ATTACHMENT A

FINAL REPORT FOR

CITY OF STOCKTON

ENTERPRISE RISK ASSESSMENT

November 1, 2016

Prepared by:

Moss Adams LLP

999 Third Avenue
Suite 2800
Seattle, WA 98104
(206) 302-6500

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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I. EXECUTIVE SUMMARY

This risk assessment provides the City of Stockton with a way to measure uncertainty related to 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 moderate to high. Of the 17 factors evaluated, one risk area was identified as high risk, while 11 were gauged as having moderate to high levels of risk. In comparison, the 2013 risk assessment rated 11 risk areas as high. For 2016, one risk area was assessed as having an increasing risk trajectory, while eight were decreasing and eight were flat.

Assessment results show that the City has made progress towards reducing risk since 2013. Many short- and long-term strategies to reduce risk have been implemented. Mitigation actions are defined within this assessment to provide the City with strategies for further reducing risk and strengthening performance. The 17 risk categories evaluated in this assessment, along with their associated 2013 and 2016 risk levels and trajectory as of September 2016, are provided below.

Risk Factor	2013 Risk Level	2016 Risk Level	Trajectory
A. Accounting and Financial Reporting	High	Moderate to High	Decreasing
B. Asset Management	Moderate to High	Moderate to High	Flat
C. Capital Program	Moderate to High	Moderate to High	Flat
D. Compliance	High	Moderate to High	Flat
E. Fraud, Waste, and Abuse	Moderate to High	Moderate	Decreasing
F. Funding and Economics	High	Moderate to High	Decreasing
G. Governance	Low to Moderate	Moderate	Increasing
H. Human Resources	High	Moderate to High	Flat
I. Internal Controls	High	Moderate to High	Decreasing
J. Management	High	Moderate to High	Decreasing
K. Operations/Service Delivery	Moderate to High	Moderate	Flat
L. Organization and Staffing	High	Moderate to High	Decreasing
M. Policies, Procedures, and Processes	High	Moderate to High	Decreasing
N. Procurement	High	High	Flat
O. Public Safety	High	Moderate to High	Flat
P. Risk Management	Moderate	Moderate	Flat
Q. Technology	High	Moderate	Decreasing
Overall Risk Level	**High**	**Moderate to High**	**Flat**

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As part of the risk assessment, 161 City employees responded to a web-based survey asking them to rate areas of risk. Overall, City employees reported lower risk than the Internal Auditor, as indicated by an overall employee rating of moderate versus an Internal Auditor rating of moderate to high. Employees rated risks lower than the internal auditor for most categories. Notable differences include the categories of Management (Internal Auditor moderate to high and employees low to moderate) and Procurement (Internal Auditor high and employees low to moderate).

A comparison of Internal Auditor risk ratings (risk assessment) and employees risk ratings (survey results) is provided below.

Risk Factor	Risk Assessment	Survey Results
A. Accounting and Financial Reporting	Moderate to High	Low to Moderate
B. Asset Management	Moderate to High	Moderate
C. Capital Program	Moderate to High	Moderate
D. Compliance	Moderate to High	Moderate
E. Fraud, Waste, and Abuse	Moderate	Low to Moderate
F. Funding and Economics	Moderate to High	Moderate
G. Governance	Moderate	Moderate
H. Human Resources	Moderate to High	Moderate
I. Internal Controls	Moderate to High	Moderate
J. Management	Moderate to High	Low to Moderate
K. Operations/Service Delivery	Moderate	Moderate
L. Organization and Staffing	Moderate to High	Moderate
M. Policies, Procedures, and Processes	Moderate to High	Moderate
N. Procurement	High	Low to Moderate
O. Public Safety	Moderate to High	Moderate to High
P. Risk Management	Moderate	Low to Moderate
Q. Technology	Moderate	Moderate
Overall Risk Level	**Moderate to High**	**Moderate**

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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 analyzed risk by evaluating 17 factors that define the City's business. Numerous business processes were 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 were included in the risk assessment process. This assessment includes information provided by City Council members, senior leadership, managers, and supervisors. This project was conducted from April through September 2016.

The process followed in the risk assessment consisted of four primary phases of work, including 1) planning, 2) fact finding, 3) risk assessment, and 4) risk reporting. Planning involved scheduling interviews, requesting documents, and designing a web-based employee survey. Fieldwork encompassed documentation review, interviews, and a web-based survey. Analysis included evaluation of the level of uncertainty associated with each factor, including the potential 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 and City Council. The risk assessment is reported at a specific point in time, which is May 2016 except where noted. 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 department directors and managers from each department. Full disclosure of information has been assumed in this process. Input was obtained from employees 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 that 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 activities, 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.

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III. RISK ASSESSMENT

A. ACCOUNTING AND FINANCIAL REPORTING

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	Moderate to High
Risk Trajectory	Decreasing
Risk Mitigation	• Continue to update, train, and enforce policies and procedures • Continue to strengthen analytical capability in Finance
Potential Residual Risk (if risks are mitigated)	Moderate

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.

The City has made significant progress since it entered bankruptcy in 2013. The City has successfully exited bankruptcy and caught up on its CAFRs. In addition, it has begun the planning process for acquiring and implementing a new enterprise resource planning (ERP) system and updating is financial policies and procedures.

The Administrative Services Department (ASD) has undergone significant leadership change with new personnel in the positions of Deputy City Manager, ASD Director/CFO, Deputy ASD Director, and a number of other key accounting and finance positions. However, the Department still has a number of accounting vacancies, which continues to limit its overall capacity. In the interim, the Department has utilized consultants to help fill gaps and address immediate needs.

Sixty-four percent (64%) of survey respondents ranked accounting and financial reporting risk as low or low to medium. Only 6% of survey respondents ranked this area as high risk.

The City has made progress on many of the audit findings that have been generated from various sources (e.g., external auditor, internal auditor, State of California, and Grand Jury). As of July 21, 2016, 188 of 336 findings were reported as completed by the City, and 76 of the completed findings were validated as complete by the Internal Auditor.

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B. ASSET MANAGEMENT

Risk Level	Moderate to High
Likelihood	Moderate
Impact	High
Risk Trajectory	Flat
Risk Mitigation	• Utilize Facilities Condition Assessment results to prioritize and address facility repair needs • Develop a plan to proactively address tree maintenance • Leverage data from Cityworks to more efficiently and effectively maintain and operate assets
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. The City's asset management activities are led by the Public Works Department, which manages facilities, forestry, solid waste, transportation, fleet, and parks maintenance, and Municipal Utilities Department (MUD), which manages the water, wastewater, and stormwater infrastructure). Public Works is responsible for the delivery of the City's capital program.

Many of the City's assets are aging, and the City has a growing deferred maintenance need. The 2016-2021 CIP estimates the total cost of identified projects to be $1.3 billion. While many asset needs have been estimated, the full cost to maintain and repair the City's buildings, roads, sidewalks, fleet, and other infrastructure is likely higher, as not all needs have been quantified.

Due to financial constraints, 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 typically needs to 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.

Fifty-seven percent (57%) of survey respondents rated asset management risk as low or low to medium. Staff reported a lack of understanding or assessment of physical asset risks in each department and inadequate condition standards and goals. Staff also indicated that the City tends to replace assets rather than repair them. Multiple departments expressed the need for more comprehensive inventory management. Survey respondents also expressed a general sense that the City has historically been in a reactive mode and not adequately kept up with maintenance and repair needs.

