PUBLIC UTILITIES
REVENUE BOND OVERSIGHT COMMITTEE
CITY AND COUNTY OF SAN FRANCISCO
AGENDA

Public Utilities Commission Building, 4th Floor Conference Room
1155 Market Street (between 7th & 8th Streets)
San Francisco, CA 94103

March 19, 2012 - 9:30 AM

Regular Meeting

1. **Call to Order and Roll Call**

Seat 1	Holly Kaufman
Seat 2	Kevin Cheng, Chair
Seat 3	Karen Donovan
Seat 4	Larry Liederman
Seat 5	Vacant
Seat 6	Ian Hart
Seat 7	John Ummel, Vice Chair

2. **Public Comment:** Members of the public may address the Revenue Bond Oversight Committee (RBOC) on matters that are within the RBOC's jurisdiction, but not on today's agenda. (No Action)

3. **Chair's Report:**
   A. San Francisco Public Utilities Commission (SFPUC) Staff Report: Construction Phase and Forecasting – Stage 2: Presentation by Mojgan Yousefkhan (Discussion)
   B. San Francisco Public Utilities Commission (SFPUC) Staff Report: 2nd Quarter, FY2011-2012 Audit & Performance Review Report (Discussion) (attachment)
   C. Update: Controller's Consulting Pool - Construction Contract Audit and Project Consulting (Discussion)
   D. San Francisco Public Utilities Commission (SFPUC) Staff Report: RBOC Account Statement. (Discussion)

4. **City Services Auditor (CSA) Audit Report: Bay Division Pipeline Reliability Upgrade; Mission and Mount Vernon Street Sewer Improvement.** (Discussion and Action) (attachment)

5. **Selection of Consultant to Assist the RBOC Create a Consultant Pool.** (Discussion and Action)

6. **RBOC 2011 Annual Report : Status of Presentation to the San Francisco Public Utilities Commission.** (Discussion)

7. **Approval of RBOC Minutes of February 13, 2012.** (Discussion and Action) (attachment)

8. **RBOC Member Information Requests Raised at Today's Meeting.** (Discussion and Action)

9. **Future Agenda Items.** (Discussion and Action)

10. **Adjournment.**
    Next regularly scheduled meeting: April 16, 2012.

Agenda Item Information

Each item on the agenda may include: 1) Department or Agency cover letter and/or report; 2) Public correspondence; 3) Other explanatory documents. For more information concerning agendas, minutes, and meeting information, such as these document, please contact RBOC Committee Clerk, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 – (415) 554-5184.

Audio recordings of the meeting of the Revenue Bond Oversight Committee are available at:
http://sanfrancisco.granicus.com/ViewPublisher.php?view_id=97

For information concerning San Francisco Public Utilities Commission please contact by e-mail bondoversight@sfwater.org or by calling (415) 487-5245.

Public Comment

Public Comment will be taken before or during the Committee's consideration of each agenda item. Speakers may address the Committee for up to three minutes on that item. During General Public Comment, members of the public may address the Committee on matters that are within the Committee's jurisdiction and are not on the agenda.

Disability Access

RBOC meetings will be held at the Public Utilities Commission, 1155 Market Street (between 7th and 8th Streets), 4th Floor Conference Room, San Francisco, CA. The Committee meeting room is wheelchair accessible. The nearest accessible BART station is Civic Center (Market/Grove/Hyde Streets). Accessible MUNI Metro lines are the F, J, K, L, M, N, T (exit at Civic Center or Van Ness Stations). MUNI bus lines also serving the area are the 5, 6, 9, 19, 21, 47, 49, 71, and 71L. For more information about MUNI accessible services, call (415) 701-4485. There is accessible parking behind 1155 Market Street.

The following services are available on request 48 hours prior to the meeting; except for Monday meetings, for which the deadline shall be 4:00 p.m. of the last business day of the preceding week: For American sign language interpreters or the use of a reader during a meeting, a sound enhancement system, and/or alternative formats of the agenda and minutes, please contact Mike Brown at (415) 487-5223 to make arrangements for the accommodation. Late requests will be honored, if possible.

In order to assist the City's efforts to accommodate persons with severe allergies, environmental illnesses, multiple chemical sensitivity or related disabilities, attendees at public meetings are reminded that other attendees may be sensitive to various chemical based products. Please help the City accommodate these individuals.

Know Your Rights Under the Sunshine Ordinance

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils, and other agencies of the City and County exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review.

For more information on your rights under the Sunshine Ordinance (Chapter 67 of the San Francisco Administrative Code) or to report a violation of the ordinance, contact by mail: Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102; phone at (415)554-7724; fax at (415) 554-7854; or by email at sotf@sfgov.org.

Citizens may obtain a free copy of the Sunshine Ordinance by printing Chapter 37 of the San Francisco Administrative Code on the Internet , at http://www.sfbos.org/sunshine.

Cell Phones, Pagers and Similar Sound-Producing Electronic Devices

The ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing or use of a cell phone, pager, or other similar sound-producing electronic devices.

Lobbyist Registration and Reporting Requirements

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [SF Campaign & Governmental Conduct Code §2.100, et. seq] to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the Ethics Commission at: 25 Van Ness Avenue, Suite 220, San Francisco, CA 94102; telephone (415) 581-3100; fax (415) 252-3112; web site www.sfgov.org/ethics.

3B

San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

1155 Market Street, 11th Floor
San Francisco, CA 94103
T 415.554.3155
F 415.554.3161
TTY 415.554.3488

MEMORANDUM

Date: January 24, 2012

To: Anson B. Moran, President
Art Torres, Vice-President
Ann Moller Caen, Commissioner
Francesca Vietor, Commissioner
Vince Courtney, Commissioner

Through: Todd L. Rydstrom, AGM Business Services & Chief Financial Officer

From: Nancy L. Hom, Director, Assurance & Internal Controls

CC: Ed Harrington, General Manager, SFPUC
Mike Carlin, Deputy General Manager, SFPUC

Subject: SFPUC Quarterly Audit & Performance Review Report 2nd Quarter / FY 2011-12

Attached please find the consolidated SFPUC Quarterly Audit & Performance Review Report for the second quarter of FY 2011-12.

The Quarterly Audit & Performance Review Report and the related work plan are coordinated across the SFPUC and our various oversight bodies. It is organized by audit status, that is: 1) Completed, 2) In Progress, 3) Scheduled, and 4) Upcoming / Proposed, then by Type, and SFPUC Enterprise or Bureau. For your reference, all completed audits and reviews in the current fiscal year have been included. Oversight body, audit scope, finding highlights and follow up status, where applicable, are provided for each audit.

The audit plan for the upcoming FY 2011-12 will include audits performed by the Controller's Office Accounting & Operations Division, the City Services Auditor, the Revenue Bond Oversight Committee, external regulatory agencies, and others.

If you have any questions, ideas for enhancement to the quarterly report format or would like additional information, please contact me at (415) 554-3155 at your earliest convenience.

Attachment: The SFPUC's Quarterly Audit & Performance Review Report, FY 2011-12 Q2

SFPUC, Assurance & Internal Controls
Quarterly Audit & Performance Review Update
FY 2011-12 - Quarter 2, ending December 31, 2011

By Status, as of Dec 31, 2011:
Completed: 9
In Progress: 17
Upcoming: 11
Total Audits: 37

Q2 Status	New Update	Type	Enterprise / Bureau	Audit	Oversight Body	Scope	Highlights	Follow Up & Subsequent Accomplishments
Completed		Financial	Water	Audited Financial Statements (FY 2010-11)	Controller	Assure financial statements are accurate and do not contain material misstatements. Audit work performed by KPMG, LLP. Audit Scope: 7/1/2010 - 6/30/2011	All 3 reports issued: October 28, 2011. External Auditor's Opinion: Financial statements fairly present the financial position of the Water, Wastewater, and HHWP Enterprises as of fiscal year end 6/30/11. No findings noted.	Issuance of the SFPUC Comprehensive Annual Financial Report (CAFR) for FY 2010-11.
Completed		Financial	Wastewater					
Completed		Financial	Hetch Hetchy Water & Power					
Completed	New Update	Financial	All SFPUC	SFPUC Comprehensive Annual Financial Report (CAFR) (FY 2010-11)	SFPUC, through Controller	Assure the comprehensive financial statements are accurate and do not contain material mistatements. Audit work performed by KPMG, LLP Audit Scope: 7/1/2010 - 6/30/2011	Issued: November 30, 2011. External Auditor's Opinion: Financial statements fairly present the financial position of the SFPUC and its enterprises as of fiscal year end 6/30/11. No findings noted.	
Completed	New Update	Financial	Business Services - Finance	Post Audit - Financial Transactions and Continuous Monitoring Program for FY 2010-11.	Controller (AOSD)	Review of select financial transactions from the Financial Management System to assess compliance to City & County fiscal policy. Assessment of proper internal controls for financial transaction processing. Focus areas include Payroll and Application interfaces to FAMIS. Audit Period: Sep 2010 - Mar 2011	Final results: November 28, 2011. Findings / recommendations: 1. Continuous Monitoring Program - SFPUC improved in 3 of the 4 areas tested. 2. Further improvement recommended in: a) appropriate payment to employee vs. contractor, and b) more complete internal control documentation. 3. Better track purchase orders so that they are not closed prematurely. 4. Encumber funds before services are provided. 5. Ensure timely payment of invoices. 6. Ensure proper usage of document type, and education of its impact on automated workflow approval.	SFPUC has continued to provide routine training and workshops for departmental and accounting staff to ensure appropriate processing for all transactions. CFO and Deputy CFOs redoubling communications and staff awareness efforts of the importance of full compliance with internal controls.

