

**MINUTES
CITY OF ORMOND BEACH
CITY COMMISSION
LEAN PROCESS IMPROVEMENT AND
ADVISORY BOARD DISCUSSION WORKSHOP**

January 6, 2015

5:30 p.m.

City Commission Conference Room

I. Call to Order

Mayor Ed Kelley called the meeting to order at 5:30 p.m.

Present were Mayor Ed Kelley, Commissioners James Stowers, Troy Kent, Rick Boehm, and Bill Partington, City Manager Joyce Shanahan, Assistant City Manager and Public Works Director Ted MacLeod, City Attorney Randy Hayes, Finance Director Kelly McGuire, Assistant Finance Director Dan Stauffer, City Engineer John Noble and City Clerk Scott McKee.

II. Lean Process Improvement

Ms. Kelly McGuire, Finance Director, noted that Mr. Mike Sibley, James Moore & Company, had been scheduled for a previous workshop in May 2014 to talk about the lean improvement process; but unfortunately, there had not been enough time during the workshop, with the other items on the agenda, for him to be able to do so. She stated that Mr. Sibley would explain the two processes that staff had chosen to improve upon, one of which related to human resources and the other related to change orders. She noted that the changes to the human resources process had already been implemented and did not require City Commission approval. She stated that staff was looking for direction from the Commission on the proposed change order process changes.

Mr. Mike Sibley, James Moore & Company, stated that this process started two years prior with he and City Manager Joyce Shanahan having a conversation about Lean Six Sigma and the impact that it could have on the city and its processes. He explained that Lean Six Sigma was basically a problem solving methodology that improved processes and eliminated waste and variation in processes. He stated that it focused on customer value, noting that customers meant both internal customers who were next in the process and external customers such as citizens or vendors. He stated that project team members were trained on Lean Six Sigma concepts. He explained that part of the process was allowing city staff members to take a very hands on approach and learn how to improve processes. He stated that one of the most important fundamental concepts of Lean Six Sigma was continuous improvement and so an important aspect of the training was providing the tools to city staff to continue to improve processes.

Mr. Sibley stated that two projects were chosen to facilitate and two project teams were created for those process improvements. He explained that the project teams consisted of individuals involved in the daily activities of those processes. He explained that the teams mapped out what the processes were step by step. He stated that the team then focused on identifying the problems and analyzing the

process. He reiterated that the two projects selected were the human resources performance review process and the contract change order process.

Ms. Joyce Shanahan, City Manager, stated that the human resources performance review process was selected by staff because they were not very happy with the current process. She explained that reviews were not timely and staff wanted a more meaningful process. She stated that the contract change order process review was mostly driven by comments from the City Commission about contract change orders.

Mr. Sibley stated that the teams involved in the reviews were very engaged and worked very hard with a lot of commitment and passion. He stated that every team member contributed to the overall process. He stated that a critical component of a lean process was controlling the rollout of the process.

Human Resources Performance Review Process Improvement

Mr. Sibley stated that a review of the performance review process found that performance reviews were past due by an average of 84 days. He noted that some were almost a year past due. He explained that employee feedback was important and timeliness was critical. He stated that there was a manual process of tracking evaluations with a lot of data entry, which was very time consuming and had a high potential for error. He stated that the performance review paperwork itself was lengthy and tedious.

Mayor Kelley asked if the performance review evaluations were for directors, managers, or employees.

Ms. Shanahan stated that all performance reviews were changed.

Mayor Kelley stated that when everyone was given a good evaluation there was no room to grow. He stated that having defined goals helped reward those who did more.

Ms. Shanahan noted that having goals and accomplishments was one of the biggest changes made to the process, especially for division managers and supervisors.

Mr. Sibley stated that they also reviewed the understanding of how the evaluation process even worked. He stated that there was a lack of connection between the expectation of the employee and what was on the actual performance review. He stated that it was not well defined.

Mayor Kelley stated that the employee's job description should cover that.

