

REVISED FINAL REPORT
CITY OF MODESTO
ENTERPRISE RISK ASSESSMENT

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I. EXECUTIVE SUMMARY

This risk assessment provides the City with a way to measure uncertainty related to manageable City functions and processes. For the purpose of this assessment, risk is defined as the uncertainty that could impair the City’s ability to achieve defined goals and plans. Risk is measured by the probability of negative events occurring, the significance of those events, and the impact such negative events could have on the City should they occur.

The enclosed enterprise risk assessment defines the City’s risk profile and ways to mitigate risks. In aggregate, the City’s overall risk level is gauged as being “moderate-to-high.” Eight of the seventeen factors evaluated have been gauged as having moderate-to-high or high levels of risk. For some factors, the City is well positioned to address risks in the near term. For other factors, the City will need to employ longer-term strategies. Mitigation actions are defined within this assessment to provide the City with strategies for strengthening performance delivery and reducing risk.

The following table identifies the seventeen risk factor categories evaluated in this assessment, along with the associated risk level and trajectory as of February 2015.

Risk Factor	Risk Level	Trajectory
A. Processes	Moderate	Flat
B. Capital Program	High	Increasing
C. Operations/Service Delivery	Moderate	Flat
D. Risk Management	Moderate-to-High	Flat
E. Management	Moderate	Decreasing
F. Organization and Staffing	High	Decreasing
G. Asset Management	High	Increasing
H. Internal Controls	Moderate	Flat
I. Funding and Economics	High	Flat
J. Human Resources	Moderate	Increasing
K. Governance	Low-to-Moderate	Flat
L. Technology	Moderate-to-High	Increasing
M. Compliance	High	Increasing
N. Procurement	Moderate	Flat
O. Accounting and Financial Reporting	Moderate	Flat
P. Fraud	Moderate	Flat
Q. Public Safety	High	Flat
Overall Risk Level	Moderate-to-High	Flat

It should be recognized that risk trajectory is decreasing for three of the factors, flat for nine factors, and increasing for five factors. Overall, these results indicate that the City is trending towards more certainty, not less. The remainder of this report covers the risk assessment approach and scope, assessment results, and management survey.

RISK MITIGATION STRATEGIES

For each risk area assessed, this report identifies strategies to mitigate, manage, or avoid future risks. Given the City’s revenue-constrained environment, the City should prioritize strategies that will have the highest impact on reducing overall risk levels. The areas rated as high risk in this study include:

- Capital Program
- Asset Management
- Compliance
- Funding and Economics
- Organization and Staffing
- Public Safety

The City’s high-risk areas are driven largely by an environment of limited resources. Capital program and asset management needs have increased in recent years, as investments in deferred maintenance have decreased. Likewise, an inability to invest in employee pay and benefits has contributed to high turnover across the organization, especially in public safety functions. Limited staffing and high turnover have, in turn, impacted the City’s ability to proactively address programs, services, and compliance reporting.

The risk mitigation strategies identified in this report range in cost and impact. The table below lists high-impact strategies with relatively low costs to implement and high-impact strategies requiring relatively significant investments for the City’s six high risk areas.

Risk Area	Low-Cost Strategies	Strategies Requiring Investment
Capital Program	<ul style="list-style-type: none"> • Prioritize capital needs according to the highest City risks. • Continue to strengthen a centralized, integrated approach to grant pursuit, management, and reporting to maximize attainment of grant funding. 	<ul style="list-style-type: none"> • Conduct a comprehensive facility and asset inventory to assess facility and infrastructure conditions, identify needs, and estimate costs to meet safety and service standards.
Asset Management	<ul style="list-style-type: none"> • Continue to pursue creative methods to secure funding and address resource constraints. • Adopt a risk-based approach to asset management. 	<ul style="list-style-type: none"> • Identify limitations of the CMMS and explore solutions to address them.

Risk Area	Low-Cost Strategies	Strategies Requiring Investment
Compliance	<ul style="list-style-type: none"> • Improve audit tracking, and establish a findings tracking system. • Define compliance duties in job descriptions. 	<ul style="list-style-type: none"> • Conduct high-impact audits and random testing. • Train key personnel regarding compliance.
Funding and Economics	<ul style="list-style-type: none"> • Aggressively pursue grants. • Assess the adequacy of current fees and charges. • Continue to utilize and expand 10-year financial forecast model. 	<ul style="list-style-type: none"> • Pursue new taxes, licenses, and fees to meet minimum service levels. • Utilize data analytics to identify untapped revenues (e.g., code enforcement).
Organization and Staffing	<ul style="list-style-type: none"> • Based on the results of the succession planning process, develop strategies to mitigate risks. • Continue to implement recommendations from the recently completed Organizational Assessment. 	<ul style="list-style-type: none"> • Implement recommendations from the recent compensation study. • Stabilize turnover through employee recognition programs and the establishment of incentives through a formal performance program.
Public Safety	<ul style="list-style-type: none"> • Aggressively seek federal funding, especially grants. 	<ul style="list-style-type: none"> • Pursue a definitive revenue game plan either via a successful tax measure in the fall campaign or other revenue sources.

II. PROJECT APPROACH AND SCOPE

This project was initiated to assess the City's overarching risk, and it was conducted under the direction of the City's Audit Committee. The process followed conventional Enterprise Risk Management (ERM) methodology as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and embraced by the Institute of Internal Auditors (IIA). The risk assessment process analyzed risk by evaluating 17 factors that define the City's business. Numerous business processes have been evaluated within each of the factors. The risk ratings for each of the 17 factors were aggregated to define an overarching risk level.

All City departments have been evaluated in the risk assessment. This assessment includes information from elected officials, City leadership, and department managers and supervisors. This project was conducted from October 2014 through February 2015.

The process followed in the risk assessment consisted of three primary phases of work, including 1) fact finding, 2) risk assessment, and 3) risk reporting. Fieldwork encompassed process walkthroughs, documentation review, interviews, and a web-based survey. Analysis included evaluation of the level of uncertainty associated with each factor, including the potential for impact on the City's business. Reporting entailed the development of draft and final deliverables, along with follow-up discussions with City management and presentation to the Audit Committee. The risk assessment is reported at a specific point in time, which is February 2015. Both the risk rating and trajectory are tied to this timing.

The risk assessment process relies on evidence obtained from City employees. By design, the assessment process required access to all department directors and many managers. Full disclosure of information has been assumed in this process. Input was obtained from over 50 employees, with representation from all City departments, through a combination of interviews and a web-based survey.

The risk analysis framework includes four risk elements:

- Risk Level – level of uncertainty
- Likelihood – probability of a negative event occurring
- Impact – level of significance should a negative event occur
- Risk Trajectory – direction of where risk is headed in the future

The aforementioned risk elements are industry standards and defined by COSO's ERM methodology, which is embraced by the IIA. This framework provides the City with a means to reduce risk. Condition, risk mitigation, and residual risk are also presented for each of the assessed factors. Residual risk is the potential exposure that remains after known risks have been mitigated through specific actions.

III. RISK ASSESSMENT

A. PROCESSES

Risk Level	Moderate
Likelihood	High
Impact	Moderate
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Identify, prioritize, and document the City's key processes. • Conduct “as-is” (existing) workflow evaluation. • Select workflow tool(s) to record, track, and maintain processes. • Define “to-be” (future) workflow, and evaluate gaps between existing and future processes. • Maintain formal, up-to-date documentation of new processes and procedures in an easy-to-maintain format and accessible location. • Train process owners regarding new and updated workflows. • Hold employees accountable to following processes. • Embed internal controls into processes where appropriate.
Potential Residual Risk (if risks are mitigated)	Moderate

Workflow processes comprise much of each department’s workload, including both formal and informal business practices. A number of these processes are said to be fragmented, inefficient, and lacking controls.

It is important to recognize that the City’s processes are comprised of both centralized and decentralized functions. Some of these processes and procedures are out-of-date and incomplete, and others are undocumented. For example, several departments reported a lack of a records retention policy, which places the City at risk of retaining too much, too little, or the wrong information. Departments also reported several processes that include redundancies or have unnecessary steps. Council agenda reports and utilities connection approvals were cited by multiple departments as taking too much time.

The performance evaluation process, which occurs quarterly for many employees, requires the relevant department director, as well as the HR Director to sign each evaluation, is time-consuming. As a result, all departments reported delays with performance evaluations. Several members of the City’s leadership team reported a skepticism that the time-consuming and frequent evaluations were taken seriously as a management tool.

A lack of up-to-date, streamlined, and well-documented processes impacts the City’s efficiency and effectiveness, operational consistency, and risk of losing institutional knowledge. The majority of departments reported at least some process deficiencies and lack of definition and corresponding documentation. Some areas warranting reengineering and documentation include:

- Performance evaluation
- Records management and retention
- Human resources and employment practices
- Council agenda reports
- Finance department procedures

Given recent personnel turnover and leadership departures, the City’s process knowledge base is partially at risk. Several departments reported that the lack of staff has impacted their ability to develop or update procedures. At the very least, this situation hinders the City’s ability to efficiently conduct its business. The assessment results indicate that much of the City’s institutional knowledge resides in the minds of process owners and leads, rather than in formal, up-to-date documentation.

B. CAPITAL PROGRAM

Risk Level	High
Likelihood	Moderate
Impact	High
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Conduct a comprehensive facility and asset inventory to assess facility and infrastructure conditions, identify needs, and estimate costs to meet safety and service standards. • Prioritize capital needs according to the highest City risks. • Continue providing strong project management and oversight to the wastewater treatment plant project. • Continue to strengthen a centralized, integrated approach to grant pursuit, management, and reporting to maximize attainment of grant funding. • Conservatively forecast the ability to fund projects.
Potential Residual Risk (if risks are mitigated)	Moderate

Like other risk factors, the City’s capital program continues to be impacted by the recent recession. With some exceptions, there has been little to no proactive capital investment in programs funded by the General Fund since 2007. As a result, the City is now playing catch-up, undergoing reactive repairs and replacements of streetlights, roadways, high voltage circuits, and facilities.