Q2 Status	New Update	Type	Enterprise / Bureau	Audit	Oversight Body	Scope	Highlights	Follow Up & Subsequent Accomplishments
Completed		Concessions / Lease Revenue	Real Estate Services Division (RES)	Non-Percentage Leases (>$100K)	CSA, Controller	Assess effectiveness of Lease Administration process and procedures. Population sample of all leases with annual rent greater than $100K. Determine whether selected lease tenants have paid proper rent in calendar year 2009, totaling $2,057.682 in rents paid. Report Issued: August 10, 2010 Leases Reviewed: 1 All Auto Dismantlers $120.9K 2 Artichoke Joe's $254.8K 3 Cisco Systems $100.5K 4 Cisco Systems $121.6K 5 Cisco Systems $150.0K 6 Decorative Plant Svcs, Inc. $181.1K 7 Northpointe Business Park $126.8K 8 Paramount's Great America $112.7K 9 San Antonio Ctr. Assoc. $388.1K 10 SF Comm. College Dist. $ 77.9K 11 SF Comm. College Dist. $227.4K 12 Shapell Industries of NorCal $96.6K 13 Treasure Island Trailer Crt $100K 14 Williams Communications $128.3K	High Level Summary of Findings: RES received proper amounts from tenants, but should improve lease administration by ensuring: - monitoring for proper insurance coverage compliance - full collection of required security deposits ** shortage of $118,590 out of $251,117; 47% error rate - cost benefit and authority of waiving late fees. - Maintain a lease agreement listing that is more flexible for reference/use. - review and possible change of Lease Agreement terms and language to better administer CPI adjustments, late payment terms/fees, and deposits.	Past Audits with similar findings include: 1) Sunol Valley Golf (June, 2010) **Completed:** 1) A lease summary has been created in excel that better details and allows for easier administration of specific provisions per lease. 2) Monitoring of insurance provisions is in place. 3) Hired new Real Estate Director (7/2011) 4) RES Director has reorganized job duties and implemented new performance plans **In Progress:** 1) With new RES Director, comprehensive review of insurance certificates, late payment, & security deposits for all leases and permits is in progress. Estimated completion Q3 / FY 2011-12. 2) Currently working with CSB / ITS to resolve Colonial System's ability to handle lease administration. Also working with ITS to upgrade lease administration software. 3) RES to work with the CAO / other SFPUC departments to revise land management manual. Estimated completion Q3 / FY 2011-12.
Completed		Concessions / Lease Revenue	Real Estate Services Division (RES)	Mission Valley Rock Co.	CSA, Controller	Assess compliance with reporting and payment provisions of Lease Agreement for Rents and Concessions. Report Issued: November 23, 2010	High-Level Findings - RES did not properly manage leases. - Hanson did not correctly report royalties. - Hanson made late payments and PUC RES did not properly apply late fees. - Hanson should reimburse audit costs. - Immediate Revenue Recoveries: $154,904 - Potential Revenue Recoveries: $479,607	
Completed		Concessions / Lease Revenue	Real Estate Services Division (RES)	Crystal Springs Golf Course	CSA, Controller	Assess compliance with reporting and payment provisions of Lease Agreement for Rents and Concessions. Report Issued: December 1, 2010	High-Level Summary Findings: RES should properly administer the lease by monitoring in order to ensure: - all required financial statements from the tenant are received. - proper application of rent credits. ($23.6K) - proper assessment of late fees.($72.3K) - proper true up of annual rents paid and due.	

Q2 Status	New Update	Type	Enterprise / Bureau	Audit	Oversight Body	Scope	Highlights	Follow Up & Subsequent Accomplishments
Completed		Performance	Infrastructure	Noe Valley Transmission Line, Phase II contract	Human Rights Commission (HRC), Controller's CSA	To determine whether K J Woods (contractor) complied with certain contract requirements and whether K J Woods' subcontractors were properly certified as Local Business Enterprises (LBE).	Report Issued: September 29, 2011 Recommendations include ensuring: 1) Subcontractor is LBE eligible due to principal place of business; 2) LBE subcontractors perform the work intended for them; 3) HRC forms are completed & accurately; 4) Site visits are performed; 5) Procedures manual is updated for site visits and LBE participation goals.	HRC has conducted an audit of subcontractor's place of business, and will follow up as needed. SFPUC and HRC is continuing to remind contractors to submit HRC forms, and to do so accurately. HRC will perform site visits on a systematic sample basis, given limited resources. HRC has updated procedures to address site visits and LBE participation goals.
Completed	New Update	Performance	Power	CA Independent System Operator Scheduling Coordinators Self Audit	CAISO; Audit performed by SingerLewak Accountants & Consultants	Evaluate SFPUC's compliance with Settlement Meter Data Processing in accordance with the CAISO Scheduling Coordinator Self Audit Requirements. Scope period: Calendar Year 2010.	Report Issued: October 24, 2011. Audit conclusion: Settlement Meter Data Processing Level controls are adequate and functioning as documented.	SFPUC will continue efforts to ensure compliance.
Completed	New Update	Performance	Power	NRG Steam Franchise Audit (2010-11)	CSA, Controller	To determine if NRG correctly paid franchise fees to the City according to the terms of the franchise agreement with the City. Scope Period: January 1, 2009 to December 31, 2010.	Report Issued: November 16, 2011. Results: There were no audit findings nor recommendations that pertained to the SFPUC.	SFPUC will continue efforts to ensure compliance.
Completed	New Update	Performance	Power	California Mandatory Green House Gas reporting verification	CA Air Resources Board; Verification performed by SCS Engineering	To perform Greenhouse Gas (GHG) verification activities for SFPUC's 2010 GHG emissions, as reported to the CA Air Resources Board (CARB). Scope period: Calendar Year 2010.	Report issued: November 2011. Results: SFPUC's California GHG PEEDR for the 2010 calendar reporting year is free of material misstatement, is in conformance with the Reporting Regulation, and verified without qualification.	SFPUC will continue efforts to ensure compliance.
In Progress		Financial	Business Services - Finance	OMB A-133 Single Audit - Federal Grants	Federal	Financial / Compliance. Anticipated future activity due to $8M ARRA Energy Efficiency and Conservation Block Grant (EPA)	Target report issuance date: March 30, 2012.	
In Progress	New Update	Financial	Business Services - Finance	Wholesale Revenue Audit - Balancing Account (FY 2010-11)	Controller / BAWSCA	Assurance that Statement of Changes in the Balancing Account is accurate and does not contain material misstatements. Firms: KPMG, LLP & Yano Accountancy	Target report issuance date: Q3 / FY 2011-12.	
In Progress		Performance	Business Services - Information Technology	ITS Security - Systems and Applications	CSA, Controller	Assessment and review of ITS Security & Monitoring. PUC ITS will partner with CSA (and external resources) to assess security and internal controls surrounding key systems.	Under Current Review.	

Q2 Status	New Update	Type	Enterprise / Bureau	Audit	Oversight Body	Scope	Highlights	Follow Up & Subsequent Accomplishments
In Progress		Performance	Business Services - Human Resources	Quality Assurance (QA) of various operational processes and transactions	Human Resources, various divisions	HRS oversight and internal control activities include the following areas to ensure integrity of data and compliance with Federal, State and Local employment standards: - I-9 Audit of Employee Personnel Records - Formal tracking system for payroll action requests (EAR) - temporary employment assignments - employee profile information and payroll data - timekeeping records and internal position control records of the SFPUC and City & County of SF - trend analysis of employee and payroll data - review of Direct Deposit Activities.	None at this time.	Routine QA checks and self-certifications are a routine process within the Human Resources bureau and provide a continuous monitoring environment that fosters accuracy, integrity and compliance. The activities also lend to mitigation of risks including; errors, fraudulent transactions and non-timeliness.
In Progress		Performance	Infrastructure	Quality Assurance (QA) Internal Audits of Projects	Infrastructure, QA Audits	Performs independent audits of projects through interviews and inspection of documents with goal of assuring compliance to procedures and identifying process improvements. Audits occur during Planning, Design and Construction phases for selected capital projects managed by the Infrastructure Division. Ongoing monitoring function.	Reviews estimated 10+ projects a year, based on required needs of Bureau. Audits are scheduled, as needed.	QA Audit reports directly to the AGM of Infrastructure and has freedom to determine scope depth however needed. Value - on a continuous basis, enables construction managers to take necessary corrective actions early enough for the benefit of the rest of the duration of the project; as well as future projects where appropriate.
In Progress		Performance	Infrastructure	PUC Job Order Contracts	CSA, Controller	Review SFPUC Job Order contracts to determine if they are following administrative procedures.	Fieldwork begins Q2 / FY11-12. Anticipated completion in Q3 / FY 2011-12.	
In Progress		Performance	Infrastructure	Continue Improving Administration of the Parsons Water System Improvement Program Contract	CSA, Controller	Follow up limited scope and duration review of this Parsons audit, to substantiate that the SFPUC implemented effective corrective actions that will achieve the desired business results behind the audit's recommendations.	Anticipated start date: Q3 / FY11-12. Targeted completion Q4 / FY 2011-12.	
In Progress		Performance	Wastewater	Review of vendor invoices for validity and supporting documentation.	CSA, Controller	Review of city-approved vendor, Pestec, to assess validity and supporting document for invoices submitted to and paid by the SFPUC during the months of July 2008 through September 2008.	Related to completed internal review performed by the SFPUC Assurance & Internal Controls (AIC) department for Water-CDD, for FY08-09 invoices submitted that resulted in $82K collection for unsubstantiated labor hours.	Subsequent to recovery of $82K, CSA reviews of Wastewater invoices have concluded with $196K overbilling (80%). Review has expanded city-wide for vendor, with similar results. SFPUC lauded for proactiveness in case.

