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CITY AND COUNTY



OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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August 10, 2005

Honorable Aaron Peskin, Chair of the Government Audit and Oversight Committee
and Members of the Board of Supervisors
City and County of San Francisco
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Dear President Peskin and Members of the Board of Supervisors:

The Budget Analyst is pleased to submit this *Phase IV Management Audit of the Public Utilities Commission - Administrative Bureaus and Infrastructure Division*. On May 18, 2004, the Board of Supervisors adopted a motion directing the Budget Analyst to conduct a management audit of the San Francisco Public Utilities Commission, pursuant to its powers of inquiry defined in Charter Section 16.114 (Motion No. M04-57). The purpose of the management audit has been to (i) evaluate the economy, efficiency and effectiveness of the Public Utilities Commission's programs, activities, and functions and the Public Utilities Commission's compliance with applicable State and Federal laws, local ordinances, and City policies and procedures; and (ii) assess the appropriateness of established goals and objectives, strategies, and plans to accomplish such goals and objectives, the degree to which such goals and objectives are being accomplished, and the appropriateness of controls established to provide reasonable assurance that such goals and objectives will be accomplished. The scope of the management audit includes all of the Public Utilities Commission's programs, activities, and functions.

The results of the management audit have been presented in four phases:

- The *Phase I Management Audit of the Public Utilities Commission – Clean Water Enterprise Fund* report was submitted to the Board of Supervisors on September 27, 2004.

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- The *Phase II Management Audit of the Public Utilities Commission – Hetch Hetchy Enterprise Fund* report was submitted to the Board of Supervisors on December 21, 2004.
- The *Phase III Management Audit of the Public Utilities Commission – Water Enterprise Fund* report was submitted to the Board of Supervisors on March 23, 2005.
- *Phase IV Management Audit of the Public Utilities Commission – Administrative Bureaus and Infrastructure Division* is the subject of this report.

This Phase IV report reviews the Public Utilities Commission in terms of:

- Containment of administrative costs.
- Contracts, including the Water System Capital Improvement Program management services contracts.
- Infrastructure Division's organizational structure.
- Human resources processes.
- The accounting and financial reporting functions.
- The asset management program.
- Security and emergency preparedness.
- Maintenance, materials, and equipment management.

The management audit was conducted in accordance with *Governmental Auditing Standards, 2003 Revision*, issued by the Comptroller General of the United States, U.S. General Accountability Office. The management audit staff presented a draft report to the Public Utilities Commission General Manager on July 27, 2005, and held an exit conference with the General Manager and key members of the Public Utilities Commission's management staff on August 3, 2005, to discuss the draft report. Subsequent to careful consideration of the additional information provided by the Public Utilities Commission after submission of our draft report to the Public Utilities Commission, the management audit staff prepared a final report. The Public Utilities Commission has provided a written response to the Budget Analyst's *Phase IV Management Audit of the Public Utilities Commission - Administrative Bureaus and Infrastructure Division*, which is appended to this report, beginning on page 181.

The Budget Analyst has recommended significant reductions in the Public Utilities Commission's budget during the past two fiscal years, based on a technical review of the budget. In FY 2004-2005, the Budget Analyst recommended and the Board of Supervisors approved

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\$9,656,506 in reductions. In FY 2005-2006, the Budget Analyst recommended and the Board of Supervisors approved \$6,131,008 in reductions, of which \$1,291,980 resulted from the Budget Analyst's management audit findings.

This management audit report of the Administrative Bureau, Infrastructure Division, and Water Enterprise personnel, maintenance, and materials management functions includes 13 findings and 115 related recommendations prepared by the Budget Analyst, encompassing major areas of administration and enterprise-wide functions. A list of the management audit recommendations is shown in the Attachment to this transmittal letter.

Implementation of the Budget Analyst's recommendations would result in estimated ongoing savings of approximately \$1.2 million, one-time savings of approximately \$960,000 and future savings of approximately \$673,000 annually. Additionally, the Budget Analyst's recommendations to strengthen the process of evaluating and negotiating construction contract change orders, which result in contract overruns, would prevent approximately \$7.1 million in one time expenditures in Water System Capital Improvement Program construction cost overruns.

The following sections summarize our findings and recommendations.

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Section 1. Containing the Costs of Administrative Overhead and Work Orders with Other City Departments

The Public Utilities Commission's administrative overhead expenditures grew at an average rate of 10.9 percent per year from \$30.6 million in FY 2000-2001 to \$41.7 million in FY 2003-2004. The FY 2004-2005 administrative overhead budgeted expenditures of \$47.2 million were \$5.5 million, or 13.2 percent more, than FY 2003-2004 actual expenditures.

The Public Utilities Commission does little to control this growth in expenditures. For example, the Public Utilities Commission's Communications and Public Outreach Section budget increased by approximately 14 percent, from \$2.1 million in FY 2004-2005 to \$2.4 million FY 2005-2006. However, because similar contractual services are managed by the operating divisions and contractual services costs are included elsewhere in the budget, the Public Utilities Commission's total costs for communications and public outreach functions are masked. The combined budgets of the Communications and Public Outreach Section and consultant services increased by approximately 45.5 percent, from \$2.2 million in FY 2004-2005 to \$3.2 million in FY 2005-2006.

These costs are passed on to the Clean Water, Water, and Hetch Hetchy Enterprises through the Public Utilities cost allocation plan. Because the operating divisions within the Clean Water, Water, and Hetch Hetchy Enterprises are not charged directly for these services, the Enterprises have little control over increasing costs. Also, the Public Utilities Commission administrative overhead divisions do not enter into service agreements with the Clean Water, Water, and Hetch Hetchy Enterprise operating divisions, which would allow the operating divisions to negotiate the level of services that they receive and better control the costs.

The Public Utilities Commission needs to identify and reduce unnecessary administrative and support services whenever possible. For instance, the Public Utilities Commission should reduce Information Technology Services staff providing mainframe support when the mainframe system is replaced by network systems. Over the next five years, as mainframe applications are replaced by network applications, the Public Utilities Commission should eliminate the six Mainframe Applications Unit positions, which have FY 2005-2006 salary and fringe benefit costs of approximately \$673,000.

The Public Utilities Commission has failed to implement adequate controls over work order costs for services performed for the Public Utilities Commission by other City departments. For example, during the FY 2005-2006 budget review, the Budget Analyst recommended against \$444,490 in unnecessary Department of Public Works work order costs, including two unnecessary Department of Public Works positions that were charged directly to the Public Utilities Commission and approximately \$217,000 for the design and construction of two offices.

Section 2. Implementing the Asset Management Program

Despite the State of California Department of Finance 2003 audit recommendations pertaining to maintenance of the regional water system and planning and budgeting for the capital repair and replacement program, and the 2004 Settlement Agreement between the Public Utilities Commission and the suburban wholesale customers, resulting from a legal dispute regarding wholesale water rates, the Public Utilities Commission has been extremely slow in implementing an asset management program. The Public Utilities Commission responded to a November of 2003 California Department of Finance audit report that found inadequate Public Utilities Commission procedures and resources for identifying, planning and budgeting for, and recording completion of needed maintenance of the regional water system, stating that an asset management program was in progress. The asset management program is intended to better manage the Public Utilities Commission's capital assets, including developing an inventory and condition assessment of all capital assets, identifying which assets are at greatest risk of failure and would incur the most significant costs, and determining the most cost-effective approach to maintaining, repairing, or replacing capital assets.

The Public Utilities Commission has never developed a formal, coordinated work plan to implement its asset management program. The multiple components required for the program have not been fully addressed by executive management and fragmented efforts by the operating divisions to address provisions of the California Department of Finance audit have not been consistently overseen by executive management.

The Public Utilities Commission has still not fully developed system-wide procedures to collect and enter asset data into its maintenance management system, MAXIMO, despite establishing an operating and maintenance work group and hiring a consultant, Olivia Chen Consultants, to do so.

Although the Public Utilities Commission engaged Olivia Chen Consultants to address the California Department of Finance audit recommendations to (a) develop and document system-wide policies and procedures regarding which asset information should be included in the MAXIMO maintenance management system, and (b) develop standard documented procedures for the system-wide maintenance and inspection of pipelines, dams, watersheds, tunnels and bridges, the Public Utilities Commission has not ensured that the consultant completed the work. This consultant contract, which was awarded in August of 2004, expired in April 2005, and the Financial Services Section intends to present a proposed contract extension to complete the tasks to the Public Utilities Commission. \$53,632, or 53.8 percent, of the original contract budget of \$99,676 remains unspent and contract objectives have not been met from a contract which began in August of 2004.

The Public Utilities Commission requested approximately \$1.3 million in the proposed FY 2005-2006 budget to fund new positions and new consultant services to develop the asset management program, but due to the lack of a formal asset management program work plan, the budget

request was poorly substantiated. The Board of Supervisors approved approximately \$920,000 in the FY 2005-2006 budget to develop the asset management program, based upon the Budget Analyst's recommendation, which is \$380,000, or 29.2 percent, less than the requested amount.

The Public Utilities Commission lacks criteria for planning and budgeting capital repair and replacement projects. As a result, various appropriations for the Public Utilities Commission's repair and replacement projects are not expended in the fiscal year during which the monies were appropriated, thus tying up funds that could be better expended for other needed uses.

For example, the Hetch Hetchy Enterprise's unexpended capital repair and replacement appropriation balance increased in FY 2004-2005 by \$13.5 million, resulting from the Hetch Hetchy Enterprise spending only \$24.5 million of the FY 2004-2005 \$38.0 million capital repair and replacement appropriation. The increase in the unexpended appropriation balance indicates that the Hetch Hetchy Enterprise appropriated a higher level of funding in FY 2004-2005 than the Hetch Hetchy Enterprise was able to expend for identified capital repair and replacement projects.

Also, although 52 Water Enterprise capital repair and replacement projects had an appropriation totaling \$1.4 million, the Water Enterprise spent no money on these projects in FY 2004-2005. The Water Enterprise also appropriated (a) \$5.0 million for the Sunol/Niles Dam Removal Project in FY 2004-2005 but spent only \$750,000, and (b) \$2.8 million for the Facilities Security Project but spent only \$942,000.

Funding of capital projects should correspond to capital project expenditures so that monies not needed for specific capital appropriations are available for other uses. Because the ratepayers bear the cost of capital project spending, the Public Utilities Commission needs to more efficiently align capital appropriations with capital project expenditures to reduce the costs to the ratepayers.

Section 3. Managing Financial Data and Information

Significant weaknesses in the way the Public Utilities Commission captures and reports financial data and information impair management's ability to report on the results of operations, monitor expenditure and budgetary control, and assess performance overall and in select areas. In fact, the Public Utilities Commission's independent financial auditors have identified significant issues in the General Ledger and Financial Reporting area, including poor internal communications, insufficient experience and skill level on the part of staff, lack of documentation, and lack of analysis and management review. For two years in a row, the management letters recommended that staff accountants obtain training on technical issues, financial reporting and account analysis - skills that should have been brought to the job given the nature of the work assignments. While improvements have been made and similar recommendations have not been made by the independent auditors for FY 2003-2004, several basic management tools, including a training program, are still not in place. Proper

implementation of these tools would improve the financial reporting process, minimize the risk that errors may not be identified during the audit process, and reduce rework.

Additionally, the Public Utilities Commission's current configuration and use of its accounting structure impedes management's ability to track, monitor and report on the costs of operations. Most significantly, the Public Utilities Commission does not clearly segregate certain routine maintenance, repair and replacement, and capital expenditures. Despite a clear and articulated need for expenditure and budgetary control, management accountability, and reporting requirements in this area from the California Department of Finance and Department of Health Services, the Bay Area Water Supply and Conservation Agency, and the Public Utilities Commission's independent financial auditors, this issue still has not been addressed. As a result, the Public Utilities Commission has difficulty in capturing and summarizing necessary financial data and information and is unable to implement effective asset management.

The Public Utilities Commission has also had a proliferation of financial accounting index codes and there has been little oversight or management control over index code creation. The Controller's Office reports that there have been approximately 5,839 active Public Utilities Commission index codes used from FY 1998-1999 to date: 4,677 related to capital activities and 1,162 related to operating activities. For operations, index codes are an appropriate mechanism to capture financial data and information relative to an organization's various functions and activities, or its cost centers, but a proliferation in index codes inhibits management's ability to assess performance in meaningful operational areas. While the Financial Services Section is currently evaluating its index codes and reducing and revising the accounting structure accordingly, there continues to be no established policies and procedures, criteria, or framework for creating new index codes.

Several basic management tools should be put into place to ensure that financial data and information is accurate, complete, timely and useful. These tools include written policies and procedures, clearly defined roles and responsibilities, and a revised accounting structure that is stable so that financial data and information can be compared over time.

Implementation of these recommendations should be accomplished with existing resources. The benefits include significant future savings through vastly improved expenditure and budgetary control, improved performance evaluation of both staff and programs, and a reduced risk that financial data and information may be inaccurate or misleading.

Section 4. Management of the Accounting Unit

The role of management is to effectively motivate and deploy an organization's resources, including the most important resource - its staff. Additionally, the Public Utilities Commission's management should bring expertise and experience to the role as well as leadership. In all of these areas, the Public Utilities Commission's management of its Financial Services Section's Accounting Unit has failed.

Weaknesses in the accounting processes and unclear lines of responsibility and accountability have been documented by the Controller, expressed by the Public Utilities Commission's independent financial auditors, and articulated by the Public Utilities Commission's own staff. Interviews indicated that there were unclear expectations - unclear as to what the Financial Services Section expected from division and bureau staff and unclear as to what division and bureau staff expected from the Financial Services Section. There is a strong need for a clear delineation and assignment of finance and administrative functions between the Financial Services Section and operations divisions and bureaus, as well as within the various operations divisions and administrative bureaus. These weaknesses stem from a lack of leadership in the Accounting Unit and the failure to implement basic management tools and programs.

First, the Financial Services Section policies and procedures manual is not complete, comprehensive, or standardized. Additionally, there are no formalized performance measures for any of the functional areas that are tracked and monitored. Finally, staff development is lacking with performance evaluations not being conducted timely and no training program having been established despite the findings made by the Controller and the independent financial auditor.

The Public Utilities Commission has had difficulty in hiring and retaining highly qualified management staff which oversee the Financial Services Section's Accounting Unit. In fact, management staffing difficulties run all the way up and down the management chain, including the Deputy Director of Business Services, the Director of Financial Services, the Director of Accounting, and three line Accounting Manager positions. There have been three Deputy Directors of Business Services since July of 2003, with the latest incumbent in an acting capacity since March of 2005. There have been three Directors of Financial Services since July of 2003, again with the latest incumbent serving in an acting capacity since March of 2005. The Director of Accounting position has been vacant since April of 2004 and filled in an acting capacity - first by the Budget Director and at present by an Accounting Manager. Between these two acting assignments, a Director of Accounting was actually hired, but the individual remained in the position for only seven weeks before resigning. Of the three Accounting Manager positions in the budget, there has been very little stability. In Accounting Operations, there had not been a permanent Accounting Manager since December of 2003. An Accounting Manager was hired into this area in January of 2005, but the individual remained in the position for only two months before resigning. There has been no replacement. In the General Ledger and Financial Reporting area, the position has been filled in an acting capacity since it was created in FY 2003-2004 and is at present vacant. In the Capital Projects and Asset Management area, the Accounting Manager position was vacant from June of 2004 to December of 2004, when an individual was hired. However, that individual is now acting as Director of Accounting and the Accounting Manager position in this area is vacant. At no time have all three Accounting Manager positions been filled. All of these management positions earn salaries in excess of \$100,000 annually.

The Budget Analyst recommends the elimination of one of the three Accounting Manager positions, at an annual salary and benefit cost of \$134,517, because (a) the Accounting Unit activities are of limited scope, (b) the Director of Accounting and the two other Accounting Managers bring professional level and management skills to the Accounting Unit, and (c) the third Accounting Manager position has never been filled. Additionally, the General Manager must recognize the accounting function as a critical element to the successful operations of the organization and should take any and all steps necessary to fill these remaining management positions with technically qualified, highly skilled, permanent staff. Once these positions are filled, management can then develop and implement the basic management tools and programs noted above.

Section 5. Contracting

The Public Utilities Commission's contracting process is cumbersome and results in significant delays in entering into construction or professional services contracts. The processing of professional services contracts can take more than ten months from the initiation of the process to contract signing.

The actual timeline for processing professional services contracts of 40.5 weeks exceeded the work flow timelines established by the Contracts Administration Section of 22 weeks by at least 18.5 weeks or approximately 84.1 percent. The Public Utilities Commission should develop internal procedures to shorten the actual timelines for professional services contracting.

The Public Utilities Commission incurs high costs for construction contract change orders, which increase the original construction contract amount. More than 30 percent of the Public Utilities Commission's construction contracts result in change orders. Of 39 closed-out construction contracts between 2001 and 2004, totaling \$17.7 million, the Public Utilities Commission negotiated change orders for twelve contracts. The Public Utilities Commission agreed to \$450,000 in change orders, or 8.3 percent of the twelve construction contracts, which had original contract amounts totaling \$5.3 million. The final contract amount with change orders ranged between 2.5 percent and 74.0 percent more than the original contract award amounts.

Reducing the frequency and amount of construction contract change orders will be critical as the Public Utilities Commission embarks upon the Water System Capital Improvement Program. The Public Utilities Commission projects approximately \$2.85 billion in local and regional water system construction costs through FY 2015-2016. If the Public Utilities Commission continues to approve change orders for 30 percent of all construction contracts, resulting in contract cost increases of 8.3 percent of the original contract amount, the Public Utilities Commission could incur estimated construction cost overruns due to change orders of \$71.0 million. If the Public Utilities Commission tightens the process for evaluating and negotiating change orders, in accordance with the Budget Analyst's recommendations, the Public Utilities Commission would achieve one-time savings of approximately \$7.1 million, or ten percent of estimated change orders, in Water System Capital Improvement Program expenditures.

The Public Utilities Commission lacks management oversight of the construction change order process, including managing change order documentation on a centralized basis. In order to review nine randomly selected construction contract files, the Budget Analyst had to obtain the files from several different project managers. In reviewing the nine construction contract files, the Budget Analyst found that eight files did not have the Two-Page Memorandum, which contains crucial information on the justification for the change order request. In addition, some of the documentation reviewed did not include all required signatures for change order forms. Further, the Public Utilities Commission lacks a policy that lists all the required documentation and information necessary for processing change orders.

Further, the Public Utilities Commission does not have consistent practices for monitoring contractor performance. Although the Public Utilities Commission has a Task Order Evaluation Form to assess the quality of the contractor's deliverables and performance, standards for evaluating contractor performance vary widely among Project Managers. Also, standards for reviewing and approving contractors' invoices vary, resulting in some Project Managers reviewing invoices in detail for accuracy and consistency and other Project Managers approving invoices as long as they look reasonable.

Section 6. Security and Emergency Preparedness

Although the Public Utilities Commission is responsible for ensuring the safety and security of the clean water and water systems, including the local and regional water systems, the Public Utilities Commission has failed to implement security enhancement projects at its facilities in a timely manner. More than two years after Lawrence Livermore National Laboratory identified the Public Utilities Commission's various critical sites that are vulnerable to potential security-related emergency situations, the Public Utilities Commission is only now drafting the Request for Proposals for a security design consultant to oversee the assessment, integration, and installation of electronic security equipment. The Public Utilities Commission has also failed to implement capital projects to enhance the physical security system of its facilities in a timely manner. For example, the Public Utilities Commission has not spent \$3.9 million, or approximately 81.3 percent, of the \$4.8 million budget for the Facilities Security Project originally appropriated by the Board of Supervisors in FY 2003-2004.

The Public Utilities Commission has not filled the new Security Director position, which reports to the Public Utilities Commission's Deputy General Manager and has been vacant for more than one year. According to Public Utilities Commission staff, the failure to fill the vacant Security Director position has resulted in a lack of guidance in security program coordination and decision-making and setting performance measures. Without this position, the Public Utilities Commission lacks a voice to communicate and understand security-related issues for all of the Public Utilities Commission.

The Deputy General Manager has not ensured that the operating divisions' Emergency Operations Plans are updated regularly. Because these plans assign responsibility in emergencies

to individuals within the organization, the plans need to be current to ensure accurate information in an emergency. For example, the City Distribution Division's current Emergency Operations Plan is outdated, not reflecting staff turnover and recent organizational changes.

During a site visit to the Southeast Water Pollution Control Plant, a management audit team member, along with Public Utilities Commission staff, witnessed two people outside the Southeast Water Pollution Control Plant facility carrying two metal tubes. The Public Utilities Commission staff suspected that the two people just jumped the facility's fence and stole the metal tubes to be sold for money. According to the Public Utilities Commission, staff are specifically directed not to confront intruders to avoid unnecessary injury. However, the Public Utilities Commission has no written department-wide policy covering responses to criminal activity or security breaches, no department-wide program to train staff regarding the policy, no department-wide incident reporting system, and no process to identify the relative costs of criminal activity and programs to reduce criminal activity.

Section 7. Water System Capital Improvement Program Management Services Contracts

Since the mid-1990s, the Public Utilities Commission has been developing a long-term capital improvement program which has decreased in scope from more than 150 water and clean water projects (1998) to 71 water projects only (2005), with a current total timeframe of 15 years and a total estimated cost of \$4.3 billion. Since September 22, 2000, the Public Utilities Commission has contracted with three contractors for program management services and, under the latest contract, for project and pre-construction management services as well.

The Budget Analyst identified major deficiencies in the first contract, including inadequate performance measures, problematic performance fee payments, inadequate training and skills transfer, consistent under-expenditure, and inadequate consideration of the need for an programmatic environmental impact report.

The new Program, Project, and Pre-construction Management Services Contract between the Public Utilities Commission and Parsons Water and Infrastructure, Inc. does not explicitly include program performance measures or key milestones. The Board of Supervisors has requested the development of programmatic performance measures. Such programmatic performance measures should address the contractor's performance in relation to the following important issues which would not be captured by the contract's current sole reliance on task order evaluation: (a) the programmatic integration of the individual projects, which are subject to change, (b) the program's progress towards achieving the Public Utilities Commission's programmatic policy parameters, which are subject to change, and (c) identifying opportunities for economies of scale, program efficiencies, streamlined contracting strategies, innovative technologies, and improved program management procedures across groups of individual projects. Further, programmatic performance measures would evaluate the contractor's

contribution to (d) the program's compliance with environmental mitigation requirements and the key milestones set forth in AB 1823 and any future State legislation, (e) scheduling and cost projections, (f) the program's Disadvantaged Business Enterprise participation goals, (g) the total amount of knowledge and skills transfer from the contractor to City personnel, (h) the ratio of contractor personnel to City personnel, and (i) compliance with the contract's compensation provisions.

As a result of these findings, the Budget Analyst recommends that the Department and the contractor jointly develop measurable programmatic performance goals for incorporation into the annual performance review requested by the Board of Supervisors.

In response to the Budget Analyst's review of the Program, Project, and Pre-construction Management Services Contract's costs, which showed that the contract would be over-budgeted by \$7 million, the Board of Supervisors approved the contract at a not to exceed total budget of \$38 million, rather than the Department's original not to exceed total budget of \$45 million.

