizing the importance of daily review of the posted information. Also continue the monthly union-management meetings (with minutes posted) and contractual semi-annual all-staff safety meetings.**
d) **Immediately**
e) **N/A**
f) **Mike Weston**

9. The City should only pursue establishment of a regional transit authority if it is critical to separate local funding from the general fund. Doing so would provide limited fiscal and managerial benefits. If the City does pursue establishment of a transit authority it should seek an independent statute that is modeled after the Omaha statute but is directed toward cities of the "primary" class.
a) **Agree**
b) **N/A**
c) **Decision of Mayor and City Council**
d) **Unknown**
e) **To be determined if pursued**
f) **N/A**

10. The City should initiate a test of private sector interest using a three-step procurement process if it wants to further evaluate the prospects of privatization:
- Request for Letters of Interest
- Request for Qualifications
- Request for Proposals

a) **Disagree**
b) **Page 9-4 of the SRF Analysis document states, "The likelihood of creating a true 'privatized' operation in Lincoln with an investor owned and profitable company is not high. The economics of StarTran are such that operating the current system – or even a reasonable facsimile – makes turning a profit virtually impossible." StarTran does not consider privatization an option if there is no profit to be gained.**
c) **N/A**
d) **N/A**
e) **N/A**

11. StarTran management should work with the Director of Public Works to clarify the intended roles and responsibilities of the:
- Administrative Aide
- Bus Operations Superintendent

a) Agree
b) N/A
c) Job descriptions of Administrative Aide and Bus Operations Superintendent to be re-evaluated/updated by StarTran staff, Manager and PW/U Department Director
d) Within 90 days
e) N/A
f) Larry Worth

<u>Service Design, Operations and Performance Recommendations</u>

1. StarTran should begin immediate discussions with the University of Nebraska-Lincoln (UNL) on the potential for an expanded role in campus transit service. Campus transit service should be expanded as opportunities arise.
a) Agree
b) N/A
c) Contract negotiations in progress, to be followed by procurement of buses and hiring of additional drivers and associated staff
d) Service to be initiated, January, 2013
e) Operating and capital costs reimbursed by UNL
f) Scott Tharnish

2. The city should work with the University of Nebraska Lincoln to clarify if the university wants to continue to operate a portion of the campus and intercampus transit service or if it would prefer to purchase all of its services from StarTran.

See #1

3. StarTran should establish a working relationship with Southeast Community College (SCC) to identify needs and potential service.
a) Agree
b) N/A
c) Initial relationship established, to be continued
d) Continuing
e) N/A
f) Kitty Miller & Brian Praeuner

4. StarTran should calculate on-time performance of the paratransit services separately for StarTran provided services and Transport Plus services. This calculation also needs to better account for trips rescheduled to earlier pickups.
a) Agree
b) N/A
c) Service on-time performance calculations to be included as computerized scheduling software is available to do so
d) Within 90 days
e) N/A

f) **Brian Praeuner**

5. StarTran should evaluate its fixed route on-time performance more regularly to identify areas for schedule adjustments.
   a) **Agree**
   b) **N/A**
   c) **To be included in routine fixed-route surveillance activities**
   d) **Within 90 days**
   e) **N/A**
   f) **Brian Praeuner**

6. StarTran should standardize its definition of the "on-time" window to match surveillance report analysis to available AVL data.
   a) **Agree**
   b) **N/A**
   c) **"On time" definitions to be standardized**
   d) **Within 90 days**
   e) **N/A**
   f) **Brian Praeuner**

7. StarTran should reevaluate its approach to road supervision.
   a) **Agree**
   b) **N/A**
   c) **Review detailed suggestions, and potentially contact SRF Team for further detail regarding road supervision responsibilities. Evaluate resultant information for potential implementation.**
   d) **Within 90 days**
   e) **N/A**
   f) **Mike Weston**

8. StarTran should re-instate its safe driver awards program. The modest cost will generate substantial benefits within the driver ranks.
   a) **Agree**
   b) **N/A**
   c) **Contact peer transit systems for ideas on effective safety award programs, and work with ATU to implement such a program.**
   d) **Within 6 months**
   e) **Less than $1,000**
   f) **Mike Weston**