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City assets with major deferred maintenance needs include:

- Trees: The urban forest is reported to be the City's current highest risk asset. The City is responsible for 98,000 trees, and it received a Cal Fire grant to develop a comprehensive tree inventory. The City does not prune trees, but it outsources tree removals to a private company. In February 2016, the City awarded a contract to address the 650-tree removal backlog. Tree limb falls and sidewalk uplift create both safety and liability risks to the City. While preventive maintenance is currently not part of the City's budget, maintenance of the City's trees is critical to meeting State of California climate goals, as well as contributing to public health. Regular pruning and maintenance would reduce the risk of limbs causing damage to people and property.
- Parks: The City maintains 66 parks, 50 of which are funded by the General Fund. Parks maintenance is contracted to a private company. Irrigation equipment is aging but functional. Playground equipment is the largest area of need, as much of the City's park equipment may not meet current safety or accessibility standards; this is estimated to cost $12 million. In addition, vandalism is a high cost of parks maintenance, and the City estimates a current $1 million replacement backlog due to wire theft.
- Facilities: The City owns 800,000 square feet of building space, with more than $10 million identified in maintenance needs. Currently, only $450,000 is allocated annually for emergency repairs. The City plans to conduct a Facilities Condition Assessment in the coming months, which will allow the City to determine the cost and priority of repairing City-owned buildings. It is known that roofs across the City are in need of repair. Five facilities are in need of significant repairs, including the City Hall, main library, main police station, Civic Auditorium, and Stewart Eberhart Building (SEB).
- Transportation: The City's transportation infrastructure is in part funded by Measure K, which was passed in 1990 and funds transportation projects in San Joaquin County. The City's current pavement condition index is 64 out of 100, with an estimated $10 million annual investment needed to improve roadway conditions. The City does not maintain a sidewalk inventory, but it includes curb cuts and ramps for ADA compliance in its annual work program.
- Fleet: A fleet utilization study was conducted in 2013. The City is converting to CityWorks for fleet management, and has improved processes as part of that transition. There is a backlog of repairs to the Fire Department's heavy equipment, which Fleet is now halfway through addressing.
- Sewer: The City operates an old wastewater treatment plant, which operates technology that will not meet state permit requirements anticipated in 2024. Replacement is budgeted through $150 million in sewer rate revenues and either bonds or a State Revolving Loan (SRF) loan. The City expects to award a design-build contract to construct a new treatment plant this year. Most of the City's 24 lift stations have maintenance needs.

  Stormwater: The City's storm drainage system has been neglected for some time. The stormwater fee of $2.10 per month per household was established in 1992, and a vote to increase the fee failed in 2010. As a result, maintenance is reactive, and the City has significant risk of flooding during major storms. Many of the 72 stormwater pump stations are flood risks.

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Since the 2013 risk assessment, the City has made a significant investment in a new Computerized Maintenance Management System (CMMS), Cityworks. A modern CMMS plays a vital role in helping cities to maintain and operate its assets.

C. CAPITAL PROGRAM

Risk Level	Moderate to High
Likelihood	Moderate
Impact	High
Risk Trajectory	Flat
Risk Mitigation	• Seek grants and alternative funding sources for capital needs • Continue to plan for annual funded maintenance based on prioritized CIP • Quantify capital needs
Potential Residual Risk (if risks are mitigated)	Moderate

The City's capital improvement program (CIP) is almost entirely non-General Fund projects. The CIP is updated annually, along with the City's budget. The FY 2015-2020 CIP totals $636 million, $51 million of which is in the current fiscal year budget. Of the CIP projects, the City has identified $381 million in funded projects and $255 million in unfunded projects. While the current year is fully funded, years two through five have yet to be fully funded.

Currently funded projects include:

- LED street light replacement
- City Hall relocation
- SEB improvements
- Roadway widening projects
- Wastewater treatment plant replacement

A number of other projects have been identified, but repair and replacement costs have not been determined. These projects will continue to contribute to the City's deferred maintenance backlog, as discussed above.

Fifty percent (50%) of survey respondents ranked the capital program risk as medium or medium to high, with 19% ranking the area as high risk. City staff generally characterized the City's infrastructure as in poor shape, and indicated there is inadequate investment to repair facilities. Many staff are unaware of capital improvement plans.

The City utilizes a combination of internal and external resources to implement annual capital programs. For instance, a number of Public Works employees are funded by projects. However, the reliance on

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project funding for some Public Works personnel creates the challenge of retaining employees from project to project. In addition, both Public Works and MUD continue to experience challenges filling some key technical positions (e.g., engineering and plant operations), due to the City's fiscal challenges.

D. COMPLIANCE

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	Moderate to High
Risk Trajectory	Flat
Risk Mitigation	• Determine resource needs to implement and monitor commercial recycling and organics waste programs • Developing a comprehensive risk management plan that addresses compliance requirements citywide
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 laws and regulations
- ADA requirements
- Grant requirements

Overseeing proactive compliance throughout the City depends primarily on individual departments and the City's Risk Manager, while the external auditor and internal auditor reactively evaluate elements of 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.

Fifty percent (50%) of survey respondents consider regulatory compliance risk as low or low to medium. Respondents indicated the need for educating employees on regulatory requirements and providing tools to assist with compliance. Community Development/Permit Center employees indicated that the Department currently does not have the resources required to meet all regulatory commitments, and it is barely keeping up with training on new requirements due to staffing shortages. Five new positions were authorized in the FY 16-17 budget to address the workload. Fire also stated that staffing shortages, combined with high workload, hinder compliance and timely reporting. Municipal Utilities staff reported that current regulatory compliance is a concern. The City has been sued by several third-party environmental groups, which forced some compliance, and there is risk of additional lawsuits particularly because the sewer system is old and State stormwater regulations could overwhelm the City's financial capacity. Public Works does not have a Hazardous Waste Coordinator, which places the City at risk for injury, exposure, and fines for improper disposal.

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Recent state laws AB 341 and 1826 require the City to establish commercial recycling and organic waste programs. Under these laws, the City is responsible for education, outreach, and monitoring. However, the City has not yet secured staff and resources to implement, monitor, and report on these programs. CalRecycle will formally review all jurisdictions for compliance in 2020. For both AB 341 and 1826, if CalRecycle reviews the program and determines that the City has "not made a good faith effort in implementing" a program, then it can place the City on a compliance order.

The City developed a new grants management Administrative Directive and supporting policies and procedures, and it is in the implementation phase.

While the City has made progress addressing audit findings that have been generated from various sources (e.g., external auditor, internal auditor, State of California, and Grand Jury), 148 of 336 findings have not been completed by the City, including findings from the CAFR and A-113 audits. However, a number of findings will not be fully resolved until the City implements a new ERP system.

E. FRAUD, WASTE, AND ABUSE

Risk Level	Moderate
Likelihood	Moderate
Impact	Moderate to High
Risk Trajectory	Decreasing
Risk Mitigation	• Conduct FWA training for all staff • Continue to strengthen management controls
Potential Residual Risk (if risks are mitigated)	Low to Moderate

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 this obligation, it could result in instances of fraud, waste, or abuse. 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 surveyed regarding fraud, waste, and abuse (FWA). The majority (61%) of respondents reported fraud, waste, and abuse risk as low. Most staff felt that there were adequate checks and balances in place to prevent FWA, although there is risk related to errors due to inadequate experience, knowledge, or training.

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The City has undertaken a multi-year process to strengthen its internal controls. However, when management and controls are not fully in place, FWA risk remains. Key areas where FWA can occur include, but are not limited to, cash handling, procurement of goods and services, grants management, and hiring employees.

The recognition that FWA can occur is the first step towards decreasing risk. A second step is workforce training and awareness and continuing focus on risk management and mitigation. The City has established a fraud hotline and online reporting, conducted Councilmember and City executive training, and will begin training employees and management in the coming fiscal year.

F. FUNDING AND ECONOMICS

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	High
Risk Trajectory	Decreasing
Risk Mitigation	• Continue to seek efficiency improvements in service delivery • Continue to utilize long-term financial forecasting to model scenarios • Seek innovative funding solutions for major capital needs
Potential Residual Risk (if risks are mitigated)	Moderate

In 2013, the category of funding and economics was considered the City's most significant risk, and it was the root cause of many other challenges facing the City. Since then, the City has emerged from bankruptcy to a more stable financial footing. The City's bond rating has improved from CC in 2013 to Ba2 in 2015, an improvement from high to medium risk as defined by rating agencies.

The City's Plan of Adjustment included major renegotiations of labor contracts, as well as a sales tax increase, Measure A, which funded bankruptcy recovery and the Marshall Plan on crime. Significant spending cuts helped reduce pressure on the City's budget, but the City also negatively impacted service delivery. The City's long-range financial plan focuses on public safety investments and the provision of basic services.

State water reduction requirements during the recent drought impacted water revenues. A water rate increase was approved in May. As a result, the City will raise water rates 38.5% over five years to address the reduction in water revenue due to water conservation efforts.

Most survey respondents (76%) ranked funding and economics risk as low, low to medium, or medium, while 10% ranked this area as high risk. Most staff felt the City is in a stable position as long as departments adhere to the long-range financial plan and the economy continues to recover. Community Services respondents expressed concerns that the Department does not operate from a cost recovery basis.

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In contrast to the short-term, the medium- and long-term risk trajectory is more uncertain due to potential fluctuation in revenue and long-term liabilities. However, the City has developed a long-range financial plan (LRFP) to help guide and inform financial decisions. Based on the current LRFP, the City's reserves and working capital are sufficient through the next ten fiscal years, during which the City plans to set aside reserve funds to meet planned debt obligations.