The City is in the construction phase of a number of significant capital projects, including the tertiary wastewater treatment plant (WWTP) and one major roadway project (Pelandale Avenue and Highway 99 interchange). The WWTP, budgeted at \$130 million, is one of the largest capital projects ever undertaken by the City. This project involves a number of risks, only some of which can be reasonably mitigated by the City. For example, the City faces reputational risks associated with the prospect of significant overages in budget or schedule. Another example is technology risk associated with updating the SCADA technology, introducing new technologies to the City, and addressing more complex requirements around a computerized maintenance management system (CMMS).

The City's Capital Improvement Program is developed by a task force led by the Community and Economic Development Director. The task force is comprised of five department heads and five community members, who evaluate projects on criteria ranging from operational efficiency, value to the community, and health and safety impacts. This process is a best practice and is acknowledged to work well for the City. However, funds are severely limited, especially for General Fund project. As a result, the City has a large amount of outstanding capital needs, including:

- Facilities and infrastructure improvements for ADA compliance
- Pavement condition
- Facilities, especially fire stations
- Fleet, especially police and fire vehicles

The City's ADA Plan is currently being updated. The Plan enumerates deficiencies and solutions for addressing them. The City faces potential accessibility complaints until the plan is completed to correct deficiencies.

Routine maintenance was cut at fire stations, and the Department has been lagging in maintenance of roofing and paint. Further, one of the fire stations is 75 years old and does not meet seismic standards for a public safety building, which poses a risk to firefighters' safety. The City and the Department are in the process of looking at property for a replacement station, but capital funding is a roadblock. In February, the Council dedicated \$400,000 toward repairs and maintenance at fire stations, to address the highest deferred maintenance needs.

Within Parks Planning and Development (PPD), there is a significant amount of deferred maintenance. For example, the City's irrigation system is wasting water. As a result, the City is unable to meet state mandates for water reduction. Playground equipment needs to be replaced to meet current safety standards, and PPD is working with community neighborhood groups to jointly seek funding. When necessary, PPD may address the safety concern removing equipment, grinding down the sidewalk, or removing dangerous items. The City has earmarked \$100,000 in funds to match community donations through the Park Partners program.

Refer to the Asset Management section of this report for additional information on the backlog of asset maintenance and replacement needs of the City.

C. OPERATIONS/SERVICE DELIVERY

Risk Level	Moderate
Likelihood	High
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Complete development and update of SOPs for all non-public safety departments and mission critical processes. • Purchase a new maintenance management system. • Develop succession plans for all management and key programmatic positions. • Complete maintenance management programs for all City equipment, facilities, and infrastructure.
Potential Residual Risk (if risks are mitigated)	Low

The City is facing numerous operational and service delivery challenges resulting from substantial reductions to its programs, services, staffing, and employee compensation as a result of approximately \$21 million in general fund cuts between the FY 08-09 and FY 14-15 budgets. Additionally, the City has reduced its overall workforce by approximately 15%, from 1,375 in FY 08-09 to 1,162 in FY 14-15.

While some revenue sources have begun to recover, the City’s proposed sales tax measure was the only one to fail in California in 2013. The City recently developed a ten-year financial forecast model that predicts sales tax revenues to recover about four percent per year. However, these revenues are not expected to keep pace with General Fund expenditures, particularly if the City aims to restore services, including meeting public safety needs that were cut during the recession.

Staff reductions and budget limitations have created numerous operational and service delivery risks. Operations were ranked as the second-highest risk by survey respondents. The primary operational risk is the loss of institutional knowledge of procedures, programs, and services as a result of employee cuts and turnover. For example, as described in the Public Safety section of this report, turnover in the Police Department has decreased the average years of experience for officers in leadership positions, and limited cross-training opportunities within the department.

The City’s inability to invest in technology infrastructure has also impacted service delivery. For example, the maintenance management system is over 20 years old and has been infrequently updated. The system is not equipped for electronic work orders, resulting in Utilities and Public Works staff relying on paper work orders, redundant data entry, and significant drive time to and from the dispatch site.

Recessionary cuts have significantly impacted the ability of Public Works to meet desired levels of service. During the recession, the City cut back on roadway and tree maintenance, which has resulted in deteriorating conditions and increasing maintenance backlogs.

D. RISK MANAGEMENT

Risk Level	Moderate-to-High
Likelihood	Moderate
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Develop a citywide risk management policy, and more effectively integrate risk management activities across the City. • Establish key injury and incident metrics and report quarterly to the Senior Executive Team. • Increase City participation in emergency preparedness through the Stanislaus County OAC. • Consider allocating additional resources to emergency preparedness, such as a full-time Emergency Preparedness position within the Fire Department whose responsibilities could be performing additional preparedness drills and overseeing the preparation of individual departments' plans and preparedness drills. • Require Senior Executive Team and key staff to participate in annual emergency preparedness drills/exercises organized by the Fire Department. • Explore creative solutions to limited training resources, such as collaborative risk avoidance and safety training efforts across departments. • Provide greater emphasis on workers' compensation claims adjustment.
Potential Residual Risk (if risks are mitigated)	Low-to-Moderate

The Risk Management Division was divided in 2010 with half of the staff and functions located in the Human Resources Department and half the staff in the City Manager's Office. Risk management functions include administration of the general liability, workers' compensation, safety, disability management and property programs. Risk also consults with departments regarding contract analysis and appropriate insurance coverage. Risk also represents the City in small claims court and assists in litigation oversight. The City's approach to risk management is hampered by the City's financial conditions. Due to the strain on resources, the City has adopted a reactive approach to risk.

The Risk Manager is responsible for program administration, coverage consultation, contract/insurance certificate review, and insurance procurement. The Risk Manager is supported by a 0.5 FTE Administrative Office Assistant 3 and a portion of the time of an Administrative Office Assistant 2. The City's General Liability program is administered by 1.5 FTE compared to a previous staffing level of three FTEs. Oversight of some key risk management responsibilities is no longer performed by the Risk Manager. For example, monitoring of third-party workers' compensation claims adjustments is the responsibility of the Risk and Loss Coordinator within HR rather than the City's Risk Manager.

The City may be at risk of missing opportunities to reduce costs due to inadequate oversight of the claims adjustment function related to the workers' compensation program. Workers' compensation remains one of the most significant opportunities to reduce risk exposure and associated costs. Based on an actuarial study conducted in November 2014, the City's liability for outstanding claims is estimated to be \$18,451,000 as of June 30, 2015. Greater emphasis on claims adjustments could have a significant return on investment.

There is no one position dedicated solely to Safety to focus on loss prevention activities, such as safety training oversight and work site safety. Instead, safety programs are primarily addressed at a departmental level. For example, due to the nature of its function, the Fire Department has its own training division and mitigates risk with its Safety Committee. Other departments with workers performing maintenance and operations tasks in the field, such as Streets, Parks Maintenance, Forestry and Wastewater, provide required OSHA training through tailgate meetings. A cross-departmental Safety Committee was established in 2013, and it has begun defining an enterprise safety program. However, because of resource limitations, departments are typically not able to provide safety training beyond the minimum requirements.

Without centralized oversight over safety training or additional resources at the departmental level, little proactive improvements are likely to occur until regulatory standards are adopted. Similarly, the Risk Manager tracks general liability claims using claims management software. The HR Department provides quarterly reports of incidents, injuries, and workers compensation claims to high-volume departments, such as Utilities, Public Works, Police, and Fire.

Incidents of regulatory non-compliance, including non-monetary sanctions, are not tracked centrally. Instead, the responsibility for compliance with laws and regulations is to the responsibility of the relevant departments. In a financially constrained environment, without centralized resources dedicated to adhering to compliance requirements, departments face competing priorities and may not dedicate adequate attention to compliance issues.

The City is revising the hazard communication procedure. Currently, employees must rely on the chain of command in their department to report concerns about risks. No alternative process exists for employees to report risks that they do not feel have been addressed by their department. For example, there is no email address where employees are directed to report risk concerns if they do not wish to report issues through their supervisor. In addition, the City's current risk investigation process does not facilitate continuous improvement through communications to departmental management.

Emergency preparedness is an additional component of risk management. The City has developed plans to prepare, respond, mitigate, and recover from local, national, and manmade disasters. There is an Emergency Operations Plan, Local Hazard Mitigation Plan, and Continuity of Operations Plan. The City also participates in the Stanislaus County Operational Area Council (OAC), whose purpose is to oversee disaster preparedness activities, including the preparation of emergency and disaster plans. From a training perspective, the Police and Fire Departments participate in annual drills organized by the Stanislaus County Office of Emergency Services. The Fire Department provides refresher training on the Emergency Operations Center to department heads on an as-needed basis. Each department is responsible for their own site safety plans and on site drills.

Decreases in budgets over the last several years and high turnover in staffing has made it challenging to provide training across all departments on emergency preparedness and the NIMS-ICS system. Additionally, the City does not have a dedicated full-time Emergency Preparedness position. Currently, these additional duties fall to the Fire Marshal.