There is an ongoing pattern of Department position vacancies and inadequate staffing projection plans while, instead, contractors provide personnel in technical classifications. Although the new Program, Project, and Pre-construction Management Services Contract provides for certain classifications of personnel which are more experienced and/or more specialized than the City's existing civil service classifications, the Department has a responsibility, given its commitments to City labor unions, to hire into already budgeted engineering and other technical positions as and when they are required by the Water System Capital Improvement Program.

Programmatic performance measures, a staff hiring plan, and annual performance review reports could all be developed by existing Department staff, in conjunction with the contractor and the Joint Union/City Committee, without the need for additional resources. The benefits are improved evaluation tools to monitor the contribution of the second contract to the programmatic goals of the Water Supply Capital Improvement Program.

Section 8. Infrastructure Division's Organizational Structure

The Resources Management Bureau is a centralized business services and administrative support team for the Infrastructure Division. The bureau's former responsibilities for contract administration and fleet management have been transferred elsewhere, resulting in a reduction of 18.50 full-time equivalent staff. The remaining bureau functions are the result of the Infrastructure Division creating itself as "a department within the Department." The resulting duplication of support services has resulted in unnecessary management costs and does not promote the integration of the Infrastructure Division's business needs into the Department's overall business support services. The Budget Analyst recommends (a) the transfer of functions to the Department's administrative bureaus and to the Infrastructure Division's Program Control and Support Bureau, (b) disbanding the Resources Management Bureau, and (c) eliminating five positions.

Disbanding the Resources Management Bureau and eliminating five positions would result in (a) salary savings of up to \$340,761, plus mandatory fringe benefits of \$101,206, for total savings of \$441,967 annually, and (b) rationalization of functions between the Infrastructure Division and the Department's administrative bureaus, and within the Infrastructure Division itself. There would be no reduction in the purchasing, general administration, facilities logistics, personnel administration, finance, and reporting support services available to the Infrastructure Division.

The Infrastructure Division needs up-to-date, definitive organization charts which relate to the Annual Salary Ordinance (or clearly show the deviations from the Annual Salary Ordinance) and support the Department's position control system. Such clarity will be essential as the Infrastructure Division moves into a matrix management model, which creates bifurcated reporting lines.

Based on the Budget Analyst's recommendations on the Department's FY 2005-2006 budget proposal, the Board of Supervisors reduced the Infrastructure Division's budget by \$227,490 as follows:

- Eliminated \$153,277 from work order 081 WG SR-DPW-General Administration for the work ordered 0941 Manager VI, Organizational Development position which the Department concurred was no longer necessary.
- Eliminated \$74,213 from work order 081 WG SR-DPW-General Administration for the work ordered Executive Secretary I position which was unnecessary.

Based on the management audit findings, the Budget Analyst now recommends the release of Board of Supervisors reserves in the FY 2005-2006 budget in the total amount of \$291,306 plus mandatory fringe benefits, including:

- Release of the reserve of \$107,340 plus mandatory fringe benefits for the Classification 0942 Manager VII, Deputy Engineering Management Bureau Manager position.
- Release of \$183,966 plus mandatory fringe benefits for 1.50 FTE Classification 0933 Manager V positions (2.00 FTEs on an annualized basis) out of the total reserve of \$560,571 plus mandatory fringe benefits for 4.50 FTE new Classification 0933 Manager V positions (6.00 FTEs on an annualized basis).

Section 9. Managing General Liability and Workers' Compensation Costs

The Public Utilities Commission incurs large costs each year to pay general liability and workers' compensation claims. In FY 2004-2005, the Public Utilities Commission paid \$1.6 million for general liability claims and litigation settlement or judgment costs and \$3.1 million for workers' compensation claims costs.

Between FY 2000-2001 and FY 2004-2005, the Public Utilities Commission paid \$6.2 million to settle claims and litigation cases. Despite being self-insured and exposed to large general liability costs, the Public Utilities Commission has no risk management program to protect the Public Utilities Commission from unnecessary exposure to claims and litigation.

The Clean Water, Water, and Hetch Hetchy Enterprises do not have formal programs to evaluate the common causes of claims and to develop programs to reduce the risk of exposure. Some common causes of claims resulting from water or sewer damage can be addressed through the Water and Clean Water Enterprises' maintenance and repair programs. However, other claim categories, such as "premises liability" or "property damage" are non-specific. The Public Utilities Commission has no procedure to identify causes behind such claims to identify and address root causes. Although the City Attorney's Office manages claims and provides information to the Public Utilities Commission about claims, the Public Utilities Commission should develop its own program to reduce the risk of claims exposure.

The Public Utilities Commission faces significant risk from high workers' compensation costs and outstanding liability. From FY 1999-2000 through FY 2003-2004, the Public Utilities Commission's accrued liability for workers' compensation has increased by 204 percent, a compound growth rate of 32 percent annually, from \$6.17 million in FY 1999-2000 to \$18.77 million at the close of FY 2003-2004.

In FY 2004-2005, 377 Public Utilities Commission employees, or 17.8 percent of its 2,116 employees, had an open workers compensation claim. The Public Utilities Commission only implemented a department-wide modified duty program to return injured workers to work in FY 2004-2005 and has not developed measures to determine if the program is effective. The Public Utilities Commission's Director of Human Resource Services should not only measure the effectiveness of the modified duty return to work program but should also work with the Department of Human Resources Workers' Compensation Division to determine best practices.

The Public Utilities Commission would reduce its risk of loss, such as property damage, by developing a formal risk management program to identify exposure and develop a loss prevention program. In FY 2004-2004, the Public Utilities Commission paid \$1.6 million in claims and litigation settlement costs. A five percent decrease in claims and litigation payments would save the Public Utilities Commission \$80,000 annually.

By better identifying modified duty return to work program best practices and performance, the Public Utilities Commission could return injured workers to work and reduce workers' compensation payments. Based on \$1.6 million in workers' compensation indemnity payments in FY 2004-2005, a five percent decrease in workers' compensation indemnity payments would save the Public Utilities Commission \$80,000 annually.

Section 10. Improving Human Resource Processes

The Public Utilities Commission's process to hire a new employee takes five months, on average. The Public Utilities Commission's Human Resource Services Section is responsible for all aspects of the hiring process, but the Section has most control over the timeline from the date that the requisition is approved to the date that an applicant pool is provided to the requesting division. Although the average time for the Human Resource Services Section to provide a list of applicants to the requesting division once the requisition has been approved was 40 days, the timeline took up to 191 days, or approximately 6.4 months.

The Human Resource Services Section has not previously measured or fully analyzed the hiring process. The Human Resource Services Section is planning to implement an automated Work Flow system, with a possible implementation date in the Fall of 2005. As part of the implementation, the Human Resource Services Section has developed policies and procedures, and a flow chart, to map the hiring process, which will establish timelines for Human Resource Services staff to review the division's request to fill a vacant position and submit the position requisition to the Mayor's Office, Controller's Office, and the Department of Human Resources for review. However, such timelines have not been established for other parts of the hiring process. The Public Utilities Commission's Director of Human Resource Services should establish and measure timelines for all steps of the hiring process.

The Human Resource Services Section provides both oversight and services for the Public Utilities Commission's payroll and personnel functions, but has not fulfilled these roles consistently. Until now, the Human Resource Services Section has not provided standardized personnel policies and procedures to the operating divisions, although the Human Resource Services Section has finally written draft personnel procedures for the Public Utilities Commission as a whole. The Human Resource Services Section needs to improve communication with the Public Utilities Commission's operating divisions, and should implement service agreements, which includes staff contacts, response times to requests for information, turnaround time for specific processes, and procedures to resolve complaints or disputes. The service agreements should also include regular meetings and sharing of information as needed to ensure that staff in the Human Resource Services Section and operating divisions understand their respective roles and responsibilities.

In FY 2004-2005, the Public Utilities Commission identified 152 positions for which the incumbent's working classification differed from the position's budgeted classification. Of these 152 positions, the Public Utilities Commission requested reclassification for only 28 positions, or 18.4 percent, in the FY 2005-2006 budget. The total budgeted cost of the 124 positions, which were not reclassified in the FY 2005-2006 budget, is \$10.3 million, compared to an actual cost of \$9.5 million, resulting in over-budgeting by approximately \$800,000. By budgeting positions to reflect the actual working classification, the Public Utilities Commission could reallocate up to \$800,000 for other needed expenditures without increasing its budget.

Although the Public Utilities Commission has used three different timekeeping systems to facilitate payroll processing, the Public Utilities Commission will convert fully to its own enterprise timekeeping system, eTime, during FY 2005-2006. Conversion to eTime will facilitate payroll processing, reducing ongoing Human Resource Services staffing needs. Therefore, the Human Resources Services should reduce two 1222 Senior Payroll/Personnel Clerk positions in the FY 2006-2007 budget, after full conversion to the eTime system, resulting in annual salary and fringe benefit savings of approximately \$150,000.

Section 11. Automotive and Mobile Equipment Management

Although the Public Utilities Commission established an Office of Fleet Operations and Management to manage its vehicle fleet and hired a Fleet Operations and Management Manager in November of 2004, the Public Utilities Commission needs to improve its management of its vehicle fleet. For example, as of March 14, 2005, 30 of 99 general purpose vehicles maintained by Central Shops for the Department, or approximately 30.3 percent, were overdue for the six-month preventive maintenance inspection. One of the vehicles had been overdue for the preventive maintenance inspection since November 19, 2004. Proper preventive maintenance is required to meet or exceed the expected useful life of a vehicle and to avoid costly repairs, thereby achieving savings in maintenance and replacement costs.

Under the California Department of Motor Vehicles Employer Pull Notice Program, employers receive automatic driver records for all employees holding Class A or B driver licenses once per year, including when the driver has negative activity on his or her driving record, such as license suspensions and revocations, accidents, or convictions. The Public Utilities Commission operates numerous vehicles requiring enrollment in the State's Employer Pull Notice Program, but these programs have not been consistently implemented among the operating divisions. For example, as discussed in Section 13 of this report, the City Distribution Division has not complied with the State's Employer Pull Notice Program. The Public Utilities Commission Fleet Manager has begun to implement department-wide participation in the State's Employer Pull Notice Program, including enrolling in the program with the State and collecting information on employees required to enroll. The Fleet Manager should present a report to the Assistant General Manager, Business Services, on implementation of the Public Utilities Commission's department-wide Employer Pull Notice Program prior to December 31, 2005.

Although Section 4.10-1 of the City's Administrative Code incorporates all general purpose vehicles into the Fleet Management Program, only the general purpose vehicles of General Fund departments have thus far been included in the Lease – Charge Back Program.¹ The Budget

¹ The Director of Administrative Services has established a Lease – Charge Back Program, whereby departments participating in the Fleet Management Program lease their general purpose vehicles from the Director of

Analyst recommends that the fleet management responsibilities of the 99 vehicles assigned to the Public Utilities Commission's headquarters that are currently maintained by Central Shops should be placed in the Lease – Charge Back Program under the administration of the Director of Administrative Services. By so doing, the vehicle base, over which the administrative costs of the City's Fleet Management Program is spread, would be increased, greater opportunities for City-wide carpool programs would be realized, and the Department's Fleet Operations and Management Manager, would be relieved of carpooling and other management responsibilities for the 99 general purpose vehicles, thus providing additional time for managing the Department's 1,201 other pieces of automotive and other mobile equipment. The Budget Analyst estimates that the General Fund savings would equal approximately \$160,000 annually based on a ten percent reduction of the Fleet Management Program's General Fund cost of \$1.6 million in FY 2005-2006.

Section 12. Maintenance and Materials Management

Neither the Water Supply and Treatment Division nor the City Distribution Division has their own consolidated policies and procedures manuals to assist in controlling maintenance operations. The absence of up-to-date maintenance policies and procedures manuals is a serious deficiency that should be corrected on a priority basis. Further, neither Division has adequate maintenance management reporting. Such reporting is a basic and essential component of professional management.

Although the MAXIMO Computerized Maintenance Management Software system is standard among all of the Public Utilities Commission's divisions, the divisions have not implemented the MAXIMO system uniformly despite the fact that MAXIMO cost approximately \$350,000 to implement.

While the Water Supply and Treatment Division currently uses MAXIMO for material tracking, cost tracking, purchasing, and planning some preventive maintenance, it only uses MAXIMO minimally for planning work other than preventive maintenance work and not at all for scheduling maintenance operations, although the scheduling function is one of the major benefits of a computerized maintenance management software system.

The City Distribution Division does not have adequate procedures for planning and scheduling maintenance work. Maintenance planning and scheduling is a vitally important aspect of maintenance effectiveness and efficiency. The City Distribution Division's use of MAXIMO for planning and scheduling is almost non-existent.

Administrative Services and are charged periodic lease payments to cover the maintenance of the vehicle, an administrative fee of \$10 per vehicle, and a cost element to cover the eventual replacement of the vehicle.

Organizations with adequate planning and scheduling processes can achieve significant productivity improvement through implementation of a computerized maintenance management software system. The Budget Analyst conservatively estimates that a 5 percent improvement in overall productivity can be achieved in both Divisions' maintenance activities. A 5 percent productivity improvement would be the equivalent of approximately seventeen additional positions, which would otherwise cost approximately \$1,700,000 annually in base salaries and mandatory fringe benefits.

The Divisions' Materials Management Sections do not have documented mission statements, performance measures, or objectives. Further, the Materials Management Section does not have policies and procedures manuals, which is a significant deficiency.

The Water Supply and Treatment Division and City Distribution Division do not have adequate inventory records of tools and equipment. In response to a Budget Analyst request for a copy of the most recent inventory of shop tools and equipment, the Water Supply and Treatment Division's reply was that each supervisor or foreman is responsible for his or her crews' tools and equipment, but that there had not been an organized inventory of such equipment in some time. The City Distribution Division's reply was that the date of the last inventory is unknown, a copy of the inventory results does not exist, and that the Division would conduct an inventory by the end of the current fiscal year.

The City Distribution Division's most recent physical inventory of its storeroom was performed on December 18 and 19, 2004. The before count inventory value was \$3,482,178 and the after count inventory value was \$3,404,532. Thus, the "shrinkage" was \$77,646, or 2.23 percent of the before count inventory value. The Budget Analyst performed counts of various inventoried items at six storage bin locations and found that the storage bin counts matched the information in the computer records on only three of the six counts.

Section 13. Personnel and Management Issues

The Water Supply and Treatment Division has not adopted a final set of performance measures that serve to set objectives for the Division and provide a basis for evaluating how well the Division is accomplishing its mission. The Water Supply and Treatment Division Manager should obtain formal approval for the proposed performance measures and use the performance measures in managing the Division.

The City Distribution Division has developed a set of performance measures for the operational aspects of its mission. The City Distribution Division Manager should expand the scope of the Division's performance measures to include all facets of the Division's responsibilities, such as performance measures for staff development and worker safety.

The Water Supply and Treatment Division and the City Distribution Division do not have their own administrative Policy and Procedures Manuals, but rather rely upon Public Utilities Commission policies and procedures which have not been codified into a single, cohesive document. Organizations the size of the Water Supply and Treatment Division and City Distribution Division require a specific set of administrative policies and procedures to standardize and control activities and assist in accomplishing objectives.

Due to the management emphasis on completing employee performance evaluations for FY 2003-2004, the Hetch Hetchy Water and Wholesale Power Division, the City Distribution Division, and the Water Pollution Control Division had very high employee performance evaluation completion rates for the most recent period. For example, although the City Distribution Division completed only 78 employee performance evaluations for FY 2002-2003, a total of 309 employee performance evaluations were completed for FY 2003-2004. However, the total number of employee performance evaluations completed for Water Supply and Treatment Division personnel for FY 2003-2004 increased by only 11, from 156 to 167, although the Division had a total of 294 employees as of December 20, 2004. The Water Supply and Treatment Division needs to achieve a much higher employee performance evaluation completion rate.

During FY 2002-2003, FY 2003-2004, and FY 2004-2005, standby pay in the amounts of \$341,203, \$323,670, and \$319,564 respectively were paid to City Distribution Division employees. Most of the standby payments were based on 25 percent of base pay, despite the fact that the City is only obligated to compensate standby pay at 10 percent of the regular straight time rate, if the employees are outfitted with a pager or cell phone. Further, the memorandum of understanding between the City and Plumbers and Pipe Fitters Local No. 38 states "standby pay shall not be allowed for positions with duties which are primarily administrative in nature." Nonetheless, the incumbents in primarily administrative classifications received standby pay during calendar year 2004 at the 25 percent rate. The Budget Analyst recommends that the City Distribution Division Manager review standby pay requirements for the Division, including (a)

reducing the number of positions eligible for standby pay to the minimum necessary to meet operating requirements, (b) paying standby pay at 10 percent of base salary, and (c) eliminating standby pay for positions with administrative assignments, such as 7134 Water Construction and Maintenance Superintendent and Classification 7284 Utility Plumber Supervisor II.

Gatemen operate gate valves in the streets to regulate water supplies. The current 11-week rotational schedule used by the Gatemen requires one period of working 12 consecutive days. The City Distribution Division Manager has expressed concern about the level of stress imposed by the current schedule. Therefore, for purposes of health and safety and potential cost savings, the Budget Analyst recommends that the Division Manager and his staff review the work requirements for Gatemen and revise the work schedule. In comparison to the Gateman work schedule, the Water Pollution Control Division has employed a work schedule that is cost effective and achieves the required 24-hour, 365 day, annual coverage without an exorbitant number of consecutive workdays.

The City Distribution Division Manager can achieve cost savings of up to \$335,814 annually by (a) changing the basis of standby pay from 25 percent to 10 percent of base salaries (up to \$171,710), and (b) employing the minimum essential standby and overtime staff necessary for effective and safe operations (up to \$164,104).

The Public Utilities Commission's Written Response

The Public Utilities Commission General Manager's written response is attached to this management audit report beginning on page 181. The Public Utilities Commission's written response agrees with 107, or approximately 93.0 percent, of our 115 recommendations, and is still considering five recommendations. The Public Utilities Commission disagrees with three of our 115 recommendations, or approximately 2.6 percent.

According to the Public Utilities Commission General Manager's written response, the Public Utilities Commission disagrees with two of the Budget Analyst's recommendations to eliminate unnecessary positions, as follows:

- The Public Utilities Commission disagrees with the Budget Analyst's recommendation 4.1 to eliminate one 1675 Supervising Fiscal Officer position in the Financial Services Section's Accounting Unit, which has annual salary and fringe benefit costs of \$134,517. According to the General Manager's written response, "As noted in the Budget Analyst's report, the Accounting Unit needs substantial improvements in processes, staff training, organization and leadership. To effect these changes thoroughly and timely, we need hiring and staffing flexibility". However, the Public Utilities Commission currently has three 1675 Supervising Fiscal Officer positions, of which two are vacant. One of the vacant 1675 Supervising Fiscal Officer positions was created in FY 2003-2004 but has not been permanently filled since that time. As noted on page 46 of the Budget Analyst's report, the Public Utilities Commission has "no compelling reason to maintain the third Accounting Manager position given (a) the

scope of activities in the Accounting Unit, (b) the professional level and management skills that the Director of Account and the two other Accounting Managers should bring to the Accounting Unit, and (c) the third Accounting Manager position has never been filled”.

- The Public Utilities Commission disagrees with the Budget Analyst’s recommendation 10.5 to eliminate two 1222 Senior Payroll/Personnel Clerk position in the FY 2006-2007 budget, after full conversion to the eTime payroll system. According to the Public Utilities Commission’s written response, “the eTime system is still new, and there are many developments and enhancements to be worked out. While we have eliminated two timekeeping systems, the main effect of these eliminations is a reduction in the time entry keying effort that was handled primarily by ITS (Information Technology Services) data entry staff. The central HRS (Human Resource Services) functions of auditing, adjusting and finalizing the time-entered data transmitted to Payroll remains the same”. The Budget Analyst continues to believe that such positions should be eliminated but will review the two subject positions during the FY 2006-2007 budget review to determine ongoing justification for these positions.

The Public Utilities Commission’s General Manager’s written response also disagrees with the Budget Analyst’s recommendation 11.1 to transfer fleet management responsibilities for the 99 general purpose vehicles currently maintained by the Public Utilities Commission’s central shops to the Director of Administrative Services. As noted on page 133 of the Budget Analyst’s report, Administrative Code Section 4.10-1 provides for a Fleet Management Program to be administered by the Director of Administrative Services, including transfer of all general purpose vehicles owned, leased, or rented by the City to the City’s Fleet Management Program. Further, although the Administrative Code provides that all City general purpose vehicles be transferred to the City’s Fleet Management Program, administered by the Director of Administrative Services, the Budget Analyst notes that only general purpose vehicles of the City’s General Fund departments have thus far been included in the Department of Administrative Services Fleet Management Program. The City would realize benefits from including the Public Utilities Commission’s 99 general purpose vehicles in the Department of Administrative Services Fleet Management Program, including spreading the Fleet Management Program’s administrative costs over a larger base, and increasing opportunities for carpooling and efficient vehicle utilization. The Budget Analyst estimates that the General Fund savings would equal approximately \$160,000 based on a ten percent reduction in the Fleet Management Program’s General Fund cost of \$1.6 million in FY 2005-2006.

Honorable Aaron Peskin, Chair of the Government Audit and Oversight Committee
and Members of the Board of Supervisors
Management Audit of the Public Utilities Commission Administrative Bureaus and
Infrastructure Division
August 10, 2005
Page 22 of 22

We would like to thank the General Manager of the Public Utilities Commission, her staff, and various representatives from City departments for their cooperation and assistance throughout this management audit.

Respectfully submitted,

Harvey M. Rose
Budget Analyst

cc: Supervisor Elsbernd Mayor Newsom
 Supervisor Daly Clerk of the Board
 Supervisor Alioto-Pier Susan Leal, PUC General Manager
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BOARD OF SUPERVISORS
BUDGET ANALYST

Introduction

On May 18, 2004, the Board of Supervisors adopted a motion directing the Budget Analyst to perform a management audit of the Public Utilities Commission (Motion No. M04-57). As discussed below, this report is the final report of a four-phase management audit. Our first, second, and third phase management audit reports on the Clean Water, Hetch Hetchy, and Water Enterprises were issued on September 27, 2004, December 21, 2004, and March 23, 2005, respectively.

Purpose and Scope

The purpose of this management audit is to evaluate the economy, efficiency, and effectiveness of the Public Utilities Commission's programs, activities, and functions, and the Public Utilities Commission's compliance with applicable State and Federal laws, local ordinances, and City policies and procedures. This management audit was conducted in four phases:

- The *Phase I Management Audit of the Public Utilities Commission – Clean Water Enterprise Fund* is a review of the Clean Water Enterprise's programs, activities and functions.
- The *Phase II Management Audit of the Public Utilities Commission – Hetch Hetchy Enterprise Fund* is a review of the Hetch Hetchy Enterprise's programs, activities and functions.
- The *Phase III Management Audit of the Public Utilities Commission – Water Enterprise Fund* is a review of the Water Enterprise Fund's programs, activities, and functions, including water supply, treatment, and distribution for regional and City customers.
- Phase IV, which is the subject of this report, is a review of the programs, activities, and functions of the Public Utilities Commission as a whole, including the Infrastructure Division and the Water System Capital Improvement Program,¹ administrative functions, and enterprise-wide functions, such as asset management, that affect all three enterprise funds. This report also includes maintenance, materials and equipment management at the Water Supply and Treatment and City Distribution Divisions.