Q2 Status	New Update	Type	Enterprise / Bureau	Audit	Oversight Body	Scope	Highlights	Follow Up & Subsequent Accomplishments
In Progress		Performance	Wastewater	CEC - Public Interest Energy Research (PIER) program.	CA State Controller	An audit of SFPUC's Public Interest Energy Research (PIER) program, contract # PIR-06-001. To assess the adequacy of accounting policies and procedures as they relate to costs invoiced to the Commission and to verify compliance with contract fiscal terms.	Target Report Date: TBD	
In Progress		Performance	Power	PG&E Gas & Electric Franchise Fee & Surcharges	CSA, Controller	To conduct an audit of the fees paid by PG&E to the City and County of San Francisco. Audit period will cover January 1, 2009 to December 31, 2010.	Target Report Date: Q3 / FY 2011-12	
In Progress		Concessions / Lease Revenue	Real Estate Services Division (RES)	Santa Clara Gravel & Sand Audit	CSA, Controller	To determine whether the tenant complied with the terms of the lease and whether SFPUC effectively managed the lease. Audit period will cover from 7/1/2007 thru 12/31/2010.	Anticipated Completion Date: Q3 / FY 2011-12	
In Progress		Revenue Bond Oversight Committee (RBOC)	Infrastructure	Water and Wastewater System Projects	RBOC, thru CSA.	Determine if bond proceeds are used according to bond resolution for the CUW 368.2 Bay Division Pipeline Reliability Upgrade - Pipeline Project.	Anticipated Completion Date: Q3 / FY 2011-12	
In Progress		Revenue Bond Oversight Committee (RBOC)	Infrastructure	Water and Wastewater System Projects	RBOC, thru CSA.	Determine if bond proceeds are used according to bond resolution for the CUW 309.1 Lake Merced Pump Station Essential Upgrade Project.	Anticipated Completion Date: Q3 / FY 2011-12	
In Progress		Revenue Bond Oversight Committee (RBOC)	Infrastructure	Water and Wastewater System Projects	RBOC, thru CSA.	Determine if bond proceeds are used according to bond resolution for the WW-405 Mission & Mt Vernon Sewer Improvement Project.	Anticipated Completion Date: Q3 / FY 2011-12	
In Progress		Revenue Bond Oversight Committee (RBOC)	Infrastructure	Water and Wastewater System Projects	RBOC, thru CSA.	Determine if bond proceeds are being allocated per best practices. 2 Projects: a) CUW 361.5. Pulgas Balancing Reservoir: Modifications to Existing Dechlor Facility b) CUW 367.1. Harry Tracy Long Term Improvements. Alternate Project: If expenditure detail-to-date for CUW 367.1 is too small, alternate project to review is CUW 381.1. Sunol Valley WTP Expansion & Treated Water Reservoir.	Anticipated Completion Date: Q3 / FY 2011-12	

Q2 Status	New Update	Type	Enterprise / Bureau	Audit	Oversight Body	Scope	Highlights	Follow Up & Subsequent Accomplishments
In Progress		Revenue Bond Oversight Committee (RBOC)	Infrastructure	WSIP Construction Management, Independent Review Panel	RBOC, thru Independent Review Panel.	Focus of audit is Change Management, Risk Management, and Project Delivery (Soft) Costs as it relates to WSIP.	Anticipated Completion Date: Q3 / FY 2011-12	
In Progress		Revenue Bond Oversight Committee (RBOC)	Infrastructure	Peer Reviewer for Independent Review Panel	RBOC, work performed by William Ibbs.	Provides RBOC representation to all activities of the WSIP Construction Management, Independent Review Panel.	Anticipated Completion Date: Q3 / FY 2011-12	
Upcoming		Financial	Business Services - Finance	Debt Issuance (Arbitrage) Internal Revenue Service	Federal	Financial / Compliance. Anticipated future activity due to recent debt issuances and the US Treasury's heightened audit program initiatives.	To be determined.	
Upcoming		Financial	Business Services - Finance	Audit Command Language (ACL)	SFPUC, Finance SFPUC, Assurance & Internal Controls	Data analysis of various financial and operational transactions to assess compliance, uncover and research unusual trends and provide insight to opportunities. Provides ongoing monitoring of financials and purchasing transactions in-house. CSA has trained Controller staff and has ACL user licenses.	Part of the FY 2011-12 CSA Annual Work Plan	
Upcoming		Financial	All SFPUC	Telephone / Cellular Usage	CSA, Controller	Preliminary: Assessment of historical telephone usage and associated charges and fees to determine opportunities for cost efficiency (e.g., cellular phones, office lines (long distance), time of usage, etc.)	Part of the FY 2011-12 CSA Annual Work Plan	
Upcoming		Performance	Infrastructure	Los Angeles Dept of Water & Power - MOU Agreement	SFPUC	Review of construction management program.	Anticipated within next 19 months (Oct 2010 through April 2012).	
Upcoming		Performance	Infrastructure	HRC Compliance (2011-12)	CSA, Controller Human Rights Commission	Ensure contract compliance to Human Rights Commission / Local Business Enterprise requirements, per Chapter 14B Section 10. Additional details TBD as this is an annual audit.	Part of the FY 2011-12 CSA Annual Work Plan	
Upcoming		Performance	Hetch Hetchy - Power	NRG Steam Franchise Audit (2011-12)	CSA, Controller	To determine if NRG correctly paid franchise fees to the City according to the terms of the franchise agreement with the City. Additional details TBD as this is an annual audit.	Part of the FY 2011-12 CSA Annual Work Plan	
Upcoming		Performance	All SFPUC	Review of SFPUC Claims Data	CSA, Controller	Review access to, administration and management of SFPUC claims data.	Part of the FY 2011-12 CSA Annual Work Plan	

Q2 Status	New Update	Type	Enterprise / Bureau	Audit	Oversight Body	Scope	Highlights	Follow Up & Subsequent Accomplishments
Upcoming		Performance	Fleet	Fleet / Fuel logistics - Controls & Disaster Preparedness	CSA, Controller	As part of ERM risk assessment and mitigation, review the fuel logistics for fleet to ascertain if we have processes in place to determine fuel usage levels, determine how much fuel we have on hand at any given time, and that we have an effective disaster preparedness plan in place to mitigate possible fuel shortages in the event of catastrophic disaster.	Part of the FY 2011-12 CSA Annual Work Plan	
Upcoming		Performance	Business Services - Human Resources	Payroll / Direct Deposit Audit	CSA, Controller	Review employee's direct deposit activity for possible anomalies	Part of the FY 2011-12 CSA Annual Work Plan	
Upcoming	New Update	Performance	Business Services - Customer Service	Community Assistance Program Enrollment Guidelines - audit	CSA, Controller	Review of the Community Assitance Program to ensure that recipients are qualified to participate in the program.	Part of the FY 2011-12 CSA Annual Work Plan	
Upcoming		Performance	Power	Power Enterprise - Warehouses and Inventory Control Performance Audit	CSA, Controller	To determine whether the SFPUC Power Enterprise has standardized and consistent inventory processes and controls over its warehouses, and that those processes and controls are adequate to ensure that materials, supplies, and tools are accurately accounted for, adequately organized, and properly secured.	Part of the FY 2011-12 CSA Annual Work Plan	

LEGEND
Audit Type

- **Financial**
- **Concessions / Lease Revenue**
- **Performance**
- **Revenue Bond Oversight Committee**

Highlight

- **Good**
- **Needs Improvement**
- **Concern / High Risk**

4A

City and County of San Francisco

Office of the Controller – City Services Auditor

SAN FRANCISCO PUBLIC UTILITIES COMMISSION:

Expenditures of the Bay Division Pipeline Reliability Upgrade – Pipeline Project Appear Reasonable

November 22, 2011

OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the San Francisco Charter (charter) that was approved by voters in November 2003. Under Appendix F to the charter, the CSA has broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improving the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

CSA conducts its audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Irella Blackwood, Audit Manager
Mary Soo, Associate Auditor

City and County of San Francisco

Office of the Controller - City Services Auditor

San Francisco Public Utilities Commission: Expenditures of the Bay Division Pipeline Reliability Upgrade – Pipeline Project Appear Reasonable

November 22, 2011

Purpose of the Audit

The objective of the audit was to determine whether the San Francisco Public Utilities Commission (SFPUC) used bond proceeds in accordance with bond resolutions, legislation, intended uses, and action of the Public Utilities Commission itself for the Water System Improvement Program's (WSIP) Bay Division Pipeline Reliability Upgrade – Pipeline Project (project). The audit period was July 1, 2010, through June 30, 2011.