Ms. Shanahan stated that the job description was well defined but the instrument being used to rate employees' performance on was not as relevant to what the employee was actually doing. She noted that it was changed to be more relevant now. She stated that a lengthy handbook was also provided stating what was being looked at in each review category and what the expectations were.

Ms. McGuire stated that the process was fully implemented months prior. She stated that all employees had training on the process, including employees who would themselves be evaluated in addition to supervisors and managers, who would be

giving the reviews. She stated that inconsistencies were brought to their attention. She provided an example of unscheduled personal leave days, which each department may assess differently. She further explained that a supervisor may not want to count down an employee taking off early because their spouse was in the hospital, but another supervisor may take the approach that all unscheduled leave be counted down regardless of the situation. She stated that they wanted to make the process simple and consistent.

Commissioner Kent asked how long the training was.

Ms. McGuire stated that employees were given a half day of training and supervisors and managers were given a full day.

Commissioner Kent asked if that was enough to ensure everyone was on the same page.

Ms. Shanahan stated that everyone was also provided with a booklet containing information on the process.

Ms. McGuire stated that the Human Resources Department was also available to assist in the process and help with the evaluations.

Ms. Shanahan noted that certain training was performed each year and this would be one of those trainings.

Mr. Dan Stauffer, Assistant Finance Director, stated that the trainings were beneficial as staff was able to provide feedback to help the team make changes. He stated that employees suggested revisions and allowed them to feel involved.

Commissioner Kent stated that good managers got buy-in from their staff.

Mayor Kelley stated that it seemed like a common sense approach to business. He explained that there was nothing earth shattering about evaluating the processes being used. He stated that he thought a great job was done.

Ms. Shanahan stated that she did not know when the performance evaluations were last revised.

Ms. McGuire stated that it was not done in the ten years she had been with the city.

Mayor Kelley noted that he agreed that it needed to be done but wanted to note that what they had created seemed like a common sense business approach.

Mr. Sibley stated that many of the solutions were fairly common sense. He noted that the process was not complicated. He explained that in a lot of cases management made changes and directed staff to comply. He further explained that the difference in this process was that different individuals from different levels were involved in giving their input so that there was buy-in and ownership.

Mayor Kelley stated that having city wide employees review the evaluation instead of having it segregated by department was important, as well.

Ms. Shanahan noted that had been one of the issues that was raised, noting that the police and fire departments were very different from most. She explained that it was critical to have their reviews as part of the process, so that they did not want their own separate evaluation, as they did initially.

Ms. Shanahan noted that the new evaluation process was already implemented. She stated that the Human Resources Board also reviewed and recommended the changes. She explained that the process itself was not relevant before and was not a good use of time and resources.

Ms. McGuire stated that a considerable number of Human Resources staff hours had also been saved, noting that the Human Resources staff was doing much of the process manually and chasing around city staff for overdue evaluations. She stated that the system could produce and email reports automatically to department heads. She explained that the City Manager could receive a list every month showing those who had not done their evaluations in a timely fashion.

Change Order Process Improvement

Mr. Sibley stated that change orders could go through up to ten individual approvals before they were finalized. He stated that there were physical change order papers that were manually walked around the city to receive approval and then inputted into the HTE system and routed through the electronic approval system, effectively creating a redundant process. He explained that certain personnel involved in the approval process were not adding value, reducing risk, or acting as an internal control; therefore, items were being routed to individuals for their approval, when they did not really need to approve it at all. He noted that they could not find a good explanation for that occurrence.

Ms. McGuire stated that the normal process for any purchase over \$25,000 was that it received approval from the Risk Manager for insurance purposes, the Finance Director for budget purposes, the department manager, and the Purchasing Coordinator. She stated that if the Risk Manager had already approved the insurance for the project, they did not also need to approve the change order because it was the same vendor doing the same work. She stated that some of the redundancies involved the same approver seeing the change order over and over again but not approving anything new. She noted that she and City Engineer John Noble would need to see the change order again as they wanted to see everything that had to do with the project.

Mayor Kelley asked if the Risk Manager would not need to see the change order even if it created a different risk.

