



Nimish Patel, Committee Chair
Sue Himmelrich, Committee Vice-Chair
Frances Ellington, Committee Member
Pam O'Connor, Committee Member
Tony Vasquez, Committee Member

CITY OF SANTA MONICA

**SPECIAL MEETING AGENDA OF THE
AUDIT SUBCOMMITTEE**

**SANTA MONICA INSTITUTE TRAINING ROOM
330 OLYMPIC DRIVE, 2ND FLOOR (PLAZA LEVEL)
SANTA MONICA, CA 90401**

THURSDAY, APRIL 20, 2017

6:00 PM

NOTICE IS HEREBY GIVEN that a special meeting of the Audit Subcommittee will be held at 6:00 PM, on Thursday, April 20, 2017, at the Santa Monica Institute Training Room, 330 Olympic Drive, 2nd Floor (Plaza Level), for the purpose of conducting only the following business:

(Please note that Agenda Items may be reordered during the meeting at the discretion of the body.)

1. Call to order and Roll Call

*Public comment is permitted only on items on the agenda. No other business will be considered at this time.

2. Receive the Compensation and Staffing Review Preliminary Work Plan by Moss Adams, LLP and Adopt the Proposed Rules of Conduct for the Audit Subcommittee

3. Adjournment

STANDARDS OF BEHAVIOR THAT PROMOTE CIVILITY AT ALL PUBLIC MEETINGS:

- Treat everyone courteously;
- Listen to others respectfully;
- Exercise self-control;
- Give open-minded consideration to all viewpoints;
- Focus on the issues and avoid personalizing debate;
- Embrace respectful disagreement and dissent as democratic rights, inherent components of an inclusive public process, and tools for forging sound decisions

This agenda is available in alternate format upon request. The Santa Monica Institute Training Room is wheelchair accessible. If you require any special disability related accommodations (i.e.

sign language interpreting, access to an amplified sound system, etc.), please contact the Finance Department at (310) 458-8281 or Finance.Mailbox@smgov.net at least 2 days prior to the scheduled meeting.

This agenda is subject to change up to 24 hours prior to the special meeting. Please check the agenda prior to the meeting for changes.

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Item 2:

Receive the Compensation and Staffing Review Preliminary
Work Plan by Moss Adams, LLP and Adopt the Proposed
Rules of Conduct for the Audit Subcommittee



Audit Subcommittee Report

Meeting: April 20, 2017
Agenda Item:

To: Audit Subcommittee
From: Gigi Decavalles-Hughes, Director, Finance Department
Subject: Receive the Compensation and Staffing Review Preliminary Work Plan by Moss Adams, LLP, and Adopt the Proposed Rules of Conduct for the Audit Subcommittee

Recommended Action

Staff recommends that the Audit Subcommittee:

1. Receive the Compensation and Staffing Review preliminary work plan by Moss Adams, LLP;
2. Direct staff to present a staff report to Council recommending the adoption of Rules of Conduct for the Audit Subcommittee and approving the establishment of a limited term 5-person ad hoc committee that would work alongside the Subcommittee in their review of the Compensation and Staffing Review; and
3. Approve the attached Audit Subcommittee Rules of Conduct.

Executive Summary

At its January 17, 2017 meeting, the Audit Subcommittee discussed the potential scope of work of a staff compensation review. The review would be completed by Moss Adams, LLP, the City's Internal Auditor. Subcommittee members specified that the scope of work should include a review of the methodology used for setting compensation levels, a comparison of wages and benefits across peer cities, the factors that determine the number of staff providing services, and the use of overtime by public safety employees. Staff has since worked with the internal auditor to develop an approach to the study, and has spoken to community members who sought assurances that the study would be objective and thorough. As a result, staff is recommending that the Audit Subcommittee review the updated preliminary scope of work and direct staff to present a staff report to the City Council asking that an ad hoc committee made up of interested community members be assembled to take part in Audit Subcommittee discussions on the compensation study. Finally, in order to provide clear expectations for staff, Audit Subcommittee members, ad hoc committee members, and members of the public, staff recommends that Council adopt Rules of Conduct for the Audit Subcommittee.