G. GOVERNANCE

Risk Level	Moderate
Likelihood	Moderate
Impact	Moderate to High
Risk Trajectory	Increasing
Risk Mitigation	• Develop strategies to engage citizens in advisory boards and commissions • Develop Council onboarding and education process • Increase communication between the internal auditor and Council
Potential Residual Risk (if risks are mitigated)	Low

Governance encompasses 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 Stockton's form of government is a City Council/City Manager structure. Two Deputy City Managers assist with directing day-to-day operations.

Governance is the one area of this risk assessment in which the City's risk has the potential to increase since 2013. This is largely due to turnover on the City Council that may occur in the November 2016 election. At that time, five of seven Council seats will be up for election, including the Mayor. The upcoming election and associated campaigns have caused strain, as they tend to do, on the City Council. These challenges have been magnified due to the public issues the Mayor faces, which have increased the perception of instability on the Council. It is possible that a majority of the City Council will turn over, which would significantly reduce continuity on the Council. Also on the ballot is a measure to change Council seats from at-large to district representatives, which may lead to further turnover in the next Council election. This could increase the burden on City staff to educate new Council members and ensure they have the information and tools at their disposal to make sound decisions.

The City has 24 volunteer advisory and decision-making commissions and boards. As of June 2016, there were 28 vacancies on City boards and commissions. Citizen engagement on advisory boards and commissions is critical to strong governance, and a lack of participation can impede decision-making and service delivery.

A citizen Charter Review Commission met from 2013 to 2016 and provided recommendations for revisions to the City's charter. Regular charter review is a best practice that ensures that City

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governance adheres to contemporary business practices and aligns with the goals of City residents. The City Council accepted some of the Commission's recommendations, which will move to the ballot in November.

Sixty-four percent (64%) of survey respondents ranked governance risk as low or low to medium.

H. HUMAN RESOURCES

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	High
Risk Trajectory	Flat
Risk Mitigation	• Develop succession plans for key positions • Continue to prioritize recruitment of vacant positions • Continue to provide focus on solutions to reduce turnover in public safety • Define clear career paths • Deliver competency-based training aligned with career paths and reflective of succession requirements
Potential Residual Risk (if risks are mitigated)	Moderate

Human resources functions encompass hiring and firing, compensation and benefits, talent management, training, and organizational development. The City's highest human resources risk area and overall challenge is recruiting qualified candidates. The City's post-bankruptcy image deters some candidates, who are concerned about job security, organizational culture, and crime rates.

Sixty-eight percent (68%) of survey respondents ranked human capital risk as medium, medium to high, or high, with 28% responding that it is an area of high risk. Succession planning is a concern for a number of departments. Many respondents noted the need to provide training opportunities and tracking for staff, especially for employees needing to maintain licenses. Poor performance is often not documented or addressed due to inconsistent interpretations and practices; workloads limit training opportunities; and compensation and benefits were often cited as a reason that departments struggle to secure and retain qualified staff. Fire and Police Department respondents noted that they are understaffed, resulting in overtime requirements, and have poor compensation/benefits packages and training options in comparison with other public safety departments.

City employees have high workloads and typically get strong experience. On-the-job training is varied and valuable in many departments. As a result, City personnel are frequently recruited by other municipalities. A more robust culture of performance management could help to develop employees and give them leadership opportunities within the City.

In FY 2012-2013, the City's turnover rate, excluding retirements, was 8.27%. By FY 2014-2015, the turnover rate had reduced to 6.21%. However, the City continues to struggle with recruiting and

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retaining police officers, especially given the Marshall Plan goal to hire 250 new officers. Since FY 2012-2013, the sworn officer turnover rate has increased from 9.6% to 13.1%. This is due to a number of factors, including total compensation and benefits, high workloads, and other municipalities actively recruiting experienced Stockton police officers. The City implemented compensation adjustments for FY 2016-2017 for police officers.

As noted in 2013, employee morale remains relatively low for many positions, although managers indicated morale has improved since emerging from bankruptcy. At the heart of morale is change, especially in the form of turnover, takeaways, and reorganization. Due to the City's financial condition, benefits were directly affected. The loss of funding and retirement benefits has significantly affected the psychology of the City's workforce.

The City's Human Resources Department has been operating at a leadership deficit for some time. A number of managers left the department in the past year, leaving the Assistant Director, Deputy Director, and Risk Manager positions vacant. This led to delays to a number of initiatives. The focus over this time has been on recruiting and meeting compliance requirements.

The City's workforce participates in nine different labor unions. Labor management and relations affect daily operations. Post-bankruptcy, labor contracts were only one year in length, requiring frequent negotiations. As of this year, most agreements will move to multi-year contracts.

The City utilizes many part-time workers. Human Resources monitors the hours worked by part-time workers to ensure compliance with the Affordable Care Act. The City will need to prepare for and determine the potential impact of the new Federal law that increases annual wages from $23,660 to $47,476 for those employees who are overtime eligible. This law will become effective on December 1, 2016.

Stockton also faces the same challenges as many other public and private sector organizations stemming from the impact of retiring Baby Boomers and the need for succession planning. It is estimated that approximately 33 percent of the City's workforce is eligible for retirement based on the CalPERS requirement of five years in the California retirement systems and 50 years of age. As shown in the tables provided below, of the 1,793 current City employees, 13 percent have more than 20 years of service and 33 percent are over the age of 50.

Years of Service	Employee Count	Percentage
Less than 1 year of service	284	16%
1 to 5 years of service	569	32%
6 to 10 years of service	252	14%
11 to 15 years of service	273	15%
16 to 20 years of service	195	11%
21 to 25 years of service	141	8%
26 to 30 years of service	50	3%

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Years of Service	Employee Count	Percentage
31 to 35 years of service	18	1%
More than 35 years of service	11	1%
Total	1,793	100%

Employee Age	Employee Count	Percentage
15 to 19 years	25	1%
20 to 29 years	292	17%
30 to 39 years	421	24%
40 to 49 years	480	27%
50 to 59 years	386	22%
60 and older	189	11%
Total	1,793	100%

Governmental entities tend to be impacted more than businesses by this generational retirement, because governments are not typically as active in recruiting employees directly out of college, which helps to diversify the age spectrum. In addition, governments typically offer generous retirement plans, which provide a financial foundation for retirement. Succession plans for key positions will be critical to addressing retirements.

I. INTERNAL CONTROLS

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	Moderate to High
Risk Trajectory	Decreasing
Risk Mitigation	• Document and implement control procedures • Train City personnel relevant to their respective areas of responsibility • Develop a cyclical and random internal controls test program • Review and test control effectiveness on an annual basis, especially high risk areas
Potential Residual Risk (if risks are mitigated)	Moderate

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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.

The internal audit program has focused on assessment, testing, training, and process improvement of internal controls since 2013. Over that time, the City has made progress in a number of areas, including processes such as month end close, reconciliation, journal entry posting, cash handling training, and deposit processing. Through the Administrative Directives update project, the City has improved some written procedures. Communication regarding controls has also improved across the City. There is still a major need for written policies and procedures to implement and maintain controls. Staffing constraints have limited robust checks and balances and the completion of some quality controls.

Fifty percent (50%) of survey respondents ranked internal controls risk as low or low to medium, and 46% ranked internal controls risk as medium or medium to high. Some respondents expressed concerns regarding the lack of adequate documentation for accounting activities and insufficient oversight over contract development and management. The Fire Department reported a lack of sufficient staff to complete equipment testing requirements.

In the near future, the ERP implementation will help with documenting controls and improving processes. The new P-card process will improve purchasing controls. However, it also requires staff time to address mitigating controls. Likewise, the City's new grants administration process includes stronger controls, but it will require additional staff time for oversight. The City should consider adding a grants management module to the new ERP system.

J. MANAGEMENT

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	High
Risk Trajectory	Decreasing
Risk Mitigation	• Develop succession plans • Prepare a strategic plan and implement key performance indicators • Continue to foster interdepartmental collaboration
Potential Residual Risk (if risks are mitigated)	Moderate

In 2013, nearly every department director was new to the City. Since then, management turnover has continued, with many directors aggressively recruited to other cities, which could be expected following recovery from bankruptcy. In that time, the City Manager, Deputy City Manager, ASD Director, and IT, HR, MUD, Community Development, and Community Services Directors have turned over. However, it is

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important to note that the new City Manager was one of the City's Deputy City Managers. In some departments, including ASD and HR, middle management has also been recruited away from the City.

