

December 12, 2023

City of Palo Alto

Office of the City Auditor

Wastewater Treatment Plant Agreement Audit

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Executive Summary

Purpose of the Audit

Baker Tilly US, LLP (Baker Tilly), in its capacity serving as the Office of the City Auditor (OCA) for the City of Palo Alto (the City), conducted a Wastewater Treatment Plant Agreement Audit based on the approved [Task Order 4.15](#). The objectives of this review were to:

- 1) Determine whether adequate controls are in place and working effectively to ensure that costs related to the wastewater treatment plant are properly accounted for and allocated.
- 2) Determine whether adequate controls are in place and working effectively to ensure the compliance with contracts and regulations.

Report Highlights

Finding 1: Invoice and Payment Due Dates

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The OCA judgmentally selected eight invoices from the FY21 and FY22 quarterly/annual invoices sent to five partner agencies to include diverse samples and reconciled the invoices and supporting documents as well as the payment information against the billing and payment requirements in the agreements. Six invoices were sent to the partner agencies eight days to two and a half months late, and one payment was received more than 100 days late due to incomplete supporting documents sent to the partner agency.

Each agreement with a partner agency includes billing and payment requirements as summarized in Table 1 in the Detailed Analysis section. The languages and requirements differ among the Regional Water Quality Control Plant (RWQCP) agreements, especially for amendments including additional capital project costs. The variety and inconsistency of billing and payment requirements among multiple agreements may cause the agencies to be susceptible to noncompliance, errors, slower cash inflows, and inefficiency.

Key Recommendations

The City's management should evaluate all billing and payment requirements in the existing contracts to determine whether there is any reason preventing the agencies from making the requirements and language in the RWQCP contracts more consistent. . If there is no reason, management should standardize billing and payment requirements for all RWQCP contracts in order to improve the efficiency of billing and monitoring of payments and ensure compliance with the requirements.

Additionally, the City's management should formalize the internal controls and processes to ensure timely submission of invoices with adequate supporting documents and partner agencies' compliance with payment requirements.

Finding 2: Industrial Waste Surveys

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The City has the Industrial Waste Pretreatment Program (IWPP) in which the City's staff members perform permitting, monitoring, and enforcing Industrial Waste Discharge Permits for the entire RWQCP service area (except for the City of Mountain View operating portion of the IWPP). The agreements require the partner agencies to update the industrial waste survey (IWS) and provide the update annually to the City. However, the City currently does not receive the surveys. The surveys are updated informally by discussing new facilities during quarterly coordination meetings or receiving e-mail

updates on auto and dental facility lists. For some partner agencies, the IWS is not routinely requested or required in the agreement. As the City's RWQCP management meets with partner agencies periodically to discuss the IWS-related items, this process is being used in place of requiring formal IWS updates from each partner agency.

Without submitting annual IWS updates to the City, the partner agencies are non-compliant with this requirement in the agreements.

Key Recommendations

The City's Public Works management should obtain the necessary IWS updates from all partner agencies to ensure compliance with pretreatment laws, regulations, and discharge permits until the contracts are amended. Management should evaluate the adequacy of the current informal survey update practice for effective administration and operation of the IWPP and either enforce the current agreement requirements or amend the language in the contract as necessary to refine the partner agencies' responsibilities.

Finding 3: Compliance Monitoring (Page 10)

The OCA noted that the timeliness of payments from the partner agencies is not being monitored even though some contracts include a delinquent payment clause that requires interest to be accrued on the unpaid balance. For other requirements in contracts, individual requirements are monitored and performed by different individuals. However, there are currently no policies and procedures to formalize the compliance monitoring processes for RWQCP contracts and no centralized monitoring mechanism to ensure all contract requirements are executed as intended.

As listed in the Scope section of this report, RWQCP has 39 contracts and amendments with several partner agencies. Keeping track of agreement requirements and monitoring compliance with them are necessary for successful construction, operation, and maintenance of RWQCP due to various reasons such as:

- The billing and payment requirements differing among agreements and vary based on the type of costs.
- An addendum being added for a new project with different debt service billing and payment requirements.
- Compliance with regulations and permits that is essential to carry out RWQCP's mission.
- Cost allocation depending on capacity rights, certain cost and wastewater data, debt service schedules, and other allocation methods that are described and updated in the contracts for each type of cost and revenue.