Ms. McGuire stated that each project had a minimum insurance requirement that needed to be filled and that was what the Risk Manager checked for.

Ms. Shanahan stated that all of that was checked at the beginning of the project; therefore, the Risk Manager did not need to re-approve a change order for the same project.

Mayor Kelley stated that was true unless the change order created a trigger that exceeded the insurance the project had.

Ms. Shanahan stated that she did not believe that had happened before; whereby, Ms. McGuire noted that theoretically it could. Ms. McGuire stated that she, as the Finance Director, would double check that anyway.

Mr. Randy Hayes, City Attorney, stated that a liability policy was required separately from the bond to ensure completion of the work. He noted that he did not believe there was ever an issue with a change order affecting that.

Mr. Sibley stated that insignificant change orders, such as a \$2,000 change order, was approved by city staff following their current guidelines. He explained that they learned in their review that city staff spent a significant amount of time vetting each and every change order. He stated that he was surprised to learn how much attention was put into that process. He stated that if those change orders for a project aggregated in excess of \$25,000, City Commission approval would be required, even though the work likely was already completed.

Mayor Kelley noted that the Commission had approved such orders before. He further noted that the work was necessary for the project to continue.

Mr. Sibley provided an example of a \$5,000 change order coming about on a project, and that staff had anticipated that would be the only change order; but then further unexpected change orders arose. He stated that it could delay a vendor being paid if the small change orders added up to over \$25,000 and staff had to wait to bring the item to the City Commission for approval. He stated that they researched the nature of the change orders from the last few years and noted that an attachment documenting the same had been included in the agenda packet.

Ms. McGuire stated that 22 projects had no change orders, 23 had additive change orders, and 36 had deductive change orders, which meant they reduced the overall project cost. She stated that combining the additive and deductive change orders gave a net deductive change order amount of \$389,000.

Commissioner Kent noted that numbers could be manipulated to look positive or negative. He stated that he was curious why the change orders given only went back to 2007. He explained that before 2007 there were change orders at almost every City Commission meeting. He further explained that he initially voted "yes" on the change orders but then began voting "no" on them repeatedly until there were three total "no" votes by the Commission. He stated that after there were three change orders, they were very seldom brought to the Commission. He noted that there would not be a positive deductive if himself and other members of the Commission did not step up and say they were uncomfortable with the change orders. He further noted that he understood there were some issues where a change order was necessary and he voted for those accordingly. He provided an example of redoing his home ten years prior, explaining that he was quoted a price to have all of the water piping performed. He stated that he was then told that there were roots in the way and it would be an extra \$700. He stated that was like a personal change order that the contractor wanted when he had already signed and agreed to a contract. He wondered whether the contractor would have given him any of that money back, if it was easy to cut through the roots.

Mr. Sibley stated that starting in 2007 was his suggestion. He noted that he picked a five or six-year period and did not know what the numbers would be. He stated that

the key differentiator in this instance was their focus on the insignificant change orders. He stated that staff worked to come up with some recommendations.

Ms. McGuire stated that staff wanted to get change orders through their internal system within a week. She stated that the goal was to get the change order approved, the work performed, and the invoice paid in a more efficient manner, eliminating the duplication of approvals and manual paperwork. She stated that the intent was not to come to the City Commission for change orders. She explained that several insignificant change orders, such as \$2,000 or \$5,000 change orders, could add up to over \$25,000 and that if they did, staff would have to go to the City Commission for approval on work that was already performed and the city was already committed to pay. She stated that did not make sense to do so.

Mayor Kelley noted that there was only one \$2,000 change order listed in the examples provided.

Ms. McGuire stated that the proposed revised policy would still require individual change orders in excess of \$25,000 or 2% of the contract price to be approved by the Commission. She explained that the proposed change would be that individual change orders below \$25,000 or 2% of the contract price would not be brought to the City Commission for approval even if for a particular project there were several insignificant change orders which together totaled more than \$25,000. She reiterated that under the current process the work would be done and the city committed to pay for all of the change orders under \$25,000, but once that threshold was broached, the change order would go before the City Commission for approval, even though the work was already done.