More specifically, this Phase IV report reviews the Public Utilities Commission in terms of:

- Containment of administrative costs.

¹ Although the Public Utilities Commission has recently renamed the Water System Capital Improvement Program as the "Water System Improvement Program," this audit report retains the former name in order to be consistent with the Phases I, II, and III management audit reports.

- Contracts, including the Water System Capital Improvement Program management services contracts.
- The Infrastructure Division's organizational structure.
- Human Resources.
- The accounting and financial reporting functions.
- The asset management program.
- Security issues.
- Maintenance, materials, and equipment management.

Audit Methodology

The management audit was conducted in accordance with *Governmental Auditing Standards, 2003 Revision*, issued by the Comptroller General of the United States, U.S. General Accountability Office. The management audit staff presented a draft report to the Public Utilities Commission General Manager on July 27, 2005. The management audit staff held an exit conference with the General Manager and key members of the Public Utilities Commission's management staff on August 3, 2005, to discuss the draft report. After careful consideration of the additional information provided after submission of the draft report and at the exit conference, the management audit staff prepared a final report. The Public Utilities Commission has provided a written response to the Budget Analyst's *Phase IV Management Audit of the Public Utilities Commission - Administrative Bureaus and Infrastructure Division*, which is appended to this report.

Overview of the Public Utilities Commission

The Public Utilities Commission provides water, clean water, and municipal power services to San Francisco and, under contractual agreement with 28 wholesale water agencies, the Public Utilities Commission also supplies water to 1.6 million additional customers within three Bay Area counties. The Department is organized along these service lines²:

- The Water Enterprise is responsible for collecting, treating, and distributing 265 million gallons of water per day to 2.4 million customers in the Bay Area.
- The Clean Water Enterprise is responsible for collecting, treating and disposing of sanitary waste and storm water runoff which includes operating, cleaning, and maintaining 900 miles of sewers, 17 pump stations, and three wastewater treatment plants.
- The Hetch Hetchy Enterprise is responsible for generating, transmitting, and distributing electricity, including operating and maintaining power transmission and

² The Mayor's Proposed May Budget for FY 2005-2006, page 31.

generation facilities, buying and selling electric power, providing energy conservation and renewable resource solutions, and maintaining city streetlights.

The following table provides summary financial information on each of the enterprises from the FY 2003-2004 audited financial statements.

Table 1
Summary Financial Information (In Thousands)
FY 2003-2004

	Water	Clean Water	Hetch Hetchy
Current Assets	303,845	182,111	121,924
Capital Assets	752,167	1,309,162	260,261
Total Liabilities	616,590	568,221	34,251
Net Assets	439,422	923,052	347,934
Total Revenues	197,439	140,816	135,546
Total Expenses	206,865	152,436	121,629
Net Revenues (Expenses)	(9,426)	(11,620)	13,917

Source: San Francisco Water Department, Clean Water Program and Hetch Hetchy Project financial statements for FY 2003-2004.

To support the Water, Clean Water, and Hetch Hetchy operations of the Public Utilities Commission, the Department has created a series of centralized administrative bureaus as well as the Infrastructure Division. The current functional organization of the Department is detailed in Exhibit I below.

Exhibit I

Public Utilities Commission Functional Organization As reported by the Public Utilities Commission in July 2005

Water Enterprise	Power Enterprise	Clean Water Enterprise ³	Infrastructure	External Affairs	Business Services
<ul style="list-style-type: none"> • City Distribution Division • Hetch Hetchy water system • Hetch Hetchy wholesale power up to Newark • Natural resources • Short-term water system policy and planning • Water Quality Bureau • Water Supply and Treatment Division 	<ul style="list-style-type: none"> • Energy services • Retail power • Power Policy Division • Streetlight Management Program⁴ 	<ul style="list-style-type: none"> • Bureau of Environmental Regulation and Management • Clean water master and short-term system planning • Water Pollution Control • Clean water regulatory compliance 	<ul style="list-style-type: none"> • Water System Capital Improvement Program • Repair and replacement program • Security • Contracts 	<ul style="list-style-type: none"> • Strategic planning • Communications • Legislative Affairs • Real Estate 	<ul style="list-style-type: none"> • Human Resources • Information Technology • Financial Services • Customer Services

³ This report refers to the “Clean Water Enterprise” and the “Assistant General Manager, Clean Water” to be consistent with the Phases I, II, and III management audit reports. However, the Public Utilities Commission General Manager has recently changed the terminology from “clean water” to “wastewater.”

⁴ The *Phase II Management Audit of the Public Utilities Commission – Hetch Hetchy Enterprise Fund* report recommended that the Streetlight Management Program be transferred to the Department of Public Works (Recommendations 7.1 – 7.3).

Public Utilities Commission Administrative Bureaus

The administrative bureaus provide management, planning and administrative support to the three Public Utilities Commission enterprises. The bureaus are housed in two divisions, the External Affairs Division and the Business Services Division, and include such functions as human resources; budget, accounting and finance; information technology; customer services; real estate; strategic planning; communications; and legislative affairs.

The costs associated with these functions are charged to the three enterprises either directly or through a cost allocation plan. As discussed in Section 1 of this report, the Public Utilities Commission's administrative budget has grown at an average rate of 12 percent per year over the past five fiscal years, increasing from \$58.3 million in FY 2000-2001 to \$92.1 million in FY 2004-2005. The greatest expenditure growth has been for (a) non-personal services, such as property rents and professional services contracts, (b) services provided by other City departments, and (c) project management and engineering services for the utilities infrastructure.

Public Utilities Commission Infrastructure Division

The Infrastructure Division, established in 2003 under the current Assistant General Manager, Infrastructure, oversees and manages the Public Utilities Commission's capital improvement programs, including regional water system, local water system, clean water, and Hetch Hetchy capital improvement projects. The current organizational structure for the Infrastructure Division includes the following six structural components:

- Office of the Assistant General Manager, Infrastructure
- Construction Management Bureau
- Engineering Management Bureau
- Program Management Bureau
- Program Control and Support Bureau
- Resources Management Bureau

Public Utilities Commission Accomplishments

The management audit team invited the Public Utilities Commission to submit written statements on the Public Utilities Commission's accomplishments that it perceives have occurred in recent years in relation to its administrative bureaus and the Infrastructure Divisions. Key accomplishments provided by the Department included:

- Continued progress on the Water System Capital Improvement Program in terms of (a) identification of program goals, and schedule and cost estimate revisions, (b) initiation of a programmatic environmental impact review process, (c) negotiation of

a new \$38 million Program, Project, and Pre-construction Management Services Contract with Parsons Water and Infrastructure, Inc., and (d) breaking ground on several major projects, including the East Bay Municipal Utility District Emergency Intertie, Sunset Reservoir improvements, the Lincoln Way Transmission Main, fire protection at the City Distribution Division, Crocker Amazon Pump Station upgrades, Summit Reservoir rehabilitation, and cross connection controls.

- The replacement of 7.5 miles of pipes in San Francisco and the inspection of 16 miles of pre-stressed concrete pipe in the regional water system.
- The allocation of \$150 million to a five year Wastewater Capital Improvement Program to address flooding, odor, and reliability concerns.
- The successful adoption of a new two-year water and sewer rate package to fund operations, debt service, and capital programs. This package includes new conservation incentives, a capacity fee, and expanded low-income discounts.
- The planning and execution of a functional emergency response drill in coordination with wholesale customers, using a scenario developed as part of the Emergency Response and Recovery Program.
- The development of a Laborer Apprentice Training Program with Northern California Laborers Union, Local 261. Revitalization of the Bayview/Hunters Point Employment Program in conjunction with community stakeholders and the Stationary Engineers Union, Local 39. Continued work by the Joint Union City Committee continues on staffing, contracting, working conditions, performance incentives and recognition, organization and process improvements, and staff development and training. Implementation of two Contractor Training Workshops in conjunction with the Small Business Administration and City College.
- Key communications initiatives included: (a) holding two neighborhood events to update local residents on the City's efforts to close the Hunters Point and Potrero power plants and replace them with three smaller, cleaner-burning combustion turbines within City limits; (b) distributing a 2005 Gardening Calendar which outlines non-toxic pest management gardening techniques; and (c) increasing media coverage about flood reduction efforts throughout the City and the City services available for flood-prone areas.
- The creation of a fleet management program.
- Initiation of the "O'Shaughnessy Awards" Employee Recognition Program to recognize superior staff members and teamwork.

Acknowledgements

We would like to thank the management and staff of the Public Utilities Commission for their cooperation during not only Phase IV of this management audit, but also throughout

this past year. We hope the findings contained in this fourth report, and in the previous three reports, provide useful tools for the General Manager and her staff as they work to improve the operations of the Public Utilities Commission.

Section 1. Containing the Costs of Administrative Overhead and Work Orders with Other City Departments

The Public Utilities Commission General Manager should:

- 1.1 Direct the Public Utilities Commission's Director of Financial Services to identify all areas of administration overhead that are currently allocated through the cost allocation plan but that could be directly charged to the receiving division, including (a) charging the Customer Services Section's costs for electricity billing directly to the Hetch Hetchy Enterprise, and (b) charging the Information Technology Service's costs for the Supervisory Control and Data Acquisition System (SCADA) unit directly to the Water Enterprise.
- 1.2 Direct the Assistant General Manager, Business Services, to implement service agreements between Information Technology Services, Human Resource Services, and Financial Services, and the operating divisions, identifying (a) the role of the administrative overhead sections, including both oversight and service functions, and (b) the level of service to be provided to the operating divisions, including, as appropriate: (i) an identified administrative overhead section contact person, (ii) timelines for responding to phone calls or requests for information, (iii) turnaround time for specific processes, (iv) procedures to resolve complaints or disputes, and (v) regular meetings and sharing of information as needed.
- 1.3 Direct the Assistant General Manager, Business Services, to establish quantifiable performance measures to be included in the service agreements, which (a) identify expected timelines or costs for performing routine activities whenever possible, and (b) establish benchmarks and reporting requirements.
- 1.4 Direct the Director of Communications and Public Outreach to present an analysis of the Communications and Public Outreach Section's costs and consultant costs for communications and public outreach, which includes: (a) identification of the Communications and Public Outreach Section's and consultants' functions and how these functions are differentiated in practice, (b) an evaluation of the consultants' performance in accomplishing the identified function, and (c) recommendations to better coordinate or streamline Public Utilities Commission's staff and consultant functions as necessary.
- 1.5 Direct the Director of Information Technology Services to develop a staffing reduction plan to eliminate the six Mainframe Applications Unit positions over the next five years.
- 1.6 Direct the Director of Information Technology Services to evaluate potential staffing and training plans to train Information Technology Services staff to assume more responsibility for maintaining the SCADA system, as part of the SCADA strategic planning process.

- 1.7 Direct the Director of Water Supply and Treatment Services to evaluate Water Supply and Treatment Division staff performance and potential improved staff performance in maintaining the SCADA system.
- 1.8 Consolidate management of the SCADA system's in-house and contractual budget under one manager, as part of the SCADA strategic planning process.
- 1.9 Negotiate an interdepartmental agreement between the Public Utilities Commission and the Department of Human Resources that identifies the Department of Human Resources responsibilities for specific services that are not currently covered by an interdepartmental agreement, such as Employee Relations, including reporting and performance standards.
- 1.10 Direct the Director of Financial Services to negotiate annual task plans with the Department of Public Works that measure the cost-efficiency of services, including: (a) identifying average hours and costs of routine activities, based on industry standards when possible, (b) measuring and reporting on the actual hours and costs of routine activities compared to the standard hours and cost, (c) benchmarking the hours and costs of services against a standard measure, and (d) tracking actual hours and costs of services over time.
- 1.11 Direct the Director of Information Technology Services to review all Department of Telecommunications and Information Systems work orders to determine the actual number of productive staff hours and revise the work order to reflect the actual number of productive staff hours as appropriate.
- 1.12 Negotiate an interdepartmental agreement between the Public Utilities Commission and the City Attorney's Office that (a) specifies the estimated hours of service and cost per hour and other associated expenses for the City Attorney's management of claims, litigation and special projects, and (b) benchmarks the hours and costs of City Attorney's services for claims and litigation.
- 1.13 Direct the Director of Financial Services to (a) identify all work orders between the Public Utilities Commission and other City Departments that do not currently have an interdepartmental agreement, (b) determine which work orders require an interdepartmental agreement, and (c) negotiate an interdepartmental agreement for the respective City Departments, including service levels and performance measures, prior to preparation of the FY 2006-2007 budget.

Section 2. Implementing the Asset Management Program

The Public Utilities Commission General Manager should:

- 2.1 Direct the Assistant General Managers for Infrastructure, Water, and Clean Water to prepare and implement an asset management program work plan, that:

- (a) includes goals, work product, and timelines, and
 - (b) identifies executive management oversight responsibilities.
- 2.2 Direct the Assistant General Managers for Infrastructure, Water, and Clean Water to develop criteria and prepare formal, written procedures for determining routine maintenance work orders and capital repair and replacement work orders to be set up as projects.
- 2.3 Direct the Assistant General Managers, Infrastructure, Water, and Clean Water in conjunction with the Director of Financial Services to:
- (a) develop standard procedures for defining capital repair and replacement projects,
 - (b) determine capital repair and replacement program funding criteria, and
 - (c) include such criteria in the proposed FY 2006-2007 budget.
- 2.4 Implement the State Department of Finance audit recommendation to provide the Public Utilities Commission and the Board of Supervisors detailed capital repair and replacement program information as recommended in Phase III of this management audit, including:
- (a) providing water system capital repair and replacement program information as part of the monthly Water System Capital Improvement Program status reports to the Public Utilities Commission; and
 - (b) providing water system capital repair and replacement program information to the Board of Supervisors as part of the quarterly Water System Capital Improvement Program status reports.
- 2.5 Direct the Assistant General Manager for Water to draft a flowchart and policy governing the process of setting-up, charging, and closing work orders for maintenance and capital repair and replacement projects, and to present the draft flowchart and policy to the General Manager and the Public Utilities Commission no later than December 31, 2005. The policy should include:
- (a) requirements that a senior manager sign off on the work order,
 - (b) criteria to define routine maintenance work orders and capital repair and replacement work orders that will be set up as a project.
- 2.6 Direct the Director of Financial Services to (a) review all of the Clean Water, Water, and Hetch Hetchy Enterprises' existing revenue-funded capital repair and replacement projects with unexpended appropriations and no current year expenditures, and (b) recommend de-funding and re-allocating unexpended appropriations to active repair and replacement projects.

- 2.7 Direct the Assistant General Manager, Infrastructure, to require all project managers to develop annual spending plans for repair and replacement projects which correspond to the annual project appropriations should correspond to the spending plan.
- 2.8 Direct the Assistant General Managers for Infrastructure, Water, and Clean Water to develop procedures to review and approve capital repair and replacement project spending plans.

Section 3. Managing Financial Data and Information

The Director of Accounting should:

- 3.1 Develop lead-sheets and schedules of account balances and track and monitor all audit adjustments for the FY 2005-2006 year-end close and financial audit process.
- 3.2 Augment the "Prepared by Client" listing with actual completion dates and track and monitor deadlines for the FY 2005-2006 year-end close and financial audit process.
- 3.3 Annually assess performance or process issues identified in 3.1 and 3.2 above and implement improvements as necessary.
- 3.4 Develop written policies and desk procedures for the General Ledger and Financial Reporting area by March 30, 2006.
- 3.5 Develop a training needs assessment and a formalized training plan for each staff and monitor as part of the employee evaluation process by December 31, 2005.

The Director of Financial Services should:

- 3.6 Define and document the roles and responsibilities of vested parties within the Public Utilities Commission related to capturing critical financial data and information, including the Accounting, Budget and Finance units of the Financial Services Section and the Infrastructure Division's project managers and its Infrastructure Resources Management Bureau by December 31, 2005.
- 3.7 Clearly define and document routine maintenance, repair and replacement, and capital activities by December 31, 2005.
- 3.8 Revise the accounting structure and its use in budgeting, transaction processing and reporting to segregate routine maintenance, repair and replacement, and capital activities, in conjunction with segregating expenditures that should be capitalized as an asset from those expenditures that should be categorically expensed by March 31, 2006.
- 3.9 Develop written policies and procedures for all staff in the Financial Services Section as well as in operations to provide practical guidance on the implementation of 3.8 above by June 30, 2006.

- 3.10 Develop written instructions and guidance on the revision of the Public Utilities Commission's index codes, including detail on the index codes to be standardized across divisions if applicable, incorporation of industry standards, and documentation of any external reporting requirements by December 31, 2005.
- 3.11 Develop written policies and procedures for the on-going creation of new index codes by December 31, 2005.

Section 4. Management of the Accounting Unit

The Board of Supervisors should:

- 4.1 Eliminate one 1675 Supervising Fiscal Officer position for an annual salary and fringe benefit savings of \$134, 517.

The Public Utilities Commission General Manager should:

- 4.2 Take any and all steps necessary to fill the Assistant General Manager, Business Services, the Director of Financial Services, the Director of Accounting, and one Accounting Manager position with technically qualified, highly skilled, permanent staff.

The Director of Financial Services should:

- 4.3 Organize separate working groups to:
 - (a) Revise and update by June 30, 2006 the Financial Services Section policies and procedures manual and clearly define the roles and responsibilities of all staff relative to these procedures.
 - (b) Develop the mission, goals, objectives, work plans, and performance measures for the Accounting Unit by December 31, 2005.
 - (c) Evaluate the extent of purchasing issues, develop benchmarks for measuring and monitoring performance, and work with the Purchasing Division of the Administrative Services Department to resolve performance issues and process weaknesses by March 31, 2006.
- 4.4 Direct the Director of Accounting, in coordination with the Accounting Managers, to:
 - (a) Conduct employee performance evaluations in a timely manner and in compliance with the Public Utilities Commission's policies and procedures.
 - (b) Develop a training needs assessment and a training plan for all staff in the Accounting Unit which is tracked and monitored throughout the year and incorporated into the employee performance evaluation process.

- (c) Develop an ongoing training program for operations division and administrative bureau finance and administrative staff on the Financial Services Section and City accounting and finance policies and procedures.
 - (d) Work with operations divisions and administrative bureaus to ensure that accounting and finance procedures are clearly assigned and are occurring at appropriate levels.
- 4.5 Report back to the Deputy Director of Business Services and the General Manager by September 30, December 31, March 31, and June 30 on the status of the recommendations and the progress made by the working groups and the Director of Accounting.

Section 5. Contracting

The Public Utilities Commission Contracts Administration Manager should:

- 5.1 Identify specific points of delay in the contracting process.
- 5.2 Implement specific procedures to reduce points of delay in the contracting process, including:
 - (a) Eliminating redundant steps;
 - (b) Scheduling future meetings with various entities, such as unions, the Civil Service Commission, and the City Attorney at an earlier point in the process;
 - (c) Setting up reminder notices to follow-up on steps in the contracting process with external entities, such as the City Attorney's Office and the Human Rights Commission; and
 - (d) Requiring the contractors to provide a complete set of insurance documents and other documents necessary to comply with the City's and Public Utilities Commission's contracting procedures no later than the end of the contract negotiating period.
- 5.3 Establish enforceable timelines for each step of the contracting process, as part of the Contracts Administration Section's planning for the Department's contracts webpage.
- 5.4 Benchmark the performance of the Contracts Administration Section as a whole and Contracts Administration Section employees individually against these enforceable timelines.

The Construction Management Bureau Manager should:

- 5.5 Establish written guidelines for accurately and regularly completing the Department's Task Order Evaluation Form and mandate staff to adhere to these guidelines.

- 5.6 Establish written guidelines for systematically reviewing the contractor's monthly invoices to determine their accuracy and completeness and mandate staff to adhere to such guidelines.
- 5.7 Establish policies and procedures on how to process and evaluate change orders and mandate staff adherence to these guidelines.
- 5.8 Establish a standard list of required documents and forms that are needed to internally process all change orders for construction projects.
- 5.9 Establish a formal document retention policy for key contract-related documents and should specify where such documents should be maintained.

The Deputy General Manager should

- 5.10 Develop a training program for Contract Administration and Project Management staff regarding (a) contract negotiations, (b) evaluating contractor performance, and (c) evaluating and negotiating change orders.

Section 6. Security and Emergency Preparedness

The Public Utilities Commission General Manager should:

- 6.1 Direct the Deputy General Manager to ensure that the Security Director and operating division managers regularly revise department-wide and facility-specific Emergency Operations Plans.
- 6.2 Direct the Deputy General Manager to ensure that the department-wide and facility-specific Emergency Operations Plans are easily accessible to its staff.
- 6.3 Present a plan and timelines to develop comprehensive electronic security measures for the Public Utilities Commission's facilities to the Public Utilities Commission no later than December 31, 2005.
- 6.4 Present a capital spending plan and timelines for the Facilities Security Project to the Public Utilities Commission during the February 2006 budget presentation.
- 6.5 Prioritize the hiring of a Security Director to manage the Public Utilities Commission's security and emergency planning program.
- 6.6 Direct the Security Director to develop department-wide written policies regarding:
 - (a) employees' responsibilities when witnessing a criminal act, including procedures to notify management and law enforcement personnel; and

- (b) an incident reporting system to track criminal activity or security breaches to determine commonly occurring or high cost incidents.
- 6.7 Direct the Security Director, in conjunction with the Assistant General Managers Infrastructure, Clean Water, and Water, to develop:
- (a) a loss prevention program for losses associated with theft, vandalism, or other criminal activity; and
 - (b) annual reports to the General Manager and the Public Utilities Commission on (i) the estimated costs of loss associated with criminal activity and (ii) proposals to reduce loss from criminal activity.

Section 7. Water System Capital Improvement Program Management Services Contracts

The Public Utilities Commission General Manager should:

- 7.1 Ensure that the Department and the contractor jointly develop measurable programmatic performance measures for incorporation into the annual performance review process outlined in Recommendation 7.3.
- 7.2 Provide the Board of Supervisors with a staff hiring plan, prepared in conjunction with the Joint Union-City Committee, for positions related to the Water System Capital Improvement Program, by October 19, 2005.
- 7.3 Continue to provide the Board of Supervisors, throughout the term of the Water System Capital Improvement Program, with an integrated annual report which addresses (1) the former Board of Supervisors Finance and Audits Committee's request for an annual report on (a) the details of all outside consultants being used for the Water System Capital Improvement Program, including the scope and cost of each outside consultant contract, and (b) the details of all City staff working on the Water System Capital Improvement Program, including their classification, duties, and salary costs, and (2) the current Board of Supervisors Governmental Audits and Oversight Committee's request for a contractor performance audit conducted annually prior to the annual Department budget review.

Section 8. Infrastructure Division's Organizational Structure

The Public Utilities Commission General Manager should:

- 8.1 Eliminate the Classification 0941 Manager VI (Resources Management Bureau Manager) position in the Resources Management Bureau.