It is important to identify compliance issues and resolve them in a timely manner. Without policies and procedures and a formal monitoring mechanism, the City cannot ensure that all contract requirements are met to successfully construct, operate, and maintain RWQCP or collect interest penalties that are due to the City.

Key Recommendations

The City's management should establish RWQCP policies and procedures to implement a formal monitoring mechanism that will ensure contract requirements are met. Roles and responsibilities and the expectations of various City departments should be clearly defined.

When an issue or a potential issue is identified, appropriate actions should be taken in a timely manner. The policies and procedures should provide guidelines for appropriate actions such as communication/escalation and contract amendments.

Introduction

Objective

The objectives of this review were to:

- 1) Determine whether adequate controls are in place and working effectively to ensure that costs related to the wastewater treatment plant are properly accounted for and allocated.
- 2) Determine whether adequate controls are in place and working effectively to ensure the compliance with contracts and regulations.

Background

The “Basic Agreement Between the City of Palo Alto, the City of Mountain View and the City of Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System” (Basic Agreement) was executed in 1968. As the City of Palo Alto (the City) is the owner of the joint sewer system and the Administrator of the Basic Agreement, its Public Works department is responsible for operations and capital projects of the Regional Water Quality Control Plant (RWQCP) that treats wastewater before it is discharged to San Francisco Bay. The Basic Agreement has been amended in the following years, which included the Addendum No. Eight to the Basic Agreement that extended the contract term to December 31, 2060.

These three communities are entitled to use the proportion of the capacity of the joint sewer system based on the capacity rights defined in the contracts. The costs of acquisition, construction, maintenance, and operations as well as revenue from services and sales are shared in proportion as specifically described for each cost category and each project in the contracts.

The City also entered into separate agreements with the East Palo Alto Sanitary District, the Town of Los Altos Hills, and Stanford to share the City’s proportionate share of the cost and use. The costs of operating and maintenance and major capital improvement projects are paid by each community based on allocation formula and schedules described in the contracts.

As the Administrator of the Basic Agreement as well as three separate agreements, the City sends bills to the five communities noted above in advance on a quarterly basis. The billing amount is based on the estimated annual costs of the operation and maintenance. The City adjusts one of the quarterly bills in the subsequent year to offset the difference between the billed amounts and actual costs.

The Basic Agreement requires that the City’s independent auditor conduct an audit of the RWQCP financial statements each year to express an opinion on the fair presentation of the net expenditures and quarterly billings in accordance with the financial reporting provisions of the Basic Agreement. The audited RWQCP Financial Statements for the year ended June 30, 2022¹, shows the following percentages used to allocate costs and revenues:

¹ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/finance-committee/2022/20221129/20221129pfscsm-linked.pdf>

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Maintenance and Operation Costs & Joint System Revenue		
City of Mountain View		40.22%
City of Los Altos		11.58%
City of Palo Alto	32.37%	48.20%
East Palo Alto Sanitary District	7.29%	
Stanford University	6.19%	
Town of Los Altos Hills	<u>2.35%</u>	

Source: Note 2 - Summary of Significant Accounting Policies
City of Palo Alto Regional Water Quality Control Plant
Independent Auditor's Report and Financial Statements
For the Year Ended June 30, 2022

The agreements and subsequent amendments include the following to be used for allocation of the costs of capital improvement projects:

Debt Services Expenditures		
City of Mountain View		37.89%
City of Los Altos		9.47%
City of Palo Alto	38.16%	52.64%
East Palo Alto Sanitary District	7.64%	
Stanford University	5.26%	
Town of Los Altos Hills	<u>1.58%</u>	

This table does not apply to the Refunding 1990 Series A Bonds

Source: EXHIBIT H - Annual Average Flow Capacity Rights
Second Restated and Amended Agreement Between the City of Palo Alto and the East Palo Alto Sanitary District for Wastewater Treatment and District Outfall