Despite the management turnover, the City successfully filled positions with qualified personnel and implemented priority-based planning toward City Council strategic targets, and new directors and managers have been able to step into clearly defined roles. Department directors have reported that some managers may be moving up earlier than they would typically be ready, as mentorship and leadership development opportunities are limited by above average workloads.

The City is planning to undertake a strategic planning process in early 2017 after the new City Council is in place. A performance management program has just begun, and it will be tied to the strategic plan goals and objectives.

Fifty-nine percent (59%) of survey respondents ranked management risk as low or low to medium, and 7% of the respondents ranked management risk as high. As noted in 2013, a management transition of this nature consumes significant time, and it will continue in the short term.

K. OPERATIONS AND SERVICE DELIVERY

Risk Level	Moderate
Likelihood	Moderate
Impact	Moderate to High
Risk Trajectory	Flat
Risk Mitigation	• Continue to update policies and procedures • Develop succession plans for key positions • Continue to leverage technology to improve service delivery • Seek alternative funding for service and program expansion
Potential Residual Risk (if risks are mitigated)	Low to Moderate

Since the bankruptcy, the City has focused on two major priorities, including public safety and basic service delivery. Reductions in staffing have eliminated or significantly reduced some programs and services. Technology investments, in particular the CMMS, ERP, and permitting system, will create process and service delivery improvements.

Seventy-six percent (76%) of survey respondents ranked operations as medium risk or lower, and 13% ranked it as high risk. Reduced staffing models cause challenges with regard to providing timely, accurate, and complete internal and external customer service. Fire Department staff report struggles due to shortage of staff, overtime requirements, inexperienced staff, minimal time to attend trainings, large call volumes, and the nature of the work itself. Overall, staff from most departments indicated that staffing shortages result in the inability to properly train staff, translating to poorer service delivery.

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However, several departments noted that there have been improvements due to hiring of new, motivated staff members.

Areas of potential operational and service delivery risk identified through the risk assessment process include, but are not limited to:

- Police: High turnover and subsequent lower experienced workforce is a risk to delivering effective public safety services.
- Human Resources and Administrative Services: Management turnover impacts the ability to address strategic and long-term projects.
- Fire: Staffing challenges, especially in fire prevention and management, slow program operations and limit revenue collection ability.
- Engineering: Limited staffing impacts the ability to quickly process permit applications.

L. ORGANIZATIONAL AND STAFFING

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	High
Risk Trajectory	Decreasing
Risk Mitigation	• Continue to fill vacancies • Seek creative solutions for difficult to fill positions
Potential Residual Risk (if risks are mitigated)	Moderate

Organizational and staffing encompasses hierarchy, chain of command, span of control, and staffing levels. Staffing includes specific positions, counts, and capacity. The City's organizational structure consists of 12 departments, with nine reporting to the City Manager. The City outsources a number of functions, including parks maintenance, tree removals, janitorial service, engineering design, inspection, traffic engineering, and construction management.

As identified in the 2013 risk assessment, the City continues to operate with two major issues that impact personnel risk. First, there is the well-recognized capacity issue, where not enough resources are in place to get the City's business fully accomplished. Second, many personnel are new to their roles, including several members of the City's senior management team. These factors impact the City's organizational efficiency and effectiveness.

Post-recession, 40 percent of the City's workforce was eliminated. Post-bankruptcy, many employees left the City, leaving the organization with many vacancies. The City's Human Resources Department has prioritized recruiting staff and filling vacant positions. By focusing on departments that were staffed at a level lower than 85% of budgeted positions, HR has helped departments to address backlogs that began several years ago.

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Forty-seven percent (47%) of the survey respondents ranked organizational and staffing risk as medium or medium to high. Due to the bankruptcy, staffing reductions have increased most staff members' workload. Most departments reported that they are understaffed, particularly Community Services, Fire, and Police. Many staff expressed concerns that compensation is below market levels, making it difficult to hire and retain qualified staff. The City implemented significant compensation adjustments for FY 2016-2017.

M. POLICIES, PROCEDURES, AND PROCESSES

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	Moderate to High
Risk Trajectory	Decreasing
Risk Mitigation	• Continue to update policies and procedures • Institutionalize the ongoing policy review and update process • Improve workflows and processes as systems and technology are updated
Potential Residual Risk (if risks are mitigated)	Moderate

Policies and procedures play a critical role in providing the guidance required to ensure all functions operate efficiently, effectively, safely, and consistently across the City. Policies and procedures also play an important role in protecting against the loss of institutional knowledge. Stockton has a significant body of existing Administrative Directives, policies, and procedures across departments and functions.

In the fall of 2014, the City convened a cross-functional Directive Oversight Committee to fully review and update the City's Administrative Directives, policies, and procedures. Led by the City Manager's Office, the Committee has prioritized and assigned policies for update. While updates stalled somewhat post-bankruptcy, the Committee is now fully staffed and moving according to schedule. A significant amount of work remains to bring all citywide policies and procedures up to date.

Workflow and operational processes are linked strongly to technology utilization. Seventy-six percent (76%) of survey respondents ranked processes risks as low, low to medium, or medium. Some respondents reported that important software systems are old and cause the need for manual work, resulting in errors and inefficiencies. For example, the existence of many databases, results in a challenge when searching for information in response to public records requests. IT stated that workflows need to be formalized, such as technology acquisitions, system development lifecycle, and help desk maintenance. Many departments stated that the processes involving multiple departments tend to be inefficient.

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N. PROCUREMENT

Risk Level	High
Likelihood	High
Impact	High
Risk Trajectory	Flat
Risk Mitigation	• Develop and implement procurement policies • Improve processes in tandem with ERP implementation • Ensure employees are trained in proper procurement practices • Centralize procurement oversight to the extent feasible with current staff
Potential Residual Risk (if risks are mitigated)	Moderate to High

The City's Purchasing Division resides within the Administrative Services Department. Purchasing is decentralized with departments leading most procurement activities. In the 2013 risk assessment, many deficiencies with procurement procedures, management, and controls were identified. A consultant was hired by the City to specifically address procurement issues. However, a new procurement policy is not yet in place and most improvements have yet to be implemented.

Sixty-three percent (63%) of survey respondents ranked procurement risk as low or low to medium. Despite training, the procurement process is reported as slow and burdensome, in part, due to the manual process of tracking contracts, requiring paper to be routed between departments for review and signatures. Staff reported a lack of understanding when contracts are needed for goods and service, contributing to inconsistent purchasing among departments. IT staff reported multiple procurement challenges, including the current financial system does not have a clear routing procedure to ensure timely authorization, manual workflows, and a lack of quality support for requests for proposals and other bid services assistance.

A number of risk-reducing changes to the City's procurement environment are planned for the next fiscal year. A new P-card system is in the implementation process. The City's investment in a new ERP will strengthen procurement management, processes, and controls. Addressing procurement policies and procedures is a priority for ASD, and there are plans to hire a Procurement Manager supported by two supervisors and four buyers.

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O. PUBLIC SAFETY

Risk Level	Moderate to High
Likelihood	Moderate to High
Impact	High
Risk Trajectory	Flat
Risk Mitigation	• Ensure the City continues to competitively recruit to fill vacancies • Develop comprehensive emergency operations plans with associated training for City employees and stakeholders • Aggressively seek alternative funding solutions
Potential Residual Risk (if risks are mitigated)	Moderate

The Police and Fire Departments comprise the City's public safety functions. These two functions are responsible for 73 percent of the City's FY 2015-16 General Fund operating expenditures. While Stockton has steadily improved public safety outcomes in recent years, the City continues to suffer from the perception that it is unsafe.

Sixty-two percent (62%) of survey respondents ranked public safety risk as medium to high or high. Turnover and poor retention of newly hired staff are significant risks to the Fire and Police Departments. Currently, each department is focused on retaining and recruiting first responders. Many staff believe the solution to this is to increase salary and benefits. Some staff noted that there have been very limited drills and training on emergency procedures, placing City employees at risk.

Police

The Police Department has been a major focus of the City since the passage of Measure A in November 2013, which prioritized and funded public safety initiatives and staffing. Sixty-five percent of the tax is dedicated to public safety. When Measure A was passed, the City had 320 sworn officers, and has made significant progress this calendar year; there were 396 sworn officers in May, and as of this report issuance in November, there were 419. This year, the City is on target to hire 80 new officers toward the Measure A goal of 485.

