



TOWN of PORTOLA VALLEY

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FOR IMMEDIATE RELEASE

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Portola Valley Town Manager Highlights Financial Challenges in his Update to the Town

In a bid to uphold transparency and address the financial landscape of our community, Portola Valley Town Manager, Sharif Etman, announced the release of a report outlining the Town's financial challenges. The report, prepared by Krisch & Company, follows a review of the Town's finances, providing recommendations to complete year end close processes and ensure compliance with mandated reporting.

This report delves into the core financial challenges faced by Portola Valley, shedding light on essential aspects that demand immediate attention and resources. The findings are slated to be discussed at the upcoming Town Council meeting scheduled for November 8th, where Town Council and the community will have the opportunity to engage in discussion regarding the state of the Town's finances.

The Town Council under Mayor Aalfs' leadership is committed to transparency and fiscal responsibility. "The Council has received the financial report from Krisch & Company and is currently reviewing the recommendations. Obviously, having accurate financial information is crucial in making informed decisions. The Council prioritized the selection of a Town Manager with a depth and breadth of financial experience, knowing that finances would be a pressing concern for the foreseeable future. We are pleased to acknowledge Sharif's rapid success in obtaining a detailed financial overview within the first 60 days of his tenure. This work was a critical step in the rebuilding of the Town's operations and services. As we approach the November 8th Council Meeting, we recognize both the challenges ahead, and the opportunity to build a more robust and effective Town Government based on current best practices," said Mayor Aalfs.

The report, a result of detailed discussions and expert evaluation conducted by Krisch & Company, encapsulates vital information and comprehensive recommendations aimed at addressing the financial challenges in Portola Valley. Through this initiative, the Town Manager,

the Finance Committee, and the Town Council reaffirm their commitment to quickly developing strategies to address the immediate challenges.

As part of our ongoing commitment to transparency and public engagement, the Krisch & Company report will be made available to the public on Friday evening. Interested residents and stakeholders can access the specifics of the report for review in the Town Council Agenda Packet, enabling them to gain a comprehensive understanding of the financial challenges and proposed strategies outlined in the document.

"The release of this report signifies a pivotal moment in our community's journey towards sustainable fiscal health. We acknowledge the dedicated work of Krisch & Company, whose expertise will undoubtedly guide us in making informed decisions for the betterment of Portola Valley. I encourage all residents to review the State of the Town Council report ahead of the Council meeting, ensuring that our discussions are enriched by diverse perspectives and thoughtful input from our community members," stated Mr. Etman, Portola Valley Town Manager.



TOWN OF PORTOLA VALLEY

STAFF REPORT

TO: Mayor and Members of the Town Council

FROM: Sharif Etman, Town Manager

DATE: November 8th, 2023

RE: Town Manager Update and State of the Town

RECOMMENDATION

Staff recommend Town Council review and discuss the following updates from the Town Manager and approve the authority to spend \$135,000 to engage Krisch & Company to assist in financial matters until June 2024.

BACKGROUND

It has been approximately 60 days since the new Town Manager began his role on August 30th, 2023. This report is an update from the Town Manager regarding the state of the town and other current business pertinent to the Town Council and community.

The Town Manager, with the Town Council's support, immediately looked to address the turnover of staff and help address the financial matters that are currently behind in multiple areas. As set out below, the Town Manager has specific proposals on how to address these matters, including the use of an outside financial consultant to expedite progress.

DISCUSSION

Staffing

The Town has experienced unprecedented turnover (nearly 70%) during the calendar year of 2023. The departure of the Town Manager, Assistant Town Manager, Town Attorney, and Town Building and Planning Director, for example, has significantly impacted town operations and continuity of leadership.

Other positions such as the Assistant to the Town Manager, Administrative Operations, Associate Planner, and Development Review Technician also have significant impact on town operations. There is also the loss of connection, institutional knowledge, and the ability to provide services to the public.

Staff turnover and the continued needs of the community and our residents in turn have caused stress for the remaining staff as they continue to serve the town.

The Town Manager immediately hired an Interim Building and Planning Director, Jon Biggs, to help lead the transition of the Building and Planning Department. Jon Biggs is a retired annuitant – he can only serve as interim for a set number of hours and a certain period, according to CalPERS guidelines. It is anticipated Jon will serve until approximately late February, allowing time for the hiring of a permanent Building and Planning Director.

We have hired an intern for the front counter, and also filled the permanent Administrative Operations (front counter) position which was recently vacated. A (permanent) second Senior Accountant and a temporary, contracted (through an employment agency) Finance Technician has also been added.

As of November 1st, 2023, the Town currently has 5 vacant positions:

- Director of Building and Planning
- Senior Management Analyst
- Associate Planner
- Development Review Technician II
- Maintenance Worker I/II

While working to restore stability to Town Hall, the Town Manager and executive team are currently reviewing their departments' roles and responsibilities and the staff needed to fulfill those needs.