Scope

The OCA reviewed the following 39 RWQCP contracts and amendments the City manages:

- Basic Agreement, Supplementals, and subsequent Addendums No. One through No. Ten
- First Amended and Restated Contract No. C059999 Between the City of Palo Alto and the City of Mountain View for Implementation and Operation of the SWRCB Water Recycling Project (June 18, 2007) and subsequent Amendment No. 1
- Agreement Between the City of Palo Alto and the Town of Los Altos Hills for Sewage Transportation, Treatment and Disposal (March 18, 1968) and subsequent Amendments No. 1 through No. 7
- Contract No. C869 Between the City of Palo Alto and the Board of Trustees of the Leland Stanford Junior University (November 30, 1956) and subsequent Amendments No. One through No. Seven
- Second Amended and Restated Agreement Between the City of Palo Alto and the East Palo Alto Sanitary District for Wastewater Treatment and District Outfall (May 17, 2021)

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- Partnership Agreement to Advance Resilient Water Reuse Programs in Santa Clara County between the City of Palo Alto, the City of Mountain View, and the Santa Clara Valley Water District (Valley Water Agreement) (December 10, 2019)
- Effluent Transfer Agreement Between the City of Palo Alto and City of Los Altos (June 7, 2021)

The OCA reviewed the transactions and documents in our audit period (from July 1, 2020, to May 30, 2022) for control testing.

Methodology

To achieve the audit objectives, the OCA performed the following procedures:

- Interviewed the appropriate City employees to understand the roles and responsibilities and processes related to the contract administration.
- Reviewed the contracts to identify the contract requirements to be tested for the City's compliance monitoring activities.
- Reviewed the documents (such as supporting documents for billing, reports, and meeting minutes) showing cost allocations and compliance monitoring activities.

Compliance Statement

This audit activity was conducted from June 2022 to October 2022 in accordance with generally accepted government auditing standards, except for the requirement of an external peer review². Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Organizational Strengths

During this audit activity, we observed that invoices to partner agencies are itemized and accompanied by cost allocation calculations based on a flow report and schedules, which makes it easier for each partner agency to confirm the rates.

The Office of the City Auditor greatly appreciates the support of the Public Works Department and Administrative Services Department in conducting this audit activity.

Thank you!

² Government auditing standards require an external peer review at least once every three (3) years. The last peer review of the Palo Alto Office of the City Auditor was conducted in 2017. The Palo Alto City Council approved a contract from October 2020 through June 2022 with Baker Tilly US, LLP (Baker Tilly) and appointed Kyle O'Rourke, Senior Consulting Manager in Baker Tilly's Public Sector practice, as City Auditor. Given the transition in the City Audit office, a peer review was not conducted in 2020 and will be conducted after the third year of Baker Tilly's contract.

Detailed Analysis

RWQCP Contracts

The Basic Agreement was originally signed in October 1968 and has been amended 10 times (as of June 2022). It requires that the City act as the Administrator to administer the contract.

The significant sections of the Basic Agreement include:

- Design, ownership, and capacity rights of the joint system
- Acquisition and construction of the joint system
- Sharing of the costs of acquisition and construction, reconstruction, and maintenance and operation
- Payment of the costs
- Revenue from services and sales of wastewater for reuse

The Supplementals to the Basic Agreement and separate agreements with other partner agencies include the requirements pertaining to:

- Pretreatment program to comply with federal, state, or local regulations and applicable discharge permits
- Capital projects and financing (The major projects planned are listed in [Appendix A](#).) The audited RWQCP Financial Statements for the year ended June 30, 2022¹, lists the following bonds and loans financing RWQCP capital projects:
 - 1999 Utility Revenue Refunding Bonds (1999 Wastewater Treatment New Project & Refunding of 1990 Series A Bonds)
 - 2009 State Water Resource Loan
 - 2017 State Water Resource Loan

The OCA reviewed the requirements in 39 RWQCP agreements and amendments within the audit scope (see the Scope section of this report) and summarized the various requirements related to billings and payments in Table 1 in the following page.