9. StarTran should update the Maintenance Plan to fit with current practices.
   a) **Agree**
   b) **N/A**
   c) **Update maintenance plan, utilizing peers and most recent practices**
   d) **Within 6 months**
   e) **N/A**
   f) **Glenn Knust**

10. StarTran should keep the Driver's Manual updated to current procedures.
   a) **Agree – Update Completed**

f) **Mike Weston**

11. StarTran should not post the result of the Accident Review Committee
- a) **Agree**
- b) **N/A**
- c) **Accident Review Board results to not be posted/ individuals will be notified**
- d) **Within next 30 days**
- e) **N/A**
- f) **Connie Thoreson**

12. StarTran should revise the Transit Development Plan (TDP) in two to four years to reflect any changes to policy goals and performance thresholds.
- a) **Agree**
- b) **N/A**
- c) **Being included in proposed 6-year transportation improvement plan**
- d) **Programmed in F.Y. 2014-15**
- e) **$50,000**
- f) **Brian Praeuner**

Paratransit Recommendations

1. StarTran should conduct random audits of telephone hold times to assure ADA compliance.
- a) **Agree**
- b) **N/A**
- c) **Staff conduct random checks of telephone hold times - different days and times. Maintain record of results. Address extended hold times by additional subscription service, increased reservationists, etc.**
- d) **Random, throughout year**
- e) **Random checks, N/A**
- f) **Connie Thoreson**

2. StarTran should communicate fare information in the Operating Guidelines and on the Handi-Van specific webpage.
- a) **Agree**
- b) **N/A**
- c) **Review Operating Guidelines and website for inclusion of fare information – revise as appropriate**
- d) **Within 60 days**
- e) **Cost of reprinting Operating Guidelines**
- f) **Larry Worth**

3. StarTran should extend complementary service hours to the same hours as fixed route.
- a) **Agree**
- b) **N/A**
- c) **Paratransit operating hours are the same as fixed-route operating hours. Include on website and in Operating Guidelines, and insure that League of Human Dignity is providing accurate information.**
- d) **Within 60 days**
- e) **Cost of reprinting Operating Guidelines**
- f) **Larry Worth**

4. StarTran should establish a practice of adjusting paratransit hours of service when a change on fixed route is implemented.
- **a) Agree**
- **b) N/A**
- **c) Assure that paratransit hours/days of service conform to fixed-route hours/days of service.**
- **d) As changes necessary**
- **e) N/A**
- **f) Larry Worth**

5. StarTran should improve scheduling of trips to eliminate early driver arrivals.
- **a) Agree – Operating policy revised**
- **f) Sue Agena**

6. StarTran should discontinue the practice of requiring an adult accompany a child under 12.
- **a) Agree – Policy revised**
- **f) Larry Worth**

7. StarTran should update its visitor policy to be easily identified on the webpage and have a header identifying the policy in the operating guidelines.
- **a) Agree**
- **b) N/A**
- **c) Revisions suggested to be included in revised Operating Guidelines**
- **d) Within 60 days**
- **e) Cost of reprinting Operating Guidelines**
- **f) Larry Worth**

8. StarTran should renegotiate with Route Match for some level of support in order to avoid a system failure and a catastrophic loss of data and the ability to produce driver manifests.
- **a) Agree**
- **b) N/A**
- **c) Route Match representatives to be contacted**
- **d) Within 30 days**
- **e) Unknown**
- **f) Glenn Knust**

9. StarTran should add staff in order to effectively manage the paratransit operation. It is recommended that a full time clerk position be created to handle call taking and reservations, radio dispatch and post trip data entry.
- **a) Neutral**
- **b) N/A**
- **c) This depends on city resources for F.Y. 2012-14**
- **d) Within 6 months**
- **e) $46,864 – $65,384**
- **f) Scott Tharnish**