- 8.2 Eliminate the Classification 0922 Manager I (General Administration Manager) position in the Resources Management Bureau.
- 8.3 Eliminate two Classification 1404 Clerk positions and one Classification 9922 Public Services Aide position which provide front desk coverage and clerical support in the Resources Management Bureau.
- 8.4 Direct the Assistant General Manager, Infrastructure to finalize and sign the Infrastructure Division organization charts as soon as the latest Infrastructure Division restructuring is complete.
- 8.5 Direct the Assistant General Manager, Infrastructure to charge an Infrastructure Division staff member with the responsibility to ensure that the finalized organization charts are amended as soon as personnel changes occur, and that all deviations from the Annual Salary Ordinance are accurately noted.

The Board of Supervisors Budget and Finance Committee should:

- 8.6 Release the salary reserve of \$107,340 plus mandatory fringe benefits for the 0942 Manager VII, Engineering Management Bureau Manager position.
- 8.7 Release \$183,966 plus mandatory fringe benefits of the reserve of \$560,571 plus mandatory fringe benefits for new 0933 Manager V positions.

Section 9. Managing General Liability and Workers' Compensation Costs

The Public Utilities Commission General Manager should:

- 9.1 Designate the Assistant General Manager, Business Services, as the risk manager for the Public Utilities Commission.
- 9.2 Direct the Assistant General Manager, Business Services to:
 - (a) Coordinate loss prevention programs among the Clean Water, Water, and Hetch Hetchy Enterprises.
 - (b) Develop measures and reporting mechanisms to monitor the effectiveness of the loss prevention program.
 - (c) Conduct trend analyses to track the Public Utilities Commission's actual claims and litigation experience, annual claims and litigation costs, and reported liability in the audited financial statements.
- 9.3 Report quarterly to the Public Utilities Commission on (a) the status of the loss prevention programs, (b) the risk management measures, and (c) the trend analysis.

The Director of Human Resource Services should:

- 9.4 Measure the performance of the modified duty program and report annually to the Public Utilities Commission on the performance measures.
- 9.5 Work with the Department of Human Resources Workers' Compensation Division to identify successful modified duty programs in other agencies and develop best practices for the Public Utilities Commission's modified duty program.

The Director of Financial Services should:

- 9.6 Report annually to the Public Utilities Commission on the accrued workers' compensation liability, including (a) increases or decreases in accrued liability over time and (b) causes for increases or decreases in accrued liability.

Section 10. Improving Human Resource Processes

The Director of Human Resource Services should:

- 10.1 Evaluate the steps and timelines for recruiting and conducting exams for vacant positions and processing the selected candidate.
- 10.2 Establish timelines for specific stages of the hiring process and streamline steps in the hiring process when possible.
- 10.3 Establish performance measures for the hiring process, including meeting established timelines and preparing complete information.
- 10.4 Benchmark the Work Flow system measures against the timelines established for specific steps of the hiring process.
- 10.5 Reduce two 1222 Senior Payroll/Personnel Clerk positions in the FY 2006-2007 budget, after full conversion to the eTime system.

The Director of Financial Services should:

- 10.6 Review all Public Utility Commission positions in which the actual position differs from the budgeted position and revise the position in the annual budget.

Section 11. Automotive and Mobile Equipment Management

The Public Utilities Commission General Manager should:

- 11.1 Transfer fleet management responsibilities for the 99 general purpose vehicles currently maintained by Central Shops to the Director of Administrative Services.
- 11.2 Emphasize the importance of vehicle maintenance including complying with preventive maintenance inspection schedules and complying with the State's Employer Pull Notice Program.
- 11.3 Direct the Fleet Manager to present a report to the Assistant General Manager, Business Services on implementation of the Public Utilities Commission's department-wide Employer Pull Notice Program prior to December 31, 2005.

Section 12. Maintenance and Materials Management

The Water Supply and Treatment Division Manager should:

- 12.1 Establish a timeline for development of a Maintenance Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.
- 12.2 Establish a timeline for development of a Materials Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.
- 12.3 Ensure that the Water Supply and Treatment Division incorporates automated planning and scheduling processes into its everyday maintenance activities.
- 12.4 Ensure that the Water Supply and Treatment Division initiates maintenance reporting on a continuing, periodic basis. The *Management by Objectives Report* produced by the Water Pollution Control Division is a useful model.
- 12.5 Use MAXIMO reports when requesting maintenance resources.
- 12.6 Ensure that all tools and equipment are inventoried annually.
- 12.7 Direct a review of inventory items for the purpose of determining which items should be stocked regardless of demand history, which items should be retained in inventory but only reordered when there is a demand, and which items should be advertised for disposal.
- 12.8 Ensure that the material in the maintenance yard not currently in inventory be brought into inventory or reported for disposal.

- 12.9 Take necessary action to improve the physical condition of the warehouse, including ensuring that the leaking roof is repaired.

The City Distribution Division Manager should:

- 12.10 Fill the vacant maintenance manager and maintenance planner positions and ensure that the 7205 Chief Stationary Engineer is assigned to maintenance planning functions.
- 12.11 Compare the newly established MAXIMO performance measures for the City Distribution Division against measures proposed in American Water Works Association literature and the literature of other water associations, and incorporate additional and/or replacement performance measures as deemed appropriate.
- 12.12 Ensure the accuracy of the data collected and reported on actual performance.
- 12.13 Establish a timeline for development of the Maintenance Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.
- 12.14 Establish a timeline for development of the Materials Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.
- 12.15 Ensure that the City Distribution Division incorporates automated planning and scheduling processes into its everyday maintenance activities.
- 12.16 Ensure that the City Distribution Division initiates maintenance reporting on a continuing, periodic basis. The *Management by Objectives Report* produced by the Water Pollution Control Division is a useful model.
- 12.17 Use MAXIMO reports when deciding on resource allocations.
- 12.18 Ensure that all tools and equipment are inventoried annually.
- 12.19 Take necessary action to reduce shrinkage and improve the accuracy of the data contained in MAXIMO on material.

The Director of Human Resources should:

- 12.20 In accordance with the existing memorandum of understanding and in conjunction with appropriate officials of Plumbing and Pipefitting Industry Local No. 38 and the Public Utilities Commission, make every effort to establish an agreement between the City and Plumbing and Pipefitting Industry Local No. 38 on a Utility Plumber Apprentice Program.

Section 13. Personnel and Management Issues

The Public Utilities Commission General Manager should:

13.1 Direct the Assistant General Manager, Water to:

- (a) compile data on the Hetch Hetchy Water and Wholesale Power, Water Supply and Treatment, and City Distribution Divisions' water loss,
- (b) determine the extent of water loss,
- (c) evaluate the feasibility of developing and implementing a program "that effectively identifies, quantifies, monitors, and controls water losses", including benchmarking the Public Utilities Commission's water loss against industry standards, as applicable, and
- (d) report the results of that evaluation to the Public Utilities Commission and the Board of Supervisors through its budget performance measures.

The Water Supply and Treatment Division Manager should:

- 13.2 Establish a timeline for developing an Administrative Policies and Procedures Manual for the Water Supply and Treatment Division, and report to the Assistant General Manager, Water on the status of the Administrative Policies and Procedures Manual prior to December 31, 2005.
- 13.3 Require all Water Supply and Treatment Division managers and supervisors to complete employee performance evaluations for all staff annually.
- 13.4 Include completion of employee performance evaluations annually as an objective in the Water Supply and Treatment Division managers' and supervisors' own employee performance evaluations.
- 13.5 Establish procedures for and monitor compliance with the Unit Processing of Employee Equipment and Access and Exit Interview procedures.

The City Distribution Division Manager should:

- 13.6 Establish a timeline for developing a comprehensive set of performance measures for concentrating effort and evaluating performance and progress for the entire range of City Distribution Division responsibilities, including such areas as staff development and safety, and report to the Assistant General Manager, Water on the status of the performance measures prior to December 31, 2005.
- 13.7 Establish a timeline for developing an Administrative Policies and Procedures Manual for the City Distribution Division, and report to the Assistant General Manager, Water on the status of the Administrative Policies and Procedures Manual prior to December 31, 2005.

- 13.8 Require all City Distribution Division managers and supervisors to complete employee performance evaluations for all staff, annually.
- 13.9 Include completion of employee performance evaluations annually as an objective in the City Distribution Division managers' and supervisors' own employee performance evaluations.
- 13.10 Establish procedures for and monitor compliance with the Unit Processing of Employee Equipment and Access and Exit Interview procedures.
- 13.11 Ensure full compliance with the State's Employer Pull Notice Program.
- 13.12 Review standby pay requirements for the City Distribution Division and consider reducing the number of positions required, consistent with operational prudence.
- 13.13 Issue pagers or cell phones to employees on standby and implement standby pay based on 10 percent of base salaries.
- 13.14 Immediately discontinue standby payments to employees in administrative positions.
- 13.15 Review the Gateroom work schedule for the purpose of achieving overtime cost efficiencies and workload relief for Gatemen.
- 13.16 In conjunction with the Employee Relations Division and Plumbers and Pipe Fitters Local No. 38, develop a schedule for the Gatemen that promotes health and safety and that minimizes built-in overtime costs.

1. Containing the Costs of Administrative Overhead and Work Orders with Other City Departments

- The Public Utilities Commission's administrative overhead expenditures grew at an average rate of 10.9 percent per year from \$30.6 million in FY 2000-2001 to \$41.7 million in FY 2003-2004. The FY 2004-2005 administrative overhead budgeted expenditures of \$47.2 million were \$5.5 million, or 13.2 percent more, than FY 2003-2004 actual expenditures.
- The Public Utilities Commission needs to implement controls to reduce or at least contain this growth in administrative overhead costs. Specifically, the Public Utilities Commission should (a) develop written service agreements between the Public Utilities Commission's administration overhead sections and the divisions receiving the administration overhead services, (b) directly charge the costs of administration services to the appropriate division or enterprise whenever possible, rather than allocating these costs through the cost allocation plan, and (c) identify and reduce unnecessary administrative and support services.
- In several instances, services are provided by administrative overhead units and similar contractual services are managed by operating divisions. For example, both Public Utilities Commission staff and consultants provide public outreach and communications services. Although the costs of in-house staff included in the External Affairs Division's Communications and Public Outreach Section's annual budget, consultant costs are included in the Infrastructure Division and other budgets. Therefore, increases in costs from year to year are not readily tracked. For example, the Communications and Public Outreach Section budget increased by approximately 14 percent, from \$2.1 million in FY 2004-2005 to \$2.4 million FY 2005-2006, but the combined budget of the Communications and Public Outreach Section and consultant services increased by approximately 45.5 percent, from \$2.2 million in FY 2004-2005 to \$3.2 million in FY 2005-2006.
- The Public Utilities Commission needs to identify and reduce unnecessary administrative and support services whenever possible. For instance, the Public Utilities Commission should reduce Information Technology Services positions providing mainframe support when the mainframe system is replaced by network systems. Over the next five years, as mainframe applications are replaced by network applications, the Public Utilities Commission should eliminate six Mainframe Applications Unit

positions, which have FY 2005-2006 salary and fringe benefit costs of approximately \$673,000.

- Also, the Public Utilities Commission has failed to implement adequate controls over work order costs for services performed for the Public Utilities Commission by other City departments. For example, during the FY 2005-2006 budget review, the Budget Analyst recommended against \$444,490 in unnecessary Department of Public Works work order costs, including two unnecessary Department of Public Works positions that were charged directly to the Public Utilities Commission and approximately \$217,000 for the design and construction of two offices.**

The Public Utilities Commission incurs costs for administrative and support functions that do not result in direct services to the Clean Water, Water, and Hetch Hetchy Enterprise customers, which are allocated to the enterprises. The Public Utilities Commission's annual budget includes transfers of funds from the three enterprises to the Public Utilities Commission's administrative overhead budget to pay for the costs of administrative and support services.

The Public Utilities Commission's administrative overhead expenditures increased by \$11.1 million, from \$30.6 million in FY 2000-2001 to \$41.7 million in FY 2003-2004, resulting in an average growth rate of 10.9 percent per year. The FY 2004-2005 administrative overhead budget was \$47.2 million, which was \$5.5 million, or 13.2 percent, more than FY 2003-2004 expenditures.¹ The greatest expenditure growth has been for non-personal services, such as property rents and professional services contracts, and services provided by other City departments. The Information Technology Services, Financial Services, and System Control and Regulatory Planning Sections' expenditures had the largest increases in expenditures, as shown in Table 1.1.

¹ FY 2004-2005 actual expenditures for administrative overhead were not available as of the writing of this report.

Table 1.1
The Public Utilities Commission's Administrative Overhead Expenditures
FY 2000-2001 to FY 2004-2005

	FY 2000-2001 Actual Expenditures	FY 2001-2002 Actual Expenditures	FY 2002-2003 Actual Expenditures	FY 2003-2004 Actual Expenditures	Average Annual Growth Rate	FY 2004-2005 Budgeted Expenditures
Information Technology Services	\$7,048,448	\$8,947,164	\$10,405,618	\$11,720,725	18.5%	\$12,846,775
General Manager's Office	5,968,889	6,744,949	7,122,107	7,608,402	8.4%	9,507,939
System Planning and Regulatory Control	1,784,730	1,905,217	2,253,163	2,689,161	14.6%	2,778,515
Financial Services	3,701,981	4,539,326	5,081,735	5,275,384	12.5%	6,073,921
Human Resource Services	3,262,790	3,674,999	3,888,812	4,084,685	7.8%	4,154,004
Customer Services	8,795,422	8,846,090	9,198,535	8,518,678	(1.1%)	9,639,624
Business Services Administration	0	0	0	1,782,941	n/a	2,200,127
	\$30,562,260	\$34,657,745	\$37,949,970	\$41,679,976	10.9%	\$47,200,905

Source: Public Utilities Commission Financial Services Section

In FY 2005-2006, the Public Utilities Commission reorganized several of its functions and created new divisions.

- The External Affairs Division is responsible for communications, legislative affairs, strategic planning, and real estate management. These costs are included in Table 1.2 below as the “General Manager’s Office” and “System Planning and Regulatory Control”.
- The Business Services Division is responsible for administrative functions, including human resources, information technology services, financial services, and customer services.

Allocation of Administration Overhead Costs to the Enterprises

The Public Utilities Commission allocates administrative overhead costs to the Clean Water, Water, and Hetch Hetchy Enterprises through the cost allocation plan. In 2000, the Public Utilities Commission contracted with a financial consultant to develop a cost allocation plan, which the Financial Services Section updates annually with current cost data. The cost allocation plan identifies all administrative overhead costs and deducts unallowable costs, such as capital outlay and transfer adjustments, to determine allowable costs to be allocated to the Clean Water, Water, and Hetch Hetchy Enterprises.

The cost allocation plan assigns a percentage allocation of administrative overhead costs to the Clean Water, Water, and Hetch Hetchy Enterprises based on a variety of measures, such as the number of employees in the enterprise or the number of transactions provided by the administrative unit to the enterprise. In FY 2005-2006, costs for Customer Services, Information Technology Services, Human Resource Services, Financial Services, the General Manger’s Office, System Planning and Regulatory Control, and Business Services Division Administration are allocated to the Clean Water, Water, and Hetch Hetchy Enterprises, as shown in Table 1.2.

Table 1.2

Draft Proposal of Allocation of Administration and Support Costs to the Clean Water, Water, and Hetch Hetchy Enterprises

FY 2005-2006

	Clean Water Enterprise	Water Enterprise	Hetch Hetchy Enterprise	Total
Customer Services	25.5%	72.2%	2.3%	100%
Information Technology Services	27.0%	58.6%	14.4%	100%
Human Resource Services	33.6%	49.9%	16.5%	100%
Financial Services Section	30.8%	47.0%	22.2%	100%
General Manager's Office	33.6%	49.9%	16.5%	100%
System Planning and Regulatory Control	33.6%	49.9%	16.5%	100%
Business Services Division Administration	28.3%	59.7%	12.0%	100%

Source: Public Utilities Commission Financial Services

Containing the Growth of Administrative Overhead Costs

The FY 2005-2006 administrative overhead budget of \$52.5 million is \$5.3 million, or 11 percent more, than the FY 2004-2005 administrative overhead budget of \$47.2 million. The Public Utilities Commission needs to implement budget controls to reduce or at least contain this growth in administrative overhead costs. Specifically, the Public Utilities Commission should (a) develop written service agreements between the Public Utilities Commission's administration overhead sections and the divisions receiving the administration overhead services, (b) directly charge the costs of administration services to the appropriate division or enterprise whenever possible, rather than allocating these costs through the cost allocation plan, and (c) identify and reduce unnecessary administrative and support services.

Establishing Service Agreements

Currently, the operating divisions within the Clean Water, Water, and Hetch Hetchy Enterprises have no formal service agreements with the administrative overhead sections. The Public Utilities Commission should establish specific service agreements between the Business Services Divisions sections, especially Information Technology Services, Human Resource Services, and Financial Services, and the operating divisions, identifying the role of the administrative overhead sections and the level of service to be provided to the operating divisions. The administrative overhead sections often serve an oversight function as well as a service function. For example, the Human Resource Services Section is responsible for compliance with Civil Service policies and procedures; the Financial Services Section is responsible for ensuring that financial and

budgetary controls are in place; and the Information Technology Services Section is responsible for coordinating information system use and functions within the Public Utilities Commission as a whole. These functions should be included in the service agreements.

The service agreements should spell out specific service requirements as appropriate, including (a) an identified administrative overhead section contact person, (b) timelines for responding to phone calls or requests for information, (c) turnaround time for specific processes, and (d) procedures to resolve complaints or disputes. The service agreements should also include regular meetings and sharing of information to ensure that staff in the administrative overhead sections and operating divisions understand their respective roles and responsibilities.

Information Technology Services, Human Resource Services and Financial Services need to ensure that administrative overhead services are provided cost-efficiently, and therefore, need to establish quantifiable performance measures to be included in the service agreements. These administrative overhead sections should identify expected timelines or costs for performing routine activities whenever possible, and benchmark and report on the actual timelines or costs against these measures. For example, the Financial Services Section should identify and measure the expected time or cost of routine accounting transactions and the Information Technology Services Section should identify and measure the expected time or cost of providing network, email and other support to the operating divisions.

Direct Charging of Administration Overhead Costs to the Operating Divisions

Some costs of services should be directly charged to the operating division rather than allocated through the cost allocation plan. Costs allocated through the cost allocation plan are approximate costs, derived by formula, rather than actual costs of services provided by the administration overhead sections to the operating divisions. By directly charging the services of the administration overhead sections to the operating divisions, the receiving divisions would be better able to identify the actual costs of services. In FY 2005-2006, the Public Utilities Commission began charging the costs of the Bureau of Environmental and Regulatory Management directly to the Clean Water Enterprise and the costs for the Water Quality Bureau directly to the Water Enterprise, which had previously been allocated through the cost allocation plan. The Public Utilities Commission should identify other costs that can be directly charged to the receiving divisions rather than allocated through the cost allocation plan. For example, the Customer Services Section's electricity billing function should be charged directly to the Hetch Hetchy Enterprise and the Information Technology Services Section's Supervisory Control and Data Acquisition System (SCADA) unit should be charged directly to the Water Enterprise.

Reducing Unnecessary Administrative and Support Services

The Public Utilities Commission should reduce or eliminate unnecessary administrative and support services. For example, in Section 10 of this report, the Budget Analyst

recommends eliminating two Human Resource Services position in the FY 2006-2007, with salary and fringe benefit costs of \$150,000, because full implementation of the eTime timekeeping system makes these positions redundant.

Also, in the FY 2005-2006 budget, the Budget Analyst recommended:

- Deleting \$20,000 for an unnecessary human resources management consultant contract to provide workplace conflict intervention services that could be provided by the Public Utilities Commission's Human Resource Services staff.
- Deleting two new proposed public information positions with annual salary and fringe benefit costs of \$170,000 because the External Affairs Division Communications and Public Outreach Section already has sufficient resources.

The Public Utilities Commission should also reduce Information Technology Services that provide mainframe support as the mainframe system is replaced by network systems. Over the next five years, as mainframe applications are replaced by network applications, the Public Utilities Commission should eliminate the six Mainframe Applications Unit positions, which have FY 2005-2006 salary and fringe benefit costs of approximately \$673,000.

The Public Utilities Commission's Communications and Public Outreach Section's Staff Services and Public Outreach Contractual Services

In several instances, services are provided by administrative overhead sections and similar contractual services are managed by operating divisions. For example, the External Affairs Division's Communications and Public Outreach Section provides public outreach and communication services for the Clean Water, Water, and Hetch Hetchy Enterprises' programs, with a FY 2005-2006 budget of \$2.4 million. Additionally, the Public Utilities Commission has three major contracts that provide communication and public outreach services.

- The Board of Supervisors approved the \$38 million contract with Parsons Water and Infrastructure, Inc., to provide program, project and pre-construction management services for the Water System Capital Improvement Program on July 19, 2005 (File 05-0974). The contract includes an estimated \$1.3 million over five years (or approximately \$260,000 per year) for communications specialists to provide public outreach and communications services for the Water System Capital Improvement Program. These contract costs are included in the Water Enterprise's capital budget and the contract is managed by Infrastructure Division staff.
- The Public Utilities Commission has issued a Request for Proposals for a three-year, \$1.5 million contract (or approximately \$500,000 per year) for public participation services for the Clean Water Master Plan. The proposed contract will be budgeted in the Clean Water Enterprise's budget and managed by Infrastructure Division staff.

- The Public Utilities Commission has a 30 month contract, from March 31, 2004 to September 30, 2006 for Water System Capital Improvement Program Environmental Impact Report Services with ESA/Orion Joint Venture, which includes information and outreach services. The total contract costs are \$2.5 million, divided among four tasks. Information and outreach services are divided among the four tasks. The costs for information and outreach services upon completion of the first task were \$86,000. Invoices for the second task were not yet available at the time of this report. This contract is managed by the System Planning and Regulatory Control Section's staff.

If the annual contract costs, which are not included in the annual Communications and Public Outreach Section budgets, are considered, the Public Utilities Commission's total annual costs for communications and public outreach exceed \$3.2 million annually. Inherent in the separation of contractual and in house services is the risk of duplication of services and increased costs if the services are not effectively coordinated among the Public Utilities Commission's divisions. Further, by including these costs in separate budgets, the overall communications and public outreach costs are masked. For example, the Communications and Public Outreach Division budget increased by 14 percent from FY 2004-2005 to FY 2005-2006, but if the costs of contractual services are included, the Communications and Public Outreach Section budget plus consultant services increased by 48.5 percent between FY 2004-2005 and FY 2005-2006.

Both the contract to provide public participation services for the Clean Water Master Plan and the information and outreach services component of the Water System Capital Improvement Program Environmental Impact Report Services are intended to differentiate the Public Utilities Commission's Communications and Public Outreach Section staff's responsibilities from the consultants' functions. For example, under the Clean Water Master Plan public participation contract, Communications and Public Outreach Section staff are supposed to lay the groundwork and manage the public participation process, including asking about community needs in developing the Clean Water Master Plan and discussing the alternatives. The consultant's function is to identify and engage stakeholders, and set up workshops and the decision making process. Under the Water System Capital Improvement Program Environmental Impact Report Services contract, the consultant is supposed to provide logistical support for public information and outreach activities.