E. MANAGEMENT

Risk Level	Moderate
Likelihood	Low
Impact	High
Risk Trajectory	Decreasing
Risk Mitigation	<ul style="list-style-type: none"> • Develop succession plans for all management and key programmatic positions. • Stabilize turnover through employee recognition programs and the establishment of incentives (e.g., promotions, training and other career development opportunities). • Implement recommendations from the recent compensation study.
Potential Residual Risk (if risks are mitigated)	Low

Nearly every position on the City’s Senior Executive Team (SET) of department directors has been vacated since 2011, including the City Manager in 2014 and Deputy City Manager in 2015. Of the ten City departments, only three department heads – Finance, Community and Economic Development, and the City Clerk – have not resigned in recent years. Leadership turnover and the lack of continuity in management positions significantly impacted staff morale. The City Manager position was filled with an interim consultant, and most department director positions were filled on an interim basis by managers within the department. This contributed to instability and uncertainty that resulted in the departure of a number of mid-level managers and supervisors. The significant amount of turnover at the executive and middle-management levels resulted in a substantial loss of institutional knowledge.

The City has also experienced difficulty recruiting and retaining qualified managers due to low compensation levels and reduced benefits compared to some neighboring municipalities. These challenges have led to instances of supervisors being promoted before they are prepared or a position remaining vacant for extended periods of time. Survey respondents rated management as the third-highest risk area to the City.

However, in the past year, the City has made a significant effort to fill leadership positions with qualified, permanent personnel. The City Council recently approved the appointment of two Deputy City Managers, and the City Manager appointed an Interim Director of Parks, Recreation, and Neighborhoods. The City has also completed a reorganization that structured departments to operate more efficiently and effectively and align reporting structures.

According to risk assessment interviews, the new leadership team is poised to have a significant stabilizing impact on City operations, bringing a renewed vision, energy, and improved morale. SET members and many managers report an improvement in morale since the new City Manager was appointed and department structures have solidified.

F. ORGANIZATION AND STAFFING

Risk Level	High
Likelihood	High
Impact	High
Risk Trajectory	Decreasing
Risk Mitigation	<ul style="list-style-type: none"> • Stabilize turnover through employee recognition programs and the establishment of incentives (e.g., promotions, training and other career development opportunities) through a formal performance program. • Implement recommendations from the recent compensation study. • Based on the results of the succession planning process, develop strategies to mitigate risks. • Continue to implement recommendations from the recently completed Organizational Assessment.
Potential Residual Risk (if risks are mitigated)	Low – Moderate

Organizational structure encompasses hierarchy, chain of command, span of control, and staffing levels. Staffing includes specific positions, counts, and capacity. The City’s organizational structure (9 departments and 4 offices) is mostly conventional by design, and much of it is defined in the City Charter and Municipal Code. The City recently completed an Organizational Assessment. Many of the recommendations from the assessment have been implemented, and others are still in progress. The City has experienced a high level of turnover in recent years, in part due to budget cuts. As shown in the table below, of the 1,035 current City employees, 28 percent have less than 5 years of service.

Years of Service	Employee Count	Percentage
Less than 1 year of service	67	6%
1 to 5 years of service	225	22%
6 to 10 years of service	261	25%
11 to 15 years of service	234	23%
16 to 20 years of service	133	13%
21 to 25 years of service	61	6%
26 to 30 years of service	43	4%
31 to 35 years of service	11	1%
More than 35 years of service	4	0%
Total	1035	100%

It is also important to acknowledge the stability reflected by the 48 percent of City employees who have between six and ten years of service and the 25 percent of employees who have over 15 years of service, with the majority of those employees having between 16 to 20 years of service. Human capital ranked highest among risk areas rated by survey respondents.

The City’s difficulty recruiting and retaining well-qualified employees is at least partially attributable to it’s the compensation package, which is reported to be 5 to 15 percent below market in the region. Some examples of the effects of the City’s less competitive compensation package include:

- A number of personnel have left City employment for other jurisdictions, citing compensation and benefits reasons. For instance, the Finance Department lost four employees in the last 1.5 years, all reporting higher pay as their reason for departure.
- The Building Division was unable to fill its Chief Building Official position following a nationwide search and eventually outsourced the position to a consultant.
- During a recent recruitment for an Associate Planner, the City only received ten applications and interviewed five candidates; in contrast. In contrast, the City of Turlock received 60 to 70 applications for a similar position.
- The recruitment of a Public Works Director resulted in an interim director, a consultant, another interim director, and an Acting Director who was finally designated permanent after 18 months of instability in the position.

In the past year, the City has addressed compensation in each department to better align compensation with neighboring municipalities. Nearly all compensation studies have been completed, with only the Fire Department remaining at the time of this study. In February, the Council approved \$700,000 in pay raises for City staff, as well as \$900,000 for retention bonuses and other incentives. The City engaged a consultant to address succession planning. The City has received a draft report identifying the positions, programs, and functions at risk. The next step is to develop strategies to mitigate risks.

G. ASSET MANAGEMENT

Risk Level	High
Likelihood	High
Impact	High
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Identify limitations of the CMMS and explore solutions to address them. • Continue to pursue creative methods to secure funding and address resource constraints, such as Parks Planning and Development Division partnering with non-profits for additional parks funding. • Adopt a risk-based approach to asset management.
Potential Residual Risk (if risks are mitigated)	Moderate

Asset management includes the procurement, supply, deployment, and maintenance of City resources. Asset management focuses on the capital program and maintenance and repair of assets. Due to the City's financial constraints over the past several years, a significant amount of maintenance has not been performed and many of the City's assets and infrastructure are past their recommended useful life. This presents a financial and liability risk to the City, as routine maintenance almost always costs less than extraordinary or corrective maintenance or replacement. When routine maintenance is deferred, the life of an asset is shortened and infrastructure must be rebuilt or replaced earlier than expected. Due to the City's limited financial resources, the amount of deferred maintenance will likely continue to increase and conditions will likely continue to incrementally degrade.

The City has a computerized maintenance management system (CMMS), which it uses to track work orders and maintains information about assets. However, this system, CASSWORKS, is antiquated and attempts to replace it in recent years have been unsuccessful. Additionally, the system does not provide mobile access and it does not interface with other relevant systems, such as SCADA and GIS, which contain important asset and maintenance related information. Moreover, CASSWORKS requires maintenance staff to utilize a paper work order process that results in a lag time between data collection and entry. Not only does this compromise the quality and timeliness of the data contained in the system, but this process is inefficient and increases the chance of data entry errors.

A compelling example of the impact of deferring maintenance is the significant backlog that the City's roadways require. According to the City's Pavement Management System, an investment of \$100 million over 10 years would be required to address this backlog. Currently, the Streets Division does not have the resources to perform any of this work and is only able to address emergencies. The risks are partially exacerbated by factors external to the City given the elimination of State funding and the recent failure of the countywide transportation tax measure.

Other examples of the City's deferred maintenance needs include:

- **Forestry:** City trees should be pruned on a three to four year cycle. Because of decreasing staffing levels, the Forestry Division has had to gradually decrease the frequency of the cycle to every eight to nine years. In practice, trees are pruned even less frequently, every nine to twelve years. A lack of sufficient maintenance of trees and tree limbs causes property damage and tree limbs are the most frequent source of claims against the City. The City identified \$352,000 in carryover funds in February 2015 to address mistletoe.
- **High voltage circuits:** The City has a number of electrical cables which are old and bare. Occasionally, the cables become exposed, causing the ground to smoke and risking adjacent property damage. In February, the Council identified \$600,000 in carryover funds to address some of the \$10-14 million cost to repair or replace some high-voltage streetlights.
- **Fleet:** The City's current fleet maintenance facility does not meet ADA/OSHA standards. A new fleet maintenance facility is in the design phase, but is not yet fully funded. The Police Department raised its maximum fleet mileage to 125,000 miles. According to best practices, police vehicles should generally be replaced at 75,000 miles. Similarly, the Fire Department has not been able to replace its fire engines according to the designated schedule, and there are several engines that are more than 20 years old, with high mileage and engine hours and

lacking safety standards that have not been implemented yet, such as airbags, roll protection, and braking technology. Consequently, the City’s public safety fleet is less reliable, has more downtime, results in higher repair and maintenance costs, and poses a risk to officer and firefighter safety.

- Parks: A recent electrical short that occurred in the lighting at one of the City’s ball fields revealed that maintenance had not been performed for more than 20 years. Because the system had not been maintained for an extended period of time, the maintenance supervisor could not safely dispatch his crew to perform the work. Additionally, there is play equipment that needs to be replaced to meet current safety standards, but the City lacks sufficient funding. Without adequate funding and staffing to ensure ongoing safety monitoring and perform maintenance, the City may be forced to close some of its parks. Besides being politically unpopular, closing parks may have other negative consequences such as increased crime and decreased quality of life.

H. INTERNAL CONTROLS

Risk Level	Moderate
Likelihood	Low
Impact	Moderate
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Update the City’s Cash Handling Policy. • Provide cash handling training to those employees that handle cash as part of their job functions. • Within departments, prioritize the documentation of processes into formal procedures. • Assign an additional FTE to the City’s Payroll function. • Clarify the budget adjustment process as part of the Department of Finance’s overall update to its documented policies and procedures. Use these updated policies and procedures to provide City departments with guidance on how to properly submit appropriate budget adjustment documentation. • Develop and implement a risk-based a reconciliation and audit schedule. • Re-evaluate how payments are collected at the Permit Counter. For example, use a schedule to have one employee dedicated to receiving payment for a period of time each day and maintain an accurate record of who is handling cash. • Establish a transparent system for inventorying evidence within the Evidence and Property Facility to prevent the loss or disposition of evidence and ensure evidence is properly stored.
Potential Residual Risk (if risks are mitigated)	Low

Internal control is a process affected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the City's objectives with regard to the reliability of financial reporting, efficiency and effectiveness of operations, and compliance with applicable laws and regulations. Internal controls also safeguard the City's assets from unauthorized acquisition, use, or disposition.