The current mantra of “Reset – Refocus – Restructure” is a theme that was introduced by the Town Manager and embraced by the executive team and supported by the Town Council to:

- Evaluate all positions (current and filled)
- Evaluate consultant use based on need and cost
- Restore Town Hall (front desk) hours
- Support ongoing Town Council efforts to assess best operations for committees (Brown Act vs. Non-Brown Act committees)

Based on the Town Manager's observations, with the turnover of staff and the lasting effects of the COVID-19 pandemic, there have been losses of institutional knowledge, disruptions to workflow, and interruptions in service. There has also been a loss of comradery and connection with staff and the community.

As part of the “Reset – Refocus – Restructure” mantra, the Town Manager and Staff will participate in blocks of Staff Development and Training to allow staff to get caught up and trained in multiple areas with the goal to provide even better services to the community. This endeavor is being coined “P.V. Refresh.”

The P.V. Refresh will occur during the weeks of November 13-22, 2023. Blocks of time from 10 a.m. to 3 p.m. will be set aside for all staff, in person meetings. Examples of the modules being prepared are:

- Meet and introduce each other and individual council members
- Create a Statement of Values
- Emergency Preparedness and EOC training
- Train on the business license, permitting, and finance software systems
- Train on Ring Central, Teams, and Zoom
- Cross-train in multiple areas of service delivery
- Complete State mandated and other critical trainings
- Clean and purge items from Town Hall

On December 4th or 5th (date and time TBD) Town Hall staff will invite the community to meet and greet all staff. More information will be forthcoming regarding this event.

Following the P.V. Refresh, the new Town Hall hours will be Monday through every other Friday 8 a.m. to 4 p.m. (excluding lunch). Currently Town Hall hours are limited to Monday through Thursday 8 a.m. to 12 p.m. only.

Focus on Town Finances

The Town Manager focused on understanding the status of current Town finances. He had conversations with our current Director of Finance and staff and conducted an internal review and engaged a contractor to perform an external review of our financial situation.

The Town Manager has acquired the services of Krisch & Company, an accounting and governmental advisory practice with expertise in municipal finance, to review, evaluate, and provide recommendations for the Finance Department functions and operations. They were asked to recommend necessary resources and help determine appropriate timelines for the completion of our year-end close and outstanding audits.

Krisch & Company met onsite with staff in late September and reviewed outstanding items, discussed staffing levels, workload, internal departmental processes, internal controls among other fiscal and audit items. A report of the evaluation was presented to the Town Manager on November 2nd, 2023. The document entitled Town of Portola Valley Fiscal Review is attached to this report.

As identified by our current Director of Finance, our internal review, and the analysis by Krisch & Company – the Finance Department and its operations are significantly behind in multiple areas.

In recent years, the Finance Department has experienced staff turnover and staff shortages, new software implementation(s), and the impacts of the COVID-19 pandemic, these challenges have created delays in our financial reporting, completion of annual audits, and have impacted other important operations.

The attached Krisch & Company report outlines the areas that need attention. The report is broken out into:

- Areas that need immediate attention
- Areas to be addressed within three months
- Areas that should be addressed within the next year
- Up to date items or items to review at a later date

It is clear from the report and our internal review that certain immediate actions are needed. The Town Manager is requesting authority to engage Krisch & Company to work with existing staff to complete urgent items and work through the backlog of finance tasks to prepare year-end close and the subsequent audits. It is estimated this work will require 20-30 hours a week over the next six months.

The Town Manager will work with Krisch & Company to define specific finance delivery dates and timelines for the work to be completed. It is anticipated that the specific timelines will be shared with the Town Council in February, and the contract will be reviewed bi-monthly as to progress against these dates.

Because there will be anticipated changes to the leadership in the Finance Department, the Town is also making plans to bring on an Interim Finance Director. The Town Manager will hire an Interim Director of Finance who will lead the Finance Department and help coordinate the Krisch & Company workload. At a later date and within existing resources and funding, the Town Manager will recruit a permanent Finance Technician, so as not rely on a contracted employee from an outside employment agency.

The Town Manager and staff are confident that the plan outlined above will enable the town to jumpstart its ability to get caught up and in compliance as needed. It is important to note that it is anticipated to take one and half to two years to become fully compliant, audited and up to date. This is based on multiple factors including the current backlog, and scheduling of three fiscal year audits which require five to six weeks each of review (preliminary and final audits) by our contracted audit firm.

Appropriations/GANN Limit

Additional review is necessary to establish the Town's Appropriation Limit for FY 2023-24, Krisch & Company will be performing a complete recalculation of the town's appropriations going back to 1978 to determine accuracy of prior year limits. This review is expected to be completed in time for the December 13th Town Council meeting.