Highlights

The project, part of SFPUC's WSIP, involves the construction of a 21-mile pipeline from near Mission Boulevard in Fremont, California, to the Pulgas Tunnel near Redwood City, California. The objective of the project is to improve the water delivery and seismic reliability of the water delivery system to meet water supply purchase requests of SFPUC customers. The project will allow SFPUC to maintain the flow of water should any of the existing pipelines become damaged or taken out of service.

The project's expenditures from fiscal years 2006-07 to 2010-11 totaled $151,792,619.

The audit found that:

- The project's expenditures appear appropriate and in accordance with the bond resolutions. Of a population of 247 expenditure transactions worth $89,773,935 paid to vendors for the project for fiscal year 2010-11, the audit selected and analyzed 33 (13.4 percent) of the transactions worth $18,228,689 (20.3 percent). The expenditures reviewed were found to be appropriately used and in compliance with the bond resolutions.
- SFPUC erroneously attributed two expenditures, totaling $37,769, or 0.2 percent of the amount tested, to the project which should have been attributed to another phase of the WSIP Bay Division Pipeline Reliability Upgrade.
- The project manager does not review certain SFPUC staff expenditures for services, materials, and labor. While expenditures for services, materials, and labor by SFPUC operations staff are reviewed by the operational manager for regional and local water systems, the project manager does not specifically review these types of expenditures.
- SFPUC should more frequently track the depletion of its bond proceeds. The most recent schedules on bond depletion and use of bond proceeds by project were prepared using March 2011 data on transfers of expenditures funded by bond proceeds expenditures, representing a lapse of seven months since the schedules were updated.

Recommendations

The audit report includes five recommendations for SFPUC to improve its monitoring of bond proceeds for the project. Specifically, SFPUC should:

- Eliminate incorrect accounting classifications of $37,769 that were attributed to the incorrect phase of the WSIP Bay Division Pipeline Reliability Upgrade.
- Properly reflect information in the accounting and project management systems to correctly capture the amount of expenditures for the various phases of WSIP projects.
- Ensure that the project manager reviews all charges for services, materials, and labor by SFPUC operations staff.
- Maintain timely schedules on actual bond proceeds depletion according to SFPUC's formal policy.

Copies of the full report may be obtained at:
Office of the Controller • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at http://www.sfgov.org/controller

Page intentionally left blank.

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 22, 2011

Aimee Brown, Chair
San Francisco's Public Utilities
Revenue Bond Oversight Committee
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Ms. Brown:

The Office of the Controller, City Services Auditor Division (CSA), presents its audit report of the San Francisco Public Utilities Commission (SFPUC) Bay Division Pipeline Reliability Upgrade – Pipeline Project (project). The audit objective was to determine whether bond proceeds were used in accordance with bond resolutions, intended use, and action of the Public Utilities Commission (commission) itself for the project.

CSA found that the project's expenditures were in accordance with the bond resolution, intended use, and commission action for the project. The audit also identified three areas in which SFPUC should improve the monitoring of its expenditures from bond proceeds. The audit report includes five recommendations for SFPUC to further strengthen its procedures on expenditure monitoring.

SFPUC's response to the audit report is attached as an appendix. CSA will work with SFPUC to follow up on the status of the recommendations in the report. We appreciate the assistance and cooperation that SFPUC staff and staff of other city departments provided to us during the audit.

Respectfully,

Tonia Lediju
Director of Audits

Page intentionally left blank.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS AND ACRONYMS

BDPL	Bay Division Pipelines
BDPRU	Bay Division Pipeline Reliability Upgrade
CAB	Contract Administration Bureau of SFPUC
City	City and County of San Francisco
charter	San Francisco Charter
Controller	Office of the Controller
commission	Public Utilities Commission
CSA	City Services Auditor Division, Office of the Controller
FAMIS	Financial Accounting and Management Information System
IBAS	Infrastructure Budget & Administrative Services of SFPUC
P6	Primavera
project	Bay Division Pipeline Reliability Upgrade - Pipeline Project
RBOC	San Francisco's Public Utilities Revenue Bond Oversight Committee
SFPUC	San Francisco Public Utilities Commission
WSIP	Water System Improvement Program

INTRODUCTION

Audit Authority

This audit was conducted under the authority of the charter of the City and County of San Francisco (City), which requires that the City Services Auditor Division (CSA) of the Office of the Controller (Controller) conduct perio dic, comprehensive financial and performance audits of city departments, services, and activities.

CSA established an agreement with the San Francisco's Public Utilities Revenue Bond Oversight Committee (RBOC), to perform a series of five audits. RBOC was formed in November 2003 to monitor the bond expenditures of the San Francisco Public Utilities Commission (SFPUC). At the request of RBOC, CSA evaluated the bond-funded expenditures of the Bay Division Pipeline Reliability Upgrade – Pipeline Project (project) to determine if bond proceeds were used in accordance with bond resolutions, legislation, intended use, and Public Utilities Commission (commission) action. The commission consists of five members, nominated by the Mayor and approved by the Board of Supervisors to provide operational oversight in areas such as rates and charges for services, approval of contracts, and organizational policy.

Background on Water System Improvement Program

SFPUC initiated the Water System Improvement Program (WSIP), a multi-billion dollar November 2002 voter-approved bond measure, in May 2002. WSIP is intended to repair, replace, and seismically upgrade the system's deteriorating pipelines, tunnels, reservoirs, pump stations, storage tanks, and dams. WSIP is divided into five large regions (San Joaquin, Sunol Valley, Bay Division, Peninsula, and San Francisco), with each region encompassing smaller projects. All 46 projects are scheduled to be complete by 2016. The costs to complete these projects are allocated proportionally according to the quantities of water delivered among San Francisco and its regional customers in Alameda, Santa Clara, and San Mateo counties. WSIP's total budget is $4.6 billion, which is funded through SFPUC revenue bonds.

Approximately 800,000 retail customers in the City need safe and clean water. They and others depend on SFPUC's regional water system, many parts of which are 75 to 100

years old and do not meet today's seismic codes, although major pipelines cross active earthquake faults.

WSIP will benefit SFPUC's 26 wholesale customers and regional retail customers located in Alameda, Santa Clara, and San Mateo counties.

Background on SFPUC Bonds and Intended Uses

The San Francisco Charter (charter), Section 8B.124, authorizes SFPUC to issue revenue bonds, subject to the approval of the Board of Supervisors, for reconstructing, replacing, expanding, repairing, or improving water facilities under the jurisdiction of SFPUC. From 2006 through 2010, SFPUC issued a series of water and wastewater revenue bonds, each of which is designated for a specific purpose, as described in Exhibit 1.

EXHIBIT 1 Summary of SFPUC Revenue Bonds Issued from 2006 Through 2010

Bond Series	Used to Finance and Refinance...
2006 Series A Water Revenue Bonds	improvements to the City's water system under Proposition A. The improvements are defined as those that will restore, rehabilitate, and enhance the ability of SFPUC to deliver water to its customers.
2009 Series A/B 2010 Series D/E/F/G Water Revenue Bonds	a portion of the design, acquisition, and construction of various capital projects in furtherance of the WSIP.
2010 Series A/B/C Water Revenue Bonds	a portion of the design, acquisition, and construction of various capital projects in furtherance of WSIP, and to finance the acquisition and installation of automated digital water meters in furtherance of SFPUC's Advanced Metering Infrastructure system.
2010 Series A/B Bonds Wastewater Revenue Bonds	a portion of the costs of planning, design, construction and improvement of various capital projects in furtherance of the Capital Improvement Program and the proposed Sewer System Improvement Program of SFPUC's Wastewater Enterprise.

Source: Official statements of each bond series.

The project was funded by the following SFPUC Water Revenue Bonds:

- 2006 Water Revenue Bond Series A
- 2009 Water Revenue Bond Series A/B
- 2010 Water Revenue Bond Series B

Background on the Project

The project involves the construction of a 21-mile pipeline from approximately 100 feet east of Mission Boulevard in Fremont in Alameda County to the Pulgas Tunnel in unincorporated San Mateo County near Redwood City. A five-mile portion of the project will be tunneled under San Francisco Bay and is referred to as the Bay Tunnel. The four existing Bay Division Pipelines (BDPL), built between 1925 and 1973, transport water from the Irvington Portal in Fremont to customers in the East Bay, South Bay, and on the San Francisco Peninsula, also refilling the San Andreas and Crystal Springs reservoirs in San Mateo County.

SFPUC determined that the four existing BDPL were built using outdated construction materials and could fail as they approach the end of their useful lives. The objective of the project is to improve the water delivery and seismic reliability of the BDPL system by allowing the existing BDPL facilities to meet water supply purchase requests of SFPUC customers under the conditions of one planned shutdown of a major facility for maintenance concurrent with one unplanned facility outage due to natural disaster, emergency, or facility failure/upset. Without the project, there would be no other supply of water to offset the loss of any of the existing pipelines if they were damaged or otherwise taken out of service.

The project is expected to be completed under budget and ahead of schedule.

According to a monthly project management report and WSIP cost breakdown reports, the project is anticipated to be completed under budget and ahe ad of schedule. The project was originally estimated to finish on December 4, 2013, but, as of July 1, 2011, was expected to finish on March 5, 2013. As of July 2011, the project was anticipated to be completed under its original budget by $52,742,298.

The Budget Division establishes the structure to track funds in a project.