Because these contracts are in their early stages, potential duplication in the Public Utilities Commission's staff functions and the consultants' functions cannot be easily identified. The Director of Communications and Public Outreach needs to ensure that Public Utilities Commission's staff time and consultants' time are managed efficiently. During the February of 2006 budget presentation to the Public Utilities Commission, the Director of Communications and Public Outreach should present an analysis of the Communications and Public Outreach Section's costs and consultant costs for communications and public outreach, which includes (a) identification of the Communications and Public Outreach Section's and consultants' functions and how these functions are differentiated in practice, (b) an evaluation of the consultants' performance in accomplishing the identified function, and (c) recommendations to better coordinate or streamline Public Utilities Commission's staff and consultant functions as necessary.

Consolidating Budgetary Oversight of the Supervisory Control and Data Acquisition (SCADA) System

The Public Utilities Commission began implementing the SCADA system to provide automated control over the Public Utilities Commission's regional and local water treatment and transmission systems in 1999, as mandated by the State of California. The SCADA system has been in place since 2002. The SCADA system is differentiated between the system supporting the water treatment facilities and the transmission facilities. The SCADA system is supported by both the Water Operations Division's operating staff in conjunction with an outside maintenance contract and by the Public Utilities Commission's Information Technology Services Section.

The Water Supply and Treatment Division has a maintenance agreement with an outside contractor, Transdyn Controls, Incorporated (Transdyn) to support the water treatment facilities SCADA system. The Public Utilities Commission's Information Technology Services supports the water transmission system's SCADA system. Because of the integration of the water system's water treatment facilities and transmission system's SCADA system, Information Technology Services SCADA unit staff work directly with the Water Supply and Treatment Section's staff at the Sunol and Harry Tracy Water Treatment Facilities.

The Public Utilities Commission has not adequately controlled the Transdyn maintenance agreement costs. In January of 2005, the Public Utilities Commission amended the July 1, 2004 Transdyn maintenance agreement to increase the spending authority from \$300,000 to \$600,000. Although the original contract was for a period of two years, effective July 1, 2004 through June 30, 2006 with total spending authority not to exceed \$300,000, the Public Utilities Commission incurred expenditures of \$316,508 for the first year of the agreement. According to the amended agreement, the increased spending authority was necessary due to an unexpected number of system upgrades, troubleshooting, programming and equipment installations required at the water treatment facilities.

The Information Technology Services has also increased its SCADA system maintenance costs in FY 2005-2006, by adding a new 1043 Senior IS Engineer position, with annual salary and fringe benefit costs of approximately \$116,000.

Discussions with Water Supply and Treatment Division Information Technology Services staff indicate a number of needed improvements in jointly maintaining the SCADA water treatment and transmission systems. According to interviews, Information Technology Services staff could assume some of the functions of the Transdyn maintenance agreement and increase the level of service to the Water Supply and Treatment Division. Information Technology Services would have to develop a staffing and training plan to assume the additional functions.

Also, Water Supply and Treatment Division managers need to evaluate the performance of Water Supply and Treatment Division staff to determine if improved staff performance could reduce the Water Supply and Treatment Division's reliance on the Transdyn

maintenance agreement and the two-fold increase in spending authority over two-year period, from \$300,000 to \$600,000.

The Public Utilities Commission has begun a SCADA system planning process but has not yet developed a SCADA system strategic plan. As part of this planning process, the Public Utilities Commission should consolidate management of the SCADA system's in-house and contractual budget under one manager. Consolidating the budgets should increase oversight over the SCADA system's costs and better manage efficient delivery of in-house and contractual services.

Costs of Work Orders for Services Performed for the Public Utilities Commission by Other City Departments

The Public Utilities Commission's FY 2005-2006 budget includes \$34.2 million for services provided to the Public Utilities Commission by other City departments.² In FY 2005-2006, the Public Utilities Commission has major work orders with the Department of Public Works (\$16,769,024), the City Attorney's Office (\$5,250,820), the Department of Human Resources (\$5,016,589), and the Department of Telecommunications and Information Services (\$2,502,665).

As noted in Table 1.3, between FY 2000-2001 and FY 2004-2005, the Public Utilities Commission's annual expenditures for the work order with the Department of Public Works increased by 15.5 percent per year, the Department of Human Resources by 13.8 percent per year, the Department of Telecommunications and Information Services by 9.2 percent per year, and the City Attorney's Office by 7.4 percent per year. The increase in the Department of Human Resources work order expenditures over the last five years has been driven largely by increased in workers compensation expenditures.

² The FY 2005-2006 budget includes \$48,218,059 for services of other City departments, including the Public Utilities Commission's costs for light, heat and power (\$14,017,396). The Public Utilities Commission's FY 2004-2006 budget for services of other City departments, excluding light, heat and power expenditures, is \$34,200,663.

Table 1.3

Average Annual Expenditures for Services Provided by the Department of Public Works, the City Attorney’s Office, the Department of Human Resources, and the Department of Telecommunications and Information

FY 2000-2001 through FY 2004-2005

	FY 2000-2001	FY 2001-2002	FY 2002-2003	FY 2003-2004	FY 2004-2005	Average Annual Growth Rate
Department of Human Resources	\$3,601,369	\$3,575,763	\$5,324,842	\$4,729,582	\$6,411,085	15.5%
Department of Public Works	\$12,247,317	\$10,198,714	\$10,819,588	\$14,821,475	\$20,575,215	13.8%
Telecommunications and Information Services	\$2,552,968	\$3,179,229	\$3,284,774	\$3,639,951	\$3,625,906	9.2%
City Attorney's Office	\$3,321,383	\$3,755,019	\$5,017,982	\$4,611,799	\$4,412,799	7.4%

Source: Public Utilities Commission

Although the Public Utilities Commission has some interdepartmental agreements, the Public Utilities Commission lacks written agreements controlling the level of service and measuring the effectiveness of services provided by the Department of Human Resources, the City Attorney’s Office, the Department of Public Works, and the Department of Telecommunications and Information Services for the most part. Consequently, the Public Utilities Commission cannot determine the cost-effectiveness of services provided by other City departments.

Current Interdepartmental Agreements between the Public Utilities Commission and Other City Departments

The Public Utilities Commission’s Interdepartmental Agreement with the Department of Human Resources

The Public Utilities Commission has an interdepartmental agreement with the Department of Human Resources to provide exam and employment services for the Public Utilities Commission’s Infrastructure Division and Capital Improvement Programs. This interdepartmental agreement identifies the Department of Human Resources responsibilities, and reporting and performance standards. However, the Public Utilities Commission has no formal agreement with the Department of Human Resources for other services provided.

The Public Utilities Commission's Annual Work Order with the Department of Public Works

The Public Utilities Commission entered into a Memorandum of Understanding with the Department of Public Works in 1997, covering the transfer of the Clean Water Enterprise from the Department of Public Works to the Public Utilities Commission. Under the Memorandum of Understanding, the Department of Public Works provides:

- Engineering, architecture, and engineering services for the Public Utilities Commission's capital projects.
- Emergency sewer repair, spot sewer repair, and street paving for sewer and water repair and replacement projects.

The Memorandum of Understanding outlines the terms for (a) defining projects, (b) requesting services, (c) developing project scope and budget, (d) assigning personnel, and (e) reporting on projects.

Table 1.4 provides the FY 2005-2006 budget for the Public Utilities Commission's work order with the Department of Public Works.

Table 1.4

The Public Utilities Commission's FY 2005-2006 Work Order Budget with the Department of Public Works

	FY 2005-2006
Building Repair	\$2,009,922
Street Cleaning	3,038,000
Engineering	2,919,476
Sewer Repair	4,866,944
Construction Management	2,390,119
Other	<u>1,544,563</u>
Total	\$16,769,024

Source: Public Utilities Commission

\$13.2 million of the FY 2005-2006 Public Utilities Commission work of \$16.8 million with the Department of Public Works is allocated to the Clean Water Enterprise for hydraulic engineering, sewer repair, street cleaning and other services. The Public Utilities Commission and the Department of Public Works have a task order agreement for hydraulic engineering services provided by the Department of Public Works to the Clean Water Enterprise and a work summary of construction management services provided by the Department of Public Works to the Water Enterprise for street repair. Sewer repair and replacement work is ordered on an as-needed basis. Because of the

backlog of sewer repair and replacement work, the Department of Public Works repairs and replaces sewers up to the amount included in the annual budget, carrying forward sewer repair and replacement projects that exceed the annual budget into the next fiscal year.

The Department of Public Works identifies the Public Utilities Commission's annual requirement for hydraulic engineering and construction management services, based on the historical use of these services, and provides construction management and sewer repair work on an as-needed basis, as requested by the Public Utilities Commission. The Department of Public Works charges for services provided to the Public Utilities Commission, based on the Department of Public Works' annual indirect cost plan.

The Public Utilities Commission should negotiate annual task plans with the Department of Public Works that measure the cost-efficiency of services. For example, hydraulic engineering services provides an annual task plan to the Public Utilities Commission, based upon the Public Utilities Commission's historical use of these services. The Department of Public Works provides quarterly and reports to the Assistant General Manager, Wastewater, including:

- A summary of the tasks performed;
- Details on the number of (a) requests for sewer information, (b) sewer investigations, and (c) sewers reviewed for maintenance, repair, and replacement; and
- Actual expenditures compared to budgeted expenditures.

To better measure the cost-efficiency of services, the Public Utilities Commission should work with the Department of Public Works to (a) identify average hours and costs of routine activities, based on industry standards when possible, and (b) measure and report on the actual hours and costs of routine activities compared to the standard hours and costs. By benchmarking the hours and costs of services against a standard measure and tracking actual hours and costs of services over time, the Public Utilities Commission would have better information on the reasonableness of the costs of services provided by the Department of Public Works.

In addition to the ongoing services provided by the Department of Public Works, the Public Utilities Commission requests specific Department of Public Works services each year. The Public Utilities Commission cannot always justify the necessity of these additional services. For example, during the FY 2005-2006 budget review the Budget Analyst recommended \$444,490 in reduced Department of Public Works work order costs, including (a) deleting two positions funded through the Department of Public Works work order, because the positions' functions duplicated functions that should be performed by the Public Utilities Commission existing staff, and (b) eliminating unnecessarily high costs of approximately \$217,000 for the design and construction of two offices.

The Annual Work Order Agreement between the Public Utilities Commission and the Department of Telecommunications and Information Services

The Department of Telecommunications and Information Services provides an annual budget request to the Public Utilities Commission that specifies telephone and information system rates, based upon transactions, stored data, or other units of measure. The Department of Telecommunications and Information Services also provides application development to the Public Utilities Commission, but these services are less well defined.

For example, the Public Utilities Commission's FY 2005-2006 budget includes \$222,216 to pay for services provided by one Department of Telecommunications and Information Services staff member to support the development of the Public Utilities Commission's Learning Management System. According to the Public Utilities Commission's Director of Information Technology Services, the \$222,216 work order pays for the time of one Department of Telecommunications and Information Services employee who works full time for the Public Utilities Commission. The Public Utilities Commission's budget for this work order duplicates non-productive time, by including non-productive time calculated into the Department of Telecommunications and Information Services overhead rate, and by budgeting 2,000 hours annually, which exceeds the usual estimate of productive time ranging from approximately 1,600 to 1,800 hours annually and does not account for time off such as regularly-scheduled and floating holidays.

Increasing the Cost Efficiency of Work Orders with Other City Departments

The Public Utilities Commission lacks effective controls over costs incurred through services provided by other City departments. The Public Utilities Commission should develop written interdepartmental agreements for all services provided by other City departments and should justify the costs of all such services in the annual budget. For example, the Public Utilities Commission develops an annual work order budget for services provided by the City Attorney's Office, based upon historical expenditures for the City Attorney's Office to manage claims and litigation and to provide specific services for now legal activities, such as the contract dispute between the Public Utilities Commission and the Pacific Gas and Electric Company. The Public Utilities Commission does not have a written service agreement with the City Attorney's Office but bases its work order budget in the next fiscal year upon expected expenditures in the current fiscal year. The Public Utilities Commission's expenditures for the City Attorney's work order has increased at an average annual rate of seven percent over the past five years, which includes both the increased hourly cost of the City Attorney's services and the increased hours of service.

The Public Utilities Commission would have better information and control over the costs of work orders by benchmarking and tracking the costs of services over time by other City departments, rather than relying on historical expenditures as a basis for budgeting work order expenditures in the next fiscal year. For example, because the City's Attorney's hours and expenses for each litigation or claims case has changed

overtime, historical expenditures do not capture the City Attorney’s actual costs of managing the Public Utilities Commission’s litigation and claims. The average number of City Attorney’s hours and expenses per litigation case has increased and per claim has decreased over the past five years, as shown in Table 1.5. The average number of City Attorney hours per litigation has increased by 12.5 percent per year and the average City Attorney’s expense, excluding judgment or settlement costs, has increased by 10.9 percent per year. The average number of City Attorney hours per claim has decreased by 9.1 percent per year and the average City Attorney’s expense, excluding judgment or settlement costs, has decreased by three percent per year.

Table 1.5

Average Annual Increase in City Attorney’s Hours and Expenses per Litigation and Claim

FY 2000-2001 to FY 2004-2005

	FY 2000-2001	FY 2001-2002	FY 2002-2003	FY 2003-2004	FY 2004-2005	Average Annual Growth per Case
City Attorney's Litigation Hours and Costs						
Litigation Cases	54	59	56	63	60	
City Attorney Hours	4,836	6,751	7,735	7,559	8,619	
Average Hours per Case	90	114	138	120	144	12.5%
City Attorneys Expenses	\$2,106,124	\$2,330,324	\$2,427,395	\$3,434,712	\$3,534,768	
Average Expense per Case	\$39,002	\$39,497	\$43,346	\$54,519	\$58,913	10.9%
City Attorney's Claims Hours and Costs						
Claims Cases	313	287	272	469	394	
City Attorney Hours	701	905	783	879	572	
Average Hours per Case	2.2	3.2	2.9	1.9	1.5	(9.1%)
City Attorneys Expenses	\$86,926	\$140,726	\$119,200	\$135,772	\$96,680	
Average Attorney Expense per Case	\$278	\$490	\$438	\$289	\$245	(3.0%)

Source: City Attorney’s Office

The Public Utilities Commission should develop performance measures that capture the cost-efficiency of the services provided by other City departments. For example, performance measures for services provided by the City Attorney’s Office should include the number of cases handled by the City Attorney, a measure of the complexity of the case to account for specific cases which require more hours, and the average number of hours and expenses per case. In this way, the Public Utilities Commission could negotiate service levels each year in the interdepartmental agreements that would reflect

the expected hours and costs of services to be provided, rather than increasing the amount of the work order based solely on the historical expenditures.

For special projects performed for the Public Utilities Commission by other City departments, the Public Utilities Commission should negotiate interdepartmental agreements that identify the services included in the special project, the number of hours, and the costs per hour. During the course of the year, the Public Utilities Commission should monitor the work order against the interdepartmental agreement to ensure that the level of services and associated costs comply with the interdepartmental agreement.

Conclusions

The Public Utilities Commission does not have sufficient budgetary controls over the Public Utilities Commission's administration overhead costs or services provided by other City departments. For both administration overhead costs and services provided by other City departments, the Public Utilities Commission needs to establish service or interdepartmental agreements that clearly define levels of service and benchmarks. For example, the Public Utilities Commission should negotiate an interdepartmental agreement that includes (a) the number of hours and cost per hour, plus associated expenses, of City Attorney services for claims and litigation management and other special projects, and (b) benchmarks that track the City Attorney's hours and expenses for managing claims and litigation.

The Public Utilities Commission also needs to establish service agreements between the Public Utilities Commission's overhead divisions and the operating or other divisions receiving the services. To better track and manage costs, the Public Utilities Commission should (a) develop written service agreements between the Public Utilities Commission's administration overhead sections and the divisions receiving the administration overhead services, (b) directly charge the costs of administration services to the appropriate division or enterprise whenever possible, rather than allocating these costs through the cost allocation plan, and (c) identify and reduce unnecessary administrative and support services.

Recommendations

The Public Utilities Commission General Manager should:

- 1.1 Direct the Public Utilities Commission's Director of Financial Services to identify all areas of administration overhead that are currently allocated through the cost allocation plan but that could be directly charged to the receiving division, including (a) charging the Customer Services Section's costs for electricity billing directly to the Hetch Hetchy Enterprise, and (b) charging the Information Technology Service's costs for the SCADA unit directly to the Water Enterprise.

- 1.2 Direct the Assistant General Manager, Business Services, to implement service agreements between Information Technology Services, Human Resource Services, and Financial Services, and the operating divisions, identifying:
 - (a) the role of the administrative overhead sections, including both oversight and service functions, and
 - (b) the level of service to be provided to the operating divisions, including, as appropriate: (i) an identified administrative overhead section contact person, (ii) timelines for responding to phone calls or requests for information, (iii) turnaround time for specific processes, (iv) procedures to resolve complaints or disputes, and (v) regular meetings and sharing of information as needed.
- 1.3 Direct the Assistant General Manager, Business Services, to establish quantifiable performance measures to be included in the service agreements, which:
 - (a) identify expected timelines or costs for performing routine activities whenever possible,
 - (b) establish benchmarks and reporting requirements.
- 1.4 Direct the Director of Communications and Public Outreach to present an analysis of the Communications and Public Outreach Section's costs and consultant costs for communications and public outreach, which includes:
 - (a) identification of the Communications and Public Outreach Section's and consultants' functions and how these functions are differentiated in practice,
 - (b) an evaluation of the consultants' performance in accomplishing the identified function, and
 - (c) recommendations to better coordinate or streamline Public Utilities Commission's staff and consultant functions as necessary.
- 1.5 Direct the Director of Information Technology Services to develop a staffing reduction plan to eliminate the six Mainframe Applications Unit positions over the next five years.
- 1.6 Direct the Director of Information Technology Services to evaluate potential staffing and training plans to train Information Technology Services staff to assume more responsibility for maintaining the SCADA system, as part of the SCADA strategic planning process.
- 1.7 Direct the Director of Water Supply and Treatment Services to evaluate Water Supply and Treatment Division staff performance and potential improved staff performance in maintaining the SCADA system.

- 1.8 Consolidate management of the SCADA system's in-house and contractual budget under one manager, as part of the SCADA strategic planning process.
- 1.9 Negotiate an interdepartmental agreement between the Public Utilities Commission and the Department of Human Resources that identifies the Department of Human Resources responsibilities for specific services that are not currently covered by an interdepartmental agreement, such as Employee Relations, including reporting and performance standards.
- 1.10 Direct the Director of Financial Services to negotiate annual task plans with the Department of Public Works that measure the cost-efficiency of services, including:
 - (a) identifying average hours and costs of routine activities, based on industry standards when possible,
 - (b) measuring and reporting on the actual hours and costs of routine activities compared to the standard hours and cost,
 - (c) benchmarking the hours and costs of services against a standard measure, and
 - (d) tracking actual hours and costs of services over time.
- 1.11 Direct the Director of Information Technology Services to review all Department of Telecommunications and Information Systems work orders to determine the actual number of productive staff hours and revise the work order to reflect the actual number of productive staff hours as appropriate.
- 1.12 Negotiate an interdepartmental agreement between the Public Utilities Commission and the City Attorney's Office that:
 - (a) specifies the estimated hours of service and cost per hour and other associated expenses for the City Attorney's management of claims, litigation and special projects, and
 - (b) benchmarks the hours and costs of City Attorney's services for claims and litigation.
- 1.13 Direct the Director of Financial Services to:
 - (a) identify all work orders between the Public Utilities Commission and other City Departments that do not currently have an interdepartmental agreement,
 - (b) determine which work orders require an interdepartmental agreement, and

- (c) negotiate an interdepartmental agreement for the respective City Departments, including service levels and performance measures, prior to preparation of the FY 2006-2007 budget.

Costs and Benefits

The Public Utilities Commission's administrative overhead costs have grown at a rate of 10.9 percent per year, or 36.4 percent between FY 2000-2001 and FY 2003-2004. The FY 2004-2005 administrative overhead budgeted expenditures were \$5.5 million, or 13.2 percent more, than FY 2003-2004 actual expenditures. The Public Utilities Commission's work order expenditures for services provided by other City departments have also increased at a high rate. For example, the Public Utilities Commission's expenditures for the Department of Public Works work order have grown at rate of 13.8 percent per year, or 68 percent between FY 2000-2001 and FY 2004-2005, and for the City Attorney's Office work order at a rate of 7.4 percent per year, or 32.9 percent between FY 2000-2001 and FY 2004-2005.

During the FY 2005-2006 budget review, the Budget Analyst recommended and the Board of Supervisors approved reductions in the Public Utilities Commission's administrative overhead costs, totaling \$190,000, including reduction of (a) \$20,000 for an unnecessary human resources management consultant contract to provide workplace conflict intervention services that could be provided by the Public Utilities Commission's Human Resource Services staff, and (b) \$170,000 for two new proposed public information positions because the External Affairs Division Communications and Public Outreach Section already has sufficient resources. The Budget Analyst also recommended and the Board of Supervisors approved reduction of \$444,490 in unnecessary Department of Public Works work order costs.

The Budget Analyst's management audit recommendations would result in an additional \$673,000 in reduced Information Technology Services Mainframe Applications Unit costs over the next five years as mainframe applications are replaced by network applications.

Implementation of the Budget Analyst's recommendations would result in other, unquantified savings, through the reduction or containment of administrative overhead and interdepartmental service costs.