Some examples of internal controls that need to be strengthened include:

- The City's cash handling policy is out of date, and there is no centralized cash handling training.
- Many departments have not written procedures or their procedures are out of date. Without written procedures, processes may be performed inconsistently, incompletely, or not at all. Additionally, the lack of procedures can also cause roles and responsibilities among departmental staff to be unclear.
- Two employees manage payroll for the City's 1,035 employees. Having only two employees managing payroll presents segregation of duty conflicts and can result in a loss of service should one employee be absent from work.
- The 200-300 budget adjustments submitted annually by departments to the Department of Finance are not always clear and may be applied inconsistently. Unclear documentation requires subjective determination of how to apply adjustments.
- As a result of budget cuts, the Finance Department is performing some reconciliation functions and audits less frequently than before. For example, the McHenry Tax Sharing Agreement between the County and cities was last audited six years ago. The performance of reconciliations and audits on a consistent basis ensures full revenue capture for the City and guards against errors, fraud, waste, and abuse.
- Staffing is inadequate at the evidence and property facility. It has been decreased from 7 to 2.5 FTE positions since 2008. About ten percent of the property stored at the facility is high-risk, including guns, drugs, and money. Due to the lack of staffing, items can be lost or disposed of improperly. For example, within the past few years, some guns have been mistakenly destroyed.

I. FUNDING AND ECONOMICS

Risk Level	High
Likelihood	Moderate
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Utilize data analytics to identify untapped revenues (e.g., code enforcement). • Aggressively pursue grants. • Assess the adequacy of current fees and charges. • Pursue new taxes, licenses, and fees to meet minimum service levels. • Continue to utilize and expand 10-year financial forecast model.
Potential Residual Risk (if risks are mitigated)	Moderate

Funding and economics is the root cause of many other risk factors the City faces. Workforce reductions, a decline in public safety spending, erosion in services, and an inability to invest in technology or training have all increased the City’s overall risk levels. Strengthening the City’s financial health is on the critical path to being able to address other risk factors. Last year, the City commissioned development of a 10-year financial forecasting model, which is a best practice in financial management. The forecast has been effectively utilized as a decision-making tool by City leadership.

Central to the City’s financial situation is the recent decline in revenues, which are down 15% since the City’s peak in FY 07-08. While General Fund revenues have stabilized, they have remained relatively flat since the recession began, from the FY 09-10 low of \$104 million to \$107 million in FY 14-15. As a result of lost revenues, the City has taken aggressive action to reduce expenditures, including workforce reductions, reduced pay and benefits, reduction in preventive maintenance activities, elimination of non-required training, and significant public safety cuts.

A benchmarking study conducted by the City in 2014 showed that the City’s sales tax rate, 7.63%, was in the 16th percentile statewide, and the second-lowest of benchmarked peers. A proposed sales tax ballot measure, Measure X, failed in 2013. Measure X funds would have provide funding to address several of the City’s highest risk areas, including rebuilding General Fund reserves; investing in preventive maintenance for forestry, transportation infrastructure, and fire stations; and providing significant public safety funding. As a result of the failure of Measure X, the FY 14-15 budget included additional cuts to services and programs, including:

- Public safety
- Worker’s compensation
- Position reductions through the City’s reorganization
- Surface transportation maintenance
- Modesto Centre Plaza

The City’s revenue forecast model projects revenues to improve 4% annually over the next 10 years, which will not meet existing obligations. Some anticipated significant increases to the City’s cost structure over the next decade include an increase in CalPERS contributions to 100% of the City’s funding obligation, at a cost of approximately \$43 million; significant deferred maintenance costs; and growth in personnel costs.

The City’s bond covenants require a General Fund reserve of at least \$7 million, or roughly 7%. Council policy has established an 8% reserve level, which was reduced to the minimum 7% beginning in FY 08-09 and continuing through the current fiscal year. The GFOA recommends that governments maintain a reserve of at least two months, or approximately 15%, of operating expenditures. The purpose of unrestricted reserves is to ensure adequate resources are available to address contingencies and unforeseen expenses.

J. HUMAN RESOURCES

Risk Level	Moderate
Likelihood	Moderate
Impact	Moderate
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Update the City’s Personnel Administration Orders. • Document internal HR processes within formal, written, policies and procedures. • Increase transparency in HR matters through the development of a mechanism to share pertinent HR timeline and process information with City departments and employees. • Complete a full classification audit. • Continue to redevelop and introduce New Employee Orientation and automate more of the onboarding process by incorporating the use of the City’s existing systems. • Re-examine the City’s performance evaluation tool and process. • Streamline the discipline, termination, and investigation processes wherever possible, with attention to concluding investigations faster.
Potential Residual Risk (if risks are mitigated)	Low

The Human Resources (HR) Department focuses on functions that surround organization and staffing, including hiring and firing, compensation and benefits, talent management, training, culture, and risk management. Turnover within the HR department and Citywide has been high in recent years, and human capital ranked highest among risk areas rated by survey respondents. Like other internal services, HR has been forced by revenue and personnel constraints to operate in a reactive mode.

The primary area of risk for the HR Department is outdated Personnel Administration Orders (PAO). While the City Attorney is pursuing an update, there is currently no estimated time of completion. A lack of current, written policies can result in inconsistent treatment of City employees and lead to grievances. Additional risk issues within the HR function of the City, including:

- Internal HR procedures are not consistently documented. Without well-documented procedures, the department has difficulty training new employees and risks losing institutional knowledge during high staff turnover.
- Many HR processes remain largely manual and paper-based, including master employee records that support promotion, benefits, and retirement eligibility. The use of manual processes increases the risk of error.
- The employee performance evaluation tool is cumbersome and may not be utilized effectively, which could result in missed coaching and career development opportunities.
- The discipline and termination process is difficult and lengthy. The lack of expeditious disciplinary action undermines the City’s commitment to its own policies and fair employment practices.

K. GOVERNANCE

Risk Level	Low-Moderate
Likelihood	Low
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Establish, monitor, and regularly report on performance metrics aligned with the City’s Strategic Plan to provide an integrated focus for City management and operations. • Continue to work toward stabilization of the SET and other management positions within the City organization. • Continue to provide effective orientation to new Councilmembers to bring them up to speed as quickly as possible.
Potential Residual Risk (if risks are mitigated)	Low

Governance is defined to include oversight, policy, strategy, fiscal control, performance monitoring, risk management, and decision making. City governance is provided by the stakeholders involved in the public process and the practices followed. The City Council is the main body providing governance over City affairs. The City Manager is also involved in governance, as Modesto’s form of government is a strong Council/City Manager structure. Both the Council and City Manager provide governance oversight.

The composition of the City Council is fairly “new,” with only one member possessing more than four years of tenure. The tenure of the councilmembers, who serve four-year terms, is summarized below.

- Mayor, first elected 2012
- District 1, first elected 2011
- District 2, first elected 2013
- District 3, first elected 2007
- District 4, first elected 2013
- District 5, first elected 2013
- District 6, first elected 2011

It is noteworthy that two of the councilmembers whose current term expires in 2015 do not plan to run for reelection. If that is the case, then it will result in some loss of institutional knowledge and continuity on the City Council.

The Council appoints the City Manager, City Clerk, City Attorney, and City Auditor. These appointed positions and the other department directors form the City’s Senior Executive Team (SET). At the senior management level of the City, governance is stabilizing through recent hires to fill key vacancies within the SET as follows:

- City Manager, hired in 2014 after serving as interim City Manager
- Deputy City Managers (2), appointed in 2015
- Utilities Director, hired in 2014
- Public Works Director, hired in 2014 after serving as acting Director
- Parks, Recreation, and Neighborhoods Director, currently filled by interim PRN staff

The City recently developed its 2015-2018 Strategic Plan, and the City is pursuing a number of best practices relative to implementation that will lead to greater accountability and transparency. The City’s strategic initiatives are led by the Councilmembers, who take an active approach to plan implementation as “Priority Champions.” The City is also developing a slate of outcome-based performance measured tied to the objectives and strategies in the Strategic Plan that will support more effective governance.

L. TECHNOLOGY

Risk Level	Moderate-to-High
Likelihood	Moderate
Impact	Moderate-to-High
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Develop a 3-5 year strategic technology plan that: <ul style="list-style-type: none"> ○ Prioritizes expenditures for replacing existing critical systems; ○ Accounts for adoption of newer technologies that could pay for themselves through increased efficiencies; and ○ Establishes a technology vision and helps to translate the business objectives of the City into technology projects designed to support and move the City closer to achieving those objectives. • Consider performing a Total Cost of Ownership assessment of Oracle to determine whether it is the best fit for the City over the long-term. • Conduct a full scale IT security analysis. • Develop an eGovernment policy and strategy that leverages technology, including social media, to connect with citizens, businesses, and visitors.
Potential Residual Risk (if risks are mitigated)	Moderate

The IT Department generally operates according to best practice. The Department is currently in the process of identifying and addressing technology risks, including reassessing replacement requirements for servers and software. The IT Department maintains networks to the required standards. The City’s servers are backed up and there is redundancy for technology both in IT and departments.

However, the City lacks a comprehensive strategic technology plan that communicates how IT and technology in general will be utilized to support the overarching mission, vision, and goals of the City as a whole. Adopting a strategic technology plan ensures that limited resources are applied most effectively to citywide needs. In addition, there is room for improvement relative to certain systems and software, primarily due to resource constraints. Examples include:

- When the Planning Division’s color copier broke, a replacement could not be purchased.
- Public Safety radio infrastructure is on a very old operating system, has some reliability and range issues, and needs to be replaced.
- The Fire Department utilizes a manual, paper-based system for scheduling. On a daily basis scheduling takes two captains and a battalion chief at least 30 minutes each. Moreover, this manual system introduces risks of human error and the potential for paying additional overtime.

