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>> Councilmember Nguyen: Call the Public Safety, Finance and Strategic Support committee to order. Councilmember Constant who is the chair of this committee is not here today. So I will chair this committee. Again. And we will start with the item B, review of the work plan.

>> Norberto Duenãs: Madam Chair, members of the committee, Norberto Duenãs sitting in for Deanna Santana. From the City Manager's office. Requesting D-4 to the committee's meeting of February. And that item is the status report on asset management, key activities in 2011 work plan. You do have a staff report, it came out late and we would like to defer it for one month.

>> Councilmember Nguyen: Okay I think I find -- do we need a motion to defer that item?

>> Norberto Duenãs: Motion to defer.

>> Motion to defer.

>> Councilmember Nguyen: We have a motion and second to defer the item, all those in favor say aye. Opposed none motion carries. Move right down to item C, consent calendar.

>> Councilmember Oliverio: Motion to accept.

>> Second.

>> Councilmember Nguyen: We have a motion to accept the consent calendar. All those in favor? Opposed? Hearing none motion carries. Item D committee report, D 1, fiscal year 2009-2010 independent auditor's report. Independent auditor's report.

>> Scott Johnson: Good afternoon, Madam Chair, members of the committee, Scott Johnson, director of finance, and I'm also here with David Bullock, a partner of Macias, Gini & O'Connell. We'd like to briefly go

over the two reports in front of you today. First I have a few opening comments and then David is going to run through if two reports and explain what they are. You have the single audit report which is basically the report on all of our federal and state grants, and the compliance section related to that. And then you also have with -- what we refer to as the Public Safety, Finance and Strategic Support committee report. And this is -- includes required information from the auditor, and any significant audit findings. And one thing that I am very pleased to relate to you, if you haven't noticed in the report already, this is what's also referred to as the management letter. In my career here as finance director with the city we had one year that we didn't have any findings. This particular year the auditor nothing was raised to the level where the auditors felt that there was a finding that required them to report to the council and to the board related to our financial statements for the year ended June 30, 2010. There is one item that they do note in regards to a new accounting pronouncement that David will talk a little bit about, and with that I'll turn it over to David.

>> Thank you. Madam Chair, members of the committee, Cindy Pon couldn't make it today, she is out of town. And so I'm here filling in for her to discuss the results of our audit. And so as Scott mentioned, there are two reports that we're discussing today. The first one will be the single audit. If we can turn to the single audit, if you are interested in following along, feel free. Otherwise, you can just listen. I'm going to be very brief. And then I'll answer any questions you might have. Even though it's a thick report the single audit is basically the last 20 pages of the document. It's a complete package and includes the financial statements. But the focus is on the single audit, which is your financial compliance audit of your federal fundings. And starting on page 123, you'll find two reports with our letterhead and signature. The first report is two pages and it relates to government auditing standards during our financial audit. And the next two pages is our report on the single audit, both internal controls and compliance. You know, we are happy to report on both of those reports that there were no findings, no internal control matters that we felt were deficiencies that needed to be reported on. So basically, it was a very clean audit, and we didn't have any significant issues with the expenditure of federal funds. I also want to point out that we audited seven major programs from the city, and it's a risk-based process where we evaluate different programs each year based on the riskiness or the inherent risk associated with those programs. And in addition to the seven major programs, we look at the Airport passenger facility charges. And those are summarized, the results of the audits are summarized

on pages 141 and 142, and it basically just lists out the programs that we looked at, and it alerts you that there is an unqualified opinion on compliance, and that there were no internal control matters to be reported. And then the last thing I wanted to focus your attention on was the prior-year findings schedule which we always follow up on past findings until they are resolved. And so that starts on page 143 and 144. And I'm happy to report that all three of those findings have been corrected and no further follow-up is necessary. So pretty clean single audit.