10. StarTran should reduce the amount of directly operated paratransit service and assign additional service to Transport Plus to reduce annual operating costs:

- Eliminate directly operated paratransit service on weekdays after 5:30 p.m.
- Eliminate directly operated weekend paratransit

a) Agree
b) N/A
c) Comparison analysis to be conducted regarding costs of utilizing StarTran operated vs. contracted paratransit services during late-weekday and Saturday operating times, with lowest-cost service implemented.
d) Within 6 months
e) Potential cost savings?
f) Brian Praeuner and Scott Tharnish

11. The City of Lincoln Purchasing Department needs to have specific performance measures spelled out in the outside paratransit contracts:

- On time performance target of 95 percent
- No passenger should ride longer than 45 minutes.
- Applications for service to be processed within 21 days.

a) Agree
b) N/A
c) Coordinate inclusion of standards in paratransit contracts with private provider(s)
d) When contract rebid in 2014
e) N/A
f) Brian Praeuner

12. StarTran should update its Handi-Van Operating Guidelines as they are outdated and it is difficult to find the important information.

a) Agree
b) N/A
c) Operating Guidelines to be updated in cooperation with League of Human Dignity.
d) Within 6 months
e) Cost of reprinting
f) Larry Worth

<u>Cost and Revenue Recommendations</u>

1. The City should simplify its fare structure by discontinuing special programs that contribute few riders for the level of effort expended on marketing and administration. Program elements to reconsider are:

- Seniors go for less
- Senior punch
- Ride and shop

a) N/A
b) Disagree
c) Senior Go For Less required by State law. Senior 20-punch and Ride & Shop previously discontinued
d) N/A
e) N/A
f) Kitty Elliott

2. If a primary goal of the City is to increase passenger revenues:
- It should consider first raising the low-income monthly pass price before making other fare adjustments. Elasticity of demand indicates a doubling of the price will add about $70,000 in revenue annually, but will reduce ridership by roughly 260,000 trips per year.
- It is not recommended to reduce the existing base fare as increased ridership will not measurably increase revenues.

a) Disagree with increasing low-income monthly pass
b) Disagree on not reducing base fare cost.
c) Fare analysis conducted, with fare revision recommendations included in current budget proposals.
d) Within 6 months
e) N/A
f) Scott Tharnish

3. StarTran should work with administrative staff to better embrace technology to streamline accounting functions.
a) Agree
b) N/A
c) Revisions to streamline accounting functions underway/continuing
d) On-going
e) N/A
f) Andrea Ludwig

4. City staff and StarTran staff responsible for procurement should develop better understanding of FTA regulations and requirements related to grants management.
a) Agree
b) N/A
c) StarTran staff have, and are continuing to, coordinate with Purchasing and City Attorney staff, and attend FTA training, to maximize compliance with FTA procurement regulations
d) Continuing
e) N/A
f) Glenn Knust

5. StarTran should conduct a detailed analysis of the costs and potential benefits of utilizing part time labor to determine whether or not this strategy should be pursued to lower operating costs or whether it might be better to negotiate that capability out of the next labor contract.
a) Agree
b) N/A
c) Previous analyses have indicated that the utilization of part-time drivers is not effective/efficient. Another detailed analysis to be conducted, with aspects identified that negatively impact the benefits of part-time driver utilization. Once identified, negotiate identified negative impacts out of the ATU contract in order to result in the potential of utilizing part-time operators as an effective alternate.
d) Within 6 months
e) N/A

f) Scott Tharnish

6. StarTran should conduct a statistical analysis of cash receipts compared to ridership on a regular basis to ensure there are no cash handling concerns.
   a) Agree
   b) N/A
   c) Recommended analysis of cash receipts to be conducted on random basis
   d) Random
   e) N/A
   f) Scott Tharnish

7. StarTran should rotate and introduce randomness to the staff assignments for cash counting.
   a) Agree
   b) N/A
   c) Staff assigned to cash counting to be rotated on a random basis
   d) Random
   e) N/A
   f) Scott Tharnish

