

COUNCIL RESOLUTION #163 OF 2017

**APPROVING A CORRECTIVE ACTION PLAN FOR THE
OFFICE OF THE STATE COMPTROLLER**

By Councilor Giannettino

November 16, 2017

WHEREAS, the Office of the State Comptroller (OSC) selected the City of Auburn for a routine audit in October 2016; and

WHEREAS, the audit fieldwork took place between October 2016, and March 2017, and the scope of the audit included the City's Hydroelectric Power Operations and Software Management; and,

WHEREAS, the OSC identified eleven recommendations relating to the City's Hydroelectric Power Facilities and Software Management; and

WHEREAS, the City has prepared a corrective action plan to respond to the OSC recommendations, which is attached hereto and made a part of this Resolution; and

WHEREAS, the City Council must approve of the corrective action plan prior submission to the OSC.

NOW, THEREFORE, BE IT RESOLVED that the City Council does hereby approve the corrective action plan for submission to the Office of the State Comptroller.

Seconded By Councilor Carabajal

	Ayes	Noes
Councilor McCormick	X	
Councilor Giannettino	X	
Councilor Cuddy	X	
Councilor Carabajal	X	
Mayor Quill	X	
Carried and Adopted	X	

City of Auburn, New York

STATE OF NEW YORK)
) SS.:
COUNTY OF CAYUGA)

I, CHARLES MASON, Clerk of the City of Auburn, Cayuga County, New York (the "City"), DO HEREBY CERTIFY:

That I have compared the annexed abstract of the minutes of the meeting of the Council of the City (the "Council"), held on the 16th day of November, 2017, including the Council Resolution #163 of 2017 contained therein, with the original thereof on file in my office, and the attached is a true and correct copy of said original and of the whole of said original so far as the same relates to the subject matters therein referred to.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the City this 17th day of November, 2017.

A handwritten signature in black ink, appearing to read 'C. Mason', with a long horizontal flourish extending to the right.

Charles Mason, Clerk
City of Auburn, Cayuga County, New York

November 16, 2017

Edward V. Grant Jr., Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
16 West Main Street #522
Rochester, New York 14614

Dear Mr. Grant:

The City has reviewed, and is in general agreement with, the findings of the Office of State Comptroller's audit of the City's hydroelectric power operations and software management. Throughout the audit, City staff worked cooperatively with OSC auditors as they evaluated the hydroelectric power operations and the city-wide management of software. The hydroelectric power operations are comprised of the Mill Street and North Division Street Hydroelectric Facilities.

During the first year of operations, it became clear that there were weaknesses associated with the use of an Energy Performance Contract used to procure services for the Mill Street Hydroelectric Facility and with the financial projections provided by the EPC contractor. Procurement and review of the financial projections was partially completed under the guidance of the Auburn Municipal Power Agency for the Mill Street Project. This Agency has since been disbanded.

Recognizing past problems with EPC managed projects, the City utilized a traditional municipal design-bid-build procurement procedure for the North Division Street Hydroelectric Facility. As a result, the financial projections were able to be thoroughly reviewed and scrutinized by Management and City Council to ensure they were conservative and realistic. The North Division Street Hydroelectric Facility is expected to generate operating surpluses in its first full year of operation.

The repowering of the City's hydroelectric facilities to produce "green" energy was outlined as a community priority in both the City's Comprehensive Plan and Energy and Development Plan. This must be taken into consideration when discussing the financial impact of the hydroelectric facilities. Green energy is a social economic and quality of life decision.

The City understands the importance of having secure, properly managed and safeguarded information technology assets. The City will be complying with all of the OSC recommendations with regard to information technology.

The City would like to thank the OSC examiners for meeting to discuss the audit findings and for allowing us to provide clarification and feedback. The City will be submitting a Corrective Action Plan following this letter to explain any new procedures and/or actions that will be

completed to comply with the OSC's recommendations related to the City hydroelectric power operations and management of the City software assets.