2. Implementing the Asset Management Program

- **The Public Utilities Commission has been slow in implementing an asset management program to better manage its capital assets, including developing an inventory and condition assessment of all capital assets, identifying which assets are at greatest risk of failure and would incur the most significant costs, and determining the most cost-effective approach to maintaining, repairing or replacing capital assets. The Public Utilities Commission responded to a November of 2003 California Department of Finance audit report that found inadequate Public Utilities Commission procedures and resources for identifying, planning and budgeting for, and recording completion of needed maintenance of the regional water system, stating that such an asset management program was in progress.**
- **However, the Public Utilities Commission has never developed a formal, coordinated work plan to implement its asset management program. The multiple components required for the program have not been fully addressed by executive management and fragmented efforts by the operating divisions to address provisions of the California Department of Finance audit have not been consistently overseen by executive management.**
- **The Public Utilities Commission has still not fully developed system-wide procedures to collect and enter asset data into its maintenance management system, MAXIMO, despite establishing an operating and maintenance work group and hiring a consultant to do so.**
- **Although the Public Utilities Commission engaged a consultant, Olivia Chen Consultants, to address the California Department of Finance audit recommendations to (a) develop and document system-wide policies and procedures regarding which asset information should be included in the MAXIMO maintenance management system, and (b) develop standard documented procedures for the system-wide maintenance and inspection of pipelines, dams, watersheds, tunnels and bridges, the Public Utilities Commission has not ensured that the consultant completed the work. The consultant contract expired in April of 2005 and the Financial Services Section intends to present a proposed contract extension to complete the tasks to the Public Utilities Commission. \$53,632 of the original contract budget of \$99,676 remains unspent.**

- **The Public Utilities Commission requested approximately \$1.3 million in the proposed FY 2005-2006 budget to fund new positions and consultant services to develop the asset management program, but due to the lack of a formal asset management program work plan, the budget request was poorly substantiated. The Board of Supervisors approved approximately \$920,000 in the FY 2005-2006 budget to develop the asset management program, based upon the Budget Analyst's recommendation, which is \$380,000, or 29.2 percent, less than the requested amount.**
- **The Public Utilities Commission lacks criteria for planning and budgeting capital repair and replacement projects. As a result, the Public Utilities Commission appropriates but does not spend monies for specific capital repair and replacement projects, thus tying up funds that could be better spent on other uses.**
- **For example, the Hetch Hetchy Enterprise's unexpended capital repair and replacement appropriation balance increased in FY 2004-2005 by \$13.5 million, resulting from the Hetch Hetchy Enterprise spending only \$24.5 million of the FY 2004-2005 \$38.0 million capital repair and replacement appropriation. The increase in the unexpended appropriation balance indicates that the Hetch Hetchy Enterprise appropriated a higher level of funding in FY 2004-2005 than the Hetch Hetchy Enterprise is able to expend for identified capital repair and replacement projects.**
- **Although 52 Water Enterprise capital repair and replacement projects had an appropriation totaling \$1.4 million, the Water Enterprise spent no money on these projects in FY 2004-2005. The Water Enterprise also appropriated (a) \$5.0 million for the Sunol/Niles Dam Removal Project in FY 2004-2005 but spent only \$750,000, and (b) \$2.8 million for the Facilities Security Project but spent only \$942,000.**
- **Funding of capital projects should correspond to capital project expenditures so that monies not needed for specific capital appropriations are available for other uses. Because the ratepayers bear the cost of capital project spending, the Public Utilities Commission needs to more efficiently align capital appropriations with capital project expenditures to reduce the costs to the ratepayers.**

The Public Utilities Commission's Need for an Asset Management Program

The Public Utilities Commission has been slow in developing a program to better manage the capital assets of the clean water, water, and power systems. The Public Utilities Commission had promised to develop such an asset management program in response to a November of 2003 California Department of Finance audit report of the regional water system, but has not fully addressed the California Department of Finance audit recommendations. According to the Public Utilities Commission, the asset management program is intended to better identify the condition of the Clean Water, Water, and Hetch Hetchy Enterprises' capital assets, identify which assets are at greatest risk of failure and would incur the most significant costs, and determine the most cost-effective approach to maintaining, repairing or replacing capital assets.

In 2003, the California Department of Finance audited the Public Utilities Commission's regional water system in accordance with State Assembly Bill 1823, which required an audit of the Public Utilities Commission's maintenance program of the regional water system. The audit included a review of the adequacy of the Public Utilities Commission's procedures and resources for identifying needed maintenance of the regional water system; planning, budgeting, scheduling, and completing maintenance; and record keeping of maintenance activities.

The California Department of Finance presented a report in November of 2003 with the following findings:

- Critical asset information is not recorded in the MAXIMO maintenance management system.
- Maintenance inspection procedures are not documented.
- Repair and replacement duties and procedures could be improved.
- Repair and replacement information is inconsistently collected and recorded.
- Development of maintenance budget procedures could be improved.

In the June 14, 2004 written response to the California Department of Finance audit, the Public Utilities Commission stated that they were planning to develop an asset management program. In the summer of 2004, the Public Utilities Commission created an asset manager position in the Business Services Division Financial Services section, contracted with an outside consultant to provide workshops on developing an asset management program, and established an organization-wide workgroup, consisting of operating, maintenance, and information systems staff, to discuss and plan the implementation of an asset management program.

Despite the steps described above, the Public Utilities Commission has still not developed a formal, coordinated work plan to implement the asset management program. The multiple components of the program have not been fully addressed by executive management and efforts by the operating divisions to address provisions of the California Department of Finance audit have not been consistently overseen by executive management.

The Public Utilities Commission's Efforts to Address the California Department of Finance Findings on Recording Asset Information in MAXIMO and Documenting Inspection Procedures

In August of 2004, the Public Utilities Commission hired a consultant to address two of the California Department of Finance audit findings. The consultant's scope of work included:

- Assisting the Public Utilities Commission in developing and documenting system-wide policies and procedures regarding which asset information should be included in the MAXIMO maintenance management system.
- Developing standard, documented procedures for the system-wide maintenance and inspection of pipelines, dams, watersheds, tunnels and bridges.

The operating and maintenance workgroup noted above identified the development of inspection procedures as a priority. The consultant completed the draft dam and pipeline inspection procedures, and the Public Utilities Commission has approved the final form. The consultant also completed draft tunnel and bridge inspection procedures, but the Public Utilities Commission has not yet approved the final form.

Delays in Developing System-Wide Policies and Procedures for Entering Asset Information into MAXIMO

The consultant contract also included tasks to:

- (a) Develop standards for the types of asset data to be collected,
- (b) Inventory existing asset information,
- (c) Collect and enter missing asset information into MAXIMO, and
- (d) Develop system-wide procedures to collect and enter data for all new assets into MAXIMO. Developing system-wide procedures to collect and enter data for all new assets into MAXIMO was intended to address the California Department of Finance audit finding.

According to the Public Utilities Commission, although the consultant has addressed each of these four tasks, none of the four tasks has been completed and the three work products have not been delivered, including (a) an inventory of existing capital asset

information, (b) an electronic file of the Public Utilities Commission's capital assets and critical asset information, and (c) a procedure for capital asset data collection and maintenance. The consultant contract expired in April of 2005 and the Financial Services Section intends to present a proposed contract extension to complete the tasks to the Public Utilities Commission. \$53,632 of the original contract budget of \$99,676 remains unspent.

The Public Utilities Commission has still not fully developed system-wide procedures to collect and enter asset data into MAXIMO, despite establishing a work group and hiring a consultant to do so. The Public Utilities Commission told the California Department of Finance, in the June 14, 2004 written response, that the Public Utilities Commission had established a task force to examine the Public Utilities Commission's operating divisions' existing applications of MAXIMO and to develop system-wide policies and procedures regarding the information to be recorded in MAXIMO. The task force evolved into the operating and maintenance work group, made up of representatives from the Hetch Hetchy, Clean Water, and Water Enterprises' maintenance units and from Information Technology Services.

The operating and maintenance work group has developed a draft procedure to collect asset information as part of the contracting process for capital projects. The draft procedure would require the contractor to complete specified asset and equipment information in an electronic format, to be entered into MAXIMO. The operating and maintenance work group also developed MAXIMO screen modifications to standardize entering asset data into MAXIMO.

The operating and maintenance work group has functioned informally in FY 2004-2005 because of the Public Utilities Commission's management changes and reorganization. The last operating and maintenance work group meeting was in March of 2005. According to Water Enterprise and Information Technology Services managers, the Public Utilities Commission's operating and maintenance staff need significant support in understanding and using MAXIMO efficiently. However, the Public Utilities Commission has not yet developed a process to ensure that MAXIMO is used efficiently across all three enterprises.

Currently, the Clean Water Enterprise Water Pollution Control Division has the most comprehensive asset data entry into MAXIMO. During FY 2004-2005, the Water Pollution Control Division completed the condition assessment and data entry into MAXIMO and is currently working on the risk assessment of assets. According to Water Pollution Control Division staff, the risk assessment should be completed during the summer of 2005.

The Water Enterprise Water Supply and Treatment Division has developed a draft timeline for conducting a condition assessment of assets and entering the data into MAXIMO. Over the past several years, the Public Utilities Commission has conducted three water system asset reliability studies with the assistance of outside consultants. The asset reliability data does not correspond with asset information recorded in MAXIMO and therefore, will have to be reconciled with the MAXIMO identification numbers.

The Public Utilities Commission's other operating divisions, including the City Distribution Division and the Hetch Hetchy Enterprise are at varying points in the process of developing an inventory and recording assets in MAXIMO.

The Public Utilities Commission's FY 2005-2006 Plan to Develop the Asset Management Program

The Public Utilities Commission requested approximately \$1.3 million in the proposed FY 2005-2006 budget to fund new positions and consultant services to develop the asset management program. Due to the lack of a formal asset management program work plan, the budget request was not well substantiated. Based upon the Budget Analyst's analysis and recommendation, the Board of Supervisors approved a portion of the requested new funds, including:

- \$500,000 to fund consultant services to (a) assess and value the Public Utilities Commission's assets and (b) develop and implement a comprehensive asset management program; and
- \$420,000 to pay for four new positions to support development of the asset management program.

The Public Utilities Commission should develop a formal work plan for the asset management program, including timelines, work goals, and executive management oversight. Up to this point, the work goals and timelines have been uncertain and several key issues have not been addressed. As discussed above, the Public Utilities Commission has been slow in standardizing procedures for using MAXIMO system-wide and entering asset data into MAXIMO.

The Public Utilities Commission has also not fully addressed the California Department of Finance findings regarding the capital repair and replacement program and subsequent California Department of Health Services findings regarding the management of repair and replacement work orders.

Managing the Capital Repair and Replacement Program as Part of the Asset Management Program

The California Department of Finance audit found that the Public Utilities Commission should:

- Improve repair and replacement duties and procedures, and
- Collect and record repair and replacement information more consistently.

Although the Public Utilities Commission did not agree with all the California Department of Finance audit recommendations, the Public Utilities Commission did agree to (a) develop a central information system for all capital repair and replacement

project information; and, (b) establish standards for recording specific repair and replacement project information.

A second audit, conducted by the California Department of Health Services and received by the Public Utilities Commission in April of 2005 found that the Public Utilities Commission did not maintain complete work order information for maintenance and repair and replacement projects. The auditors found that a large number of open work orders were closed without any work being completed and without documentation of specific reasons for not completing the work. Also, the work orders did not contain verification of work completed by crafts that were outside the facility manager's or superintendent's sphere of work.

According to the Assistant General Manager, Water, maintenance and operating staff would open work orders for maintenance or capital repair and replacement projects but not charge work against the work order. To address the California Department of Health Services audit report, the Water Division is planning to draft a flow chart and policy governing the process of setting-up, charging, and closing work orders for maintenance and capital repair and replacement projects. The policy will require that a senior manager sign off on the work order. According to the Assistant General Manager, in establishing the new policies and procedures, Water Division managers will need to define routine maintenance work orders and capital repair and replacement work orders that will be set up as a project.

As discussed in Section 3 of this report, the Public Utilities Commission has not defined what constitutes capital repair and replacement projects or how to segregate and record capital repair and replacement expenditures in the financial system. The Public Utilities Commission lacks clear criteria to determine in practice what is a routine maintenance expenditure to be funded from revenue and what is a repair and replacement expenditure, which can be funded from revenue or from bond proceeds.

As an initial step in developing the asset management program work plan, the Public Utilities Commission should develop criteria for defining routine maintenance and capital repair and replacement projects. The General Manager should direct the Assistant General Managers, Clean Water, Water, and Infrastructure to develop procedures for determining routine maintenance work orders and capital repair and replacement work orders to be set up as projects. These procedures should be developed in coordination with the Director of Financial Services to ensure consistency in maintenance and operations practices and input into the financial system.

The Revenue-Funded Capital Repair and Replacement Budget

The Clean Water, Water, and Hetch Hetchy Enterprises' annual operating budgets include revenue-funded capital repair and replacement projects. In FY 2004-2005, the Clean Water Enterprise included \$15.2 million for capital repair and replacement projects, the Water Enterprise included \$25.8 million for capital repair and replacement projects, and the Hetch Hetchy Enterprise included \$38.0 million.

The California State Department of Finance report recommended that:

- The Public Utilities Commission should formalize, document, and communicate capital repair and replacement program's funding criteria.
- The Public Utilities Commission managers should develop appropriate maintenance budgets based on the stated criteria.

Currently, the Public Utilities Commission does not have consistent practices for the Clean Water, Water, and Hetch Hetchy Enterprises to appropriate revenues for capital repair and replacement projects in the annual budget.

The Clean Water Enterprise allocates annual repair and replacement funds to ten revenue-funded repair and replacement projects, which are carried forward from year to year. The Water Enterprises allocates annual repair and replacement funding to continuing projects that are funded solely by revenues and to projects that combine bond and revenue funding sources. Both the Clean Water and the Water Enterprises spent more for capital repair and replacement projects in FY 2004-2005 than appropriated in FY 2004-2005, resulting in drawing down the unexpended appropriations from prior years.

However, the Hetch Hetchy Enterprise's unexpended appropriation balance increased in FY 2004-2005, resulting from the Hetch Hetchy Enterprise spending \$13.5 million less in FY 2004-2005 than the \$38.0 million appropriation. The increase in the unexpended appropriation balance indicates that the Hetch Hetchy Enterprise appropriates a higher level of funding each year than the Hetch Hetchy Enterprise is able to expend for identified capital repair and replacement projects.

Although the Water Enterprise spent down its unexpended capital repair and replacement appropriation in FY 2004-2005, several specific revenue-funded capital projects were significantly under-expended in FY 2004-2005.

- 52 revenue-funded capital repair and replacement projects had no expenditures posted against the project in FY 2004-2005, with a year-end unexpended appropriation of \$1.4 million.
- The Sunol/Niles Dam Removal Project (CUW 248) spent approximately \$750,000 of the FY 2004-2005 appropriation of \$5,065,000, resulting in an unexpended FY 2004-2005 appropriation of \$4.3 million.
- The Facilities Security Project (CUW 253) spent approximately \$942,000 of the FY 2004-2005 appropriation of \$2,800,000, resulting in an unexpended FY 2004-2005 appropriation of \$1.86 million.

Funding of capital projects should correspond to capital project expenditures so that monies will not be unnecessarily restricted for specific capital appropriations and therefore, not available for other uses. Because the ratepayers bear the cost of capital project spending, the Public Utilities Commission needs to more efficiently align capital appropriations with capital project expenditures to reduce the costs to the ratepayers.

The Public Utilities Commission needs to develop standard procedures for (a) defining capital repair and replacement projects, and (b) determining annual funding criteria. For example, existing revenue-funded capital repair and replacement projects with unexpended appropriations and no current year expenditures should be de-funded and the monies re-allocated to projects with over-expenditures. Also, capital repair and replacement project managers should develop annual spending plans for repair and replacement projects and annual project appropriations should correspond to the spending plan, which are reviewed and approved by the respective Assistant General Managers.

Further, the General Manager should direct the Financial Services Director to establish procedures for setting up capital repair and replacement projects and recording expenditures against the projects in the financial system. These procedures should be developed in conjunction with the development of criteria to differentiate routine maintenance work orders from capital repair and replacement projects. Currently, several finance and accounting management positions are vacant. The Public Utilities Commission should fill existing Financial Services Section vacancies and allocate staff to develop procedures to consistently account for capital repair and replacement procedures in the financial system.

Conclusions

The Public Utilities Commission has been slow in developing an asset management program to manage its capital assets, despite responding to the California Department of Finance audit that development of an asset management program was in progress over two years ago. The Public Utilities Commission has failed to move forward in developing the asset management program, due largely to lack of oversight by the executive management team and failure to develop a coordinated work plan, with clearly identified goals, work product and timelines.

Further, the Public Utilities Commission has failed to develop sound policies and criteria for appropriating and expending funds for capital repair and replacement projects. By failing to align capital appropriations with capital spending, the Public Utilities Commission ties up unexpended appropriations for capital projects that could be allocated for other uses. Because the ratepayers bear the cost of capital project spending, the Public Utilities Commission needs to more efficiently align capital appropriations with capital project expenditures to reduce the costs to the ratepayers.

Recommendations

The Public Utilities Commission General Manager should:

- 2.1 Direct the Assistant General Managers, Infrastructure, Water, and Clean Water to prepare and implement an asset management program work plan, that:
 - (a) includes goals, work product and timelines, and
 - (b) identifies executive management oversight responsibilities.
- 2.2 Direct the Assistant General Managers, Infrastructure, Water, and Clean Water to develop criteria and prepare formal, written procedures for determining routine maintenance work orders and capital repair and replacement work orders to be set up as projects.
- 2.3 Direct the Assistant General Managers, Infrastructure, Water, and Clean Water in conjunction with the Director of Financial Services to:
 - (a) Develop standard procedures for defining capital repair and replacement projects,
 - (b) Determine capital repair and replacement program funding criteria, and
 - (c) Include such criteria in the proposed FY 2006-2007 budget.
- 2.4 Implement the State Department of Finance audit recommendation to provide the Public Utilities Commission and the Board of Supervisors detailed capital repair and replacement program information as recommended in Phase III of this management audit, including:
 - (a) providing water system capital repair and replacement program information as part of the monthly Water System Capital Improvement Program status reports to the Public Utilities Commission; and
 - (b) providing water system capital repair and replacement program information to the Board of Supervisors as part of the quarterly Water System Capital Improvement Program status reports.
- 2.5 Direct the Assistant General Manager, Water to draft a flowchart and policy governing the process of setting-up, charging, and closing work orders for maintenance and capital repair and replacement projects, and to present the draft flowchart and policy to the General Manager and the Public Utilities Commission no later than December 31, 2005. The policy should include:
 - (a) requirements that a senior manager sign off on the work order,

- (b) criteria to define routine maintenance work orders and capital repair and replacement work orders that will be set up as a project.

2.6 Direct the Director of Financial Services to:

- (a) review all of the Clean Water, Water, and Hetch Hetchy Enterprises' existing revenue-funded capital repair and replacement projects with unexpended appropriations and no current year expenditures, and
- (b) recommend de-funding and re-allocating unexpended appropriations to active repair and replacement projects.

2.7 Direct the Assistant General Manager, Infrastructure, to require all project managers to develop annual spending plans for repair and replacement projects which correspond to the annual project appropriations should correspond to the spending plan.

2.8 Direct the Assistant General Managers, Infrastructure, Water, and Clean Water to develop procedures to review and approve capital repair and replacement project spending plans.

Costs and Benefits

The Public Utilities Commission requested approximately \$1.3 million in the proposed FY 2005-2006 budget to fund new positions and consultant services to develop the asset management program, but due to the lack of a formal asset management program work plan, the budget request was poorly substantiated. The Board of Supervisors approved approximately \$920,000 in the FY 2005-2006 budget to develop the asset management program, based upon the Budget Analyst's recommendation, which is \$380,000, or 29.2 percent, less than the requested amount. Without a coordinated work plan and executive management oversight, the Public Utilities Commission cannot ensure cost-effective implementation of the asset management program. By implementing the Budget Analyst's recommendations, the Public Utilities Commission should be better able to utilize existing resources to develop and implement a system-wide asset management program.

3. Managing Financial Data and Information

- **Significant weaknesses in the way the Public Utilities Commission captures and reports financial data and information impair management's ability to report on the results of operations, monitor expenditure and budgetary control, and assess performance overall and in select areas.**
- **The Public Utilities Commission's independent financial auditors have identified significant issues in the General Ledger and Financial Reporting area including poor internal communications, insufficient experience and skill level on the part of staff, lack of documentation, and lack of analysis and management review. Indeed, for two years in a row, the management letters recommended that staff accountants obtain training on technical issues, financial reporting and account analysis - skills that should have been brought to the job given the nature of the work assignments. While improvements have been made and no management letter was issued by the independent auditors for FY 2003-2004, several management tools, including a training program, are still not in place. Proper implementation of these tools would improve the financial reporting process, minimize the risk that errors may not be identified during the audit process, and reduce rework.**
- **Additionally, the Public Utilities Commission's current configuration and use of its accounting structure impedes management's ability to track, monitor and report on the costs of operations. Most significantly, the Public Utilities Commission does not clearly segregate certain routine maintenance, repair and replacement, and capital expenditures. Despite a clear and articulated need for expenditure and budgetary control, management accountability and reporting requirements in this area from the California Department of Finance and Department of Health Services, the Bay Area Water Supply and Conservation Agency, and the Public Utilities Commission's independent financial auditors, this issue still has not been addressed. As a result, the Public Utilities Commission has difficulty in capturing and summarizing necessary financial data and information and is unable to implement effective asset management.**

- **The Public Utilities Commission has also had a proliferation in index codes and there has been little oversight or control over index code creation. The Controller's Office reports that there have been approximately 5,839 active Public Utilities Commission index codes used from FY 1998-1999 to date: 4,677 related to capital activities and 1,162 related to operating activities. For operations, index codes are an appropriate mechanism to capture financial data and information relative to an organization's various functions and activities, or its cost centers, and a proliferation in index codes inhibits management's ability to assess performance in meaningful operational areas. While the Financial Services Section is currently evaluating its index codes and reducing and revising the accounting structure accordingly, there continues to be no established policies and procedures, criteria, or framework for creating new index codes.**
- **Several basic management tools should be put into place to ensure that financial data and information is accurate, complete, timely and useful. These tools include written policies and procedures, clearly defined roles and responsibilities, and a revised accounting structure that is stable so that financial data and information can be compared over time.**

Financial data and information is critical to the success - or failure of an organization. Accurate, complete, timely and useful financial data and information enables management to report on the results of operations, monitor expenditure and budgetary control, and assess performance overall and in select areas. Thus, it is imperative that processes are in place to maintain accurate, complete, timely and useful financial records.

Annual Audit Process and Management Letters

The financial reporting and annual audit process provide valuable tools to assess the performance of the financial reporting function. As the Public Utilities Commission's financial system of record, FAMIS is critical to producing accurate financial reports, which is contingent upon the Public Utilities Commission's own accounting processes. One effective measure of the accounting processes is to track and monitor the number of audit adjustments required at year-end to produce accurate financial statements¹. These adjustments should be minimized in order to expedite the financial reporting process, to minimize the risk that errors may not be identified during the audit process, and to reduce the number of errors identified that have to be corrected. However, the Accounting Unit has not developed a mechanism to track and monitor these adjustments. The Director of Accounting should develop lead sheets and schedules at year-end of account balances and

¹ For purposes of this report, audit adjustments are defined as accounting entries that are required due to error or lack of timeliness in the accounting process and exclude routine year-end closing entries or the posting of estimated year-end balances and transactions.

track and monitor all adjustments made subsequent to year-end closing in order to identify process weaknesses that can be rectified in the subsequent year.

In addition to audit adjustments to the financial reports, the independent financial auditors also provide management letters when issues have come to their attention that require disclosure. Typically, management letter comments pertain to weaknesses identified in an organization's internal controls. The management letter for FY 2002-2003, issued March 25, 2004 identified significant issues, several of which were also findings in the previous year. The findings included poor internal communications, insufficient experience and skill level on the part of accounting staff, lack of documentation and lack of analysis and management review. Most notably, the management letters dated March 25, 2004 and January 20, 2003 actually recommended that management provide "periodic training on technical issues, financial reporting and account analysis as needed for each individual in the accounting section." These are skills that staff accountants in the Accounting Unit, especially in the General Ledger and Financial Reporting area, should bring to the job.

In response, management initiated regular staff meetings and improved financial analysis and reporting procedures. Recent improvements also include expanded reporting capabilities for capital assets and capital asset reconciliation. Further, the Accounting Unit significantly increased its management oversight of the year-end close and audit processes last fiscal year, and, coupled with weekly meetings and assistance from the Controller's Office, no management letter was issued for FY 2003-2004.

To sustain these improvements and implement more process efficiencies, several fundamental management tools should be put into place. These include:

- The development of written, detailed policies and procedures for General Ledger and Financial Reporting area;
- Augmentation of the check list of required data and information to be complied or accumulated for the annual financial statement audit by including the actual completion date so that performance can be monitored and problem areas can be identified; and
- Development of a training needs assessment and a formalized training plan for each staff which includes details on classes or other means of obtaining the training and stated timelines.