Customer Service and Marketing Recommendations

1. StarTran should maintain a list of customer requests for service changes throughout the year and review during budget preparation time for possible service adjustments.
   a) Agree – Such information retained by Operations Superintendent
   f) Mike Weston

2. StarTran should route all customer complaint calls to the Superintendent of Transportation or the Marketing Assistant instead of the Office Assistant.
   a) Agree – Policy in-place
   f) Mike Weston and Kitty Elliott

3. The Public Works Division should establish division-wide standards for customer responsiveness and satisfaction levels.
   a) Agree
   b) N/A
   c) Coordinate with other PWU divisions and Director
   d) As determined by Director
   e) N/A
   f) Miki Esposito

4. StarTran should encourage the Bus Operations Superintendent to have more direct interaction with bus drivers and customers in the field.
   a) Agree – Policy in-place
   f) Mike Weston

5. StarTran should have the Office Assistant lunch relief person answer customer telephone calls instead of having those calls rolled over to an outside answering service.
   a) Agree
   b) N/A

c) **To evaluate current and recommended policies and make adjustments**
d) **Within 90 days**
e) **N/A**
f) **Kitty Elliott**

6. StarTran should evaluate its current procedure of selling Low-Income passes only at the primary StarTran facility. Relocation of the point of sale should consider more public alternative locations such as City Hall. This relocation would relieve current StarTran staff, allowing them to focus on other responsibilities.
   a) **Agree**
   b) **N/A**
   c) **Sales of StarTran fare devices being re-evaluated**
   d) **Within 6 months**
   e) **N/A**
   f) **Kitty Elliott and Scott Tharnish**

Equipment and Facilities Recommendations

1. The city should not change the size of its transit vehicles as fleet replacements occur as most vehicles are properly sized for current loadings. The size of the buses is appropriate for the current peak loading requirements and safety standards. Mixing of the fleet would increase training needs, parts inventories and overall maintenance costs.
   a) **Agree**
   b) **N/A**
   c) **Full-size, heavy-duty buses programmed for purchase to replace 28 buses in 6-year planning period**
   d) **16 in 2017 and 12 in 2019**
   e) **N/A**
   f) **Glenn Knust**

2. StarTran should update its advance technology plan to refine the concept of operations, procure missing components and fix inoperable system so they can be fully integrated into operations.
   a) **Agree**
   b) **N/A**
   c) **Determine technology not operating at maximum efficiency/effectiveness, and address means to restore such technology**
   d) **Within 6 months**
   e) **Unknown**
   f) **Glenn Knust**

3. StarTran should evaluate whether to allow drivers to communicate directly with each other through mobile data terminals (MDT's) to call out transfers instead of making hard radio call to the supervisors.
   a) **Agree – Being addressed in Spring safety meeting to train all operators and supervisors in use of MDT's for transfers**
   f) **Mike Weston and Glenn Knust**

4. StarTran Street Supervisors should utilize the automated vehicle location (AVL) system to monitor bus on time performance from supervisory vehicles.

a) **Agree**
b) **N/A**
c) **To be included in revised road supervision procedures**
d) **Within 60 days**
e) **N/A**
f) **Mike Weston and Glenn Knust**

5. The city should conduct a feasibility study to look at the options to rebuild the maintenance facility to provide an improved layout and potentially reduce maintenance costs before consideration of relocating the operating and maintenance facilities . If rebuilding is not feasible, then the city should consider relocation of the facility in a centrally located spot to prevent an increase in non-revenue miles.

a) **Agree**
b) **N/A**
c) **Contract architectural firm to conduct such feasibility study**
d) **Within 2 years**
e) **Unknown**
f) **Glenn Knust**

6. StarTran should establish a program to mark the location of all bus stops across the system to provide customers direction to safe boarding locations

a) **N/A**
b) **Disagree that all bus stops need signed identification, as all street corners are bus stops. Recommendation as a result of issue at a specific location. Sign questionable such locations as appropriate.**
f) **Larry Worth and Mike Weston**

7. StarTran should locate bus benches at all high use bus stops and shelters should be provided where passengers have random or unpredictable arrival times

a) **Agree – Benches and shelters currently in-place where passenger loading standards are met (15 passengers/day for bench and 25 passengers/day for shelter).**
f) **Glenn Knust and Brian Praeuner**

Handout to Item (5)

Chapter 4.66

CITY AUDIT ADVISORY BOARD

4.66.020 Definitions.

For the purpose of this chapter, the following words shall have the following meanings:

Auditee shall mean the City office, department, agency, or other governmental organization subject to a City audit who is the object of a contract audit as specified in the City's contract with the contract auditor.