Council Action:

Receive the Town Manager report and grant the authority to spend up to \$135,000 for Krisch & Company.

FISCAL IMPACT

There are sufficient funds available as a result of open staff vacancies to cover the cost of hiring an Interim Finance Director. The estimated cost of Krisch & Company for six months is \$135,000. This cost is currently not budgeted and will be funded by our reserves.

ATTACHMENT

1. Krisch & Company Town of Portola Valley Fiscal Review

To: Sharif Etman, Town of Portola Valley Town Manager

From: Heather Rowden, Advisory Services Manager

Date: November 2, 2023

Subject: Town of Portola Valley Fiscal Review

Scope of Work

On September 24, 2023, Krisch & Company (Krisch) was contracted by the Town of Portola Valley (the Town) to perform a review of current financial processes and procedures as compared to industry best practices and standard reporting requirements. The scope of work covered general accounting practices for accounts receivable, accounts payable, payroll, general ledger maintenance, and fiscal reporting. This was a high-level review covering standard practices as identified through interviews with the Finance Director, Assistant Town Manager, and Town Manager. The Town's official Policies and Procedures document was also reviewed. In some cases, general advice for correction is provided. Additional review is required for specific Items identified in the report and all recommendations should be considered as a whole with other Town priorities.

Standards

Krisch conducted this engagement in accordance with the Statements on Standards for Consulting Services as issued by the American Institute of Certified Public Accountants and the terms stated in our engagement letter dated September 24, 2023. The work performed is only for the use and benefit of the Town management.

Because the scope of work listed above does not constitute an examination or audit in accordance with generally accepted government auditing standards, we did not express an opinion on the results of our work, but instead have provided this report with our findings and recommendations. We had no obligation to perform any procedures beyond those listed in the Scope of Work. If, however, as a result of the procedures or through other means, matters had come to our attention, we would have disclosed those matters to the Town. Such disclosures, if any, may not include all matters which might have come to our attention had we performed additional procedures or an examination.

Summary of Findings

The Town's financial processes and procedures were reviewed for compliance with best practices and suggestions for updates, when applicable, were discussed with the Town Manager and Town Attorney. A summary of tasks reviewed, as well as the identified urgency, is included in the following table. Tasks are color coded by priority.

Task priorities are categorized as follows:

Red: Needs immediate attention

Orange: Should be addressed in the next 3 months

Yellow: Should be addressed in the next year

Green: Up to date or a review at a later date

In all categories, areas of improvement, including potential ways to address any deficiencies, were discussed with staff.

Urgency	Specific Areas
Needs Immediate Attention	Cash Handling Procedures: A review of current processes for deposits and revenue recording was completed. It is recommended that a formal, town-wide procedure is implemented as soon as possible.
	Bank Reconciliations: The Town is several months behind on bank reconciliations. Per best practice, reconciliations should be completed the following month. Procedures should be put in place for timely reconciliations moving forward and past reconciliations should be completed as soon as possible.
	System Reconciliations: A review of software that interacts with the accounting software was completed. It is recommended that a reconciliation process be implemented as soon as possible.
	Software Implementation: The Town implemented a new accounting software in 2020. Residual setup issues remain and should be addressed as soon as possible.
	Payroll Journal Information: A review of the current payroll process was completed. Several recommendations to streamline the process and make it less manual were made.
	Benefit Reconciliations: Benefit reconciliations are several months behind. Procedures should be put in place for timely reconciliations moving forward and past reconciliations should be completed as soon as possible.
	Payroll Changes Entry: A review of the current payroll process was completed. It is recommended that a Human Resources Technician (or similar) be hired to provide a separation of duties in the payroll process.
	Annual Audit Reports: The Town is several years behind on production of audited financials. These will not be able to be completed until other tasks identified by this review are addressed.
	SCO Annual Streets and Roads Reports: While most State Controllers' Office reports have been filed, this report is outstanding. The report should be filed as soon as possible, however other tasks addressed by this review will be needed prior to filing.
	Treasurer's Report to Council: A review of the Town's investments and Investment Policy was completed. It is recommended that the Town issue a Request for Proposal for Investment Advisory Services and hire an Investment Manager familiar with municipal government regulations and reporting requirements.
Budget to Actual Reports: A review of the Town's budgeting and reporting process was completed. These reports are not currently being provided to City Management or the public. It is recommended that these reports be compiled as soon as possible to ensure the Town stays on budget and the public is aware of revenue and expense trends.	