>> Scott Johnson: Can I just add, if you want to turn to page 131, just to put this in perspective, the city, you know city staff, they do and outstanding job in seeking grants that are available to provide services to the residents and businesses of San José. So if you look at page 31, the total federal awards are almost \$278 million. We spent about \$150 million this past year. In addition to that, there was the state of California grant for \$500,000. And then if you turn to page 133, David referred to the passenger facility charges. There is another close to \$1 billion, \$974 million of passenger facility charges that are available to the city for airport-related programs. So here again, you know, again, if I just give kudos to all the various departments that you can see here on this list utilizing grants that are available to provide significant services and projects to the San José community.

>> The second document was the -- is often referred to as the management letter. And it is more than just a management letter, it's basically a summarization of the results of our audit. And so if you get past the transmittal letter, you get to page 1, not Roman numeral one, but the number 1, that's where it starts. We list out what we felt were the significant areas that were required to report to you as the oversight body during our audit. The first thing I want to point your attention to is on page 1 where we talked about accounting practices. We highlighted two areas where there is a change of consistency. Consistency is very important in accounting. It allows you to compare year after year. The city implemented two pronouncements by GASB, one was on intangible assets and probably the most significant impact would be on software and how that's accounted for and disclosed. And the second area was on derivatives. And if the city has any swaps or any other kinds of derivatives, it gives accounting guidance on how that should be reported and disclosed. So there were some changes there during the year. And it's accounted for in your 2010 financial

statements. It's the implementation of it in your 2010 financial statements. The second thing I wanted to point your attention is on page 3, there's a couple of areas where we disclose, you know, any issues that we may have had during the audit. And I always like to report that -- when it happens, that there were no disagreements or difficulties encountered during the audit. So I just like to highlight those areas, just so you can see we basically were able to complete our audit as planned. The third thing I wanted to point your attention to was about in the middle of the page where it talks about corrected and uncorrected misstatements. It is our responsibility to communicate to you when we pass on adjustments. We didn't have any material adjustments, but we did have some little changes or little corrections along the way that were not considered material to the financial statements, and we summarized those on page 8. That's on the last page there for your information, in case you wanted to see what items that we passed on. The fourth item I wanted to bring to your attention was the comment that we made in the report. Scott mentioned it was on GASB 54. It's a new reporting pronouncement by GASB that affects the classifications of fund balance and the classification of funds. And that will have a significant impact on the financial statements when you review it next year, you are going to see a big change in how fund balance is reported. And basically, probably just to summarize it, fund balance is now going to be reported to the extent in which spending constraints restrict how you can use those funds. So you're going to have various levels of fund balance which are unspendable, those might be things that you have already paid for, like prepaid or other assets that are not cash or cash equivalents that you can spend like inventory. And then you'll have restricted, committed, assigned and unassigned. So there will be various degrees of spendability, and that's how your fund balance will be presented going forward. And you'll see that in your 2011 financial statement. The other significant area is the new definition of funds. And when you go through or when staff goes through and identifies all the funds that have been created, especially in the area of special revenue funds, it may cause some recharacterization or reclassification of funds, they may actually fold up into the General Fund. As staff goes through and evaluates that you may have some significant changes next year and restatements of fund balance to show the funds in their proper places. And I just wanted to point out, you can review management's response, management is fully aware of these new requirements, has already begun the analysis and did identify one of the issues that might arise as the shortcomings with the FMS system and its ability to handle the new classifications that are required by the new pronouncement. And then finally, just

as in the single audit, we also report prior-year findings that we reported in the management letter. And that's on pages 6 and 7. And again, the city has corrected those and there will be no further follow-up on those findings. With that, I'll open it up to any questions you might have.

>> Councilmember Nguyen: Thank you very much for your presentation. I just have two quick questions. On page 12 of the single audit report it states that the unreserved fund balance for the general fund is \$460.7 million and it's available for spending at the City's discretion. I guess my question is, is this a pretty average number that we have left at the end of every year?

>> Yeah, that's a very -- it's a good question, very difficult question to answer, because every government is different. And, you know, from, you know -- some governments have reserves in their General Fund that they don't separate out. For instance, general liability and workers comp programs and internal cert funds. So there may be more fund balance in the General Fund because it just has more assets associated with that. So it's a very -- that's the kind of example that is very hard to kind of compare, just a fund balance number. Scott, you want to add to that?