As noted previously, retention is a major challenge for the Department, with the sworn officer turnover rate increasing over the past three years. The City has had difficulty recruiting qualified candidates due to comparatively lower pay and higher crime, but it is able to meet recruiting goals. High overtime utilization creates concern about officer burnout, since high call volumes are both physically and emotionally challenging for officers. Tired officers are more likely to make mistakes, putting the City and the community at risk. Ultimately, high turnover results in a younger, less experienced police force. Currently, patrol officers have an average of two years' experience. The City is attempting to mitigate this risk by investing heavily in training and development and creating a wellness network and morale improvement program.

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Reducing violent crime is a City priority, and the City's 2015 crime rate was the lowest reported since 2000. The City has instituted a cease fire model of community policing, focusing on reducing gun and gang violence. The City is attempting to leverage creative solutions to reduce violent crime and interrupt a generational cycle of gang membership.

Improving trust between police and the community is an area of focus for risk reduction. The City installed body cameras on officers this year and has significantly increased the number of crime analysts in the Department to utilize data to more effectively address crime. Stockton is a pilot community for the US Department of Justice National Initiative for Building Community Trust.

Like many other West Coast cities, homelessness and the opiate epidemic have created increased public safety challenges for Stockton. The City has seen an increase in property crimes. Most solutions for homelessness and drug addiction are provided by the County, and City police officers play a coordinating role.

Fire

The Fire Department has a new chief as of January 2016. Many leadership positions in the Department are vacant, including the Deputy Chief, Support Chief, Emergency Communications Manager, and Fire Marshal. This leaves the Department constrained, especially related to training, development, and prevention. Like the Police Department, Stockton firefighters are aggressively recruited by other cities. In particular, the lack of fire prevention staff and a Fire Marshal has impacted the City's ability to process permit applications and collect building fees efficiently.

This year, the Department has prioritized recruiting. The Department has shortages in many roles, especially EMTs. Fire stations have minimum staffing requirements, which means the City is spending more on Fire Department overtime than is ideal due to staffing shortages. The Chief is particularly interested in hiring firefighters who live in Stockton and reflect the community's diversity. The City has begun running fire academies again, and it is actively recruiting new firefighters. In the first quarter of FY 2016-2017, the City filled 98% of sworn authorized Fire Department positions.

Technology is a significant need in the Fire Department. Both the CAD and dispatch systems are in need of replacement, which would improve the City's ability to respond quickly to incidents. Likewise, the Chief plans to implement a comprehensive performance management program to more efficiently and effectively manage with limited resources.

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P. RISK MANAGEMENT

Risk Level	Moderate
Likelihood	Moderate
Impact	Moderate to High
Risk Trajectory	Flat
Risk Mitigation	• Develop Emergency Operations Plan and continue to regularly train staff • Develop Continuity of Operations Plans (COOP) for each department
Potential Residual Risk (if risks are mitigated)	Low to Moderate

While risk management is a citywide responsibility of all management and staff, Risk Services resides within the Human Resources Department. Risk Services encompasses insurance, subrogation/recovery, general liability, workers' compensation, and safety.

Eighty-one percent (81%) ranked risk management risk as low, low to medium, or medium. Some respondents mentioned that worker's compensation is not competitive with surrounding areas for the same job categories. Many respondents reported "not knowing" about risk management.

Workers' compensation cases and average days off have decreased from FY 2013-14 to FY 2015-16, as shown in the table below.

Workers' Compensation Claims and Average Days Off

	FY 2013-14	FY 2014-15	FY 2015-16
New Claims Added	615	929	543
Average Days Off	13.9	11.7	11.5

Insurance claims and payments made by the City in the past three fiscal years totaled $2,522,935. The most frequent types of claims are strains, something other than a physical cause of injury, and injuries stemming from animals and insects. A number of areas were identified as presenting a risk of liability to the City, including:

- Tree population is vulnerable to wind and rain and creates sidewalk hazards
- Information technology security
- Safety of aging facilities

Emergency preparedness is an additional component of risk management. The City's emergency preparedness program is managed by the Fire Department, which has limited capacity to develop plans and provide training. The City's initial emergency operations plan was adopted in 2012. There has been limited communication and training toward the plan to date, and the Fire Chief and City Manager's Office expect to update the plan in the coming years.

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Q. TECHNOLOGY

Risk Level	Moderate to High
Likelihood	Moderate
Impact	High
Risk Trajectory	Decreasing
Risk Mitigation	• Centralize IT staff reporting, cross-train staff, and develop IT service teams • Conduct an IT security assessment, including penetration testing, and implement security measures • Successfully implement new ERP, including robust change management plan
Potential Residual Risk (if risks are mitigated)	Moderate

The City has made numerous improvements to technology since the 2013 risk assessment. Most significantly, the City is currently in the system selection phase of an ERP replacement project. The City expects to have a vendor selected by December 2016. Other systems that have been replaced or upgraded since 2013 include CityWorks CMMS, Acela permitting, Office 365, SharePoint, and the City's website.

A number of technology needs remain unaddressed, especially in the areas of IT security and cloud infrastructure. The City does not have a security officer, technology recovery plan, remote access plan, or continuity of operations plan. The IT Director has improved IT governance through a revised Technology Capital Plan. However, many IT responsibilities are decentralized in departments, which limits the City's ability to cross-train staff and provide a high level of service. Recruiting qualified applicants to City IT roles is a challenge.

Survey response risk ratings for technology were distributed roughly equally, ranging from 20% to 25% each, across low, low to medium, medium, and medium to high. Several departments noted that planning and implementation of IT projects could benefit from improvement. Respondents noted that there is no centralized document management system, which poses risks in terms of public record requests, and the move to SharePoint has not been clearly communicated and its purpose/use has caused confusion. Fire Department respondents noted that they have significant technology needs.

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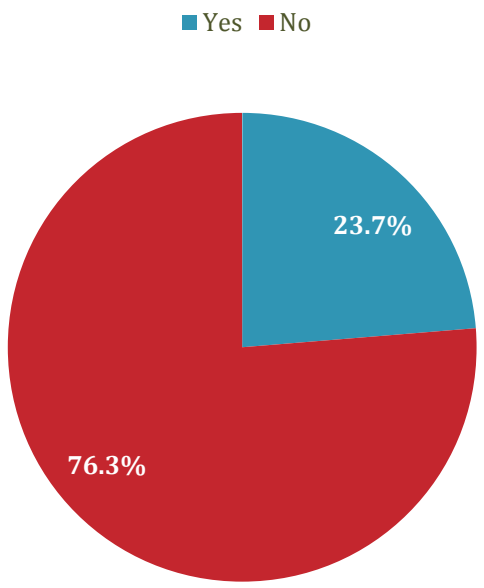
IV. SURVEY RESULTS

Respondent Profile

- 161 respondents
- At least 3 respondents from each department
- On average, in current position for 7 years
- On average, working for the city for 16 years

Have you been formally trained in risk management or risk mitigation?



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Who is Directly Responsible for Risk management?		
	Response Percent	Response Count
Department Manager	74.5%	70
City Manager	66.0%	62
Department Leads	61.7%	58
Process Owners	46.8%	44
None	1.1%	1
Other	38.3%	36

Answers to "Other"

- All Employees
- City Attorneys
- Human Resources
- Individual
- Project Staff
- Risk Division
- Supervisors
- Unknown