SFPUC's Budget Division establishes accounting index codes in the Financial Accounting and Management Information System (FAMIS), the City's accounting system, for SFPUC. To create the structure to track projects' expenditures, each project is assigned a project number, project phases, and accounting index codes in FAMIS. The Budget Division works with the project managers to establish project budgets and put them into FAMIS. When

the project managers need to either re-allocate funds between project phases or increase or decrease their budget, project managers contact the Budget Division. Exhibit 2 shows the project's expenditure transactions by fiscal year.

EXHIBIT 2 Expenditure Transactions from Fiscal Year 2006-07 to 2010-11

Fiscal Year	Amount
2006-07	$6,797,323
2007-08	9,845,769
2008-09	5,263,147
2009-10	32,629,032
2010-11	97,257,348
Total	**$151,792,619**

Source: FAMIS data for fiscal years 2006-07 through 2010-11 as of November 1, 2011.

There are six types of project expenditures.

According to SFPUC, there are six types of project expenditures:

- Labor charges of SFPUC infrastructure staff
- Material, service, and labor expenses by other city departments
- Professional service charges
- Construction charges
- Material, service, and labor expenses by SFPUC operations
- Other expenses

Objective

The main objective of the audit was to determine whether bond proceeds were used in accordance with bond resolutions, legislation, intended use, and commission action for the project. Specifically, the objectives were to ensure that SFPUC:

- Appropriately authorized the project's expenditures.
- Adequately allocated bond proceeds to allowable expenditures.
- Established adequate procedures and controls over the project's expenditures.
- Maintained evidence of the project's expenditures.

Scope and Methodology

The scope of the audit included the project's expenditures in fiscal year 2010-11 because this fiscal year had the

majority of project expenditures as shown in Exhibit 2. Using a risk-based approach, this audit focused on vendor expenditure transactions in transaction categories 3-6 in Exhibit 4.

The audit team:

- Reviewed charter provisions, bond indenture agreements, official statements, use of proceeds certificates, and SFPUC resolutions.
- Interviewed staff and managers to understand SFPUC's project management processes and expenditure approval processes.
- Interviewed staff regarding project expenditures in FAMIS.
- Assessed the project's internal controls for expenditure processing and review.
- Tested $18,228,689 out of $89,773,935 in vendor expenditure transactions. The audit team judgmentally selected 33 out of 247 vendor expenditure transactions to include a wide range of vendors, at least one large expenditure per vendor selected, potential duplicate payments, unusual transaction descriptions, and a range of time periods. The audit team also reduced the amount of retention payments sampled.
- Evaluated the Primavera (P6) project management tool and traced transactions from FAMIS to P6 to assess the data integrity of P6.

Statement of Auditing Standards

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Page intentionally left blank.

AUDIT RESULTS

Summary

Based on the expenditures reviewed, SFPUC uses bond proceeds appropriately. However, SFPUC incorrectly attributed $37,769 of expenditures to the project that were related to another phase of the WSIP Bay Division Pipeline Reliability Upgrade, also funded by Water Revenue Bonds. Although many types of the project's expenditures undergo a multi-level review process, the project manager should regularly review material, service, and labor expenses incurred by SFPUC operations staff. In addition, SFPUC should more frequently track the depletion of bond proceeds.

Finding 1

The project's expenditures appear appropriate and in accordance with the bond resolution.

SFPUC's expenditures for the project were appropriate under the bond criteria.

Expenditure transactions for the project were in accordance with bond resolutions, legislation, intended use, and action of the commission. Of a population of 247 expenditure transactions worth $89,773,935 paid to vendors for the project for fiscal year 2010-11, the audit selected and analyzed 33 (13.4 percent) of the transactions worth $18,228,689 (20.3 percent). Exhibit 3 details the transaction categories of audit project expenditures. No evidence of any unallowable costs funded through the project was found.

EXHIBIT 3 Audited Project Expenditure Transactions for Fiscal Year 2010-11

Transaction category	Total of Selected Transactions
Construction charges	$16,270,395
Professional service charges	1,261,442
Other expenses	659,547
Material, service, and labor expenses by SFPUC operations	37,305
Total	**$18,228,689**

Source: Interview with SFPUC staff and auditor's evaluation of FAMIS data for fiscal year 2010-11.

Finding 2

SFPUC erroneously attributed $37,769 in expenditures to the project, which should have been attributed to another phase of the WSIP Bay Division Pipeline Reliability Upgrade.

Two expenditures were inaccurately attributed to the project.

SFPUC incorrectly attributed in FAMIS and P6 two expenditures for a different phase of the WSIP Bay Division Pipeline Reliability Upgrade (BDPRU), totaling $37,769, or 0.2 percent of the amount tested, to the project. The index code was originally incorrectly associated to the project in FAMIS for a temporary period. Instead of appropriately closing out the index code and reassigning the expenditures already charged to the correct phase of the WSIP BDPRU, an SFPUC accounting employee forced the index code to be associated to the appropriate phase of BDPRU. The rest of the expenditures charged to the index code were correctly charged to the correct phase of the WSIP BDPRU. However, the $37,769 already incorrectly charged continued to be associated with the project. As these transactions still relate to a Water Revenue Bond funded project, these errors do not appear to have affected the WSIP projects' budget overall. However, the errors put SFPUC at risk of inaccurately attributing expenditures to projects, which provides the opportunity for individual project budget manipulation.

Recommendations

SFPUC should:

1. Eliminate incorrect accounting classifications of $37,769 that were attributed to the incorrect phase of the Water System Improvement Program Bay Division Pipeline Reliability Upgrade.

2. Properly reflect information in the accounting and project management systems to correctly capture the amount of expenditures for the various phases of Water System Improvement Program projects.

3. Augment existing policies and enforce procedures related to the correction of mispostings to accurately account for costs by project. These expanded procedures should consider whether adjustments to index codes will adversely affect the project or other Water System Improvement Program projects before any changes are made in the Financial Accounting and Management Information System.

Finding 3

The project manager does not review certain SFPUC staff expenditures for materials, services, and labor.

The project manager should regularly review all expenses, including material, service,

While expenditures for services, materials, and labor by SFPUC operations staff are reviewed by the operational manager for regional and local water systems, the WSIP

and labor expenses by SFPUC operations staff.

project manager does not specifically review these types of expenditures. After assigning index codes and allocating budgets, the project manager does not monitor these expenses unless there is an expense overrun. By not regularly monitoring these types of expenses, the project manager is not fully informed about what is happening in the field. The project manager is generally responsible for managing all phases of the project. There is the possibility that expenses are not used in accordance with the bond proceeds or the potential for misuse of funds by employees. While the audit did not find this to be the case in the expenditures selected for review, these risks should be mitigated and controlled by a thorough review of expenses.

Exhibit 4 lists the frequency and levels of review for each expenditure type before approval by the SFPUC Accounting unit:

EXHIBIT 4 Review Process for the Six Project Expense Types

	Expense Type	Reviewed By	Frequency
1	SFPUC infrastructure staff labor	Project Manager Project Controls	Monthly
2	Material, service, and labor expenses by other city departments	Project Manager Project Controls	As Needed
3	Professional service charges*	Infrastructure Budget & Administrative Services (IBAS) Contract Administration Bureau (CAB) Technical Lead Project Manager Contract Manager	Monthly
4	Construction charges	IBAS Technical Lead Project Manager Contract Manager	Monthly
5	Material, service, and labor expenses by SFPUC operations	Operational Manager for Regional and Local Water Systems	As Needed
6	Other expenses	Project Manager Department Head Assistant General Manager of Infrastructure	As Needed

Note: *WSIP program management costs are only reviewed by IBAS and CAB.

Sources: SFPUC policies and procedures and interviews with SFPUC staff

Recommendation

SFPUC should:

4. Ensure that the Water System Improvement Program project managers reviews, on at least a quarterly basis, all expenses, including material, service, and labor expenditures that San Francisco Public Utilities Commission operations staff charge to the project.

Finding 4

SFPUC should more frequently track the depletion of its bond proceeds.

SFPUC did not update its schedules on bond depletion and use of bond proceeds by project on a timely basis.

SFPUC periodically transfers actual expenditures funded by bond proceeds upon completion of the posting of incurred expenses. According to its formal policy, SFPUC should update its related schedules on bond depletion and use of bond proceeds monthly or quarterly. At the time of the audit, the most recent schedule of depleted bonds was prepared with March 2011 data on transfers of expenditures funded by bond proceeds. Seven months had elapsed since the schedule was updated. It is a best practice to update these schedules more frequently. Infrequently updated schedules can cause SFPUC to be unaware of when bond proceeds are depleted, thereby causing a delay of information that could result in misinformed decisions.

Recommendation

SFPUC should:

5. Maintain a timely bond depletion schedule, consistent with its formal standard of tracking actual bond expenses monthly or quarterly.

APPENDIX: SAN FRANCISCO PUBLIC UTILITIES COMMISSION RESPONSE

San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

1155 Market Street, 11th Floor
San Francisco, CA 94103
T 415.554.3155
F 415.554.3161
TTY 415.554.3488

November 4, 2011

Tonia Lediju, Audit Director
Office of the Controller, City Services Auditor Division
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Management's Responses to Results of the Audit of the Fiscal Year 2010-2011 Bay Division Pipeline Reliability Upgrade – Pipeline Project Expenditures

Dear Ms. Lediju,

Thank you for providing us the opportunity to respond to your Audit of the Fiscal Year 2010-2011 Bay Division Pipeline Reliability Upgrade – Pipeline Project Expenditures, prepared for the Revenue Bond Oversight Committee by the Controller's Office, City Services Auditor. We appreciate the time and effort that you and your staff have dedicated to the completion of this audit.