- Maintenance functions across the City utilize paper work orders. If mobile field technology were in place, staff could enter data one time rather than recording data on paper and later performing data entry, which is inefficient and presents both timeliness and accuracy risks.

The City has adopted a Tier 1 system (Oracle) as its financial ERP system. This type of a system can be very configurable to meet the needs of the departments across the City, but it can also be cumbersome to support and maintain and requires skill sets that can be expensive to attract and retain. Further, all new systems that are introduced to the City must be assessed as to whether they need to be integrated with Oracle, which may guide the City towards more expensive systems from the onset, thereby driving up the costs.

The City’s largest technology risk is the aging CMMS, which is a critical system for proper operation of critical assets, including key infrastructure components and the new wastewater treatment facility. The CMMS has not been regularly updated and is currently unsupported by the vendor. The system poses multiple risks, including lack of data available for regulatory compliance, lower efficiency, and higher cost of operations.

M. COMPLIANCE

Risk Level	High
Likelihood	High
Impact	Moderate – High
Risk Trajectory	Increasing
Risk Mitigation	<ul style="list-style-type: none"> • Improve audit tracking, and establish a findings tracking system. • Define compliance duties in job descriptions. • Conduct high-impact audits and random testing. • Train key personnel regarding compliance.
Potential Residual Risk (if risks are mitigated)	Moderate

This risk factor focuses on the City’s compliance with laws and regulations. Legal and regulatory requirements pertain to many departments and functions citywide, such as:

- Federal and state environmental laws and regulations;
- ADA requirements; and
- Grant requirements.

Overseeing proactive compliance throughout the City depends primarily on individual departments, while the Risk Manager, internal auditor, and external auditors reactively evaluate compliance. Proactive compliance is characterized by employees being aware of requirements and actively operating to comply with them. Performed effectively, proactive compliance prevents issues from occurring before they become problematic. Reactive compliance involves ongoing monitoring, testing, and reporting.

As a result of the City's limited resources, the City and its departments have focused most of its efforts on reactive compliance rather than proactive compliance. Additionally, without allocating adequate resources to a centralized function to track and monitor compliance efforts, City leadership may not be fully informed of all relevant compliance issues which could result in costs to the City due to audit findings, lost funding, litigation, and monetary fines. Examples of compliance risks include:

- **Water quality:** The City has long-standing water quality concerns regarding arsenic levels. While arsenic and other constituents in wells are typical concerns, the ongoing drought can increase concentration of contaminants and has increased concerns about meeting EPA standards. Although some improvements have been made, such as the purchase of a new software system to better track water samples, inadequate resources present a significant risk to the City. The single analyst responsible for monitoring water quality samples is out on leave. Although the analyst was able to assemble a manual prior to going on leave, the City did not have a person designated or trained as backup for this function. Given widespread impact of water quality throughout the City, current practices may place the City at risk.
- **ADA requirements:** Numerous sidewalks, curbs, and parks facilities are not compliant with ADA requirements. While efforts to identify ADA compliance needs are underway, funds to make improvements have yet to be secured. Identification of non-compliance without real improvement plans can lead to further compliance problems.
- **Grant requirements:** Leveraging available grant funding is critical in the City's current resource-constrained situation. However, limited staffing impacts the City's ability to secure grant funding and comply with grant requirements. Similarly, departmental staff may not have sufficient training or knowledge to comply with specific grant requirements. In addition, reduced staffing levels could result in the inability to utilize grant funding within the performance period and, thus, risk having to return grant money. The City does not have centralized grant oversight or a position that can provide support and expertise to departments.
- **Employment laws:** The City's costliest legal cases to date have resulted from violations of employment laws. However, incidents continue to occur and raise concerns about the adequacy of the City's training regarding employment laws.
- **Wastewater discharge and overflow regulations:** The wastewater treatment plant is in compliance with current regulations. The tertiary treatment plant, currently under construction, should address new regulations effective 2018.
- **Statewide water mandates:** The City's irrigation system used at many parks is outdated and wastes significant water. As a result, the City does not meet the State's mandates for water reduction.
- **Public Records Act and HIPAA:** The City does not have a record retention schedule, and it has not updated its record retention policy since 1995. The City Clerk has not purged records, nor has it advised departments to do so. As a result, the City may be at risk of storing files that could become discoverable through litigation that should have been destroyed as part of a routine document retention schedule. Similarly, without an updated

records retention policy, the City increases the risk of the City breaching privacy laws, particularly HIPAA, which was adopted after the records policy was last updated.

N. PROCUREMENT

Risk Level	Moderate
Likelihood	Low
Impact	Low
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> Establish and use a central vendor tracking database for insurance compliance needs.
Potential Residual Risk (if risks are mitigated)	Low

The Purchasing Division’s purpose is to maintain continuity of services and supplies to support service delivery by City departments. The Purchasing Division’s goal is to obtain the best overall value to the City, consistent with the quality and quantity required. Like other internal services, the City’s Purchasing Division, with only three full-time staff members in addition to the Director, struggles to meet citywide demands. Despite resource limitations, the Purchasing Department is generally reported to be responsive to departmental needs.

Some procurement functions are decentralized, which presents a greater risk of errors, fraud, waste, and abuse. Each department is responsible for their own insurance requirements, as well as ensuring each contractor complies with them. Although there is capability for a central vendor tracking database within the City’s Oracle system, it is not being used.

O. ACCOUNTING AND FINANCIAL REPORTING

Risk Level	Moderate
Likelihood	Moderate
Impact	Moderate
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> Update the Finance Department’s policies and procedures. Provide City departments with training on key financial, accounting, and budgetary processes. Examine and streamline the accounts payable process to decrease the days between invoice receipt and payment. Analyze accounts receivables aging on a citywide basis. Revise the form used for applying for security and require a deposit. As soon as financially possible, add staff to allow for proactive financial management.

Potential Residual Risk (if risks are mitigated)	Low
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The role of City accounting and financial functions in risk mitigation is to focus on scorekeeping and compliance by recording, classifying, summarizing, and reporting financial transactions. Financial reporting includes deliverables such as the Comprehensive Annual Financial Report (CAFR), monthly financials for budgetary comparison, and other compliance reports such as the City’s Single Audit.

Due to recent budgetary-related staff reductions, the Finance Department is not performing some reconciliation and audit functions as frequently as it did in the past. Instead, departmental staff is focused on performing the necessary and core functions of the Finance Department. As a result, the Department is not proactively ensuring full revenue capture, compliance, efficiency and effectiveness, and strong internal controls.

Notable areas for risk mitigation include:

- The Finance Department’s policies and procedures are not up-to-date and complete. Without current procedures, the Department may not perform its processes consistently and risks losing institutional knowledge during employee transitions.
- Without written policies and procedures, it is also more difficult for the Finance Department to provide other departments with guidance on accounting, financial, and budgetary issues. Some City departments reported that they do not receive sufficient guidance on accounting and financial matters.
- Without centralized vendor management, the City is not consolidating and coordinating vendor payments.
- It can take a significant amount of time for checks to be issued to vendors, which can result in fewer choices of vendors in the future.
- Groups that hire off-duty City Police for security do not have to pay a deposit and are not subject to a binding agreement. This has led to outstanding accounts receivable for security as many groups that require security are transient, such as the circus. It is more difficult to collect past due AR from transient entities.

P. FRAUD, WASTE, AND ABUSE

Risk Level	Moderate
Likelihood	Moderate
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Establish a fraud, waste, and abuse program, including a hotline and training for all City staff and leadership.
Potential Residual Risk (if risks are mitigated)	Low

City employees are entrusted with public funds and have a duty to use those funds economically, efficiently, effectively, and ethically. When City employees do not honor that obligation, it is imperative to identify and correct those actions. Fraud, waste, and abuse are defined as:

- *Fraud*: A dishonest and deliberate course of action that results in obtaining money, property, or an advantage to which City employees or an official committing the action would not be normally entitled.
- *Waste*: The needless, careless, or extravagant expenditure of City funds, incurring of unnecessary expenses, or mismanagement of City resources or property.
- *Abuse*: The intentional, wrongful, or improper use or destruction of City resources, or seriously improper practice that does not involve prosecutable fraud.

During the risk assessment process, employees and managers were interviewed regarding fraud, waste, and abuse. Generally, managers gave the City fairly high marks regarding awareness, accountability, and integrity. Likewise, a vast majority (92.3%) of survey respondents reported that the City was at a low or low-to-moderate level of risk associated with fraud, waste, and abuse, and ranked it the lowest of all risk factors. However, the City’s current revenue-constrained, low morale environment is a common fraud risk factor.

All City employees share the common purpose of serving the public and ensuring public funds are spent wisely. The work of the City should be conducted fairly, equitably, ethically, and transparently. Proactive steps must be taken to ensure community commitments and management objectives are met. It is important for employees to be provided a mechanism to voice concerns when they see or feel something is not right.

Q. PUBLIC SAFETY

Risk Level	High
Likelihood	High
Impact	High
Risk Trajectory	Flat
Risk Mitigation	<ul style="list-style-type: none"> • Pursue a definitive revenue game plan either via a successful tax measure in the fall campaign or other revenue sources. • Increase public awareness and understanding regarding the fall tax initiative. • Aggressively seek federal funding, especially grants.
Potential Residual Risk (if risks are mitigated)	Moderate

Current funding levels are not adequate to protect Modesto’s citizens, businesses, and assets at desired levels. Police and fire expenditures comprise approximately 70% of the City’s General Fund budget and have been significantly reduced due to the recession. Because revenues have not improved and are projected to remain flat, increases in public safety funding from existing sources are unlikely.