>> Scott Johnson: Yes, Madam Chair, I think it's important to clarify something on page 12. First we -- you know, after we made the presentation, because this basically is the basic financial statements from the CAFR that we presented to the council a couple of months ago, and that issue came up with the mayor. This -- this number is not just the General Fund number. This is all governmental funds so it includes all of our capital project funds, all of our debt service funds, special revenue funds, and the General Fund. And this is looking at the fund at the government-wide level, looking at all governmental funds, and what that number represents. In addition, based on the discussion at the council meeting the mayor did want us to clarify that the council does not have discretion. What we clarified and we made changes to the CAFR and were changing out those pages of the CAFR is that we -- council has discretion, based on legal limitations. So some of the funds we're limited on how we can spend those, those funds. But I just want to clarify, this is not just the General Fund. The General Fund fund balance is much smaller than that. And this is in the -- you can see that in the section.

>> Councilmember Nguyen: That's good, that's a clarification that I wanted, that's what I believed to be more accurate. And then the other question I had was on page 18, it talks about the Police and Fire department's retirement plan, we're funded at 86.7% while the Federated fund was funded at 70.7%. Now with the direction that we're going we're trying to fund this at 100%, eventually so that's the direction that we're going, is that correct?

>> Scott Johnson: That's correct. And I just to reiterate, it was only a couple years ago that we were close to 100% funded for Police and Fire. And now because of the changes in the actual evaluation, you know we're at this level. And clearly this will be a great interest and discussion and topic on the 25th when council talks about you know pension reform and what our current trends are in regards to our existing retirement plans.

>> Councilmember Nguyen: Great, thank you Scott. Other questions? Councilmember Oliverio.

>> Councilmember Oliverio: Scott I want to thank you and your department. Obviously it's a team effort to put out good fiscal work and obviously no findings from the auditor, this means you're running a tight team so thank you.

>> Scott Johnson: Thank you.

>> Councilmember Oliverio: Then to the auditor, do you ever find in these audits you do of cities that cities decide to spend money, what, not as its intended purpose from the grantee or spending money that is legally restricted on other things?

>> Not often, but it happens. A lot of times internal controls are not there to, you know, keep things in their proper categories. And you might find that, you know, the government may try and use those funds to pay for other similar charges. But it's pretty rare. But it does happen. There's all kinds of different compliance

issues that come up, and it's not just the spending of funds, but you know maybe trying to inflate the indirect costs to cover more costs of the General Fund and so forth. And we've seen areas where there might be some aggressive interpretations of how those funds may be used.

>> Councilmember Oliverio: What is the penalty on aggressive interpretation or just simply spending money for another purpose that the money wasn't intended, that, ooh, whoops or is it --

>> Yeah, there's two different things. If it is just an inappropriate cost, or not a reimbursable cost, then we are required to report that, and those funds should be returned to the granting agency. If it's something that's kind of in a gray area and they're kind of aggressive, we're required to report abuse in addition to noncompliance. And so if there are areas that we feel are very questionable, or there's questioned cost, we can't come to the same interpretation and want the granting agency to understand it, and they can make that determination, then report that as a questioned cost. There are a couple of different avenues that we can report those findings.

>> Councilmember Oliverio: The abuse is just to the granting agency. So if it's a state department or a federal department, you go and say hey, this is what we found, and then that agency will decide whatever type of penalty should happen, whether it's no longer --

>> Whether they want to work with the agency to maybe improve their controls and improve what their understanding or to say hey, you know, return those funds, that wasn't an appropriate use.

>> Councilmember Oliverio: Got it.

>> Scott Johnson: Councilmember I just want to add to that. Because after -- now that the report is out and produced we will be distributing it to all the granting agencies. If that situation did occur, which it hasn't to my knowledge since I've been here anyway, any findings that the auditors find, the granting agency will follow with us and we'll have to develop a corrective action plan and work with them on the corrective action plan. It

could require additional due diligence review by that granting agency, they'll come out and specifically look in more detail in regards to those programs. That's -- that's in those type of severe cases when you find those type of inappropriate activities occurring.