Power and Duties of the Administrator*

- a) Supervise and administer the contract between the parties for the operation and maintenance of the Joint System.
- b) Maintain and operate the Joint System and preserve it in good repair and working order, all in accordance with recognized sound engineering practice.
- c) Maintain records of all revenues and expenditures incurred in connection with operation and maintenance of the Joint System. The accounting system shall be based on "Uniform System of Accounts for Waste Water Utilities" as published by the Water Pollution Control Federation.
- d) Arrange for an independent annual audit of the accounts of the Joint System.
- e) Measure and keep accurate records of the measurements of sewage flow.

*** Paragraph 11, "Basic Agreement Between the City of Palo Alto, the City of Mountain View and the City of Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System" executed October 10, 1968**

DETAILED ANALYSIS

Table 1: Requirements for Billing and Payments

Partner Agency	Contract Requirements					
	Bill Amount	Billing Due Date	Payment Due De	Ture-up* Billing (*Offset of the difference between the billed amounts and actual costs	Interest on the excess/deficit payments over/under actual costs	Interest on delinquent payments
City of Mountain View	One-fourth of proportionate share of the cost of maintenance and operation as estimated by February 15th	July October (debt payment) January April (debt payment) [Dates are not specified]	<u>Maintenance and Operation</u> • August 15 • November 15 • February 14 • May 15 <u>Project Costs</u> • 30 business days of receipt of the quarterly billing statement • 10 business days of receipt of the quarterly billing statement for Ultra-Violet Treatment Project	October	Yes	No
City of Los Altos	One-fourth of proportionate share of the cost of maintenance and operation as estimated by February 15th	July October (debt payment) January April (debt payment) [Dates are not specified]	<u>Maintenance and Operation</u> • August 15 • November 15 • February 15 • May 15 <u>Project Costs</u> • 30 business days of receipt of a quarterly billing statement • 10 business days of receipt of a quarterly billing statement for Ultra-Violet Treatment Project	October	Yes	No
East Palo Alto Sanitary District	One-fourth of proportionate share of the cost of maintenance and operation as estimated by July 1	July 31 October 31 January 31 May 1 [“Not later than thirty (30) days after July 1, October 1, January 1, and April 1, of each year”]	<u>Maintenance and Operation</u> Later of: • August 15 /November 15 /February 15 /May 16, or • 25 business days of receipt of a quarterly billing statement <u>Project Costs</u> • 30 business days of receipt of a quarterly billing statement • 10 business days of receipt of the quarterly billing statement for Ultraviolet Disinfection Facility Project	• October to reflect the actual costs for immediately prior fiscal year • April to reflect the estimated costs to be incurred between April 1 and July adjusted the actual costs for the first three quarters of fiscal year prior to April 1	Yes	Yes
Stanford University	Based on the schedule of payments	August 1st	<u>Bond</u> • December 1 <u>Project Costs</u> • 30 business days of receipt of an annual billing statement for Ultra-Violet Treatment Project and Outfall Project and the Primary Sedimentation Tank Rehabilitation Project • 10 business days of receipt of an annual billing statement	Upon completion of the project and certification of the costs	No	Yes
Town of Los Altos Hills	Based on the schedule of payments	August 1st	<u>Bond</u> • December 1 <u>Project Costs</u> • 30 business days of receipt of an annual billing statement for Ultra-Violet Treatment Project and Outfall Project and the Primary Sedimentation Tank Rehabilitation Project • 10 business days of receipt of an annual billing statement	Upon completion of the project and certification of the costs	No	Yes

Audit Results

Finding 1: Invoice and Payment Due Dates

The City sends invoices on a quarterly basis to three partner agencies (City of Mountain View, City of Los Altos, and the East Palo Alto Sanitary District) and on an annual basis to two partner agencies (Stanford University and Town of Los Altos Hills). Out of 26 invoices the City sent to these five partner agencies, The OCA judgmentally selected eight invoices to include at least one invoice prepared for each quarter in our audit period and at least one invoice for each partner agency and reviewed the invoices and supporting documents as well as the payment information against the billing and payment requirements in the agreements.