The City faces a variety of issues related to public safety:

- There have been ongoing water quality issues relating to the arsenic content in the City's water. If unresolved, this could pose a significant threat to public health and safety.
- The City has had a long history of street flooding, but the stormwater system is antiquated and cannot handle significant floods, which presents a risk to both property and public safety.
- There are a number of homeless encampments within the City, but Park Operations does not have sufficient staff to appropriately monitor these areas for dangerous items like broken glass and hypodermic needles.
- The City's unmaintained trees directly impact public safety, traffic, and road conditions.

Police

The City's Police Department struggles to maintain minimum required staffing levels. Factors contributing to staffing challenges include:

- Difficulty recruiting qualified candidates due to comparatively lower pay, higher retirement contributions, and higher crime in Modesto. A streamlined recruiting process has recently been developed to generate more candidates and hire more quickly.
- High overtime utilization creates concern about officer burnout. Tired officers are more likely to make mistakes, putting the City and the community at risk.
- Declining officer retention, which results in a less experienced police force.

As a result of limited resources, the City is focused on responding to the highest priority calls. For example, according to the Police Department, crimes like burglary can take hours to respond to and cannot be properly investigated, eroding public trust in the police. In addition, anticipated retirements in the command staff and less than five years of average experience for incoming lieutenants could present a succession challenge. An inexperienced command staff is less likely to strong leadership skills, institutional knowledge, and understanding of interdepartmental dynamics.

While overall crime in Modesto declined in 2014, the passage of Proposition 47 has begun to impact the City. Passed in November 2014, Prop 47 reduced many drug-related sentences from felonies to misdemeanors, and many inmates were released from jails across California. While it is too early to assess the full impact of Prop 47 on public safety in Modesto, police report that drug-related crimes have decreased, burglaries and thefts are increasing.

In February 2015, the City Council approved a labor agreement with the Modesto Police Officers Association that will raise pay by six percent and establish retention bonuses. These changes should help the City to retain and recruit officers.

Fire

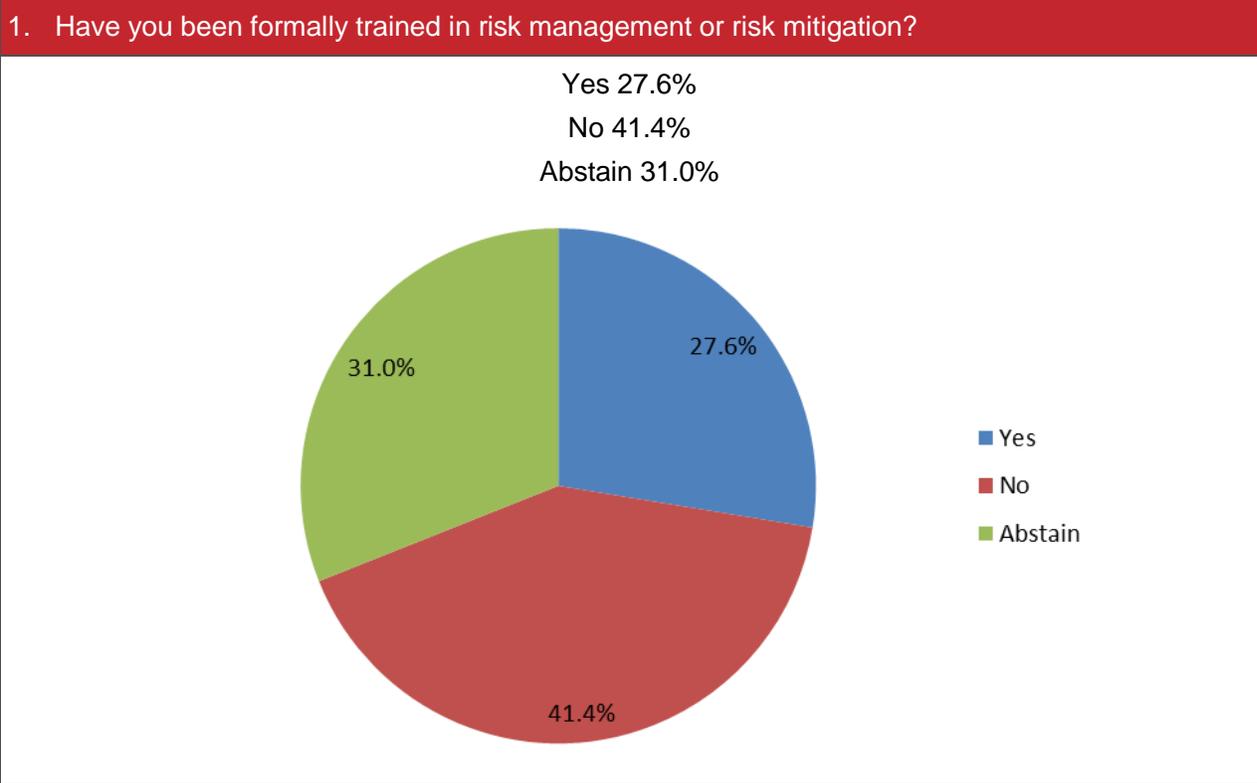
Like most City departments, the Fire Department works hard to operate effectively with limited resources. Based on the standards set forth by the National Fire Protection Association (NFPA), the

Department is understaffed by 66 firefighters. According to NFPA, there should be one firefighter per 1,000 population. Currently, there are 144 firefighters for a population of 210,000, or one firefighter per 1,458 residents. This level of staffing presents a number of challenges:

- Incident response times: The standard is having the first alarm on scene within 10 minutes or less 90% of the time, but the Department only meets this 60-70% of the time, falling well below the standard.
- Appropriately staffing responses to fires: The Department is currently able to send adequate response forces to scenes. However, if resources are reduced further, then the Department may not be able to send an adequate number of people.

In addition, the Fire Department is still in a state of transition resulting from change to a City department on July 1, 2014 after operating for three years under a regional agreement as the Modesto Regional Fire Authority. Dissolution of the Authority created further resource limitations, since the Department no longer has access to the more modern and more reliable engines it used under the Regional Fire Authority.

IV. SURVEY RESULTS



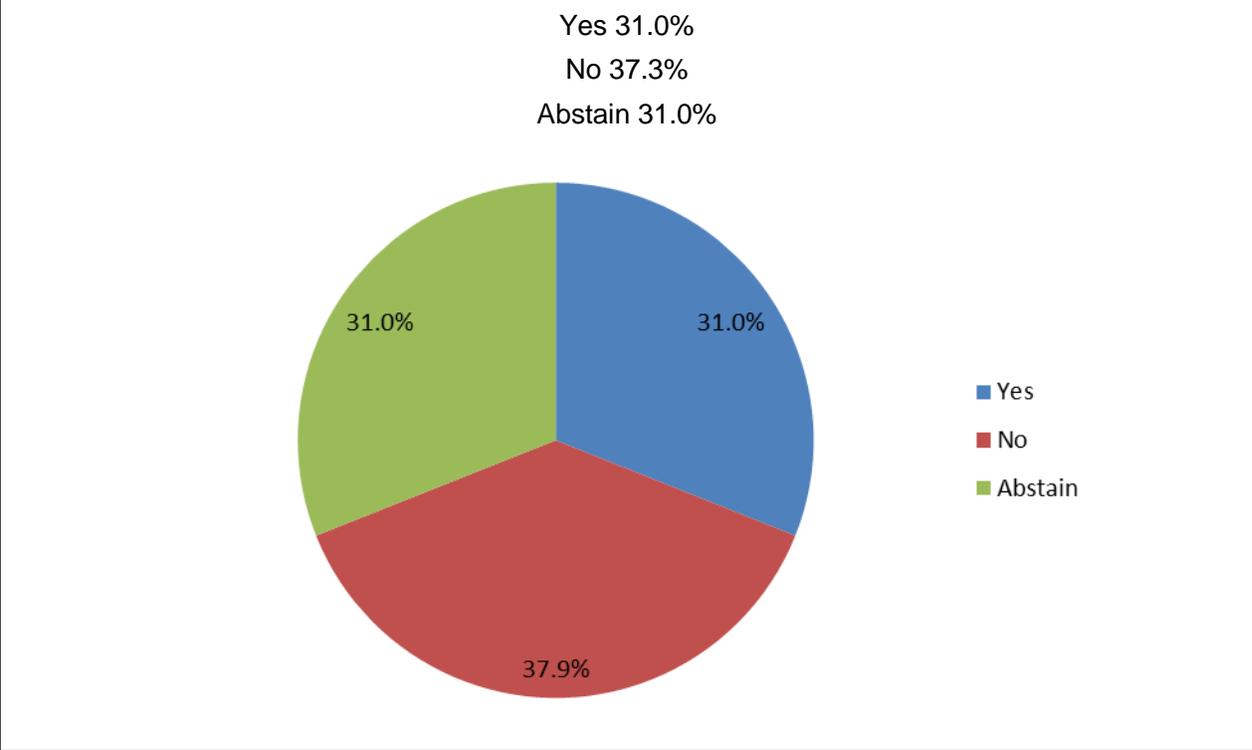
2. Who is directly responsible for risk management?