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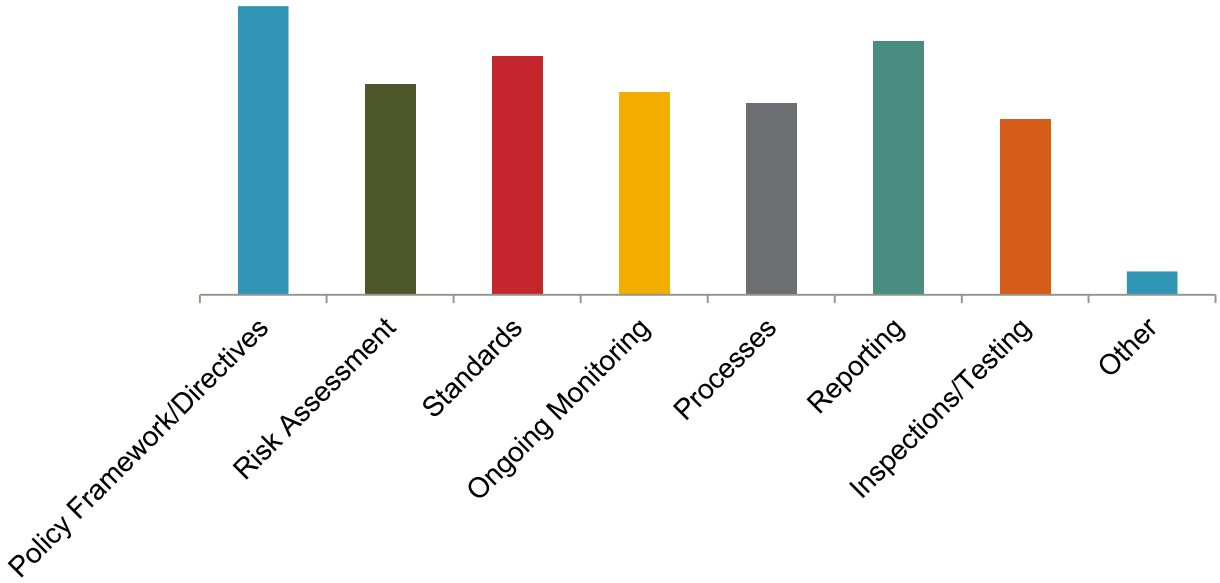
What formal processes, methodologies, and/or systems are in place to support risk management?		
	Response Percent	Response Count
Policy Framework/Directives	80.4%	74
Risk Assessment	58.7%	54
Standards	66.3%	61
Ongoing Monitoring	56.5%	52
Processes	53.3%	49
Reporting	70.7%	65
Inspections/Testing	48.9%	45
Other	6.5%	6



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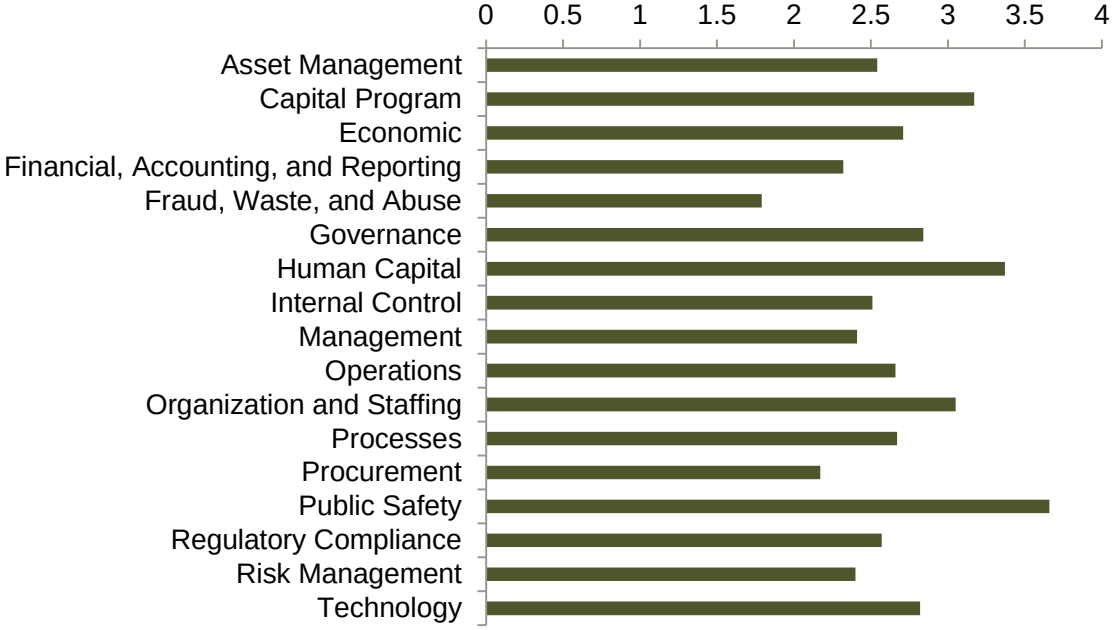
Overall Perceived Risk



Average Risk Ratings	
Asset Management	2.54
Capital Program	3.17
Economic	2.71
Financial, Accounting, and Reporting	2.32
Fraud, Waste, and Abuse	1.79
Governance	2.84
Human Capital	3.37
Internal Control	2.51
Management	2.41
Operations	2.66
Organization and Staffing	3.05
Processes	2.67
Procurement	2.17
Public Safety	3.66
Regulatory Compliance	2.57
Risk Management	2.40
Technology	2.82

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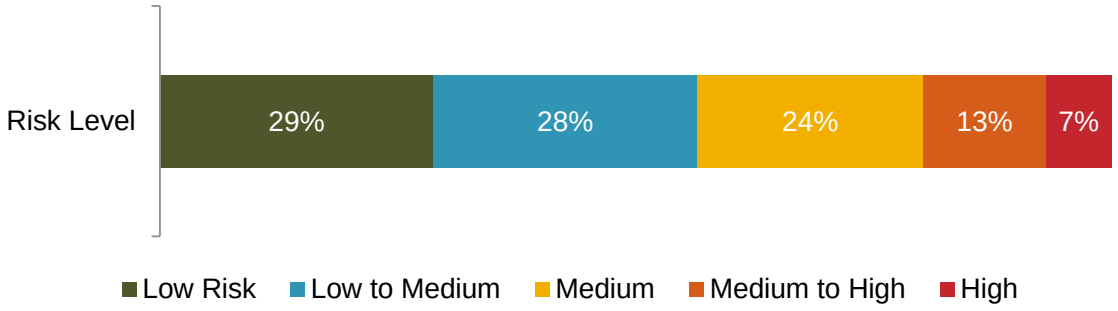
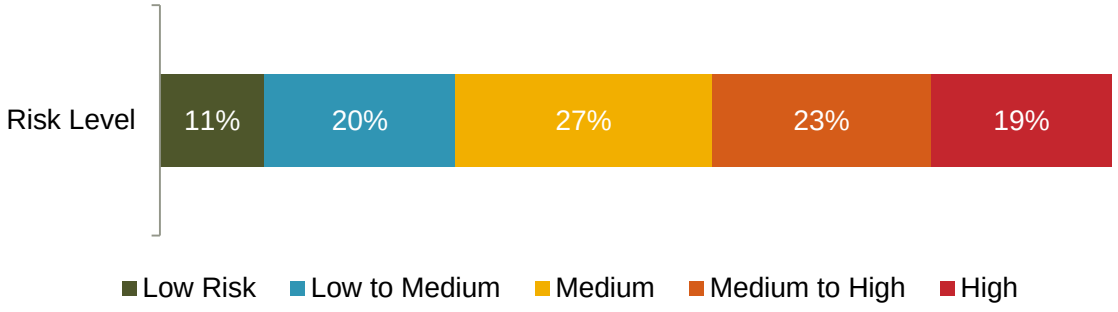
Asset Management

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



Capital Program

Risks associated with the City's program to meet its capital needs (e.g. buildings, streets, utilities, parks, and technology).



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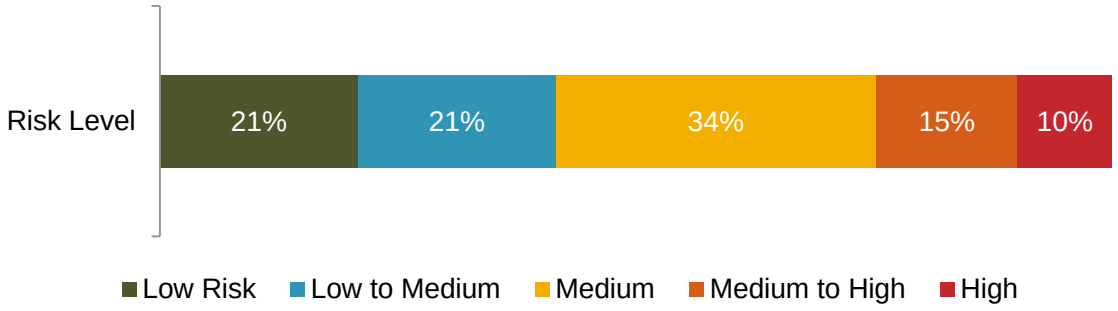
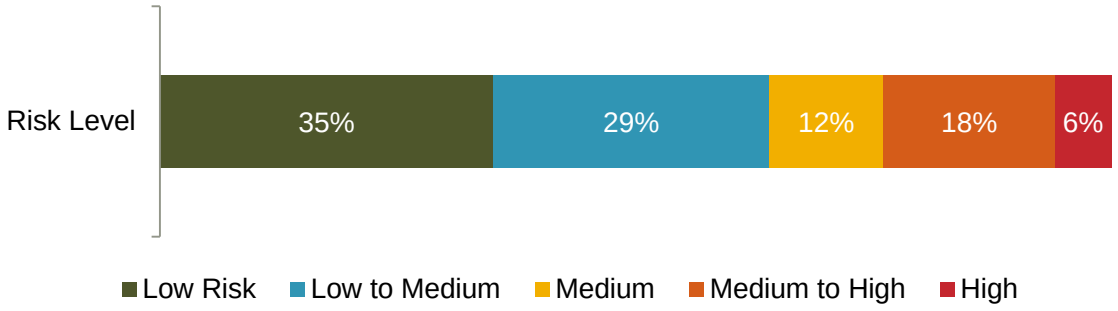
Economic

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.