The review of eight invoices revealed the following:

- Two invoices that are required to be sent annually on or before August 1st were dated October 15, 2021, and October 16, 2022, respectively.
- Two quarterly invoices were sent in January and another two quarterly invoices were sent in July as required by the Basic Agreement. However, they were dated about eight to nineteen days later than management's intended invoice dates, January 1st and July 1st respectively. The agreements require payments by February 14th and August 15th for a January invoice and a July invoice, respectively.
- One payment that was required to be deposited by August 15th was received on October 28th, which was over 100 days late due to incomplete supporting documents sent to the partner agency.

Each agreement with a partner agency includes billing and payment requirements as summarized in Table 1 in the Detailed Analysis section. The languages and requirements differ among RWQCP's agreements, especially for amendments including additional capital project costs. Some agreements require a payment within 30 business days of receipt of an invoice while others require a payment within 10 business days. Billing due dates also differ among the agreements. Billing for three partner agencies is due quarterly in January, April, July, and October while billing for two partner agencies is due once a year in August.

The variety and inconsistency of billing and payment requirements among multiple agreements may cause the agencies to be susceptible to noncompliance, errors, slower cash inflows, and inefficiency.

Recommendation The City's management should evaluate all billing and payment requirements in the existing contracts to determine whether there is any reason preventing the agencies from making the requirements and language in the RWQCP contracts more consistent. If there is no reason, management should standardize billing and payment requirements for all RWQCP contracts in order to improve the efficiency of billing and monitoring of payments and ensure compliance with the requirements.

Additionally, the City's management should formalize the internal controls and processes to ensure timely submission of invoices with adequate supporting documents and partner agencies' compliance with payment requirements.

Management Response

Responsible Department(s): Public Works Department; Administrative Services Department

Concurrence: Agree

Target Date: July 25, 2025

Action Plan:

The City agrees that it would be beneficial to make billing practices consistent between agencies. The City has made changes to improve the clarity of quarterly and annual bills by including the due date and potential late fees. The City will modify existing partner agreements as other updates are made to clarify the billing frequency and ensure standardization amongst all the partners, with a target date of July 2025 based on current capital project schedules.

Finding 2: Industrial Waste Surveys

The City has the Industrial Waste Pretreatment Program (IWPP) in which the City's staff members perform permitting, monitoring, and enforcing Industrial Waste Discharge Permits for the entire RWQCP service area (except for the City of Mountain View operating portion of the IWPP). The contracts with partner agencies describe the Sewer Use Ordinance that is as stringent as the Federal Pretreatment Regulations and enforced via permits. The costs of the program are shared among the partner agencies and included in their quarterly or annual invoices.

The contracts require the partner agencies to update the industrial waste survey (IWS) and provide the update annually to the City. However, the City currently does not receive the surveys. The RWQCP management explains that the City does not have all FY21 survey updates because the Pretreatment Program Manager in the beginning of FY21 who would have requested and received the survey updates via email is no longer employed by the City. Currently, the surveys are updated informally as follows:

- For two partner agencies, new facilities are discussed during quarterly coordination meetings.
- For one partner agency, e-mail updates on auto and dental facility lists are received.
- For one partner agency, the IWS is not currently routinely requested although the staff is working on improving the practice.
- One partner agency is not required to update the IWS in the agreement.

As the City's RWQCP management meets with partner agencies periodically to discuss the IWS-related items, this process is being used in place of requiring formal IWS updates from each partner agency.

Without submitting annual IWS updates to the City, the partner agencies are non-compliant with this requirement in the agreements.

Recommendation The City's Public Works management should obtain the necessary IWS updates from all partner agencies to ensure compliance with pretreatment laws, regulations, and discharge permits until the contracts are amended. Management should evaluate the adequacy of the current informal survey update practice for effective administration and operation of the IWPP and either enforce the current agreement requirements or amend the language in the contract as necessary to refine the partner agencies' responsibilities.