	Response Percent	Response Count
City Manager	48.3%	14
Department Manager	48.3%	14
Process Owners	27.6%	8
Department Leads	37.9%	11
None	0.0%	0
Other	48.3%	14

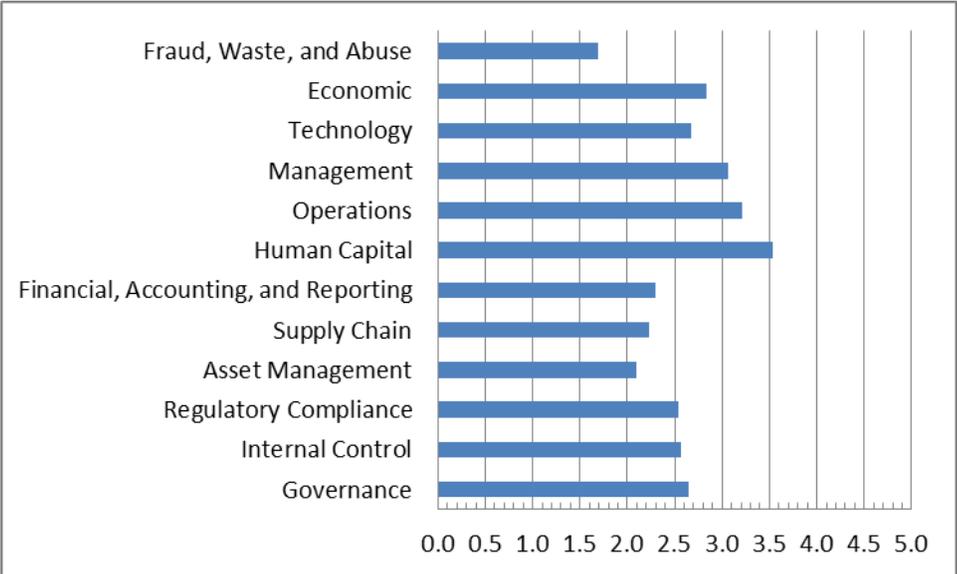
3. What formal processes, methodologies, and/or systems are in place to support risk management?

	Response Percent	Response Count
Policy Framework/Directives	51.7%	15
Risk Assessment	24.1%	7
Standards	31.0%	9
Ongoing Monitoring	24.1%	7
Processes	31.0%	9
Reporting	44.8%	13
Inspections/Testing	20.7%	6
Other	17.2%	5

4. Do you have specific risk management objectives?



1. Overall perceived risk

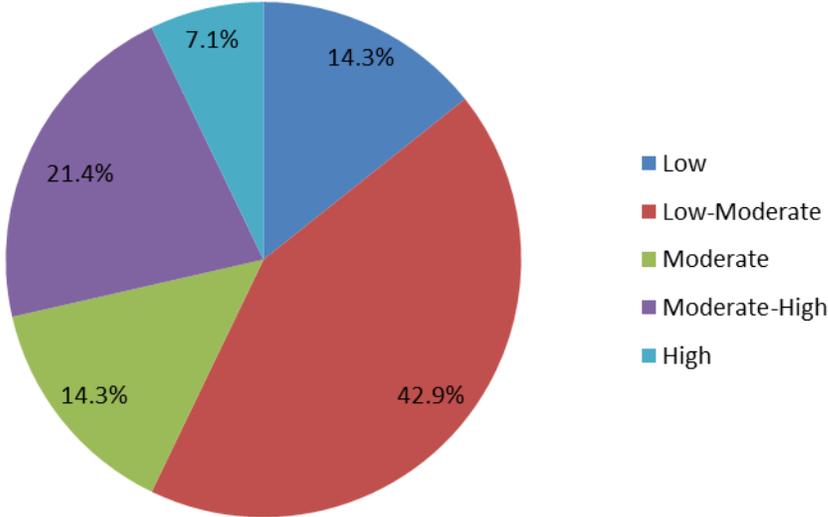


Average risk ratings:

Governance	2.64
Internal Control	2.57
Regulatory Compliance	2.54
Asset Management	2.09
Supply Chain	2.23
Financial, Accounting, and Reporting	2.30
Human Capital	3.54
Operations	3.21
Management	3.07
Technology	2.67
Economic	2.83
Fraud, Waste, and Abuse	1.69

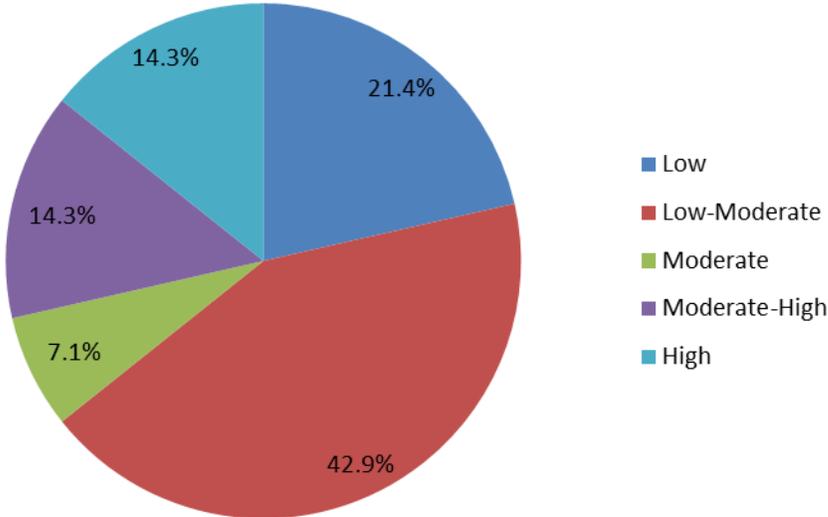
2. Governance

Risks associated with ongoing oversight, strategy, policy, direction, accountability, performance monitoring; and defined roles, responsibilities, and authorities.



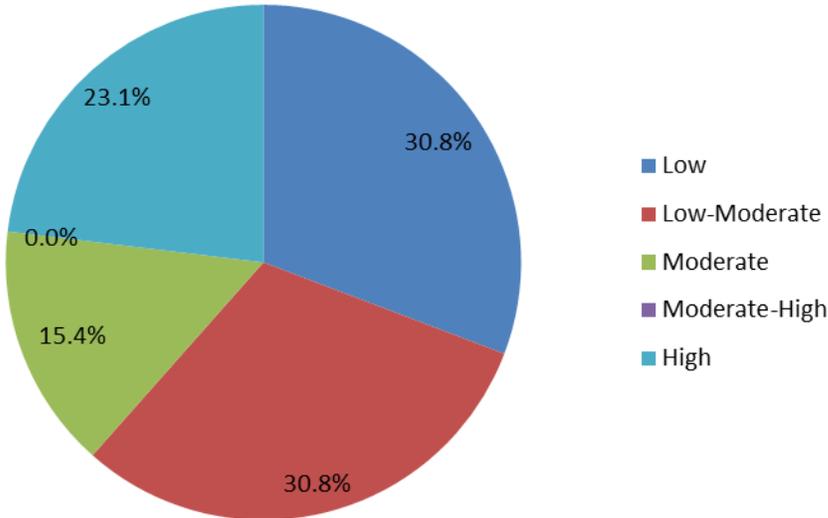
3. Internal Control

Risks associated with checks and balances, or internal control framework, including preventative and detective measures, testing, processes, documentation, audit trails, and procedures.



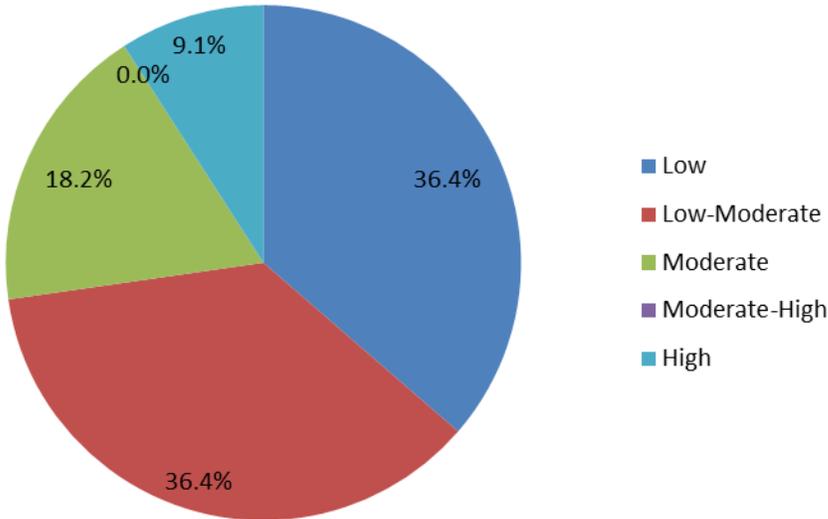
4. Regulatory Compliance

Risks associated with compliance with laws, regulations, and requirements, including grants.



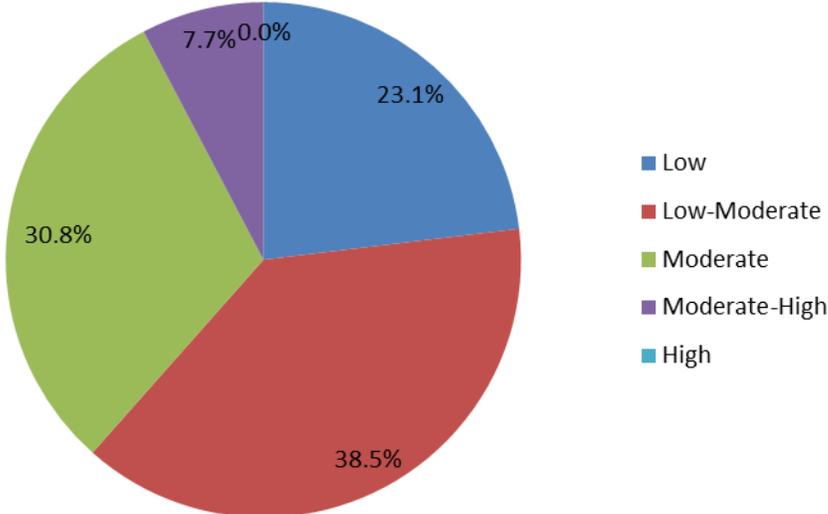
5. Asset Management

Risks associated with capital preservation, ongoing maintenance, management, tracking, reporting, accountability, accounting, physical safeguarding of assets, inventory, and capital projects.