Sincerely,

Jeffrey Dygert, City Manager
City of Auburn

//ljw

CC: City Council
City Management
File

Enc: Corrective Action Plan

Corrective Action Plan

Unit Name: City of Auburn
Audit Report Title: Hydroelectric Power Operations and Software Management
Audit Report Number: 2017M-099

The City of Auburn has reviewed the State Comptroller's recommendations outlined in the Audit Report and the following is our corrective action(s) proposed or implemented. Explanations have been included for recommendations where corrective action has not been proposed or implemented.

Audit Recommendations & Plan of Actions for Hydroelectric Power Operations

Recommendation #1) Ensure comprehensive oversight over the City's capital projects and hydroelectric power operations is provided, including requesting appropriate and detailed financial information, if necessary, to help ensure an appropriate level of understanding for various technical aspects of operations. Ensure that operations are self-sustaining without requiring transfers or additional support from the general fund.

Plan of Action #1) Management and City Council have provided adequate fiscal and operational oversight over the North Division Street Hydroelectric Project and will continue to do so through its completion along with any future capital projects. The City Council receives monthly reports on the financial operations of the City and receives a detailed breakdown of operations each year by each department head during the annual budget process. Beginning for the month of October 2017, the monthly reports will be reported on a whole fund basis instead of in separate revenue and expense/expenditure reports.

Due to a service class reclassification in 2015 at the Mill Street Hydroelectric Facility, the City lost a significant amount of revenue. This reclassification combined with drought conditions in the summer of 2016 led to an operating income but an overall loss on the project in its first two years of operations. The service class issue has since been rectified, therefore, the City expects significantly better operating results going forward.

The City disagrees with the Mill Street projections prepared by the State as they contemplate annual inflation increases of 2% in operating expense and 5% in medical benefit expenses but do not contemplate any inflation on the revenue side. The City initially prepared five year projections with these parameters to ensure the projections were conservative but Management does not believe that 0% revenue growth over 30 years is reasonable. With a 2% revenue inflationary factor through fiscal 2047 the Mill Street project would produce a surplus of over \$1 million.

Management is making every effort, regardless of this audit, to ensure the hydroelectric operations are self-sufficient.

- Implementation Date - Reporting: November 7, 2017

- Implementation Date - Service Class: January 2017
- Department Responsible: Municipal Utilities and Finance

Recommendation #2) Revise the procurement policy and develop procedures governing RFPs and RFQs to specify documentation requirements, including the rationale for decisions made.

Plan of Action #2) The City has complied with this recommendation and an updated procurement policy was adopted on November 2, 2017. Please see the attached procurement policy for further information.

- Implementation Date: November 2, 2017 via Council Resolution #159 of 2017
- Department Responsible: Finance

Recommendation #3) Develop policies and procedures governing the procurement processes to be followed related to EPCs.

Plan of Action #3) The City has complied with this recommendation and an updated procurement policy was adopted on November 2, 2017. Please see the attached procurement policy for further information.

- Implementation Date: November 2, 2017 via Council Resolution #159 of 2017
- Department Responsible: Finance

Recommendation #4) Thoroughly and independently review any projected cost savings or revenue estimates before entering into an EPC.

Plan of Action #4) The City agrees with this recommendation. The current management, with support from the current City Council, thoroughly reviewed the financial impact of the North Division St. Hydroelectric project. The City will continue to review any projections in the future. The updated procurement policy, adopted November 2, 2017, includes safeguards to protect the City of Auburn's financial interests prior to engaging in a long term energy performance contract.

- Implementation Date: November 2, 2017 via Council Resolution #159 of 2017
- Department Responsible: Finance

Recommendation #5) Develop, as appropriate, monitoring procedures to include timely reviews of the City's energy consumption and related costs and compare these reviews to the EPC.

Plan of Action #5) The City has entered into an energy management agreement for many reasons including monitoring the success of the EPCs. This energy management service will allow the City to analyze energy consumption on a location by location basis. In addition, as per the City's agreement with NYSERDA, an annual energy production

report is created and compared against the original energy projections stated in the EPC for the Mill Street Hydroelectric Facility. This annual report allows for an energy and financial status update on an annual basis. This report is generated in the last quarter of each calendar year.