>> Councilmember Oliverio: Sure and I ask because there's always this idea that the city has money, when it's legally restricted and you sort of say it again but people don't buy it. They keep saying no, you can spend it, no I can't. I want to have that conversation out in the open. On the FMS system, so if there's a new requirement that's required of you, is it creating a category or field in FMS to track it, or what is it?

>> Scott Johnson: Obviously we have had our system for about 20 years. It would be nice to have an updated system, so that it's easier to comply with all these GASBs as we're implementing them. There is basically situations with these two GASBs, one is the whole recategorization of funds. That's something that I think we can handle because we do have a fund structure. But now there's a whole different levels of fund balance. First we're going to have to go back to the council, through the budget process, on our fund balance policy and our reserve policy, and secondly, we're going to have to -- we're currently in the process of assessing our FMS system to see if it will -- if it will accommodate the changes in regards to the fund balance structure as the new GASB is implemented in this current fiscal year.

>> Councilmember Oliverio: So I would imagine there are other GASB requirements that you are managing manually out of FMS today?

>> Scott Johnson: Yes.

>> Councilmember Oliverio: If you are unable to manage it in FMS, you will just manage this other item manually, may not be efficient, but it is what you'll have to do.

>> Scott Johnson: Right. You recall, GASB 34 was the most significant change in the last 10 years in regards to the format and how we have to report. One of the things that we had to do, for example, was we

had to start booking our infrastructure, all streets, we had to do an assessment, work with engineers, do that assessment of all the streets, all of our infrastructure, what is the value for that and booking that. And we have kind of a one-off system that then is integrated with FMS in order to facilitate that accounting and reporting when they do infrastructure accounting to get it into our CAFR, into our general ledger for FMS.

>> Councilmember Oliverio: Then I know the wish list of finance is to have a new financial system, and then we know it's going to cost \$25 million.

>> Scott Johnson: Right.

>> Councilmember Oliverio: But when you see these things, they come out, and part of the pitch is, hey, and I'm completely GASB, whatever you want it to be, and look how easier your life will be, and then that's sort of where you sort of dream at night?

>> Scott Johnson: Pretty much.

>> Councilmember Oliverio: Okay, I appreciate it, thanks.

>> Scott Johnson: But to your point, I'm sorry, we have -- we're trying to be as creative as possible as we talk in our response to this finding. Or really it's more of an observation and a heads-up, you know, there's new GASBs, and we're going to have to implement them, and we have a financial management system that's pretty much outdated. Our approach has been, we're trying to work with our means and what we have, the systems that we have in place. If we need to make some modification or have some off system, then we try to do that. And we definitely recognize the budget challenges that we're facing, and the fact that we don't have 20, \$25 million sitting around to spend on a new financial management system. And we're working with our CIO and his team on other options, you know, moving forward for long term, because we know we're not going to continue to be able to continue to utilize this system in the long term.

>> Councilmember Oliverio: I think then you'll have to remind the council the imperativeness of if the FMS were to break down, what kind of chaos that might cause. I mean, and you may have to be with the council as a budget item decides to allocate X amount for a period of years until we can actually get up to that level to replace. But I don't see it coming in the next couple of years to get anywhere near that amount of money. Thank you.

>> Scott Johnson: Thank you.

>> Councilmember Nguyen: No one else? Okay. Do you have anyone who wish to speak on this item? Okay.

>> Councilmember Oliverio: Motion to accept the report.

>> Councilmember Chu: Second.

>> Councilmember Nguyen: Motion and second to accept the report.

>> Councilmember Oliverio: Does this need to be cross referenced?