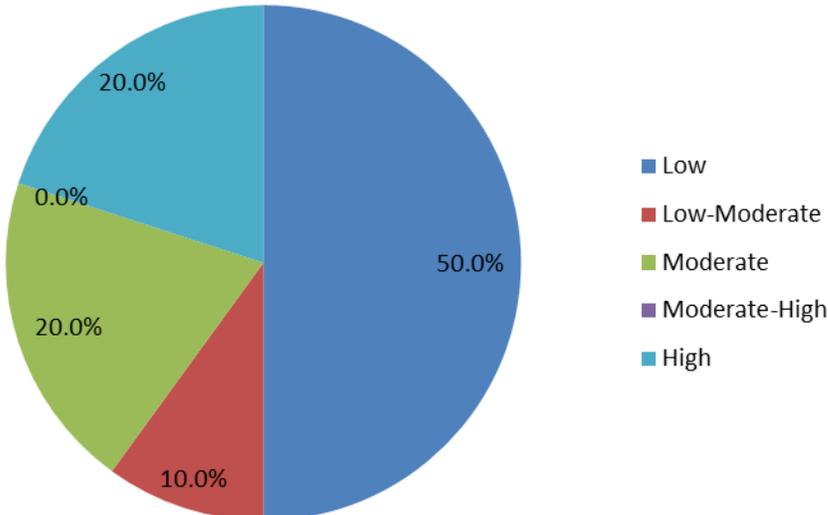
6. Supply Chain

Risks associated with contracts, goods and services, procurement, and controls.



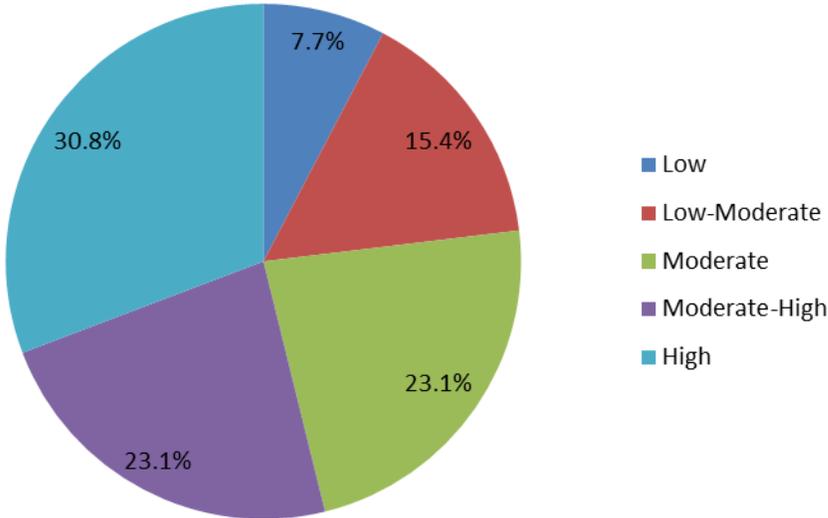
7. Financial, Accounting, and Reporting

Risks associated with fiscal control, financial statement processing, staff support, budgeting, ongoing information tracking and management, risk management, revenue capture, and transaction processing. Also, risks associated with content, distribution, assembly, utilization, frequency, formatting, accuracy, and reliability.



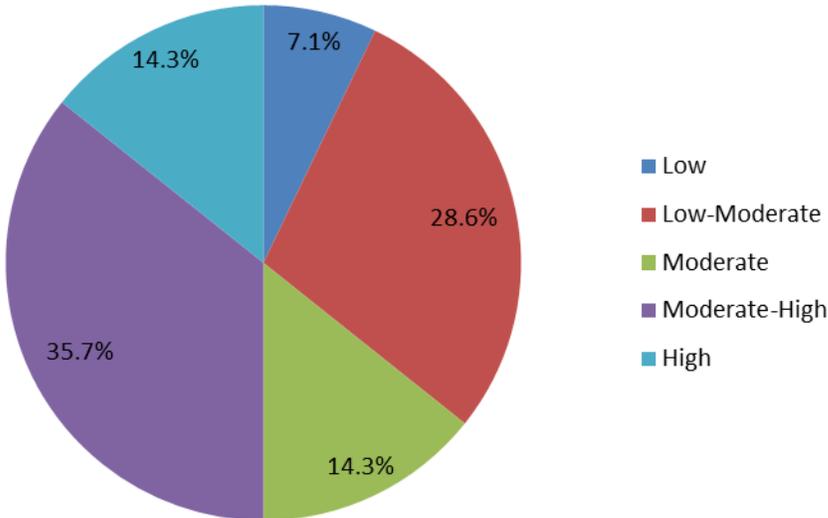
8. Human Capital

Risks associated with succession planning, labor management/contracts, capacity, performance, training, benefits, compliance, turnover, grievances, skill availability, compensation, overtime, resource availability, and communication.



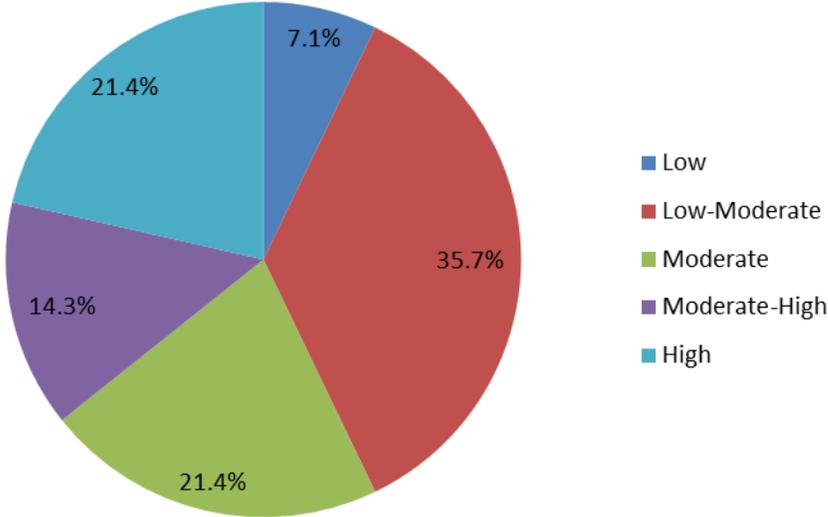
9. Operations

Risks associated with departmental mission, safety, scope, schedule, service delivery, sustainability, quality, training, resource allocation, and management.



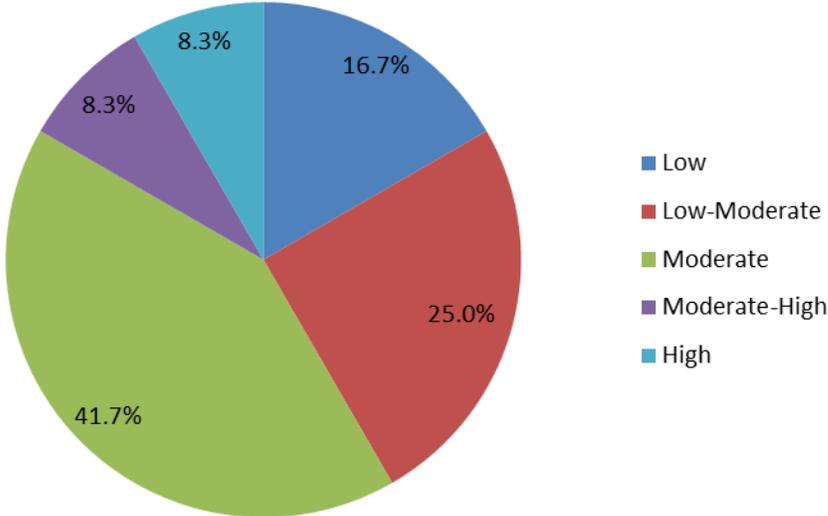
10. Management

Risks associated with planning, organization, empowerment, control, monitoring, follow-up, and delegation.



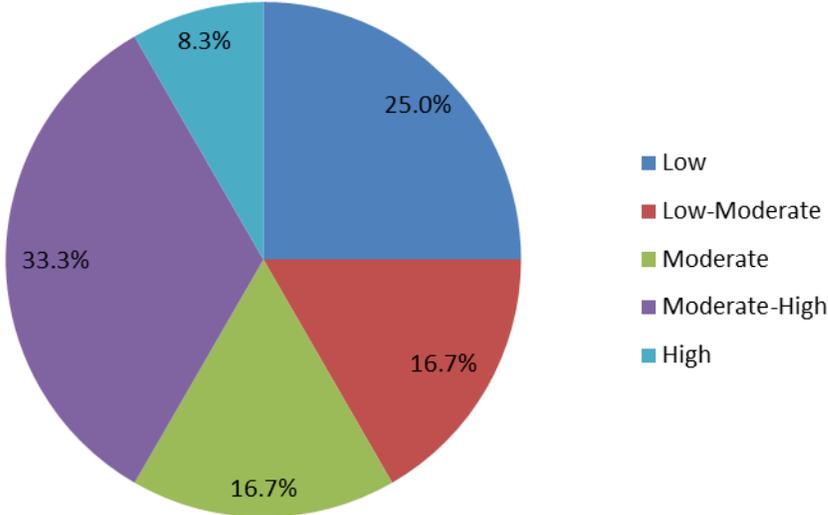
11. Technology

Risks associated with the design, development, implementation, administration, operations, and maintenance of systems including change management and system development life cycle. Also, performance, data architecture and management, integration, back-up, security, and controls.



12. Economic

Risks associated with revenue sources (rates, fees, grants, and taxes), funding levels, cash management, liquidity, expenditure rates and commitments, debt management, and inter-governmental business.



13. Fraud, Waste, and Abuse

Risks associated with misappropriation of funds, extravagant spending, using one's position to accomplish a specific outcome, and/or the intent to deceive.