Attached for your review and consideration are SFPUC Management's responses to the recommendations detailed in the audit report. If you have any questions or need additional information, please do not hesitate to contact me at (415) 554-1600.

Sincerely,

ED HARRINGTON
General Manager

cc: Aimee Brown, Chair, Revenue Bond Oversight Committee
Michael Carlin, Deputy General Manager
Todd L. Rydstrom, AGM Business Services & Chief Financial Officer
Charles Perl, Deputy CFO
Nancy L. Hom, Director, Assurance & Internal Controls

AUDIT RECOMMENDATIONS AND RESPONSES

Recommendation	Responsible Agency	Response
The San Francisco Public Utilities Commission should: 1. Eliminate incorrect accounting classifications of $37,769 that were attributed to the incorrect phase of the Water System Improvement Program Bay Division Pipeline Reliability Upgrade.	SFPUC	Concur.Project costs have been charged to the correct phase of the Bay Division Pipeline Reliability Upgrade project, code CUW36802.
2. Properly reflect information in the accounting and project management systems to correctly capture the amount of expenditures for the various phases of Water System Improvement Program projects.	SFPUC	Concur. The corrected information is now properly reflected in the financial system and Primavera.
3. Augment existing policies and enforce procedures related to the correction of mispostings to accurately account for costs by project. These expanded procedures should consider whether adjustments to index codes will adversely affect the project or other Water System Improvement Program projects before any changes are made in the Financial Accounting and Management Information System.	SFPUC	Concur. Existing policies will be augmented and enforced to include a process to create new index codes when required, rather than change or amend an existing index code.

Recommendation	Responsible Agency	Response
4. Ensure that the Water System Improvement Program project managers reviews, on at least a quarterly basis, all expenses, including material, service, and labor expenditures that San Francisco Public Utilities Commission operations staff charge to the project.	SFPUC	Concur. Project Managers will review operations expenses charged to their projects on a monthly basis to ensure that they match the planned schedule and budgeted expenditures prepared by the Operations staff.
5. Maintain a timely bond depletion schedule, consistent with its formal standard of tracking actual bond expenses monthly or quarterly.	SFPUC	Concur. In Fiscal Year 2010-11,11 bond expenditure transfers were completed accurately, timely, and properly. Bond expenditure transfers are unable to be made during fiscal year-end as fiscal month June is not closed in FAMIS until the end of September. The SFPUC will update its procedures to address this systemic limitation and develop an approach to best work around this constraint. For the purpose of tracking and monitoring bond proceeds, there are also other tools used by SFPUC Finance. The on-demand 'Summary of Uses by Project' report is generated through EIS to prepare a summary analysis of expenditures by project and fund. This analysis in turn is used by staff to prepare the monthly/quarterly transfers, also reviewed by management. Other on-demand reports from EIS are prepared daily, weekly; monthly and quarterly as part of monitoring project expenditure levels against the availability of bond proceeds. The Water Supply Agreement with the wholesale customers also requires the monitoring of bond proceeds. By contract, the SFPUC reports annually to the wholesale customers (through BAWSCA) project expenditure by bond detail.

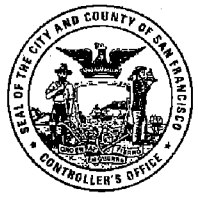
4B

City and County of San Francisco

Office of the Controller – City Services Auditor

SAN FRANCISCO PUBLIC UTILITIES COMMISSION:

Expenditures of the Mission and Mount Vernon Street Sewer Improvement Project Appear Reasonable



November 22, 2011

OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the San Francisco Charter (charter) that was approved by voters in November 2003. Under Appendix F to the charter, CSA has broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

CSA conducts its audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Irella Blackwood, Audit Manager
Kat Scoggin, Associate Auditor

City and County of San Francisco

Office of the Controller - City Services Auditor

San Francisco Public Utilities Commission Expenditures of the Mission and Mount Vernon Street Sewer Improvement Project Appear Reasonable

November 22, 2011

Purpose of the Audit

The objective of the audit was to determine whether bond proceeds expended for the Mission and Mount Vernon Sewer Improvement project (project) were used in accordance with the intended uses stated in the San Francisco Charter and bond resolution and by action of the San Francisco Public Utilities Commission itself (commission) for the project. The audit period was July 1, 2007 through June 30, 2008.

Highlights

The bond resolution for the 2010 Series A/B Wastewater bonds indicates that bond proceeds should be used for financing the planning, design, construction, and improvement of various capital projects in furtherance of the Capital Improvements Program (CIP) and the Sewer System Improvement Program (SSIP) projects.

Of the $10.3 million in project expenditures, the audit reviewed $8.1 million (79 percent) and found that the expenditures were reasonable and in accordance with the bond resolution and intended uses of bond proceeds.

- Most expenditures fell into three main categories: construction progress payments, labor for city employees, and overhead.
- The majority of expenditures the audit reviewed were for progress payments on SFPUC's construction contract with Mountain Cascade. These progress payments were supported by detailed invoices of construction materials and work. Additionally, a Department of Public Works (DPW) resident engineer visually inspected the construction site to verify that the reported progress had been made. Further progress payment authorizations were signed by the DPW resident engineer, a DPW construction manager, and the SFPUC project manager.
- In addition to direct labor costs for SFPUC employees who worked on the project, SFPUC contracted work out to engineers with DPW. To ensure that these labor costs were reasonable, the project manager periodically reviewed labor reports and monitored whether labor costs ran over budget.
- Overhead expenditures included costs incurred in support of the CIP projects, but not directly attributable to a specific project. Such expenditures included salaries of top-level management and support staff, and non-personnel expenses such as office supplies.

Project Overview

The Mission and Mount Vernon Sewer Improvement project was a CIP project designed to improve area-wide sewer drainage for wastewater that is collected or transmitted on Mission Street in San Francisco around Mount Vernon Avenue, Ellington Avenue, and Foote Avenue.

The project entered the planning stages in September 2005 and was completed in September 2009 for $10.3 million, finishing 10 percent under budget.

CIP was comprised of projects designed to improve the city's sewer system while SFPUC developed the current SSIP.

The project was originally funded with proceeds from the sale of commercial paper (short-term debt obligations SFPUC uses to temporarily fund projects while it prepares bond issuances). The commercial paper was refunded with proceeds from the 2010 Series A/B Wastewater bonds.

Copies of the full report may be obtained at:
Controller's Office • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at http://www.sfgov.org/controller

Page intentionally left blank.

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 22, 2011

Aimee Brown, Chair
San Francisco's Public Utilities Revenue Bond Oversight Committee
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Chair and Members:

The Office of the Controller, City Services Auditor Division (CSA), presents its audit report of the Mission and Mount Vernon Sewer Improvement project (project) administered by the San Francisco Public Utilities Commission , Wastewater Enterprise. The audit objective was to determine whether bond proceeds expended on the project were used in accordance with the intended uses stated in the bond resolution and San Francisco Charter, and with the actions of the San Francisco Public Utilities Commission itself (commission).

CSA found that the expenditures of the project were in accordance with the bond resolution, intended uses, and commission action for the project.

The SFPUC's response to the audit is attached as an appendix.

We appreciate the assistance and cooperation that SFPUC staff and staff in other city departments provided to us during the audit.

Respectfully,

Tonia Lediju
Director of Audits

Page intentionally left blank.

LIST OF ABBREVIATIONS AND ACRONYMS

CIP	Capital Improvements Program
City	City and County of San Francisco
commission	Governing body of San Francisco Public Utilities Commission
CSA	City Services Auditor Division, Office of the Controller
DPW	Department of Public Works
FAMIS	Financial Accounting Management Information System
project	Mission and Mount Vernon Sewer Improvement Project
RBOC	San Francisco's Public Utilities Revenue Bond Oversight Committee
SFPUC	San Francisco Public Utilities Commission (a city department)
SSIP	Sewer System Improvement Program

Page intentionally left blank.

INTRODUCTION

Audit Authority

This audit was conducted under the authority of the charter of the City and County of San Francisco (City), which requires that the City Services Auditor (CSA) of the Office of the Controller conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.

CSA entered an agreement with San Francisco's Public Utilities Revenue Bond Oversight Committee (RBOC), a committee formed in November 2003 to monitor the bond expenditures of San Francisco Public Utilities Commission (SFPUC), to perform a series of five audits. At the request of RBOC, CSA evaluated the bond-funded expenditures of the Mission and Mount Vernon Sewer Improvement project (project) to determine if bond proceeds were used in accordance with the bond resolution, intended uses, and action of the San Francisco Public Utilities Commission itself (commission). The commission consists of five members, nominated by the Mayor and approved by the Board of Supervisors to provide operational oversight in areas such as rates and charges for services, approval of contracts, and organizational policy.

Background on Sewer System Improvement Program

The SFPUC initiated the Sewer System Improvement Program (SSIP) after seven years of sewer system master planning that began in 2005. Currently, SFPUC endorses five goals of SSIP:

- Provide a compliant, reliable, resilient, and flexible system that can respond to catastrophic events.
- Minimize flooding.
- Provide benefits to impacted communities.
- Modify the system to adapt to climate change.
- Achieve economic and environmental sustainability.