>> Norberto Duenãs: Scott, does this need to be cross referenced on the council agenda or --

>> Scott Johnson: Just on consent calendar would be fine. And can I also -- I just want to acknowledge a couple of staff. Inder Dillon, if you can raise your hand. Inder is a principal accountant. She has been responsible for coordinating all the audits that we have. She's done a fantastic job. And Belinda Salvetti. And also, I really want to acknowledge Sharon Erickson. This past year, you know, we had a transition, we went through an RFP, we had a lot of new requirements and working with the Redevelopment Agency and the retirement department on a number of different issues. She was real key in working with us to make sure we could bring these reports forward to the council. So thank you, Sharon, and your staff.

>> Councilmember Nguyen: Thank you, Scott, I appreciate you acknowledging staff work. Thank you very much for the hard work. Our appreciation and thanks go to our superstar auditor for your wonderful work and also for your team's efforts. With that I believe we have a motion and second to accept the report. All those in favor, opposed, hearing none motion carries.

>> Scott Johnson: Thank you.

>> Councilmember Nguyen: We'll move right down to item D 2. Police department's report on operations and performance.

>> Good afternoon, Madam Chair, Dave Cavallaro, Deputy Chief of Police. Bureau of Field Operations. Lieutenant James Randall, from our special operations, commander of the metro unit, and Captain Jeff Smith, also of the of the special operations division.

>> Good afternoon, councilmembers. This presentation is to provide you an update on the police department's administrative reorganization. And it's a follow-up from our November meeting, this year, last year, excuse me. Effective September 2010 shift change, the Vset unit merged in with the metro unit. We still are called the metro unit. The reorganization was necessary for the police department, to implement changes based on council direction in the fiscal year 2010-2011 adopted budget. The new metro unit continues to focus on the primary mission and responsibilities of the former VSET unit which focused on gang enforcement and suppression. Metro also continues to focus on efforts on some midlevel narcotics enforcement with emphasis on cases that involve gang members. As a reminder, the new metro unit consists of four enforcement teams, one lieutenant, comprised of 32 officers and four enforcement sergeants. We have one training sergeant and one intelligence position. The reorganization of special rations was implemented in an evident to fully staff patrol beats and maintain response time to priority calls. The changes allow the department to focus limited resources to priority services such as calls for service, gang enforcement, critical response and narcotics enforcement. The officers and sergeant in the

metro unit have adapted well to their new assignment as gang enforcement and suppression officers. Our gang enforcements are up this quarter compared to what Vset and metro unit reported during the first quarter of fiscal year '10-11. On the other hand as predicted time spent investigating hot line narcotic hot line tips are down due to gang and narcotic enforcement efforts and unit CRT training. At November committee meeting the police department reported data from September 19th, 2010 to October 26th, 2010. From October 27th, 2010 to December 20th last year there has been the following increases and they're up on the screen for you to look at. The 69 additional gang related arrests for a total of 119, 99 additional gang related searches for a total of 192. 34 additional and narcotic arrests for a total of 80 and 44 additional narcotic related searches which includes search warrants for a total of 140. Next slide Jeff. The new metro unit has assumed additional responsibilities at collateral response team members. We routinely provide assistance and expertise whenever and wherever gang activity is occurring in the city. Additionally since metro officers are highly trained in investigation, surveillance and entry tactics we're often called upon by the bureau of investigations and patrol division to assist in the apprehension of wanted suspects. The patrol department has decided to track hot line calls and the number of tip line calls investigated instead of the hours involved. That's why you see a change on the numbers since the last report. We were previously counting hours per officer, and now we're just doing it by event. Since the November report on the new metro unit performance measures we have tracked the following information, an additional 707 hours of strange for a total of 1640, 17 additional CRT callouts, which is basically assisting our merge unit in high risk search warrants. 15 additional B of I assists for a total of 15, and 64 additional bureau of field operation assists for a total of 71 assists. Next steps. We will provide an update on metro unit performance measures to this committee again in March and in May. We will continue to evaluate the reorganization efforts and make changes if necessary at the March 2011 shift changes. If any changes are to be made at the March shift change they will be included to the update to this committee in March. However we are also continuing to work with the City Manager's office and the office of the City Auditor to evaluate recommendations made in the management audit. Any recommended changes will be implemented in the context of the upcoming budget reductions with the goal of ensuring as many officers as available for staff patrol. That includes my presentation. If you have any questions, I'd be happy to answer them.

