

LIVING WAGE REVIEW

AUGUST 2006




**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

City of
Gainesville

Inter-Office Communication

August 15, 2006

TO: Audit, Finance and Legislative Committee
Mayor Pegeen Hanrahan, Chair
Mayor-Commissioner Pro Tem Craig Lowe, Member

FROM: 
Brent Godshalk, City Auditor

SUBJECT: Living Wage Review

Recommendation

The Audit, Finance and Legislative Committee recommend that the City Commission:

- 1) Accept the City Auditor's report and the response from the City Manager and Interim General Manager for Utilities; and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

Explanation

In accordance with our Fiscal Year 2006 Annual Audit Plan, we have completed a Living Wage Review. Our report and the response from the City Manager and Interim General Manager for Utilities are attached for your review.


We request that the Committee recommend the City Commission accept our report and management's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

City of
Gainesville

Inter-Office Communication

July 17, 2006

TO: Russ Blackburn, City Manager
Karen S. Johnson, Interim General Manager for Utilities

FROM: 
Brent Godshalk, City Auditor

SUBJECT: Living Wage Review

On November 28, 2005, the City Commission approved the City Auditor's Annual Audit Plan, which included a Living Wage Review. During our review, we conducted interviews with key personnel, reviewed contract files and tested management controls. We have completed our review and the attached draft report indicates where further efforts are needed to strengthen management controls.

In accordance with Commission Resolution R970187, Section 9, please submit your written response to the recommendations presented in the attached report within 30 days and indicate an actual or expected date of implementation. Our final report, which will include your written response, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval.

Our recommendations for improving procedures and controls have been reviewed with General Government Purchasing Manager Aleta Cozart, Utilities Administrative Services Director Ruth Davis, Utilities Purchasing Manager Joann Dorval and Senior Utility Analyst Kevin Crawford. We would like to thank them and staff involved in our review for the courteous and cooperative treatment afforded us.

Please let me know if you would like to meet to discuss further the details of this report or if you have any comments or questions that will facilitate your response.

cc: Becky Rountree, Administrative Services Director
Jennifer Hunt, Utilities Chief Financial Officer
Ruth Davis, Utilities Administrative Services Director
Mark Benton, Finance Director
Aleta Cozart, General Government Purchasing Manager
Joann Dorval, Utilities Purchasing Manager
Jennifer Kizzar, Utilities Financial Analysis & Compliance Manager
Kevin Crawford, Senior Utility Analyst

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with our Fiscal Year 2006 Annual Audit Plan, the City Auditor's Office has completed a living wage review. The primary focus of this review was to provide the City Commission with reasonable assurance on the adequacy of management control in effect over implementation of the Living Wage Ordinance (LWO). Management controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring program performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, methods and procedures to ensure that goals are met. Specific audit objectives included evaluating the policies, procedures and internal controls related to reporting the incremental cost of the LWO.

Our review was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and accordingly included such tests of records and other auditing procedures as we considered necessary under the circumstances. Our procedures included interviewing staff, reviewing all contracts that met the definition of covered services provided in the LWO and reviewing data collected and reported by management to ensure that it was accurate and adequately documented. The scope of our review was generally for the period October 2004 through March 2006.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

BACKGROUND INFORMATION

In 2003, the City Commission approved by ordinance a living wage requirement for certain employees of contractors providing selected services to the City. The LWO generally applies to the following covered services purchased by the City under a single contract exceeding \$100,000:

- Food preparation and/or distribution
- Custodial/cleaning
- Refuse removal
- Maintenance and repair
- Recycling
- Parking services
- Painting/refinishing
- Printing and reproduction services
- Landscaping/grounds maintenance
- Agricultural/forestry services
- Construction services

The LWO requires service contractors/subcontractors providing these covered services to pay its covered employees no less than the established living wage. The living wage is a minimum hourly rate based on the Federal Poverty Guidelines for a family of four as determined by the U.S. Department of Health and Human Services. This information is obtained annually by the Human Resources Department and the hourly wage rate is provided to the General Government and GRU purchasing divisions. The minimum hourly wage a contractor's employee was to receive if providing services to the City was \$8.85 and \$9.06 in 2004 and 2005 if the employer provided health insurance and \$10.10 and \$10.31 if the employer did not provide health insurance coverage.

ISSUE #1

Living Wage Ordinance Fiscal Impact Reports

Discussion

At the time the LWO was adopted, the City Commission directed the City Manager, City Auditor and General Manager for Utilities to provide an assessment regarding the incremental cost of the ordinance at six month intervals. The General Government and GRU Purchasing Divisions have prepared and issued such reports twice a year beginning with the six month period ending March 31, 2004. Reports summarize the fiscal impact of the LWO on new contracts and amendments or extensions to existing contracts occurring during the previous six months. The reports are not cumulative within a fiscal year, so the annualized impact of a contract only appears on one semi-annual report.

In FY 2004, General Government reported no fiscal impact from the LWO and GRU reported a fiscal impact of approximately \$209,000 from one contract. In FY 2005, General Government reported a fiscal impact of approximately \$19,000 from one contract and GRU reported a fiscal impact of approximately \$215,000 from one contract, for a total cost to the City of \$234,000. In the first six months of FY 2006, General Government reported a fiscal impact of approximately \$46,000 from one contract and GRU reported no fiscal impact from the LWO.

Conclusion

The results of our review indicate that management has provided timely and reliable reports regarding the incremental costs of the LWO to contractual costs of the City since the effective date of the ordinance. Reports summarize the annual fiscal impact of the LWO on new contracts and amendments or extensions to existing contracts occurring during the previous six months.

We believe the value and reliability of the reports would be enhanced by reducing the requirement for issuance of the reports to a fiscal year basis rather than the currently required semi-annual format.

Recommendation

We recommend that the City Commission authorize management to reduce the frequency of the LWO fiscal impact reports from once every six months to an annual report at the end of each fiscal year.

Management's Response

Management concurs with the recommendation to provide an annual LWO fiscal impact report at the end of each fiscal year.

ISSUE #2

Improved Documentation of Living Wage Ordinance Exemptions

Discussion

The LWO applies to covered services purchased by the City under a single contract exceeding \$100,000, unless the services being secured are part of a co-op purchasing bid. However, a contractor/subcontractor is exempt from the requirements of the ordinance if it employs less than 50 persons, is a not for profit organization, or is located in the City's Enterprise Zone. Administratively, the City's Purchasing Divisions provide prospective bidders information in applicable bid documents regarding the successful contractor's operating requirements under the ordinance, as well as a decision tree to assist the bidder in determining if they are exempt from the LWO.

If the bidder determines that they are not exempt from the LWO, they must certify their compliance and agree to pay all covered employees during the time they are providing covered services under the contract hourly wages that meet or exceed the living wage. If the bidder determines that they are exempt from the requirements of the ordinance, they note this in the returned bid packet. However, contractors are not required to identify which category of exemption applies to their organization.

Conclusion

The City has provided prospective bidders with detailed information necessary for the bidder to determine if the requirements of the LWO apply to the contract on which they are bidding. However, the specific basis for which a bidder claims exemption from the LWO is not documented. If the contractor noted the basis for their exemption, this would provide greater assurance to the City that the bidder understood and properly applied the requirements of the LWO.

Recommendation

We recommend management require all bidders claiming an exemption to the LWO to document the category of exemption that applies to their organization.

Management's Response

Management concurs with the recommendation and will require bidders to indicate the category of exemption that applies to their organization.