Board shall mean the City Audit Advisory Board unless otherwise specified.

Board audit report shall mean the written report created by the Board which shall include the final audit report, any written response by the auditee, a separate listing, if any, of irregularities or failures to comply with legal or administrative policies, and the Board's recommendations.

Contract administrator shall mean the City official charged with administering the contract with the contract auditor. The Director of Finance shall be the contract administrator, provided, however, if the Finance Department is specifically named in the contract as the auditee, the Mayor shall designate another City employee as Contract Administrator for that contract audit.

Contract audit shall mean an audit performed pursuant to this chapter and shall be any one or combination of a financial audit, a performance audit, an internal audit, or operational review.

Contract auditor shall mean the person with whom the City contracts to perform a contract audit under this chapter.

Custodian of records shall mean the City Clerk.

Final audit report shall mean the report created by the contract auditor following his or her audit. No working papers shall be attached or otherwise disseminated by the contract auditor as part of a final audit report or otherwise.

Financial audit shall mean an audit designed to address questions of accounting and reposting of financial transactions, including commitments, authorizations, and receipt and disbursement of funds. The purpose is to verify that sufficient controls over cash and cash-like assets exist and that adequate processes controls over the acquisition and use of resources exist. Financial audits shall be conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Generally Accepted Government Auditing Standards (GAGAS) maintained by the federal Government Accountability Office (GAO). For purposes of this chapter, financial audit, does not include the external independent audit required in Article IV, Section 8 of the City Charter.

Internal audit shall mean an independent appraisal of operations to assess the effectiveness of internal administrative and accounting controls and help ensure conformance with managerial policies. Internal audits shall be conducted in accordance with the International Standards for the

Professional Practice of Internal Auditing (~~SPPIA~~ IPPF)) as promulgated by the Institute of Internal Auditors.

Operational review shall mean an objective and systematic examination of evidence to evaluate the City's conformity with plans and resource allocations, organizational structure, operating procedures, process controls, and to evaluate whether the auditee is operating efficiently, economically, and effectively to maximize the desired results.

Performance audit shall mean an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision making by parties with responsibility to oversee or initiate corrective action. Performance audits shall be conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) maintained by the federal Government Accountability Office (GAO).

Selection committee shall mean the chair of the City Council, the chair of the Audit Board, and one of the two City Council members who serve on the Internal Auditing Review Committee (IARC). ~~In the event the Council Chair is one of the two City Council representatives on the Internal Auditing Review Committee, the third member of the selection committee shall be a City Council member as designated by the Chair of the City Council.~~ The IARC shall select a member to participate on the selection committee who shall not be the chair of the City Council. Two affirmative votes are required for action.

Working papers shall mean those documents containing evidence to support the contract auditor's findings, opinions, conclusions and judgments.

4.66.040 Duties and Powers.

As authorized in this chapter, the Board shall advise the City Council on matters relating to financial audits, internal audits, performance audits, and operational reviews as provided for in this chapter. However, the Board shall not review or recommend an audit of the performance of any particular employee and shall not infringe upon the authority of the Personnel Board, Personnel Director, a Department head, Mayor, or City Council with respect to personnel matters. Nothing in this chapter shall confer upon the Board or the City any authority to audit governmental organizations not otherwise subject to City audit.