Management Response

Responsible Department(s): Public Works Department

Concurrence: Agree

Target Date: September 2024

Action Plan:

The City agrees that the City should obtain necessary Industrial Waste Survey updates from all partner agencies in a more formalized way. Starting in FY25, the City will send out formal requests to all Partner Agencies to review and approve/edit the Industrial Waste Surveys for their jurisdictions.

This requirement will be evaluated for any needed revisions whenever as the Partner Agreements are reopened for other reasons.

Finding 3: Compliance Monitoring

The OCA noted that the timeliness of payments from the partner agencies is not being monitored even though some contracts include a delinquent payment clause that requires interest to be accrued on the unpaid balance. For other requirements in contracts, individual requirements are monitored and performed by different individuals. However, there are currently no policies and procedures to formalize the compliance monitoring processes for RWQCP contracts and no centralized monitoring mechanism to ensure all contract requirements are executed as intended.

The RWQCP operations, finances, and staff (over 55 staff members) are overseen by the Water Quality Control Plant Manager in the Water Quality Control Plant group of the City's Public Works Department who also works with the Industrial Waste Pretreatment Program (IWPP) staff members and the accounting team of the Administrative Services Department.

As listed in the Scope section of this report, RWQCP has 39 contracts and amendments with several partner agencies. Keeping track of agreement requirements and monitoring compliance with them are necessary for successful construction, operation, and maintenance of RWQCP due to the following:

- Some contracts are old and have multiple amendments.

- The billing and payment requirements differ among agreements and vary based on the type of costs.
- An addendum continues to be added for a new project with different debt service billing and payment requirements.
- Compliance with regulations and permits as described in the agreements is essential to carry out RWQCP's mission³.
- Cost allocation depends on capacity rights, certain cost and wastewater data, debt service schedules, and other allocation methods described and updated in the agreements for each type of costs and revenue.

It is important to identify compliance issues and resolve them in a timely manner. Without policies and procedure and a formal monitoring mechanism, the City cannot ensure that all contract requirements are met to successfully construct, operate, and maintain RWQCP or collect interest penalties that are due to the City.

Recommendation

The City's management should establish RWQCP policies and procedures to implement a formal monitoring mechanism that will ensure contract requirements are met. Roles and responsibilities of various City departments, functions, and employees and the expectations should be clearly defined.

To implement a monitoring mechanism, the City's Public Works management should assign specific requirements to be monitored or performed to the appropriate staff members or teams, if necessary, and have an individual responsible for overall compliance verify compliance with all requirements periodically.

When an issue or a potential issue is identified, appropriate actions should be taken in a timely manner. The policies and procedures should provide guidelines for appropriate actions such as communication/escalation and contract amendments.

Management Response

Responsible Department(s): Public Works Department

Concurrence: Agree

Target Date: December 31, 2023

Action Plan:

The City has drafted an internal Standard Operating Procedure to formally monitor tracking and receipt of payments from partner agencies and will complete reviews and distribution.

³ "The mission of the Regional Water Quality Control Plant (RWQCP) is to protect San Francisco Bay by cleaning and treating wastewater before it is discharged to San Francisco Bay." <https://cleanbay.org/our-programs/regional-water-quality-control-plant/#RWQCP>