The Director of Accounting should annually assess the year-end close and financial reporting process, using the log of audit adjustments and the Prepared by Client checklist with actual timelines to implement improvements for the subsequent year.

Accounting Structure Issues

Routine Maintenance, Repair and Replacement, and Capital Project Accounting

The Public Utilities Commission does not have uniform policies, procedures and accounting structures that clearly capture and segregate financial data and information and reporting on its routine maintenance, repair and replacement activities, and capital projects. As discussed in detail in the previously released *Phase III Management Audit of the Public Utilities Commission - Water Enterprise Fund*, Section 2, the Public Utilities Commission has commingled these activities related to the Water Enterprise although these activities meet different organizational goals and require disparate accounting treatment. The accounting structure should segregate these activities for budgetary and expenditures control and reporting purposes. Further, these objectives are directly linked to the goals of an asset management program as discussed in Section 2 of this report.

Despite a clear and articulated need for expenditure and budgetary control, management accountability and reporting requirements in this area from the California Department of Finance and Department of Health Services, the Bay Area Water Supply and Conservation Agency and the Public Utilities Commission's independent financial auditors, this issue still has not been addressed. First, the roles and responsibilities of vested parties within the Public Utilities Commission, including the Accounting, Budget and Finance units of the Financial Services Section and the Infrastructure Division's project managers and its Infrastructure Resources Management Bureau, must be defined and expressly documented and communicated. Because the Financial Services Section should be both the expert, in terms of financial data, information and systems requirements, as well as the control and oversight body, the Financial Services Director is ultimately responsible for ensuring that an appropriate framework is established and complied with. Second, activities that constitute routine maintenance, repair and replacement, and capital projects must be clearly defined, expressly documented and communicated. Third, the accounting structure, or its use, must be revised to segregate these activities, in conjunction with segregating expenditures that should be capitalized as an asset from those expenditures that should be categorically expensed, as discussed in *Phase III Management Audit of the Public Utilities Commission - Water Enterprise Fund*, Section 2. Concurrently to all of these steps, policies and procedures should be developed that document, support and control these efforts including appropriate budgeting, transaction processing, and reporting.

Index Codes

Between the three Public Utilities Commission Enterprises as well as the Public Utilities Commission Administrative Bureaus, the Department reports that over 25,000 index codes have been used to account for various operating and capital activities within the Department's three main operating funds and 20 plus programs. However, the Controller's Office reports that active index codes - that is index codes used from FY 1998 to date - total 5,839, which is still a considerable number. Index codes are exclusive to each fund, division and project, if applicable. Therefore, if an activity

crosses divisions, there may be several index codes used to capture the relevant financial data and information. For example, a capital project may not only have separate index codes for each project phase (planning, design, construction, etc.), but if several divisions or programs are charging expenditures to the capital project, there has to be a unique set of index codes for each division or program. So, if there are four project phases and five programs involved, 20 index codes would have to be established in the financial accounting system (FAMIS) to capture and control project expenditures.

Historically, there have been no established policies and procedures, criteria, or framework for creating index codes. Rather, any staff requiring a separate accounting for a specific activity would request the Financial Services Section to create a new index code. Thus, index codes proliferated without any oversight or control.

For capital projects, because expenditures are controlled and managed by project, index codes have little significance and, according to the Controller's Office, approximately 4,677 of the 5,839 index codes pertain to capital projects. However, for operations, index codes are the appropriate mechanism to capture financial data and information relative to an organization's various functions and activities, or its cost centers, and a proliferation in index codes inhibits management's ability to assess performance in meaningful operational areas. According to the Controller's Office, the Public Utilities Commission's operating index codes total approximately 1,162. This past year, the Financial Services Section has been reviewing and reducing index codes division by division. At this time, Hetch Hetchy and Clean Water have been completed as well as the Water Supply and Treatment Division of the Water Enterprise Department, which has reduced its operating index codes from 192 to 20.

The Financial Services Section, while making sure that certain data and information is appropriately captured for the annual financial reporting and audit process as well as for the suburban water rate calculation, has deferred to the division managers to establish the index codes according to their operational needs. As a control point, the Financial Service Section reports that no new index code will be added unless it has been approved by the division manager. Thus, individual staff will no longer be able to add index codes at will. Additionally, the Financial Services Section reports the intention in the next year is to develop a chart of accounts and index codes that conform to industry standards for utilities.

A rational accounting structure and chart of accounts, based on a framework of organizational functions and activities, is important to capture and report useful financial data and information. A chart of accounts should not be developed through ad hoc requests, but rather through a comprehensive and analytical approach to the organization's financial data and information needs. The Financial Services Section has started the right steps to developing a meaningful and useful chart of accounts. However, significant work remains to be done and steps should be taken to ensure that not only is the process completed, but that it meets the end goal of developing a meaningful and useful chart of accounts.

First, the process of revising the Public Utilities Commission's index codes and accounting structure should be formalized with written instructions and guidance for division managers in order to ensure that the structures are standardized, to the extent possible, across divisions and programs and to incorporate appropriate cost methodologies. Further, industry standards should be incorporated now because continuously revising accounting structures impairs an organization's ability to compare financial data and information over time as well as requires additional resources every time a recast is conducted. Again, a rational accounting structure and chart of accounts, based on a framework of organizational functions and activities, should be appropriately established and it should remain relatively constant. Finally, the Financial Services Section should formalize policies and procedures for the development of new index codes and assign responsibility within the Financial Services Section and in the various divisions for maintenance of the accounting structure.

Conclusions

Weaknesses in the way the Public Utilities Commission captures and reports financial data and information impair management's ability to report on the results of operations, monitor and control expenditures, establish meaningful appropriation and budgetary controls and assess financial performance. Several basic management tools should be put into place to ensure that financial data and information is accurate, complete, timely and useful.

Recommendations

The Director of Accounting should:

- 3.1 Develop lead-sheets and schedules of account balances and track and monitor all audit adjustments for the FY 2005-2006 year-end close and financial audit process.
- 3.2 Augment the "Prepared by Client" listing with actual completion dates and track and monitor deadlines for the FY 2005-2006 year-end close and financial audit process.
- 3.3 Annually assess performance or process issues identified in 3.1 and 3.2 above and implement improvements as necessary.
- 3.4 Develop written policies and desk procedures for the General Ledger and Financial Reporting area by March 30, 2006.
- 3.5 Develop a training needs assessment and a formalized training plan for each staff and monitor as part of the employee evaluation process by December 31, 2005.

The Director of Financial Services should:

- 3.6 Define and document the roles and responsibilities of vested parties within the Public Utilities Commission related to capturing critical financial data and information, including the Accounting, Budget and Finance units of the Financial Services Section and the Infrastructure Division's project managers and its Infrastructure Resources Management Bureau by December 31, 2005.
- 3.7 Clearly define and document routine maintenance, repair and replacement, and capital activities by December 31, 2005.
- 3.8 Revise the accounting structure and its use in budgeting, transaction processing and reporting to segregate routine maintenance, repair and replacement, and capital activities, in conjunction with segregating expenditures that should be capitalized as an asset from those expenditures that should be categorically expensed by March 31, 2006.
- 3.9 Develop written policies and procedures for all staff in the Financial Services Section as well as in operations to provide practical guidance on the implementation of 3.8 above by June 30, 2006.
- 3.10 Develop written instructions and guidance on the revision of the Public Utilities Commission's index codes, including detail on the index codes to be standardized across divisions if applicable, incorporation of industry standards, and documentation of any external reporting requirements by December 31, 2005.
- 3.11 Develop written policies and procedures for the on-going creation of new index codes by December 31, 2005.

Costs and Benefits

Implementation of these recommendations should be accomplished with existing resources. The benefits include significant future savings through vastly improved expenditure and budgetary control, improved performance evaluation of both staff and programs, and a reduced risk that financial data and information may be inaccurate or misleading.

4. Management of the Accounting Unit

- The role of management is to effectively motivate and deploy an organization's resources, including the most important resource - its staff. Additionally, the Public Utilities Commission's management should bring expertise and experience to the role as well as leadership. In all of these areas, management of its Accounting Unit has failed.
- Weaknesses in the accounting processes and unclear lines of responsibility and accountability have been documented by the Controller, expressed by the Public Utilities Commission's independent financial auditors, and articulated by the Public Utilities Commission's own staff. Interviews indicated that there were unclear expectations (a) as to what the Financial Services Section expected from division and bureau staff and (b) as to what division and bureau staff expected from the Financial Services Section. There is a strong need for a clear delineation and assignment of finance and administrative functions between the Financial Services Section and operations divisions and bureaus, as well as within the various operations divisions and administrative bureaus. These weaknesses stem from a lack of leadership in the Accounting Unit and the failure to implement basic management tools and programs.
- First, the Financial Services Section policies and procedures manual is not complete, comprehensive or standardized. Additionally, there are no formalized performance measures for any of the functional areas that are tracked and monitored. Finally, staff development is lacking with performance evaluations not being conducted timely and no training program having been established despite the findings made by the Controller and the independent financial auditor.
- The Public Utilities Commission has had difficulty in hiring and retaining highly qualified management staff which oversee the Accounting Unit. In fact, management staffing difficulties run all the way up and down the management chain, including the Deputy Director of Business Services, the Director of Financial Services, the Director of Accounting, and three line Accounting Manager positions. All of these positions earn salaries in excess of \$100,000 annually. The Budget Analyst recommends the elimination of one of the three Accounting Manager positions, at an annual salary and benefit cost of \$134,517, because (a) the Accounting Unit activities are of limited scope, (b) the Director of Accounting and the two other Accounting Managers bring professional level and management skills to the Accounting Unit, and (c) the third Accounting Manager position has never been filled.

- **The General Manager must recognize the accounting function as a critical element to the successful operations of the organization and should take all necessary steps to fill these remaining management positions with technically qualified, highly-skilled, permanent staff. Once these positions are filled, management can then develop and implement the basic management tools and programs noted above.**

Role of the Accounting Unit

The Accounting Unit serves two primary functions: to control disbursements for accuracy and timeliness and to maintain accurate, complete and timely financial records. While the primary Accounting Unit responsibilities are split along two lines, the Unit is divided into three areas: Accounting Operations, Capital Projects and Asset Management, and General Ledger and Financial Reporting.

Accounting Operations is primarily responsible for disbursements, including the verification of sufficient funding for purchases and the authorization for payment. The area also has a small staff to process cash receipts other than the water and sewer monthly billings, such as rental and lease payments received from Public Utilities Commission properties. However, this activity is being transferred to the Customer Services Section which processes monthly billings.

Capital Projects and Asset Management is responsible for processing disbursements related to capital projects and maintaining fixed asset accounting records used for financial reporting purposes. To this end, the area works closely with project managers to assist them in monitoring projects.

Finally, the General Ledger and Financial Reporting area is responsible for producing the annual financial statements as well as, on an on-going basis, processing General Ledger and other non-cash transactions.

Accounting Processes

There are no established performance measurements for the Accounting Unit other than an informal benchmark of processing transactions within three to four business days. However, this metric is not formally documented, tracked and monitored. Thus, it is difficult for management to determine whether the Unit and its three functional areas are performing efficiently and effectively.

As noted in Section 3 of this report, the independent financial auditors provide management letters when weaknesses in internal controls are identified. The management letter for FY 2002-2003, issued March 25, 2004, identified significant issues, several of which were also findings in the previous year. The findings included poor internal communications, insufficient experience and skill level on the part of accounting staff, lack of documentation, and lack of analysis and management review. While no

management letter was issued for FY 2003-2004, there have clearly been problems in the Accounting Unit in the recent past. The Controller's Office has conducted a more recent evaluation of the Accounting Unit in its routine post audit process.

Controller's Office Post Audit Findings

The Controller conducts annual audits of departmental financial transactions, called "post audits," to determine compliance with the City's own policies and procedures. These policies and procedures are in effect to ensure proper internal controls are maintained over financial activities. The latest Post Audit conducted by the Controller's Office was conducted for the period April through December of 2003 and covered the three Public Utilities Commission Enterprises as well as the Public Utilities Commission Administrative Bureaus. The post audit evaluates accounting and purchasing transactions in the following areas:

- Proper authorization
- Processing errors or exceptions
- Adequate supporting documentation
- Timing issues
- Compliance issues

The latest Controller's report, issued October 5, 2004 found significant exceptions related to proper authorization and timing issues, and to a lesser extent, adequate supporting documentation and processing errors. Compliance did not appear to be an area of specific concern. Table 4.1 below summarizes the specific repetitive findings by area, but does not include all findings in the Controller's report.

Table 4.1
Controller's Office Post Audit Findings
April through December of 2003

Enterprise	Area	Finding	Count	Amount
PUC Admin	Auth.	No purchase order / contract / encumbrance / invoice	24	\$402,272
Water	Auth.	No purchase order / contract / encumbrance / invoice	16	524,351
Hetch Hetchy	Auth.	No purchase order / contract / encumbrance / invoice	7	17,004
Clean Water	Auth.	No purchase order / contract / encumbrance / invoice	3	4,593
Water	Auth.	Paid from copy of invoice without certification	10	131,810
			<u>60</u>	
Water	Process	Notepad and/or document reference field not used appropriately	7	3,934,563
Water	Process	Missing or incorrect data format	4	47,463
			<u>11</u>	
Hetch Hetchy	Sup Doc.	Lack of or incomplete original and/or supporting doc.	4	11,207,506
Clean Water	Sup Doc.	Lack of or incomplete original and/or supporting doc.	2	345,355
Water	Sup Doc.	Lack of or incomplete documentation of receipt	3	84,636
			<u>9</u>	
Clean Water	Timing	Untimely payment and/or procurement	10	21,380
PUC Admin	Timing	Untimely payment and/or procurement	6	306,307
Water	Timing	Untimely payment and/or procurement	4	82,748
			<u>20</u>	
Hetch Hetchy	Comp.	Prop Q/3 bids/quotation/allowable items requirements not followed	4	17,298

To address these issues, the Controller recommended continuous training on the accounting and procurement process, a strengthened review and approval process, ensuring vendors are paid timely, paying from original invoices only, and an improved record filing process.

The Controller's report stated "Due to the volume and significance of our findings, we require your response as well as your corrective plan of action within 30 days to ensure

that these errors do not reoccur." The Public Utilities Commission filed a corrective action plan with the Controller's Office stating that the Accounting Unit had issued accounting guidelines (discussed below) and meets regularly with other finance and administrative staff in the operating divisions and administrative bureaus. Further, the response noted that accounts payable staff meet biweekly to discuss internal processing issues and that internal filing procedures had been developed and will be implemented.

Whether these actions have resolved the process and performance issues identified by the Controller is not known at this time. The latest post audit of January through March of 2005 has not yet been completed. However, discussions with finance and administrative staff in the operating divisions and administrative bureaus as discussed below indicate that some of these issues may persist. The Accounting Unit should formally develop performance measures for each functional area: Accounting Operations, Capital Projects and Asset Management, and General Ledger and Financial Reporting, and track and monitor performance on a regular basis.

Purchasing

Based on discussions with staff in the three Enterprises and various administrative bureaus, discussions with Purchasing staff, a review of the Public Utilities Commission's internal BizServ Customer Survey, and several select email chains trying to resolve purchasing problems, the purchasing process is not meeting the needs of its clients. Public Utilities Commission staff have expressed much frustration over delays and lack of customer service in this area. Indeed, many of the post audit findings pertained to transactions not having a purchase order. In fact, the BizServ Customer Survey gave low marks to the purchasing process in the fall of 2002. On a scale of 1 to 5, with 1 being poor and 5 being excellent, 45 percent of the respondents rated the purchasing process as a 1 or a 2, whereas only 23 percent of the respondents rated the purchasing process as a 4 or a 5.

While there are certainly Citywide issues that impair performance, the Public Utilities Commission has not directly addressed performance issues with the Department of Administrative Services and the Purchasing Division, nor has it addressed performance issues internally by developing tools to measure and monitor purchasing activities. While the Financial Services Section commissioned an analysis of the purchasing and payment process in 2003, a final report was never produced and nothing was developed in terms of identifying and implementing improvements.

The Financial Services Director needs to formally establish an improvement program. The Director should convene a small working group of Financial Services Section and operations and bureau staff to identify the extent of the problem, develop benchmarks for measuring and monitoring performance, and work with the Purchasing Division of the Administrative Services Department to resolve performance issues and process weaknesses.

Decentralization of the Accounting Function

The Budget Analyst conducted interviews with 14 finance and administrative staff in the various Department divisions and bureaus to obtain an understanding of the level of collaboration between the Public Utilities Commission Financial Services Section and operations and to identify specific challenges with which these staff may contend. In developing the list of interviewees, it was clear that there was no clear protocol with respect to assignment of finance and administrative activities in the various divisions and bureaus and the point of contact was not always certain. The assignment was especially diffuse within the administrative bureaus. The functions were assigned to staff that ranged from a secretary position, earning approximately \$62,270 annually at the top step to a manager position, earning approximately \$109,356 annually, at the top step. However, the higher classifications assumed more administrative functions, such as accounting, budget and human resource activities, and more responsibilities, while the lower classifications typically handled one or two but not all of these functions. Typically, the finance and administrative staff were classified as 1824 Principal Administrative Analysts, which are compensated at \$90,220 annually at the top step.

The interviews indicated that the finance and administrative staff within the various operations divisions and administrative bureaus had significantly varying impressions of the efficiency and effectiveness of the Financial Services Section. Interviews also indicated that there were unclear expectations - unclear as to what the Financial Services Section expected from division and bureau staff and unclear as to what division and bureau staff expected from the Financial Services Section.

An internal email chain reviewed by the Budget Analyst is emblematic of the confused relationship. The email chain began with a request to update a blanket purchase order and quickly spiraled into nine emails back and forth between five people to determine the responsible party. The level of frustration was evident and the final email ended with the administrative staff listing all accounting and purchasing tasks they were already assigned.

Another indication that the Financial Services Section is not meeting the needs of its clients is that the Infrastructure Division has developed its own training program to assist its own staff in complying with accounting policies and procedures.

There is a strong need for a clear delineation and assignment of finance and administrative functions between the Financial Services Section and operations divisions and bureaus, as well as within the various operations divisions and administrative bureaus. The Financial Services Section does have a policies and procedures manual with a significant number of policies and procedures that address specific topic areas. However, the manual is dated, citing a Financial Services Director that left Department employment December of 2003 as well as having policies dating back to 1996. Further, the manual is neither complete, referring to a number of policies in draft form, nor comprehensive and standardized, with separate policies and procedures for Clean Water Enterprise accounting transactions and contract procedures, but not for the other

Enterprises, which are covered under more generalized policies and procedures. As cited by the Accounting Unit in its response to the Controller's post audit, new accounting guidelines were recently drafted and issued to all operations division and administrative bureau staff through the Public Utilities Commission's intranet. However, these guidelines cover specific City accounting policies, are not exhaustive, and do not provide detailed accounting procedures. Instead, the guidelines refer back to procedures included in the policies and procedures manual discussed above.

Additionally, the Accounting Unit has met with specific division and bureau staff to discuss and resolve outstanding purchasing and accounts payable issues. However, these meetings are not routinely scheduled and have not occurred with all finance and administrative staff in the operations divisions and administrative bureaus. Based on the feedback received from division and bureau staff discussed above, it appears that these meetings are not sufficient to address some of the more inherent problems encountered.

First, the Financial Services Section should update and complete the policies and procedures manual, including clear lines of responsibility among the various parties. Then, a reorganization or reassignment of finance and administrative functions in the Enterprises and in the administrative bureaus should be conducted if appropriate in order to ensure that procedures, including processing, authorization and oversight are occurring at the appropriate levels and that accountability is clearly assigned. Finally, the Director of Accounting should develop and conduct an on-going training program, starting with the release of the revised policies and procedures manual. Instead of going out to operations divisions and administrative bureaus, the Accounting Unit should conduct periodic training for all operations divisions and administrative bureau staff together to ensure that the training is standardized and provided to all finance and administrative staff.

The Role of Management

The role of management is to effectively motivate and deploy an organization's resources, including the most important resource - its staff. Additionally, management should bring expertise and experience to the role as well as leadership. In all of these areas, management of the Accounting Unit has failed.

Staff Development

The independent financial auditors, the Controller's Office and interviews with staff within the Financial Services Section have noted a need for staff development in the Accounting Unit. While Accounting staff may receive basic training on the Controller's financial systems, little other training has been provided. Further, there is no formalized goal setting or performance measurements for individual staff.

Additionally, a review of the timing of employee performance evaluations found that, while all Accounting staff received evaluations in the summer of 2004 as a result of a mandate called by the new General Manager, prior employee performance evaluations

were erratic and frequently did not meet the Public Utilities Commission's policy of annual evaluations as well as more frequent evaluations during probationary periods.

The Accounting Unit should conduct employee performance evaluations in compliance with the timelines established by the Public Utilities Commission's own policies and procedures. The 2005 employee evaluation process should include documented goal setting for each employee as well as a training needs assessment and a plan for obtaining such training. Further, the training needs assessment and plan should be coordinated, tracked and monitored throughout the year by the Accounting Managers to ensure that staff are receiving the required training.

Absence of Management Accountability and Leadership

The Public Utilities Commission has had difficulty in hiring and retaining highly qualified management staff which oversee the Accounting Unit. In fact, management staffing difficulties run all the way up and down the management chain - from the Deputy Director of Business Services to the three line Accounting Managers. There have been three Deputy Directors of Business Services since July of 2003, with the latest incumbent in an acting capacity since March of 2005. There have been three Directors of Financial Services since July of 2003, again with the latest incumbent serving in an acting capacity since March of 2005. The Director of Accounting positions has been vacant since April of 2004 and filled in an acting capacity - first by the Budget Director and at present by an Accounting Manager. Between these two acting assignments, a Director of Accounting was actually hired, but the individual remained in the position for only seven weeks before resigning. Of the three Accounting Manager positions in the budget, there has been very little stability. In Accounting Operations, there had not been a permanent Accounting Manager since December of 2003. An Accounting Manager was hired into this area in January of 2005, but the individual remained in the position for only two months before resigning. There has been no replacement. In the General Ledger and Financial Reporting area, the position has been filled in an acting capacity since it was created in FY 2003-2004 and is at present vacant. In the Capital Projects and Asset Management area, the Accounting Manager position was vacant from June of 2004 to December of 2004, when an individual was hired. However, that individual is now acting as Director of Accounting and the Accounting Manager position in this area is vacant. At no time has all three Accounting Manager positions been filled.

Further, given the extent of the independent auditor management letter findings in prior years, the Controller's post audit findings, and comments by individual staff at the Public Utilities Commission, it appears that there may have either been technical competence and/or poor interpersonal and communication skills on the part of management prior to the turnover and vacancy issues noted above.

Thus, there has been weak financial management and leadership for sometime in and over the Accounting Unit. These weaknesses pervade and undermine employee morale and performance. Indeed, staff turnover in the Accounting Unit has increased dramatically in the last few years. The Public Utilities Commission's Human Resources

Division reports the following number of separated employees in the last six calendar years:

1999 - 1
2000 - 0
2001 - 3
2002 - 5
2003 - 4
2004 - 8

Steps should be taken immediately to fill vacant positions and positions where there are acting staff with technically qualified, permanent staff. These positions include the Deputy Director of Business Services, the Director of Financial Services, the Director of Accounting and two of the three Accounting Managers. There is no compelling reason to maintain the third Accounting Manager position given (a) the scope of activities in the Accounting Unit, (b) the professional level and management skills that the Director of Accounting and the two other Accounting Managers should bring to the Accounting Unit, and (c) the third Accounting Manager position has never been filled. This position reduction, classified as a 1675 Supervising Fiscal Officer, would result in an annual salaries and fringe benefit savings of \$134,517.