The Board shall have the following responsibilities:

(a) When directed to do so by resolution of the City Council, determine whether an audit, as suggested in Council's resolution, is appropriate and desirous. In order to make this determination, the Board may consult with departments heads to familiarize themselves with information necessary to make an informed decision on whether and what type of contract audit

should be conducted. If the Board determines that such an audit is not appropriate and desirous, the Board shall forward such decision in writing to the City Council.

If the Board concludes that such an audit is appropriate and desirous, the Board shall determine what the scope of such audit should be. In recommending the scope of the audit, the Board shall pay particular attention to the anticipated cost to the City for such audit including, but not limited to, the cost of gathering or providing access to records that may be requested by the contract auditor. The Board's recitation of the scope of the audit shall include:

(1) Identification of the auditee including, if applicable, what particular function or activity of the auditee should be audited;

(2) Whether the contract audit should be a financial audit, an internal audit, a performance audit, an operational review, or any combination thereof;

(3) The time span to be covered by the audit; and

(4) Whether the contract auditor should be the State Auditor of Public Accounts, or whether the City should pursue a private contractor to serve as contract auditor.

The Board shall transmit the scope of the audit, in writing, to the City Purchasing Agent.

(b) Evaluate the adequacy of management and financial accounting systems and controls based on the final audit report and any written response thereto furnished by the auditee;

(c) Appraise and verify the accuracy of management and financial records, statements and reports based on the final audit report and any written response thereto furnished by the auditee;

(d) Report to the Mayor and the City Council, in the form of a ~~b~~**Board** ~~audit~~ report, within sixty days of receiving the final audit report. The Board ~~audit~~ report shall be simultaneously transmitted to the Mayor and the City Council. Three copies of the **Board** ~~audit~~ report shall be placed on file with the City Clerk for public examination. The ~~b~~**Board** ~~audit~~ report shall include:

(1) The Board's findings, based on the final audit report and the response of the auditee as to whether:

(i) Activities and programs are being conducted and funds expended in compliance with applicable laws;

(ii) Revenues are being properly collected, deposited and accounted for;

(iii) Resources are adequately safeguarded, controlled and used in an effective and efficient manner; and/or

(iv) There are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management;

(2) A copy of the final ~~audit~~ report and auditee's response thereto;

(3) A separate listing, if any, of irregularities or failures to comply with legal or administrative policies; and

(4) The Board's recommendations.

4.66.070 Contract Auditors.

Contract auditors may not have a financial interest in the affairs of the auditee or the City, or its officers, nor result in any benefits in the financial affairs of members of the Board.

The contract with the contract auditor shall include language requiring the contract auditor to retain all working papers or other documents gathered or created in the course of conducting the audit for a period of ten years. During and after that ten-year period, the contract auditor may not disseminate such information except as required by law. The contract shall further require that upon receipt of a request for such information, in the form of a public record request, subpoena, or otherwise, the contract auditor shall, within one working day of receiving such request, forward such request to the City Attorney and shall not fulfill the request. At the end of the ten years, the contract auditor shall destroy all such documents, working papers, and information, in whatever form, by shredding, incinerating, wiping, or otherwise rendering such data unrecoverable, and shall confirm such destruction in writing to the City Clerk; provided, however, that the City may require an extension of the ten-year period as may be reasonable prior to destruction of the material. Nothing in this section is intended to prohibit the contract auditor and the City from agreeing to reasonable terms for access to such data by the City.

The contract shall also include language requiring that the contract audit be performed in accordance with the industry standard for the type of audit that is the subject of the contract audit. A contract for a performance audit or financial audit shall include language that such audit be performed in accordance with the Generally Accepted Government Auditing Standards. A contract for an internal audit shall contain language that such audit be performed in accordance with the <u>International</u> Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

The contract with the contract auditor shall require the contract auditor to prepare a final ~~audit~~ report and to simultaneously furnish such report to the Board, the auditee, the Mayor, and City Council.

The contract with the contract auditor shall include language which identifies the scope of the audit and which specifies the auditee. The contract shall also specify the type of audit to be performed under this chapter.

<u>The contract with the contract auditor shall require the contract auditor to provide a draft audit report and to advise the Board simultaneously.</u>