Background

On January 17, 2017, in response to concerns raised by a number of community groups related to news stories about City of Santa Monica staff compensation, and calls by

these groups that an independent audit be conducted, the Audit Subcommittee discussed a proposed scope of work for a compensation audit to be completed by the City's Internal Auditor, Moss Adams, LLP. The initial scope of work included a review of the City's wage setting process as well as an overtime utilization review. Among community members' areas of concern were the cost of compensation, overtime, and other pay and total compensation for City staff, the methodology used to set compensation levels, how the City compares to peer cities, the size of the City government, and whether sufficient internal controls exist to manage these areas.

The Audit Subcommittee expressed an interest in an expanded scope of work that would also include a comparison of wages and benefits across peer cities and an understanding of the factors that determine the number of staff providing services. In the weeks that followed the meeting, community members met with the City Manager to discuss their concerns about compensation and the objectivity of an audit conducted by the City's Internal Auditor. Additionally, various neighborhood groups also expressed their concern about staff compensation.

Discussion

Moss Adams has updated the scope of work for the compensation review to include a review of the methodology used for setting compensation levels, a comparison of wages and benefits across peer cities, the factors that determine the number of staff providing services, and the use of overtime by public safety employees (Attachment A). The review would compare the City's processes and compensation packages with 10 peer cities. Additionally, the review would document the factors that drive the size of staff and compare the methods by which the City provides services with those of peer cities. Finally, the review would analyze how and why overtime has been used by public safety personnel over the past three years. Staff is seeking to provide an additional layer of transparency and understanding to the review to be conducted by Moss Adams, and to merge the conversations that community members have been having with the City Manager into this review. In the past, the Council has appointed special-purpose committees (Civic Center Working Group, Promenade Uses Task Force, Civic Auditorium Working Group) or directed the City Manager to appoint special working

groups (Minimum Wage Working Group) to facilitate public participation in the development of special plans and strategies. A limited-term, five-member ad hoc committee of residents could assist the Audit Subcommittee and staff in critically reviewing and objectively considering the City's methodologies related to compensation. For this reason, staff recommends that the Audit Subcommittee ask the City Council to direct the City Manager to appoint an ad hoc committee that would join Subcommittee discussions specifically related to the scope, findings, and final report of the compensation review. The Council could direct the City Manager to seek applications from members of the public who would be interested in serving on the committee, and then make appointments from the applications.

The ad hoc committee would only convene during the time that the Audit Subcommittee is discussing the compensation study agenda item. As noted in the attached Rules of Conduct, the ad hoc committee would not have a vote, but would be able to ask questions of staff and the Internal Auditor, and make suggestions regarding scope, initial findings and the final report. The ad hoc committee would convene three times- to discuss the scope of the project, to discuss the initial findings of the review, and to receive the final report.

Staff has prepared draft Rules of Conduct for the Audit Subcommittee (Attachment B). Section 5 of the Rules specifies the parameters by which an ad hoc committee may function alongside the Subcommittee.

If the Audit Subcommittee wishes to move forward with the plan to request the appointment of an ad hoc committee, staff would prepare a staff report for the May 9, 2017 City Council meeting. Council would be asked to approve both the Rules of Conduct and the City Manager's appointment of the ad hoc committee. A public application and selection process would be completed in May and the ad hoc committee would convene for the first time at the June 15, 2017 Special Meeting of the Audit Subcommittee. At that time, the Subcommittee would confirm the final scope of the audit with the input of the ad hoc committee and staff.

Staff anticipates that the Subcommittee will consider initial findings at its October 17, 2017 Regular Meeting, and receive the final report at its January 16, 2018 Regular

Meeting. Community members applying for a seat on the ad hoc committee would be required to be available for the three meetings.