- Implementation Date: Ongoing
- Department Responsible: Municipal Utilities and Finance

Recommendation #6) Consult the City's Corporation Counsel, as appropriate, to review the terms and conditions of the EPC to help ensure that any applicable guarantees, have been met.

Plan of Action #6) If, in the future, the City is desirous of entering into another EPC agreement, it will be reviewed in consultation with the City's Corporation Counsel or, if necessary, outside Counsel specializing in EPCs to ensure the City is fully indemnified. The updated procurement policy, adopted November 2, 2017, includes safeguards to protect the City of Auburn's financial interests prior to engaging in a long term energy performance contract.

- Implementation Date: Not Applicable at this Time
- Department Responsible: City Manager and Corporation Counsel's Office

Recommendation #7) Develop and adopt formal multiyear financial and adequate capital plans for a three- to five-year period that specifically address the hydroelectric facilities' anticipated operating results, including how capital and maintenance needs will be financed, and any economic or environmental factors which could affect the plans.

Plan of Action #7a) The City prepares a financial plan on an annual basis for the general fund. The power utility fund which houses the hydroelectric facilities is included in this projection by virtue of needing general fund support. The City prepared and presented to the City Council a formal five year financial plan for the Power Utility Fund on October 26, 2017. This will continue to be provided as requested by City Council or, at a minimum, on an annual basis.

- Implementation Date: October 26, 2017
- Department Responsible: Finance and Capital Projects

Plan of Action #7b) The City disagrees with the portion of the recommendation regarding capital plans. The City has prepared capital plans for the last twenty years with a five year outlook on an annual basis which includes projects in the power utility fund. The estimated useful life for a hydroelectric facility as estimated by NYSERDA is fifty years. There are no capital needs currently forecasted over the next five years. The City does not include the operations and maintenance needs of a project within the capital plan. Those

costs are estimated and forecasted as part of the annual operating budget which is reviewed and approved by City Council.

- Implementation Date: Not Applicable
- Department Responsible: Finance and Capital Projects

Audit Recommendations & Plan of Actions for Software Management

Recommendation #8) Ensure a complete and comprehensive inventory of all City-owned software and the total number of licenses is maintained and regularly updated.

Plan of Action #8) An inventory was created as requested by the OSC auditors and is now being maintained on an ongoing basis. In addition, language has been added to the City's Computer Use Policy specifically setting forth that the IT Department is responsible for maintaining an up to date inventory of all City-owned software and hardware.

- Implementation Date: December 2016
- Department Responsible: Information Technology

Recommendation #9) Ensure that administrative rights are limited to only those City employees with a need for such access.

Plan of Action #9) A new section has been added to the City's Computer Use Policy, entitled "Computer User permissions," setting forth that all network users with the exception of IT staff, the Chief and Deputy Chief of Police and Police Detectives will be "Standard Users." The Police Department personnel noted must retain administrative rights so that at all hours of the day they may install software needed to review security footage. The IT department is currently in the process of removing administrative rights from all computers and expects this project to be completed by the end of November 2017.

- Implementation Date: October 26, 2017
- Department Responsible: Information Technology

Recommendation #10) Formalize procedures to perform reviews of software installed on the City's computers and compare results to the City's software inventory listing.

Plan of Action #10) Language has been added to the City's Computer Use Policy specifically setting forth that the IT Department is responsible for an annual review of the software inventory listing. This annual scan was performed on October 18, 2017.

- Implementation Date: October 18, 2017
- Department Responsible: Information Technology

Recommendation #11) Monitor users to ensure compliance with the acceptable use policies and ensure software installed on City computers is business appropriate.

Plan of Action #11) This annual scan was performed on October 18, 2017. In addition, language has been added to the City's Computer Use Policy specifically setting forth that the IT Department will monitor use by conducting a network-wide software scan annually to ensure compliance.

- Implementation Date: October 18, 2017
- Department Responsible: Information Technology

Signed:

Date: _____

Jeffrey Dygert, City Manager
City of Auburn