	<p>Compliance with Current Accounting Standards: A review of the Town’s accounting policies and practices was completed. In addition to suggesting that the Town’s Financial Policies are updated to reflect current practices, additional areas of improvement were discussed with staff. It is recommended that the Town issue Requests for Proposals for several Governmental Accounting Standards Board (GASB) requirements was suggested to ensure compliance as audits are completed.</p> <p>SB 1186 Fee Reporting and Remittance: A review of the Town’s compliance with California State SB1186 fee reporting and remittance was completed. The Town is behind in reporting these fees, which are paid with business license taxes. Reporting should be brought up to date as soon as possible.</p>
Address in the Next 3 months	<p>Check Run Procedures: A review of the Town’s current check run process was completed. Recommendations for making the process more efficient were made, including implementation of a new module available in the accounting system.</p>
	<p>Appropriations Limit: A review of the Town’s Appropriations (Gann) Limit process was completed. Krisch has been contracted to complete a full recalculation of the limit and assess options should the Town exceed the Appropriations Limit at any time in the future.</p>
	<p>Asset Management: A review of the Town’s current fixed asset tracking and reporting was completed. Areas of improvement were discussed with staff, and a recommendation to issue a Request for Proposal for a physical inventory in the next year was provided.</p>
	<p>Contracting Procedures: A review of the Town’s contracting and contract recording processes were completed. Staff are in the process of implementing a contracting software and the City Attorney is currently reviewing the Town’s template contract.</p>
	<p>Journal Entries: A review of the Town’s accounting policies and practices was completed. It is recommended that formal policies are implemented and entries are reviewed and posted on a regular basis.</p>
	<p>General Ledger: A review of the Town’s accounting policies and practices was completed. As part of the software implementation review mentioned above, balance sheet accounts should be reconciled to ensure carryover balances are cleared.</p>
	<p>Timesheet Procedures: A review of the current payroll process was completed. It is recommended that the new timesheet module available as part of the accounting system is implemented.</p>
	<p>Grant Tracking: A review of the Town’s accounting policies and practices was completed. It is recommended that a review of reporting requirements for any grants is completed.</p>
Address in the Next Year	<p>Business License Taxes: A review of the Town’s accounting policies and practices, including updating, billing, and recording business license taxes was completed. It is recommended that formal policies be implemented in the next year.</p>
	<p>Budget Procedures: A review of the budgeting process was completed. It is recommended that staff be more involved in the beginning of the process to ensure mandated and required core services are included in the budget prior to additional projects being requested.</p>

	<p>Financial Policies Procedures: A review of the Town’s financial policies and practices was completed. This document should be reviewed and updated to reflect current processes and best practices.</p> <p>CalPERS Reporting: A review of the current payroll process was completed. A formal procedure should be implemented for withholding and remittance of both employee and employer contributions.</p> <p>Federal Labor Standards Act Compliance: A review of the current payroll process was completed. It is recommended that the Town implement the new timesheet module to make tracking FLSA compliance less manual.</p> <p>SCO Financial Transactions Reports: The process for tracking and filing State Controllers’ Office reports was completed. While the majority of the reports have been filed, areas of improvement were discussed with staff.</p>
Review at a Later Date	<p>Master Fee Schedule: The process for updating the Master Fee Schedule was reviewed. While these fees are updated by the change in the Consumer Price Index annually, it is suggested that a fee study be done in the future to ensure the Town is recovering all applicable costs.</p> <p>Leases: A review of the Town’s billing processes was completed. There are several property leases that are billed annually. No deficiencies were noted.</p> <p>SCO Government Compensation Report: A review of State Controllers’ Office reporting requirements was completed. Most reports have been filed but may need to be updated once audits are completed.</p>
Up to date	<p>Continuing Disclosure Obligations for Debt: A review of any potential debt service reporting obligations was completed. The Town has no debt and, therefore, no reporting obligations.</p> <p>Taxes -- Remittance and Filings: A review of the current payroll process was completed. All Federal and State tax filings are up to date.</p> <p>SCO Single Audit Report: A review of State Controllers’ Office reporting requirements was completed. The Town has not been required to complete a Single Audit (required if Federal funding in excess of \$750,000 is expended in a fiscal year) for several years and is up to date on reporting this to the State.</p> <p>ARPA Report to US Treasury: A review of any potential Federal reporting was completed. The only noted report was the American Rescue Plan Act reporting to the US Treasury. This report has been completed.</p> <p>CA Strong Motion Instrumentation Program (SMIP) Returns and Remittance: A review of any potential State reporting was completed. The Town is up to date on remitting and reporting CA Strong Motion Instrumentation Program fees assessed through the permitting process.</p> <p>CA Building Standards Administration Special Revolving Fund (BSASRF) Returns and Remittance: A review of any potential State reporting was completed. The Town is up to date on remitting and reporting CA Building Standards Administration Special Revolving Fund fees assessed through the permitting process.</p>