Ms. Shanahan stated that it may also need to be tied to the number of change orders. She stated that she spoke to one of the Commissioners this week about their concerns about change orders. She stated that their concern was that if a project was budgeted for \$100,000, and then had five \$2,000 change orders, the project would now be \$10,000 over budget. She stated that the recommendation needed to be fine tuned. She explained that staff wanted to ask the Commission whether there was any interest at all in changing the current process for reducing the change order approval process. She stated that if the Commission did not want to change the process, they would not do so.

Mayor Kelley stated that his biggest issue was when there was a change order because something was not found and included in the original writing of the contract. He stated that it seemed like those things were encountered all too often. He gave an example of a water and sewer project running into utility lines.

Ms. Shanahan stated that the city was very old and a lot of those types of things were not mapped properly originally. She stated that she agreed with Mayor Kelley that the contractor should know but noted that the contractor would charge more up front if he would have to have that level of detail to ensure he would not run into anything.

Mayor Kelley stated that a prime example was the rusting of the lights on the bridge. He stated that a change order that allowed for the scope of work to be exceeded to save money in the future was fine and did not bother him.

Ms. Shanahan stated that she did not think they could always anticipate what was in the ground. She noted that she did not disagree with Mayor Kelley about the rusting on the bases of the metal poles on the bridge, and she thought that staff could have done a better job with that project. She stated that her greater concern was unknown obstacles in the ground, which she did not have the ability to see beforehand.

Mr. Hayes noted that he believed some things can and should be caught but that there was a whole body of law developed around unforeseen subterranean circumstances. He stated that those types of issues were litigated all the time, and the city was fortunate it had not really happened often to them because of their great engineering staff. He stated that as Ms. Shanahan pointed out on some things there was no way of discovering until the ground was opened.

Commissioner Kent stated that the contractors did this work every day and dealt with these issues every day. He noted that it almost felt like a scare tactic to him to say that if they did not approve change orders then the contractors would charge more on the front end to be sure. He stated that he thought that Ormond Beach had the reputation that if you won a bid, that was it. He stated that otherwise you would get a low bidder for the project who knew that he could bid lower and still get four or five different change orders from the city.

Ms. Shanahan stated that she thought that the city had done a good job on preparing the solicitation for bids when all of the bids were close. She stated that a great example was the Andy Romano Beachfront Park. She stated that most of the problems she saw when she first came were more related to professional service contracts. She stated that it was harder to defend a change order for a professional service than a physical issue like coquina.

Mayor Kelley stated that he had no problem with staff approving a change order that did not exceed the \$25,000, as he trusted staff.

Commissioner Boehm stated that his concern was the aggregation of smaller change orders and the 2% of the contract price figure used. He noted that a lot of smaller contracts had 30-50% in a change order. He stated that a smaller contract may not get to \$25,000 in change orders but he wondered if the change orders would total 50% of the contract. He stated that at some point when a certain percentage of the contract price was exceeded in change orders, the Commission needed to be notified. He stated that the change in the contract being 50% indicated that something was amiss. He stated that he viewed the Commission as stewards of the city's money, and he felt that as such to be told after the fact that staff spent the money on the change order would be difficult to defend to their constituents. He stated that once a certain percentage of the contract price was reached by change orders, the Commission needed to review the change order before it proceeded.

Mayor Kelley stated that 2% was a small figure; whereby, Commissioner Boehm noted that he was not saying 2% was the answer.

Ms. Shanahan stated that it currently read \$25,000 *or* 2% and should possibly read \$25,000 *and/or* 2%.

Mayor Kelley noted that the examples provided had a lot of changes under 2%, which would all need to come back to the Commission.

Ms. McGuire stated that it would be \$25,000 or 2%, *whichever was larger*.