>> Councilmember Nguyen: Kathleen, can you go back to I think it's slide number 2. Yes, this one. I was just putting up the number the actual target number for 2009-2010 under gang related he searches. Why is there such a gap between the actual number and the target number?

>> We had to come up with a number that's when Vset was alone and operating independently, now that we've merged the units, we don't know yet what we're going to be doing, since we're doing collateral response team, we're doing narcotic enforcement. So that number could change in the years to come but we just picked that number basically arbitrarily.

>> Councilmember Nguyen: Now that the two units have merged the number will probably be higher?

>> We hope to see that, yes.

>> Councilmember Nguyen: Okay, that's really all I have. Questions from committee members? Is there a motion?

>> Councilmember Oliverio: Motion to accept the report.

>> Councilmember Chu: Second.

>> Councilmember Nguyen: We have a motion and second to accept the report. All those in favor? Opposed, hearing none motion carries. Thank you. Okay. We will move down to our last item, item 3, the monthly report of activities for December 2010.

>> Sharon Erickson: Good afternoon. Beginning this month we're going to be -- I'm going to be presenting an auditor's monthly report to the public safety committee, instead of separately to the rules committee. Since most of our reports come to the Public Safety committee, it just seemed appropriate and the new chair recommended that we do it that way. So having said that, some of you also -- all of are on the

Rules Committee so this is feeling very similar. So you've been through this many times before. So let me go first through audit reports that we issued in the month of December. We issued of course the CAFRs and the different financial reports. Just for your information those reports either have been presented to the city council to the relevant committees and they are all posted on our Website as well. We also issued the audit that was just mentioned, the audit of the police department staffing. That was presented at your last meeting in December. It's scheduled now, it's been deferred and it will be scheduled for the council meeting February 1st. And then, third, I wanted to point out that we're also completing with -- Macias, Gini & O'Connell is completing the annual audit to the bond of parcel tax measures. Those audits are going very well. We presented the parcel tax and library bond audits to the library citizens oversight committee in January and I believe it was in -- yes it was in January. And then last night, we presented the park citizen oversight committee with their report. Those will be coming forward to the city council in March, they're expected to go forward as a package from the citizen oversight committees in March. Just to remind you, those reports detail expenditures to date in the voter approved measures. And they include detail of all expenditures to date. So in the ten years that those programs have been in place and also a statement of compliance with the ballot measure. Finally, just other activities during the month of December, one thing I wanted to point out is we did another presentation of the pension sustainability audit. This time out at the central service yard. I think employees are just really grateful that they're shown the respect of hearing the story and the facts of the case, impartially and objectively. And those are going well. We just did another one for Department of Transportation senior staff the other day. Employees of course are very concerned, and my main message to them is: I'm sorry but this is something you really have to pay attention to. Then, assignments in progress, we issued the service efforts and accomplishments report, you heard that January 11th. We continue to work on our disability retirement report. We're getting close to drafting a report, in that case. We're working on personnel cost. And then audit of personnel costs. And then I did want to point out, we are initiating several new audits. Including housing programs, the annual scan of the community based organizations, Santa Clara cities association, supplemental military pay calculations, recovery act funding and then, the audit recommendation status report. Some of those are larger projects. Some are small and we'll be bringing those to you as we have results. With that I'm happy to answer any questions.

>> Councilmember Nguyen: Thank you, Sharon. I don't really have any questions. Any questions? Okay, great report! Thank you very much. So this is just a verbal report, we don't need to make a motion to approve anything like that, right? (inaudible).

>> Sharon Erickson: Yes. Yes, so if you could accept --

>> Councilmember Oliverio: Motion to accept the report.

>> Sharon Erickson: But it doesn't need to be cross referenced.

>> Councilmember Nguyen: Okay, we have a motion and second to accept the report, all those in favor? Opposed, none, motion carries. Thank you. And we are down to open forum. Anybody wish to address the committee on anything we haven't talked about? Okay, meeting adjourned. Thank you.