Financial Impacts and Budget Actions

The cost of this review is not to exceed \$210,000 and may be carried out within the existing budget and scope authority of the Moss Adams internal audit contract. Staff will propose budget adjustments as part of the Biennial Budget process to accommodate the additional budget needed to carry out the project in FY 2017-18.

Prepared By: Gigi Decavalles-Hughes, Finance Director

Attachments:

- A. Proposed City of Santa Monica Compensation and Staffing Review Work Plan, prepared by Moss Adams, LLP
- B. Proposed Rules of Conduct for the Audit Subcommittee

Attachment A:
Proposed City of Santa Monica Compensation and Staffing
Review Work Plan, prepared by Moss Adams, LLP

**City of Santa Monica
Compensation and Staffing Review
Work Plan**

I. Project Objectives	
•	Perform a review of the City of Santa Monica’s overall a) wage setting process, b) wage and benefits packages, c) staffing methodology and levels, and d) use of overtime for public safety services.
II. Scope of Work	
Phase 1 – Project Initiation and Ongoing Management	
1.1	Conduct kickoff meeting with Audit Subcommittee and Ad Hoc Committee (citizens committee appointed by City Manager) to confirm objectives, participants, schedule, and deliverables.
1.2	Submit document request list to City and 10 peers. Peers include Beverly Hills, Burbank, Culver City, El Segundo, Gardena, Glendale, Inglewood, Pasadena, Redondo Beach, and Torrance.
1.3	Schedule interviews with City stakeholders, including City Manager’s Office, department heads, and bargaining unit heads.
1.4	Schedule interviews with peers.
1.5	Conduct project management and progress reporting.
1.6	Perform quality assurance.
Phase 2 – Fact Finding	
2.1	Obtain and review relevant documents from the City for the selected years (see III. Areas of Focus for the years that apply to each component of the project objective), including, but not limited to, budgets and CAFRs, service level agreements and reports, organizational charts, staffing lists, HR wage setting policies and procedures, labor agreements, overtime usage reports for Public Safety employees.
2.2	Conduct interviews with City stakeholders.
2.3	Gather information from peers through website searches, online survey, and interviews.
2.4	Develop preliminary findings (see III. Areas of Focus).
2.5	Present preliminary findings to Audit Subcommittee and Ad Hoc Committee.
2.6	Revise preliminary findings as necessary.



II. Scope of Work	
Phase 3 – Analysis	
3.1	Compare City Santa Monica’s a) overall wage setting process, b) wage and benefits package, c) staffing methodology and levels, and d) use of overtime for public safety services with that of peers.
3.2	Determine gaps between current City and peer practices and, to the greatest extent possible, reasons for gaps.
3.3	Conduct alternatives analysis to define solutions.
3.4	Prepare draft findings and recommendations and review with City to verify facts and test the practicality of recommendations.
3.5	Revise draft findings and recommendations as necessary.
Phase 4 – Reporting	
4.1	Submit draft report.
4.2	Submit final report.
4.3	Present final report to Audit Subcommittee and Ad Hoc Committee.

III. Areas of Focus	
A.	Wage Setting Process: Document the current wage setting process for each bargaining unit, and assess processes for opportunities for improvement.
B.	Wages and Benefits: Understand the terms of bargaining unit agreements, compare to peers for the past three fiscal years (FY 14, FY 15, and FY 16), and document results for a representative sample set of positions (levels and types of positions) for each City department.
C.	Staffing Methodology and Levels: Document the City’s staffing philosophy and related policies; document staffing levels for the selected number of years (see VI. Budget for optional years ranges); and document results. Compare to peer service offerings and insourcing versus outsourcing practices. Compare to peer key performance indicators (e.g., efficiency measure such as cost per FTE or capita and effectiveness measure such as service delivery outputs or outcomes).
D.	Public Safety Overtime: Document overtime utilization for the past three fiscal years (FY 14, FY 15, and FY 16) by department, unit, and person. Compare to staffing levels, turnover, and key performance indicators (e.g., efficiency measure such as cost per FTE or capita and effectiveness measure such as crime rate or response time).