SSIP projects are designed to meet these goals by addressing the following system deficiencies:

- Aging infrastructure and poor condition of existing facilities.
- Seismic deficiencies and lack of structural integrity.
- Limited operating flexibility and lack of redundancy.

- Ongoing need to protect the environment and public health, meet regulatory challenges, and conserve resources.

According to SFPUC management, before SSIP was formalized, related construction projects were conducted under the Capital Improvements Program (CIP).

Background on SFPUC Wastewater Bonds and Intended Uses

The San Francisco Charter (charter), Section 8B.124, authorizes SFPUC to issue revenue bonds, subject to the approval of the Board of Supervisors, for reconstructing, replacing, expanding, repairing, or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of SFPUC. In 2010 SFPUC issued a series of wastewater revenue bonds.

The 2010 Series A/B Bonds are used to finance and refinance a portion of the costs of planning, design, construction, and improvement of various capital projects in furtherance of the CIP and the proposed SSIP of SFPUC's Wastewater Enterprise.

Background on the Project

The project was part of the CIP and its objective was to improve area-wide sewer drainage for wastewater that is collected or transmitted on Mission Street in San Francisco around Mount Vernon Avenue, Ellington Avenue, and Foote Avenue. The project started on September 26, 2005, with a budget of $11.4 million.

SFPUC completed the project under budget.

According to the project manager, SFPUC worked with the Department of Public Works (DPW) for planning and design, and the construction contract was awarded to Mountain Cascade. The project was completed on September 22, 2009, finishing 10 percent below budget with total expenditures of $10.3 million.

EXHIBIT 2 Mission and Mount Vernon Sewer Improvement Project Expenditures by Year

Fiscal Year	Amount
2005-06	$ 322,114
2006-07	508,729
2007-08	9,398,842
2008-09	40,597
Total	**$ 10,270,282**

Source: FAMIS data for fiscal years 2005-06 through 2008-09 as of November 1, 2011.

Objective

The objective of the audit was to determine whether bond proceeds were used in accordance with the bond resolution, intended uses, and commission action for the project.

Scope and Methodology

The scope of the audit included the project's expenditures during fiscal year 2007-08.

The audit team:

- Reviewed charter provisions, bond indenture agreements, official statements, use of proceeds certificates, and commission resolutions.
- Interviewed staff and managers to understand SFPUC's project management processes and expenditure approval processes.
- Assessed the project's internal controls for expenditure processing and review.
- Tested, on a sample basis, $8.1 million of 2007-08 expenditure transactions recorded in the Financial Accounting Management Information System (FAMIS).

Statement of Auditing Standards

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Page intentionally left blank.

AUDIT RESULTS

Summary

SFPUC's expenditures in the Mission and Mount Vernon Sewer Improvement Project were in accordance with the bond resolution and SFPUC had strong controls over expenditures to ensure that they were appropriate.

Finding

The project's expenditures were appropriate and in accordance with the bond resolution.

SFPUC's expenditures for the project were in accordance with the bond criteria.

All of the $8.1 million in audited expenditure transactions appear reasonable. The bond resolution indicates that bond proceeds should be used for financing the planning, design, construction, and improvement of various capital projects in furtherance of CIP and SSIP projects. According to SFPUC Financial Planning staff, the project was originally funded with commercial paper proceeds, which were repaid with the 2010 wastewater bond proceeds. To test whether expenditures were appropriate, the audit selected and reviewed $8.1 million of expenditure transactions, which are categorized in Exhibit 2.

EXHIBIT 2 **Mission and Mount Vernon Sewer Improvement Project Expenditure Transactions for Fiscal Year 2007-08**

Transaction Category	Total	Total of Selected Transactions	Results of Review
Construction contract progress payment transactions	$8,402,490	$8,103,614	No exceptions
City employee labor payment	856,118	30,534	No exceptions
Overhead	85,323	218	No exceptions
Other	54,911	0	
Total	**$9,398,842**	**$8,134,366**	**No exceptions**

Source: Auditor's evaluation of FAMIS data for fiscal year 2007-08.

According to the project manager, construction contract progress payments were made to the construction contractor for any verifiable work performed under the contract. The audited progress payment requests included detailed invoices for construction work performed by the contractor and invoices from subcontractors. All expenses were for construction materials and labor. Additionally, a DPW resident engineer visually inspected the construction

site to verify that the reported progress had been made, and progress payment authorizations were signed by the DPW resident engineer, a DPW construction manager, and the SFPUC project manager.

Payments for city employee labor covered expenses incurred for hours worked by employees of SFPUC and DPW related to the project. For instance, SFPUC worked with DPW civil engineers on building designs and specifications that were later constructed by the contractor. SFPUC tracked the city employee labor costs charged against the project through periodic reviews of labor reports.

According to SFPUC budget staff, the overhead transactions indicated in Exhibit 2 include overhead costs incurred by SFPUC's Infrastructure Bureau that cannot be attributed directly to a project, such as the salaries of top-level management, the salaries of administrative and support staff, and office supplies. Through contracting with an external financial consultant, the Infrastructure Bureau ensures that the expenses it categorizes as overhead and its methodology for allocating overhead expenses to projects are reasonable.

The audit found no evidence that any unallowable costs were funded through the project.

APPENDIX: SAN FRANCISCO PUBLIC UTILITIES COMMISSION RESPONSE

San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

1155 Market Street, 11th Floor
San Francisco, CA 94103
T 415.554.3155
F 415.554.3161
TTY 415.554.3488

November 4, 2011

Tonia Lediju, Audit Director
Office of the Controller, City Services Auditor Division
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Management's Responses to Expenditures of the Mission and Mount Vernon Street Sewer Improvement Project Appear Reasonable

Dear Ms. Lediju,

Thank you for providing us the opportunity to review the audit entitled Expenditures of the Mission and Mount Vernon Street Sewer Improvement Project Appear Reasonable, prepared for the Revenue Bond Oversight Committee by the Controller's Office, City Services Auditor, for the period July 1, 2007 to June 30, 2008.

The SFPUC will continue to work with Wastewater project management to ensure ongoing compliance throughout the Enterprise's capital programs.

If you have any questions or need additional information, please do not hesitate to contact me at (415) 554-1600.

Sincerely,

ED HARRINGTON
General Manager

cc: Aimee Brown, Chair, Revenue Bond Oversight Committee
Michael Carlin, Deputy General Manager
Todd L. Rydstrom, AGM Business Services & Chief Financial Officer
Charles Perl, Deputy Chief Financial Officer
Nancy L. Hom, Director, Assurance & Internal Controls

PUBLIC UTILITIES
REVENUE BOND OVERSIGHT COMMITTEE
CITY AND COUNTY OF SAN FRANCISCO
MINUTES - DRAFT

Public Utilities Commission Building, 4th Floor Conference Room
1155 Market Street (between 7th & 8th Streets)
San Francisco, CA 94103

February 13, 2012 - 9:30 AM

Regular Meeting

Members: Aimee Brown (Chair), Kevin Cheng (Vice-Chair), Brian Browne, Larry Liederman, Ian Hart, and John Ummel

1. **Call to Order and Roll Call** (9:35 a.m. – 9:35 a.m.)

   The meeting was called to order at 9:35 a.m. On the call of the roll Member Cheng was noted absent.

   Member Cheng was noted present at 9:37 a.m.

   Member Browne was noted absent at 9:39 a.m.

2. **Public Comment.** (9:35 a.m. – 9:39 a.m.)

   Chair Brown provided parting comment as to the history of the RBOC and potential future action.

   Member Browne provided parting comments concerning the work of the RBOC. (see attached comments provided by Member Browne)

   Nancy Wuerfel provide written public comment (attached)

3. **Chair's Report:**
   A. San Francisco Public Utilities Commission (SFPUC) Staff Report: Construction Phase and Forecasting – Stage 1: Presentation by AECOM Construction Manager – John Kinneen. (9:50 a.m. – 11:40 a.m.)

   John Kinneen and Estabio Elarosa (SFPUC) presented a report on Construction Phase and Forecasting.

Mike Brown, Jojgan Yousefkhan, and Jeet Bajwa (SFPUC); provided information and responded to questions raised throughout the discussion.

Public Comment: None.

B. Peer Reviewer (Ibbs Consulting Group Inc.): Update on Expenses. (9:39 a.m. - 9:45 a.m.)

Chair Brown provided a summary of the amended invoice from Ibb's Consulting Group Inc. The negotiated price of $47,000 included concession by Ibbs Consulting to attend 2 RBOC meetings and provide a review of SFPUC presentation by AECOM concerning Construction Phase and Forecasting.

William Ibbs (Ibbs Consulting Group Inc.); provided information and responded to questions raised throughout the discussion.

Public Comment: None.

C. San Francisco Public Utilities Commission (SFPUC) Staff Report: RBOC Account Statement. (9:45 a.m. - 9:50 a.m.)

Mike Brown and Charles Perl (SFPUC); provided information and responded to questions raised throughout the discussion.

Public Comment: None.

4. **City Services Auditor (CSA) Audit Report: Program Management Cost; Lake Merced Pump Station Essential Upgrade.** (11:40 a.m. – 12:40 p.m.)

Tonia Lediju, Irella Blackwood, Kathleen Scoggin, and Cass Kagen (City Services Auditor); provided the CSA Audit Report on Program Management Cost and Lake Merced Pump Station Upgrade.

Mark Blake (City Attorney's Office); Charles Perl, Rosey Angel, and Mike Brown (SFPUC); provided information and responded to questions raised throughout the discussion.