Appendices

Appendix A: Summary of FY23-FY27 Capital Budget in Wastewater Treatment Fund

According to the City of Palo Alto Fiscal Year 2023 Adopted Capital Budget⁴,

- Six agencies using RWQCP serve 250,000 residents.
- Expenditures of approximately \$289.0M are programmed for the Wastewater Treatment Fund, which is 53 % of the City's 2023-2027 Capital Improvement Program Projects (\$193.2M are allocated in FY2023).
- The costs are recovered from the Palo Alto Wastewater Collection Fund and five partner agencies.
- Total ten projects are programmed:
 - A. Buildings and Facilities
 1. New Laboratory and Environmental Services Building (Fiscal Year 2023: \$2.6 million; 5-Year CIP: \$23.7 million).
 2. Plant Master Plan (Fiscal Year 2023: \$0.2 million; 5-Year CIP: \$2.1 million)
 - B. System Improvements
 1. Plant Repair, Retrofit, and Equipment Replacement (Fiscal Year 2023: \$ 10.5million; 5-Year CIP: \$26.2 million)
 2. Advanced Water Purification Facility (Fiscal Year 2023: \$17.1 million; 5-Year CIP: \$17.1 million)
 3. Headworks Facility Replacement (Fiscal Year 2023: \$4.8 million; 5-Year CIP: \$48.8 million)
 4. Horizontal Levee Pilot (Fiscal Year 2023: \$0.2 million; 5-Year CIP \$0.7 million)
 5. Joint Intercepting Sewer Rehabilitation (5-year CIP \$12.6 million)
 6. Outfall Line Construction (Fiscal Year 2023: \$10.6 million; 5-Year CIP: \$10.6 million)
 7. Primary Sedimentation Tank Rehabilitation (Fiscal Year 2023: \$2.6 million; 5-Year CIP: \$2.6 million)
 8. Secondary Treatment Upgrades (Fiscal Year 2023: \$144.7 million; 5-Year CIP: \$144.7 million)

⁴ https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy2023-city-budget/adopted-fy23/capital-budget_final-4-online-version.pdf

Appendix B: Management Response

Findings and Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan
Finding 1: Invoice and Payment Due Dates		
<p>The City's management should evaluate all billing and payment requirements in the existing contracts to determine whether there is any reason preventing the agencies from making the requirements and language in the RWQCP contracts more consistent. If there is no reason, management should standardize billing and payment requirements for all RWQCP contracts in order to improve the efficiency of billing and monitoring of payments and ensure compliance with the requirements.</p> <p>Additionally, the City's management should formalize the internal controls and processes to ensure timely submission of invoices with adequate supporting documents and partner agencies' compliance with payment requirements</p>	Public Works / Administrative Services	<p>Concurrence: Agree</p> <p>Target Date: July 2025</p> <p>Action Plan:</p> <p>The City agrees that it would be beneficial to make billing practices consistent between agencies. The City has made changes to improve the clarity of quarterly and annual bills by including the due date and potential late fees. The City will modify existing partner agreements as other updates are made to clarify the billing frequency and ensure standardization amongst all the partners, with a target date of July 2025 based on current capital project schedules.</p>
Finding 2: Industrial Waste Surveys		
<p>The City's Public Works management should obtain the necessary IWS updates from all partner agencies to ensure compliance with pretreatment laws, regulations, and discharge permits until the contracts are amended. Management should evaluate the adequacy of the current informal survey update practice for effective administration and operation of the IWPP and either enforce the current agreement requirements or amend the language in the contract as necessary to refine the partner agencies' responsibilities.</p>	Public Works	<p>Concurrence: Agree</p> <p>Target Date: September 2024</p> <p>Action Plan:</p> <p>The City agrees that the City should obtain necessary Industrial Waste Survey updates from all partner agencies in a more formalized way. Starting in FY25, the City will send out formal requests to all Partner Agencies to review and approve/edit the Industrial Waste Surveys for their jurisdictions.</p>
Finding 3: Compliance Monitoring		
<p>The City's management should establish RWQCP policies and procedures to implement a formal monitoring mechanism that will ensure contract requirements are met. Roles and responsibilities of various City departments, functions, and employees and the expectations should be clearly defined.</p> <p>To implement a monitoring mechanism, the City's Public Works management should assign specific requirements to be monitored or</p>	Public Works	<p>Concurrence: Agree</p> <p>Target Date: December 31, 2023</p> <p>Action Plan:</p>

Findings and Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan
<p>performed to the appropriate staff members or teams, if necessary, and have an individual responsible for overall compliance verify compliance with all requirements periodically.</p> <p>When an issue or a potential issue is identified, appropriate actions should be taken in a timely manner. The policies and procedures should provide guidelines for appropriate actions such as communication/escalation and contract amendments.</p>		<p>The City has drafted an internal Standard Operating Procedure to formally monitor tracking and receipt of payments from partner agencies and will complete reviews and distribution.</p>