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.



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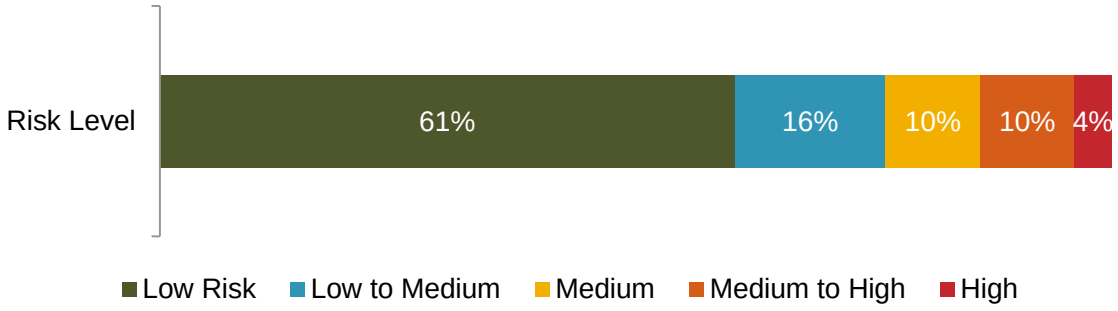
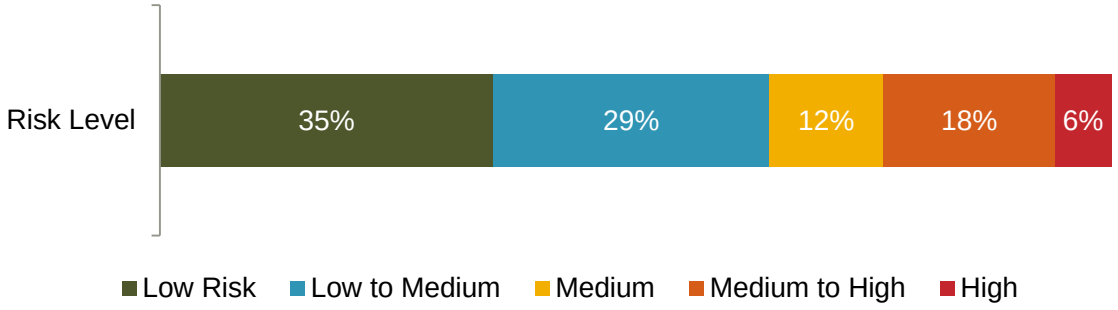
Fraud, Waste, and Abuse

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



Governance

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



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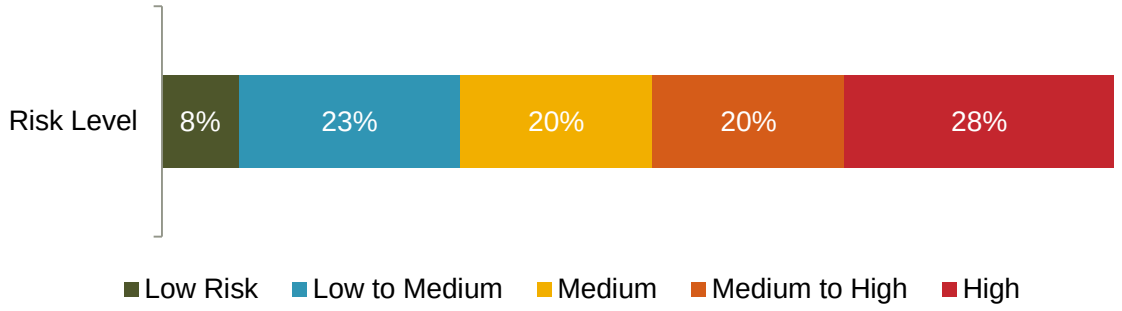
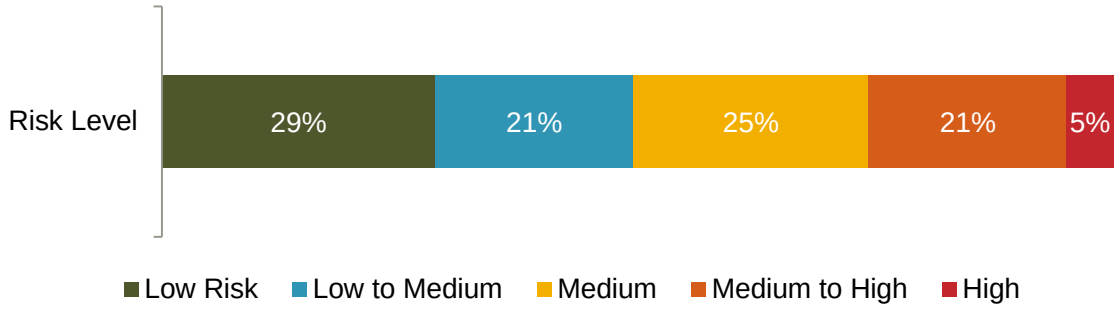
Human Capital

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



Internal Controls

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



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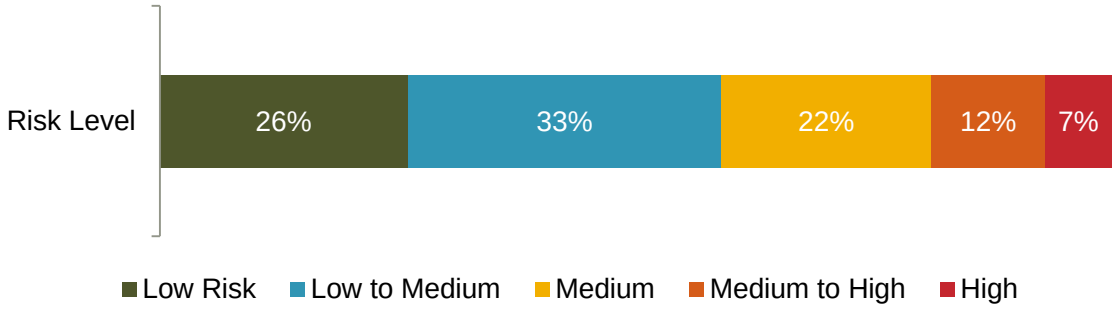
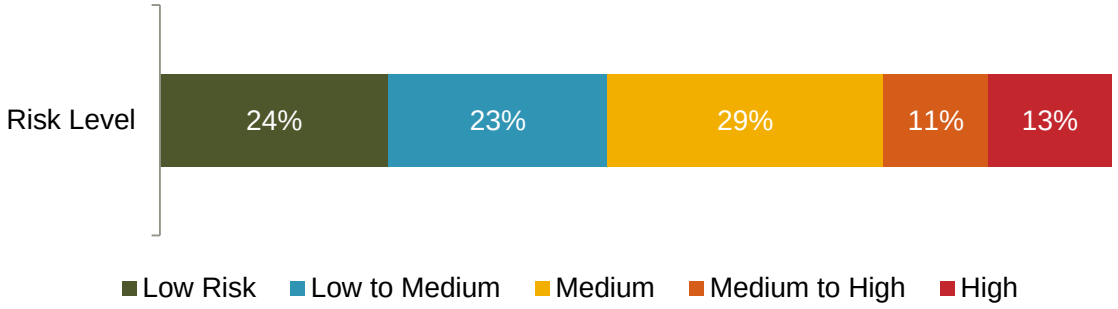
Management

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



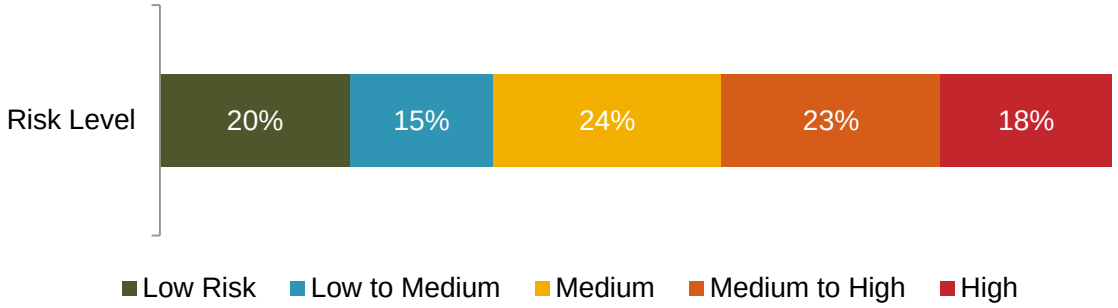
Operations

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



Organization and Staffing

Risks associated with how the City's personnel are organized, as well as staffing levels and skills.