Commissioner Kent stated that presently all change orders came to the Commission, regardless of what they were. He stated that the citizens of Zone 2 voted him in to review and approve the budget. He stated that no matter what the amount he wanted to know about every change order and see it. He noted that he did not like the slippery slope this could create. He explained that change orders being approved before they came to the Commission disgusted him. He asked what would happen if the Commission were to vote down one such change order where the work was already complete. He asked if the city would be sued then.

Mr. Hayes stated that had happened. He stated that one of his first cases with the city was related to that topic. He noted that sometimes things happened in the field during projects that had to be corrected on the spot. He explained that the problem was that the City Commission only met twice a month, and there was a process for placing items on the agenda.

Commissioner Kent stated that he was not a micromanager and he assumed that he contacted Ms. Shanahan less than anyone else. He explained that Commissioner Boehm's point about the Commission having to defend the already completed change orders to their constituents resonated with him. He reiterated that he did not want to see any changes to the change order process.

Commissioner Stowers noted that he spoke with Ms. Shanahan that day about this and that he trusted everyone with the city, but did not trust those who may or may not be with the city ten years in the future. He stated that he agreed with Commissioner Kent but would also be amenable to having the threshold be 2% or \$5,000 "*whichever is lower*," which would have the effect of enveloping all of the past change orders anyway. He noted that change orders coming to the Commission could have an effect of deterring contractors from submitting change orders.

Commissioner Partington noted that he was also comfortable leaving the process as it was presently. He stated that he thought that the Lean Six Sigma process should have been applied to the bid requirements to determine how to avoid these types of unknown subterranean problems by developing processes that find out what was there before the bid rather than creating a new system which contractors could game.

Ms. Shanahan stated that was not the intent. She stated that the internal process was leaned. She stated that the intent was to improve the city's process and was not to eliminate change orders or to come to the Commission for justification to change the process.

Commissioner Kent stated that was what it was and what just happened; whereby, Ms. Shanahan noted that she disagreed.

Commissioner Kent stated that they would agree to disagree.

Commissioner Boehm stated that there were three additive change orders in 2013 and two in 2012, according to the document provided. He noted that these were not common events that happened often. He stated that City Engineer John Noble did a wonderful job of managing that. He stated that the system was not onerous to the Commission. He noted that staff was rightly changing the process to be swifter for them. He stated that dealing with two or three change orders a year was not a hardship for the Commission.

Commissioner Kent stated that he had heard through the grapevine that Ms. Shanahan was tough on those proposing change orders as she knew how the Commission felt about them.

Ms. Shanahan stated that there would always be change orders and hoped that was not the Commission's expectation that she would eliminate them because she would be unable to meet it.

Commissioner Partington stated that deductive change orders were fine.

Commissioner Kent noted that years ago, with a different City Manager, when additive changes orders were on just about every meeting agenda, he declared that he would not vote for another change order no matter what it was. He stated that at the next meeting there was a deductive change order on the agenda and he had to say that they got him as he did vote "yes" on that one.

III. Advisory Board Discussion

Ms. Shanahan stated that at the last Advisory Board Workshop, the Commission had wanted to come back and discuss the possible combination of the Quality of Life Advisory Board and the Historic Landmark Preservation Board.

Mayor Kelley stated that he thought that Dr. Shapiro sent an email to the Commission that he thought perfectly summed up why the two boards, Historic Landmark Preservation Board and Quality of Life Advisory Board, should be combined.

Commissioner Kent stated that he agreed.

Mayor Kelley stated that he thought Dr. Shapiro's intent was to persuade the Commission to keep the board separate, but he thought that he provided the justification for the two boards to be combined into one.

Ms. Shanahan stated that she did not think that staff was doing a good job with the Quality of Life Advisory Board, as she felt there should be a different staff liaison for that board. She stated that the Quality of Life Advisory Board had been focusing on leisure services issues and could be focusing on things such as property maintenance codes and homelessness. She noted that the Historic Landmark Preservation Board had a very specific purpose and did not meet very often.

Commissioner Boehm stated that the Historic Landmark Preservation Board members he knew and appointed were interested in the historical society and in preserving the city and its historical structures. He noted that "quality of life" was much broader and not particularly their interest. He stated that he thought that the

city needed to have a Historic Landmark Preservation Board because it was necessary to have someone overseeing historical structures that specifically cared about them. He stated that unless sub-committees were formed, combining two boards with differing interests did not make sense to him.