Member Hart, seconded by Member Ummel, moved to accept the City Services Auditor (CSA) Audit Report: Program Management Cost; Lake Merced Pump Station Essential Upgrade.

The motion carried by the following vote:
Ayes:5 - Brown, Cheng, Hart, Liederman, Ummel
Noes: 0 – None
Absent: 1 - Browne

Public Comment None.

5. **City Services Auditor (CSA) Invoice for Services.** (12:40 a.m. – 12:45 p.m.)

Mark Blake (City Attorney's Office); Charles Perl, and Mike Brown (SFPUC); Tonia Ledij (City Services Auditor); provided information and responded to questions raised throughout the discussion.

Member Cheng, seconded by Member Ummel, moved to accept and pay the CSA 2nd Quarter Invoice and authorized the Chair of the RBOC to sign any required documents.

The motion carried by the following vote:
Ayes:5 - Brown, Cheng, Hart, Liederman, Ummel
Noes: 0 – None
Absent: 1 - Browne

Public Comment None

6. **RBOC Annual Report – 2011: Review of Draft.** (12:59 p.m. – 1:03 p.m.)

Char Brown and Member Ummel presented the draft RBOC Annual report for 2011 to the RBOC for review and comment.

Mark Blake (City Attorney's Office); Mike Brown (SFPUC); provided information and responded to questions raised throughout the discussion.

Member Leiderman, seconded by Member Hart, moved to direct members of the RBOC to submit suggested changes to the annual report to the Chair of the RBOC. In addition, the Chair is authorized to implement RBOC member suggestions at his/her discretion. Any material changes to the report will be presented to the RBOC before implementation.

The motion carried by the following vote:
Ayes:5 - Brown, Cheng, Hart, Liederman, Ummel
Noes: 0 – None
Absent: 1 - Browne

Public Comment None

7. **Selection of Consultant to Assist the RBOC Create a Consultant Pool.**
(1:03 p.m. – 1:04 p.m.)

Chair Brown provided and updated on the status on the Consultant search process.

Public Comment: None.

8. **Approval of RBOC Minutes of January 23, 2012.** (1:04 p.m. – 1:04 p.m.)

Member Leiderman, seconded by Member Hart, moved to adopt the RBOC Minutes of January 23, 2012.

The motion carried by the following vote:
Ayes:5 - Brown, Cheng, Hart, Liederman, Ummel
Noes: 0 – None
Absent: 1 - Browne

Public Comment None

9. **Election of Officers for the RBOC - 2012.** (Discuss(12:45 p.m. – 12:52 p.m.)

Mark Blake (City Attorney's Office); provided instructions as to the election of RBOC Officers.

Member Leiderman nominated Member Cheng for the position of Chairperson of the RBOC. There were no other nominations.

Chair Brown nominated Member Ummel for the position of Vice-Chairperson of the RBOC. There were no other nominations.

Member Leiderman, seconded by Member Ummel, moved to appoint Member Kevin Cheng to the position of Chairperson of the RBOC.

The motion carried by the following vote:
Ayes:5 - Brown, Cheng, Hart, Liederman, Ummel
Noes: 0 – None
Absent: 1 – Browne

Chair Brown, seconded by Member Leiderman, moved to appoint Member John Ummel to the position of Vice-Chairperson of the RBOC.

The motion carried by the following vote:
Ayes:5 - Brown, Cheng, Hart, Liederman, Ummel
Noes: 0 – None
Absent: 1 – Browne

Public Comment None

10. **RBOC Member Information Requests Raised at Today's Meeting.**

No action taken.

Public Comment: None

11. **Future Agenda Items.** (Discussion and Action)
    A. Extension of Sunset Date
    B. SFPUC Staff Report: Construction Phase and Forecasting – Stage 2: Mojgan Yousefkhan (Preparation of Monthly and Quarterly forecasts and roll up of data)
    C. Update on Construction Phase Forecasting (May)

Public Comment: None

12. **Adjournment.**

The meeting adjourned at 1:05 p.m.

February 13, 2012

TO: Public Utilities Revenue Bond Oversight Committee

FROM: Nancy Wuerfel

RE: Comments on the CSA audit report on the allocation of program management costs for two projects

I request that RBOC require the CSA report to be revised to include the following new material finding based on the facts presented but overlooked, and to require additional recommendations about the allocation of program management costs.

The CSA report has failed to acknowledge an additional **finding.** On page 2, the report states "SFPUC allocates the year's WSIP program management costs to each WSIP project based on its share of total WSIP costs." The entire Project Management Cost Allocation needs to be recalculated to reflect the reduction in the number of projects now charged to WSIP, which affects each project's share of the total, that determines the rate for allocating the costs.

Exhibit 3 on page 9 states the project scope as "$4.6 billion program encompassing 46 projects to upgrade regional and local water systems." This is not true. The original WSIP project scope was revised July 1, 2011 to eliminate the Local Water Supply Program. Therefore, WSIP now has 46 Regional projects. The 5 active Local projects valued at $281 million have been transferred to the Water Enterprise Capital Improvement Program, as stated in the quarterly report dated November 2, 2011. CSA correctly acknowledged in Exhibit 5 on pages 13 and 14 in footnote b that the Pacifica project "is no longer in WSIP and will be completed using the CIP funds," but then failed to make the next logical conclusion that the allocation formula needed to be corrected as well.

The CSA report should include the following **recommendations:**

- that the Project Management Cost Allocation to the WSIP program projects be recalculated to exclude the 5 Local Water Supply Program projects and their $281 million in costs that are no longer charged to WSIP and to determine each project's correct percentage of the new total.
- that there must be some adjustment for those Project Management costs which were previously justifiable during the time that the local projects were part of the WSIP program.
- that there must be a different method of allocating Project Management costs for these Local projects that are charged to the CIP after July 1, 2011, although the report did not discuss the CIP method of allocation of management costs.

Thank you for considering these comments.

February 13, 2012 Revenue Bond Oversight Committee
Comments by Brian Browne
Board of Supervisors
Comments to be incorporated into the minutes of the February 2013 RBOC meeting

Briefly for now:

A number of items on this agenda are based on reports that were not sent out within the mandated 72 hour review time. These reports cannot be reviewed at this meeting. Please see Brown Act, 2011- AB392, et al. Also, see my email to Ms Aimee Brown with attachment regarding CSA report. It is an artificial dichotomy (and illegal) to unbundle reports (all) from associated agenda items requiring 72 hours for review.

The Annual Report fails to mention my concerns about committee nullification in the context of what was intended and written in 2002 Proposition P. The implosive process of this committee has required I use sunshine requests, et al, to fulfill my oath of office as a RBOC member by reporting back to the designated stakeholders via the Fourth Estate and other communications. I have been readily available to quantify my many concerns.

Some of my concerns are available by accessing the Westside Observer @ http://westsideobserver.com/ under columnist "Brian Browne" and in the current edition http://westsideobserver.com/pages/page8.html plus in Reason @ http://reason.org/studies/show/western-water-wars. The Westside Observer, in the spirit of the First Amendment and Fourth Estate objectivity, also published articles by Todd Rydstrom and Aimee Brown.

The 2011 Annual Report ignores the failures and inequities of the RBOC during 2011 (and years prior). The failure of this committee to implement 2002 Proposition P as intended is of serious concern. Questionable processes need to be aired. To write a more accurate account of the RBOC I have requested from the Clerk-BoS, audio-copies of all RBOC (including subcommittees) meetings in disk format. These audio-disks will be transcribed and analyzed. These written data will augment my ongoing-research, past sunshine requests, and future sunshine requests to provide accuracy as to my period on the RBOC and to monitor future activities.

Item 7 states "Selection of Consultant to assist the RBOC Create a Consultants Pool." This item was not accompanied by a list of resumes for review within the 72 hour Brown Act et al mandate. At the January meeting I expressed great concern about maintaining the mandated independence of the RBOC by not hiring a person who has worked for the SFPUC or on a project for the RBOC by a city agency. Not to my surprise my objections were omitted from the minutes of the January 2012 meeting of the RBOC. This agenda item fails to clear the 72 hour requirement and possibly the independence clauses of 2002 P.

The "Minutes" (Item 8) continue to do a disservice to ensuring a real historical record of the actual discourse on this Committee. I will vote against approving these minutes. Too much is continually omitted. When the meeting-disks transcriptions (see above) are completed (with augmented material) it will be possible to compare the official history (minutes) of the RBOC with the recorded and transcribed history.

Item 9 – I believe with the vacant and termed out seats it would be unfair to future members not to hold this election over to the next meeting when new appointees will be seated,

11 B Extension of RBOC – this committee has been from the perspective of those who helped birth it an absolute failure. It must sunset on 1/1/13. These failures were even a significant issue during the mayoral debates by the former supervisor who put 2002 Proposition P on the ballot.

Sincerely,

Brian Browne
2003-present BoS Member RBOC

Dear Ms. Brown,

As a City rate-payer I continue to find the RBOC's gamesmanship appalling. Is there a reason your committee can't follow the rules as regularly cited by Brian Browne? His articles in the Westside Observer have cogently educated the citizenry about the Committee's hijinks. I suggest you step aside as Committee Chair in the interests of the rate-payers.
Respectfully,
Paul V. Simpson

Paul V. Simpson
Simpson, Garrity, Innes & Jacuzzi PC

2-3112; web site www.sfgov.org/ethics.