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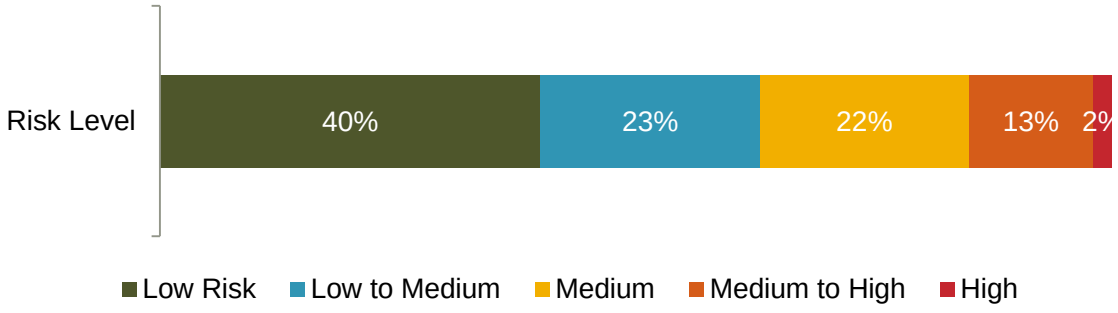
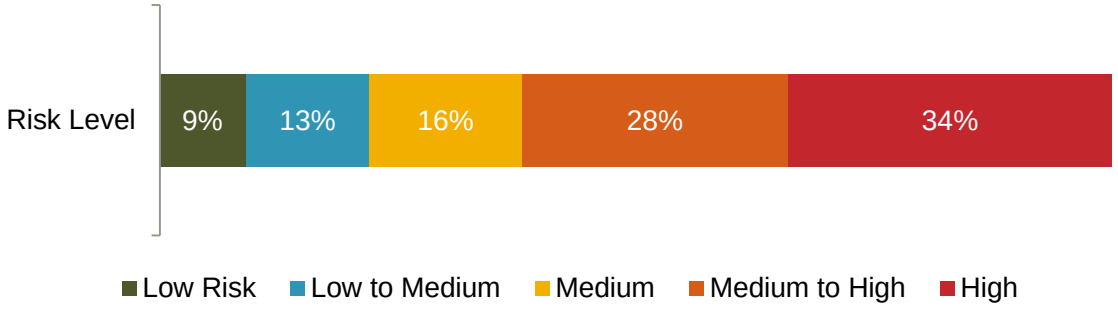
Procurement and Contracting

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



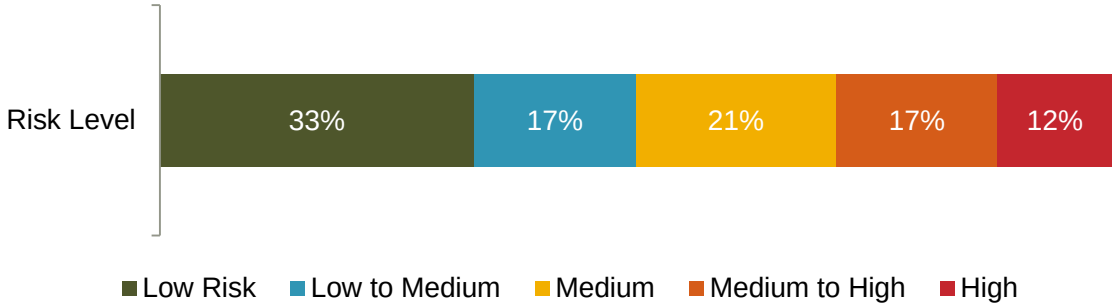
Public Safety

Risks associated with the Fire, Police, and emergency preparedness, including staffing levels, recruiting, retention, training, equipment, and response times.



Regulatory Compliance

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



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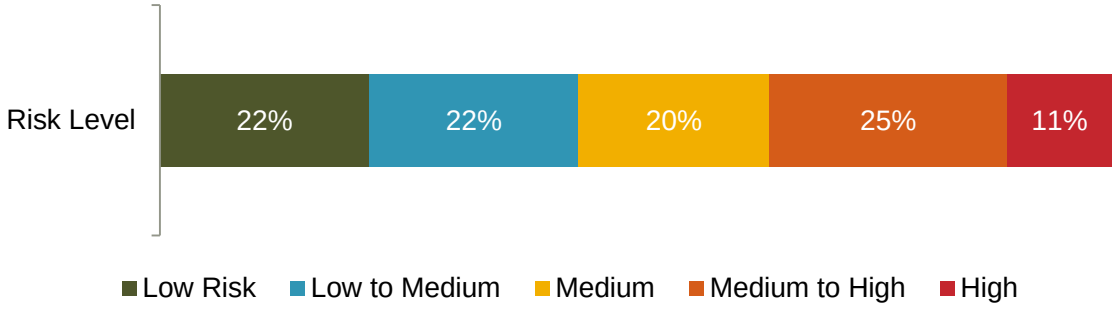
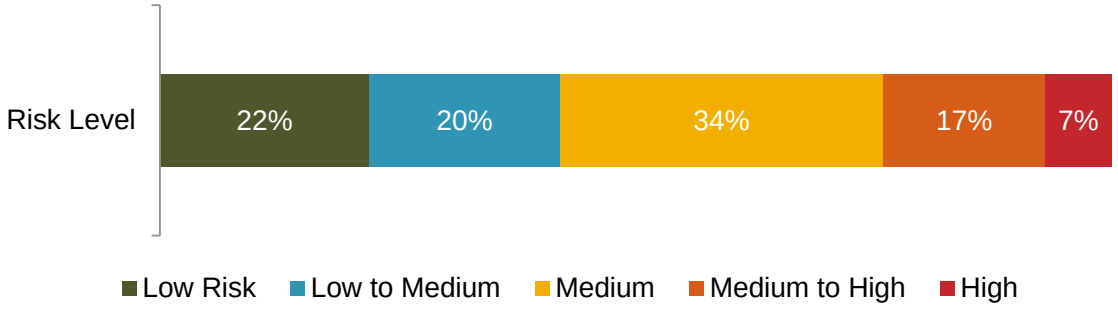
Technology

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.



Processes

Risks associated with workflow processes (e.g., fragmented, inefficient, and/or ineffective).



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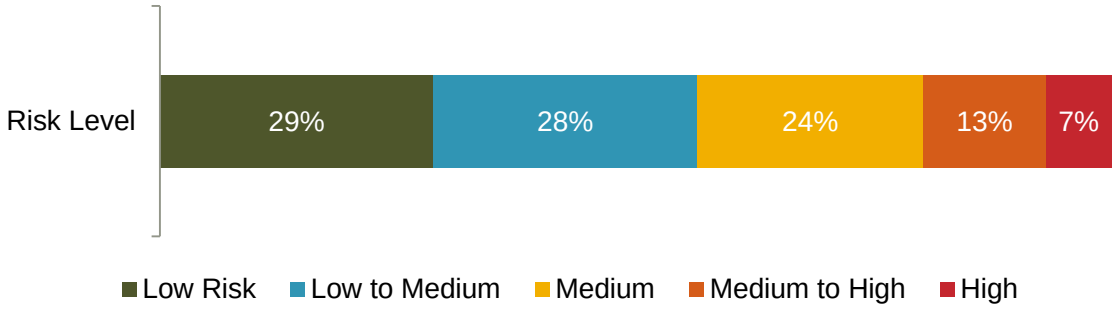
Risk Management

Risks associated with administration of the general liability, workers' compensation, safety, disability management and property programs.