Mayor Kelley stated that if the Quality of Life Advisory Board was kept, then the number of members needed to be reduced. He stated that there were presently 11 members and vacancies and absences.

Commissioner Kent asked how many times the Quality of Life Advisory Board met.

Mayor Kelley stated that it was three or four times.

Commissioner Boehm stated that the Quality of Life Advisory Board had not been tasked with fulfilling their defined function and referenced the function as listed in the provided board descriptions.

Ms. Shanahan stated that the Quality of Life Advisory Board held ten meetings the past year.

Commissioner Boehm stated that in the board's description it said "economic opportunity, leisure and recreation, educational and learning, aesthetic standards." He stated that the Quality of Life Advisory Board was not being asked about those things. He noted that if they considered leisure and recreation items, the board would be duplicating the function of the Leisure Services Advisory Board. He stated that was what had been happening and why they had no direct function presently. He stated that landscaping projects could be run through the Quality of Life Advisory Board as part of the "aesthetic standards" function.

Ms. Shanahan noted that the description also said that "in addition the board advises the Commission on methods to preserve and revitalize property and prevent deterioration." She stated that property maintenance and homelessness could be involved with that. She noted that somehow the focus on the board's original mission was lost.

Commissioner Boehm stated that the Environmental Learning Center was also an education and learning opportunity, yet was not being considered by the Quality of Life Advisory Board. He stated that staff needed to be tasked with actually presenting the board with what their function was or else there needed to not be such a board.

Commissioner Kent asked whose job it was to do so; whereby, Ms. Shanahan stated that it was hers. Commissioner Kent noted that the staff liaison was Mr. Robert Carolin, Leisure Services Director.

Ms. Shanahan noted that the changes needed to be done by ordinance.

Mayor Kelley stated that he knew members who resigned from the Quality of Life Advisory Board because their functions were the same as the Leisure Services Advisory Board.

Ms. Shanahan stated that she thought a different member of staff needed to be the liaison for that board. She noted that was not an indictment of Mr. Carolin, but just that the board needed to function differently and not within the realm of leisure services. She stated that maybe the board should be run by the Planning Department.

Commissioner Boehm noted that the boards did not need to meet unless they had an issue that came before them. He noted that other boards also met quarterly. He stated that there was no benefit in meeting monthly if there was nothing to discuss.

Mayor Kelley stated that one of the appointees on the Quality of Life Advisory Board he spoke to said they could not get enough people to attend. He asked how many actually attended the meetings.

Ms. Shanahan noted that the average absence per person was about two or three times, for those wishing to continue.

Mayor Kelley stated that most meetings probably had about seven members present.

Ms. Shanahan stated that sharpening the board's purpose could help attendance and participation.

Mayor Kelley stated that he also heard that they did not care about reviewing the budget after it was completed.

Mr. Ted MacLeod, Assistant City Manager and Public Works Director, noted that the Quality of Life Advisory Board did review major projects like the Environmental Learning Center and Andy Romano Beachfront Park.

Ms. Shanahan noted that they were not the sole reviewing body in those processes and that may be a bone of contention with them.

Commissioner Boehm stated that he did not think they had ever been tasked with some of their named functions.

Commissioner Partington stated that he was comfortable keeping both boards as long as those who had an interest in continuing to serve were able to do so.

Mayor Kelley stated that 11 members was not a manageable number for the Quality of Life Advisory Board.

Commissioner Partington stated that seven would be more manageable.

Commissioner Kent asked how the seven appointments would be broken up.

Mayor Kelley stated that each member of the Commission could make one appointment and then two appointments could be at-large.

Ms. Shanahan stated that staff would bring back the appointments for the Commission, as well as the changes to the number and types of appointments.

IV. Adjournment

The meeting was adjourned at 6:32 p.m.

Transcribed by: Colby Cilento