MOSS ADAMS_{LLP}

IV. Schedule

- May 2017 project start and January 2018 project completion
- Committee Meetings (Audit Subcommittee with Ad Hoc Committee): project kickoff on June 15, 2017, briefing on preliminary findings on October 17, 2017, and delivery of final report on January 16, 2018

V. Budget

- Professional fees \$190,000 to \$210,000, plus expenses
- Budget range reflects years covered by staffing analysis:
 - 3 years, FY 14 through FY 16
 - 6 years, FY 07, FY 09, FY 11, FY 13, FY 15, and FY 16
 - 10 years, FY 07 through FY 16
- Work will be performed in accordance with AICPA consultancy standards

VI. Staffing

- Colleen Rozillis, PMP, Manager (PM)
- Mark Steranka, Partner (QA)
- Tammy Lohr, Consultant (Analysis)
- Emily Oxenford, Senior Research Analyst (Benchmarking)

Attachment B:
Proposed Rules of Conduct for the Audit Subcommittee

Rules of Conduct for the Audit Subcommittee of the City Council

On July 28, 2015, the City Council of the City of Santa Monica adopted Resolution Number 10901(CCS), establishing an Audit Subcommittee (the “Audit Subcommittee”) to assist the Council in fulfilling their oversight responsibility for the financial reporting process, the framework for internal control, and the audit process. The City Council has defined the purpose of the Audit Subcommittee, its composition, length of member appointments and guidelines on scheduling regular meetings. Audit Subcommittee meetings shall be held in compliance with the State’s Open Meeting Laws. Notice of meetings, including adjournment, shall also be given in accordance with the provisions of the Ralph M. Brown Act, California Government Code section 54950 *et seq.* (the “Brown Act”). These Rules of Conduct are adopted by the Audit Subcommittee in order for the Committee to efficiently hold its meetings in compliance with all State and local laws. In the event of a conflict between the provisions of the Brown Act or any other law and any provision of these Rules of Conduct, the Brown Act, or other law, shall prevail. The noticing provisions shall further be subject to any amendments of the Brown Act.

Section 1. QUORUM. A majority of Committee Members shall constitute a quorum for the transaction of business, except to adjourn. All three Council Committee members must be present for a meeting to occur.

Section 2. OFFICERS POWERS AND DUTIES:

Each year at its first meeting, the voting members of the Committee will elect a Chair and a Vice-Chair. Until new officers are elected, the outgoing officers shall continue to serve, when a quorum is needed and no officers are available.

The Chair shall be the Presiding Officer at all meetings. In the absence of the Chair, the Vice Chair shall preside. In the absence of both the Chair and Vice Chair, the City Clerk or designee shall call the Committee members present to serve until the arrival of the Chair or Vice Chair or until adjournment.

Section 3. Except as otherwise provided, the Audit Subcommittee shall follow the City Council Rules of Order and Procedures, Resolution Number 10928(CCS) as applicable and as may be amended from time to time, in the conduct of its meetings. A copy of those Rules are attached.

Section 4. REGULAR MEETINGS. Regular meetings of the Audit Subcommittee shall be held at least quarterly on such dates, such locations and at such times as may be fixed by the Committee.

Section 5. AD HOC COMMITTEES. The City Council may approve the creation of an ad hoc committee to take part in Audit Subcommittee discussions. Any such ad hoc committee shall serve for a limited time and scope of work, as approved by the City Council. Any ad hoc committee formed shall be subject to the Open Meeting Laws and

shall only convene during public meetings of the Audit Subcommittee. Any ad hoc committee formed may not:

- (a) take any final action on matters which also require Audit Subcommittee members' approval;
- (b) fill vacancies on the Audit Subcommittee; or
- (c) make any appointments to the ad hoc committee.

Members of any ad hoc committee formed may not meet with other members of such ad hoc committee outside of the public Audit Subcommittee meetings.