Management, once established, should focus on developing the mission, goals and objectives of the Accounting Unit. Further, this requires the translation of goals and objectives by functional area into tangible work plans, work product and staff assignments, which are documented in writing, and routinely tracked, monitored and evaluated.

Conclusions

Management of the Accounting Unit is responsible for formalizing, up-front, work expectations and for documenting performance against those expectations both for functional areas as well as for individual staff. These expectations and actual performance results, in turn, are linked to accountability of both management and staff. Yet, management of the Accounting Unit has failed to fulfill these basic responsibilities.

The Public Utilities Commission has had difficulty in hiring and retaining highly qualified management staff which oversee the Accounting Unit, and thus, there has been weak financial management and leadership for sometime in and over the Accounting Unit.

Recommendations

The Board of Supervisors should:

- 4.1 Eliminate one 1675 Supervising Fiscal Officer position for an annual salary and fringe benefit savings of \$134, 517.

The Public Utilities Commission General Manager should:

- 4.2 Take any and all steps necessary to fill the Assistant General Manager, Business Services, the Director of Financial Services, the Director of Accounting, and one Accounting Manager position with technically qualified, highly skilled, permanent staff.

The Director of Financial Services should:

- 4.3 Organize separate working groups to:
 - (a) Revise and update by June 30, 2006 the Financial Services Section policies and procedures manual and clearly define the roles and responsibilities of all staff relative to these procedures.
 - (b) Develop the mission, goals, objectives, work plans and performance measures for the Accounting Unit by December 31, 2005.
 - (c) Evaluate the extent of purchasing issues, develop benchmarks for measuring and monitoring performance, and work with the Purchasing Division of the Administrative Services Department to resolve performance issues and process weaknesses by March 31, 2006.
- 4.4 Direct the Director of Accounting, in coordination with the Accounting Managers, to:
 - (a) Conduct employee performance evaluations in a timely manner and in compliance with the Public Utilities Commission's policies and procedures.
 - (b) Develop a training needs assessment and a training plan for all staff in the Accounting Unit which is tracked and monitored throughout the year and incorporated into the employee performance evaluation process.
 - (c) Develop an on-going training program for operations division and administrative bureau finance and administrative staff on the Financial Services Section and City accounting and finance policies and procedures.
 - (d) Work with operations divisions and administrative bureaus to ensure that accounting and finance procedures are clearly assigned and are occurring at appropriate levels.

- 4.5 Report back to the Public Utilities Commission General Manager and Assistant General Manager, Business Services by September 30, December 31, March 31, and June 30 on the status of the recommendations and the progress made by the working groups and the Director of Accounting.

Costs and Benefits

These recommendations, which would enact basic, fundamental management responsibilities, should be implemented with existing resources. Benefits of the recommendations include improved performance of the Accounting Unit as well as of individual staff due to increased morale, improved skills, and clear lines of accountability. Additionally, \$134,517 in salary and fringe benefit savings would be achieved by elimination of one 1675 Supervising Fiscal Officer position.

5. Processing and Monitoring Professional Services and Construction Contracts

- The Public Utilities Commission's contracting process is cumbersome and results in significant delays in entering into construction or professional services contracts. The processing of professional services contracts can take more than ten months from the initiation of the process to contract signing.
- The actual timeline for processing professional services contracts of 40.5 weeks exceeded the work flow timelines established by the Contracts Administration Section of 22 weeks by at least 18.5 weeks or approximately 84.1 percent.
- The Public Utilities Commission incurs high costs for change orders, or increases in the original construction contract amount. More than 30 percent of the Public Utilities Commission's construction contracts result in change orders. Of 39 closed-out construction contracts between 2001 and 2004, totaling \$17.7 million, the Public Utilities Commission negotiated change orders for twelve contracts. The Public Utilities Commission agreed to \$450,000 in change orders, or 8.3 percent of the twelve construction contracts which had original contract amounts totaling \$5.3 million. The final contract amount with change orders ranged between 2.5 percent and 74.0 percent more than the original contract award amounts.
- Reducing the frequency and amount of construction contract change orders will be critical as the Public Utilities Commission embarks upon the Water System Capital Improvement Program. The Public Utilities Commission projects approximately \$2.85 billion in local and regional water system construction costs through FY 2015-2016. If the Public Utilities Commission continues to approve change orders for 30 percent of all construction contracts, resulting in contract cost increases of 8.3 percent of the original contract amount, the Public Utilities Commission could incur estimated construction cost overruns due to change orders of \$71.0 million. If the Public Utilities Commission tightens the process for evaluating and negotiating change orders, in accordance with the Budget Analyst's recommendations, the Public Utilities Commission would save approximately \$7.1 million in Water System Capital Improvement Program expenditures.

- **The Public Utilities Commission lacks management oversight of the construction change order process, including managing change order documentation centrally. In order to review nine randomly-selected construction contract files, the Budget Analyst had to obtain the files from several different project managers. In reviewing the nine construction contract files, the Budget Analyst found that eight files did not have the Two-Page Memorandum, which contains crucial information on the justification for the change order request. In addition, some of the documentation reviewed did not include all required signatures for change order forms. Further, the Public Utilities Commission lacks a policy that lists all the required documentation and information necessary for processing change orders.**
- **The Public Utilities Commission lacks rigorous procedures and clear guidelines in managing contractor performance and in evaluating and negotiating construction contract change orders. For example, a review of nine of the 12 construction contracts with change orders found that eight contracts lacked important documentation or required signatures. Further, the construction contracts are not centrally maintained, resulting in a lack of management oversight of contracts and change orders.**
- **Further, the Public Utilities Commission does not have consistent practices for monitoring contractor performance. Although the Public Utilities Commission has a Task Order Evaluation Form to assess the quality of the contractor’s deliverables and performance, standards for evaluating contractor performance vary widely among project managers. Also, standards for reviewing and approving contractors’ invoices vary, resulting in some project managers reviewing invoices in detail for accuracy and consistency and other project managers approving invoices as long as they look reasonable.**

The Public Utilities Commission’s Cumbersome Contracting Procedures

The Public Utilities Commission’s Contracts Administration Section provides a centralized service to all of the Public Utilities Commission’s divisions to ensure consistent processes and procedures for all phases of the construction, professional services, emergency and informal contracting process. The mission of the Contracts Administration Section is to provide expert services to the Public Utilities Commission’s divisions in the hiring of consultants and contractors to assist staff in fulfilling project or program objectives. During contract processing, the Contracts Administration Section is involved in assigning staff to work with project managers; managing and distributing Requests for Proposals and Commission agenda templates; monitoring and tracking forms for Requests for Proposals approval; facilitating competitive selection processes;

negotiating contracts; administering executed contracts and ensuring compliance with applicable policies, laws, and contract terms; and processing progress payments.

Delays in Contract Processing

The Public Utilities Commission's process for contracting is cumbersome, contributing to an unnecessarily prolonged contracting process. The Public Utilities Commission has written policies and procedures for processing professional and personal services and construction contracts, which provide guidelines for soliciting proposals and selecting consultants for professional services and construction contracts. Based on the Contracts Administration Section's best estimates, on average, construction contracts take approximately four months (or 16 weeks) to be completely processed, while professional services contracts take approximately five and one-half months (or 22 weeks). Based on management audit interviews with some Public Utilities Commission project managers, construction contracts typically take approximately five to six months to process, and professional services contracts take approximately six to nine months. However, these timelines for processing contracts, especially professional services contracts, can take longer. Based on the management audit's analysis of available data on professional services contracts that were processed in FY 2004-2005,¹ the Budget Analyst found that it can take over 10 months (or over 40 weeks) to process a professional services contract, from the initial phase of the Request for Proposals (for example, work scope, Human Rights Commission goals, General Manager report for advertising, and panel selection) to the final awarding and signing of the contract, as shown in Table 5.1. below.

¹ This sample of professional services data was derived from the Public Utilities Commission's Contracts Administration Section and included those professional services contracts that were processed from January of 2004 to January 27, 2005.

Table 5.1
Median Timelines to Process Professional Services Contracts in FY
2004-2005

Contracting Phase	Work Flow Timelines Established by Contracts Administration Section	Actual Timelines
Professional services contract work scope and initial steps	4 weeks	2 weeks
Advertisement	4 weeks	6.5 weeks
Request for Proposal Evaluation	4 weeks	8 weeks
Award and Negotiation	4 weeks	6 weeks
Contract Signing	2 weeks	18 weeks
Notice to Proceed	<u>4 weeks</u>	<u>Not available</u>
Total Process	22 weeks	40.5 + weeks

Source: Public Utilities Commission

As shown in Table 5.1 above, the actual timeline for processing professional services contracts of 40.5 weeks exceeded the work flow timelines established by the Contracts Administration Section of 22 weeks by at least 18.5 weeks or approximately 84.1 percent.

The Public Utilities Commission should evaluate why the actual professional services timelines exceed the established workflow timelines by approximately 84.1 percent. According to the Public Utilities Commission staff, delays in processing professional services contracts typically occur at various junctures, including during the drafting of the Request for Proposals, approval of the Requests for Proposals, addressing labor-related matters (for example, steps involving the Civil Service Commission, the Department of Human Resources, and the labor organizations), and bid protests. Delays can also occur during the accounting/purchasing stage and in processing the contractor’s insurance.

Based on the Budget Analyst’s analysis of available data on professional services contracts, although significant contracting delays occurred during the (a) advertising phase, (b) the Request for Proposals evaluation phase, and (c) the award and negotiation phase, the most protracted delays occurred during contract signing. As noted in Table 5.1, the available data did not provide timelines for the phase in which the Public Utilities Commission issued the “notice to proceed” to the selected contractor. According to some of the project managers interviewed, such delays have caused some very competent private companies/contractors to avoid doing business with the City altogether.

Identifying Contract Processing Inefficiencies

More can be done to streamline the Department's internal contracting processes and procedures. The Public Utilities Commission has previously looked at ways to streamline its contracting process through formal committee meetings, contracting summits, and review by an outside consultant. In addition, the Public Utilities Commission has recently implemented some measures to address issues surrounding the department's contracting procedures, including:

- (a) Establishing department-wide as-needed contracts for Geotechnical, Corrosion Control, and Environmental services;
- (b) Creating Requests for Proposals bar charts for weekly monitoring of all Requests for Proposals;
- (c) Maintaining Access electronic databases for all professional services and construction contracts; and
- (d) Planning for a contracts web page for the Public Utilities Commission intranet.

The Public Utilities Commission should develop procedures to shorten the actual timelines for professional services contracting. As previously mentioned, based on an analysis of departmental data, the Budget Analyst found that most of the delays occur during the following phases: advertisement, Request for Proposal evaluation, award and negotiation, and contract signing. The Public Utilities Commission is in the early stage of planning the contracts web page, which will provide a workflow system for contract processing. In developing the workflow system, the Public Utilities Commission should analyze and streamline the contracting process including establishing enforceable timelines. To enforce the timelines, the Contracts Administration Section Manager should benchmark the Contracts Administration Section's performance as a whole and employee performance individually against these timelines.

To ensure that the Department is able to adhere to its contracting timelines, the Public Utilities Commission's Contracts Administration Section should develop procedures to anticipate the next steps in the contracting process by:

- (a) Identifying weaknesses and delays in its contracting procedures to determine which phases require close attention in terms of monitoring timelines and anticipating the next steps. For example, the Budget Analyst found that the contract-signing phase takes a significant amount of time to complete. According to Public Utilities Commission staff, obtaining a complete set of insurance forms from the contractors would help expedite this phase. As an example, the Department should require the contractors to provide a complete set of insurance documents and other documents necessary to comply with the City's and Public Utilities Commission's contracting procedures prior to the completion of the contract negotiating period.
- (b) Establishing procedures and standards that would enable the Department to schedule meetings or provide documents for approval with various entities (for example, unions, the Civil Service Commission, City Attorney) early in the process to avoid

delays in the processing of contracts. For example, during the advertisement phase, the Contracts Administration Section should coordinate schedules to set up meetings with the labor unions as necessary and to provide documents and schedule review before the Civil Service Commission immediately after the Department determines the need for these meetings or review.

- (c) Establishing procedures to ensure that the Division regularly follows-up with external entities regarding contract status. For example, the Contracts Administration Section should obtain updates on a regular basis from the City Attorney's Office, the Human Rights Commission, the Civil Service Commission, and other external entities to make sure that the contracts are moving along and that the Department is aware of exactly at what stage the external entities are in their review processes.

The Public Utilities Commission Lacks Rigorous Standards for Evaluating Contractor Performance

The Public Utilities Commission lacks policies and procedures that provide guidelines to rigorously evaluate contractor performance. Individual project managers are responsible for evaluating contractor performance. In addition to the overall project planning, development, and execution functions, project managers are responsible for evaluating contractor performance by:

- Preparing, revising, and ensuring the proper execution of the contract and each task order;
- Monitoring the progress by the contractor on outstanding deliverables;
- Reviewing the deliverables relative to each task order's scope and intent;
- Receiving and reviewing the requests for payments (invoices) from the contractors; and
- Preparing the Task Order Performance Evaluation Forms.

Measures to Evaluate Contractor Performance

The Department lacks rigorous guidelines to adequately evaluate contractor performance. Performance measures are supposed to be documented using the Public Utilities Commissions Task Order Evaluation Form, which includes such evaluation items as (a) the contractor's responsiveness, (b) personnel, (c) level of effort, (d) adherence to project schedule, (e) adherence to project budget, and (f) task management. The contractors are rated as either excellent, exceeds requirements, meets requirements, needs improvement, or poor against these evaluation items. Based on interviews with project managers, the Budget Analyst found that standards for evaluating contractor performance vary widely among project managers. The Public Utilities Commission should develop written procedures and standardized guidelines for evaluating contractor performance. Systematically and accurately assessing the performance of each contractor is necessary in order to ensure accountability and to ensure that reliable records on the contractors' performance exist, especially if the contractor applies for future contracts with the Public Utilities Commission.

In addition, the Public Utilities Commission lacks policies and procedures providing guidelines on how to adequately review the contractor's monthly invoices and check for the accuracy of the invoice information. These monthly invoices include a summary of overall contract amounts expended and remaining, details related to the billing period in question, summaries of all contractors' personnel that provided work, and copies of all time sheets, expenses, and sub-consultant invoices. The project manager reviews each monthly invoice for consistency with the task order and any specific work directives that may have been issued. According to interviews with some project managers, the degree of invoice review varies among project managers. These interviews suggest that although some project managers closely review invoices for accuracy and consistency, other project managers approve invoices as long as they look reasonable.

Once the project manager completes its review, the invoice is then forwarded to the Public Utilities Commission's Contracts Administration Section for further review and processing. Even though such review measures exist, the Department lacks policies and procedures that provide guidelines on how to adequately review the contractor's invoices and check for the accuracy of the invoice information provided. The Department should ensure that project managers and the Contracts Administration Section staff are provided written guidelines in systematically and meticulously reviewing the contractor's monthly invoice.

The Public Utilities Commission Lacks Rigorous Guidelines for Processing Change Orders

The Public Utilities Commission lacks rigorous policies and procedures for processing and evaluating change orders for construction contracts. Contractors request change orders when the construction costs are expected to exceed the original contract amount. Change orders can result because the original contract specifications were inadequate for the scope of the project or because the contractor bid too low to complete the construction project. Because the Public Utilities Commission awards construction contracts to the lowest bidder, contractors have an incentive to bid low if increasing the contract amount through a change order at a later date is not a rigorous process.

The Public Utilities Commission Construction Project Management Section has a flowchart and procedures describing the steps involved in processing and approving change orders. If the change order amount is \$20,000 or less, the construction project resident engineer negotiates the change order with final approval by the project manager and Contract Management Section Manager. If the change order exceeds \$20,000 or 10 percent of the original contract amount, the contract is modified, with approval by the Public Utilities Commission.

However, the Public Utilities Commission lacks policies and guidelines for processing general change orders. Specifically, the Public Utilities Commission does not have a list or required documentation for processing change orders, resulting in inconsistent record keeping and tracking of change order requests and approvals.

Extent of Construction Contracts With Change Orders

The management audit reviewed 39 construction contracts, totaling \$17.7 million, that were closed out between 2001 and 2004. Of the 39 construction contracts, 12 projects, or approximately 30.8 percent, had change orders that increased construction costs. The 12 construction contracts with change orders totaled \$5.3 million and the change order amounts totaled \$450,000, or approximately 8.5 percent more than the original contract amount. The final costs for these completed projects with change orders ranged between 2.5 percent and 74.0 percent more than the original contract award amounts.

Change Order Documentation

According to Public Utilities Commission staff, a change order usually involves completing and processing the following documents:

- Change Order Form: This form includes information such as the scope of work, total cost, and signatures from the change order requestor, project manager, Construction Division Manager, Contractor, and Manager of the Construction Management Bureau.
- Two-Page Memorandum: This memorandum is submitted by the resident engineer to the project manager and provides answers to standard questions regarding the change order including the following information: elements of work, why the work should undergo a change order, whether this work is necessary for the completion of the project, alternatives to the issuance of the specified changes, whether the change is economical, the breakdown of the preliminary estimate, how the adjustments would be done, and whether the change involves an extension of contract time.
- Change Order Log: This log contains all the change orders for each project, including such information as the type of change order, date approved by the city, description of the change order, cost/credit proposed and approved, and the change order total. Some change order logs also contain the original contract amount and the percentage of and the total modifications, as well as the revised contract amount for the entire project.

The Public Utilities Commission does not manage construction contracts with change orders centrally nor ensure complete change order documentation. In order to review nine randomly selected contract files for construction projects with change orders that had been closed out between 2001 and 2004, the Budget Analyst had to obtain the selected file from each of the project managers.

Significant documentation was missing from the nine files. For example, eight of the nine projects did not have the Two-Page Memorandum, which contains crucial information on the justification for the change order request. In addition, some of the documentation received did not include complete signatures, particularly required signatures for some of the Change Order Forms. Further, the Department does not have a policy that lists all the

required documentation and information necessary for processing change orders. The Public Utilities Commission should ensure that it has a specified required list of documents and information (for example, required signatures) in the contract master file.

Because the nine construction contract files were obtained from several different project managers, rather than from a central location, tracking the change order documentation was difficult and time consuming. For example, according to Public Utilities Commission staff, the lack of complete signatures in the change order documentation could have resulted from project managers not having the final versions of the change order documentation. However, the Public Utilities Commission was unable to provide central construction contract files or final documentation. When the Budget Analyst initially requested the nine construction contract files, the Contracts Administration Section Manager referred the management audit staff to the Construction Management Bureau's Construction Support and Coordination Services Section for this information. The Construction Support and Coordination Services Section then requested the change order documentation from each of the respective project managers. For those construction contract files with missing documentation and signatures, the Construction Support and Coordination Services Section told the management audit staff that the Contracts Administration Section should have the complete documentation. However, the management audit staff was unable to locate the final construction contract documentation.

The Public Utilities Commission lacks management oversight of the construction change order process, including managing change order documentation centrally. The Public Utilities Commission should ensure that all contract-related documentation is maintained within one central entity to facilitate tracking and review. The Public Utilities Commission should establish a formal document retention policy for key contract-related documents and should mandate where such documents should be maintained.

Processing Change Orders

The Public Utilities Commission does not have written guidelines or clearly defined procedures on how to process and evaluate change orders. Nor does the Public Utilities Commission train resident engineers and project managers to negotiate with contractors regarding change orders and the associated costs. As noted above, 12 of 39 contracts, or approximately 30.8 percent, of construction projects completed between 2001 and 2004 had change orders, resulting in an increase in the original construction contract amount ranging from 2.5 percent to 74 percent. Therefore, the Public Utilities Commission needs to provide adequate guidelines, training and resources to project managers regarding effective contract negotiation and management of costs.

Conclusions

The Public Utilities Commission's contracting process is cumbersome and needs to be streamlined. The actual timelines to process a professional service contract exceed the Public Utilities Commission's contract process workflow timelines two-fold. The Public Utilities Commission should evaluate and streamline the contracting process.

The Public Utilities Commission should better manage contractor performance. The Public Utilities Commission lacks rigorous guidelines to adequately evaluate contractor performance and does not ensure that project managers consistently evaluate contractor performance, either through the Task Order Evaluation Form or the monthly invoice approval process.

In addition, the Public Utilities Commission lacks rigorous policies and procedures for processing and evaluating change orders for construction contracts. For example, the Department does not have a policy that lists all the required documentation and information necessary for processing change orders. In addition, the Department lacks management oversight of record keeping, especially maintaining complete and accurate change order documentation. The Public Utilities Commission should establish a formal document retention policy for key contract-related documents and should mandate where such documents should be maintained.

Recommendations

The Public Utilities Commission Contracts Administration Manager should:

- 5.1 Identify specific points of delay in the contracting process.
- 5.2 Implement specific procedures to reduce points of delay in the contracting process, including:
 - (a) Eliminating redundant steps;
 - (b) Scheduling future meetings with various entities, such as unions, the Civil Service Commission, and the City Attorney at an earlier point in the process;
 - (c) Setting up reminder notices to follow-up on steps in the contracting process with external entities, such as the City Attorney's Office and the Human Rights Commission; and
 - (d) Requiring the contractors to provide a complete set of insurance documents and other documents necessary to comply with the City's and Public Utilities Commission's contracting procedures no later than the end of the contract negotiating period.

- 5.3 Establish enforceable timelines for each step of the contracting process, as part of the Contracts Administration Section's planning for the Department's contracts web page.
- 5.4 Benchmark the performance of the Contracts Administration Section as a whole and Contracts Administration Section employees individually against these enforceable timelines.

The Construction Management Bureau Manager should:

- 5.5 Establish written guidelines for accurately and regularly completing the Department's Task Order Evaluation Form and mandate staff to adhere to these guidelines.
- 5.6 Establish written guidelines for systematically reviewing the contractor's monthly invoices to determine their accuracy and completeness and mandate staff to adhere to such guidelines.
- 5.7 Establish policies and procedures on how to process and evaluate change orders and mandate staff adherence to these guidelines.
- 5.8 Establish a standard list of required documents and forms that are needed to internally process all change orders for construction projects and enforce the utilization of such procedures.
- 5.9 Establish a formal document retention policy for key contract-related documents that should specify where such documents should be maintained and enforce such procedures.

The Deputy General Manager should:

- 5.10 Develop a training program for Contract Administration and Project Management staff regarding (a) contract negotiations, (b) evaluating contractor performance, and (c) evaluating and negotiating change orders.

Costs and Benefits

The Public Utilities Commission would increase efficiency and reduce unnecessary costs by better managing contract processing and performance. The Public Utilities Commission incurs costs that are not easily quantified as a result of the cumbersome and delayed contracting process. Streamlining the process, including entering into contracts in a more timely fashion, would increase contracting efficiency.

Better managing contractor performance could reduce the cost of contracts. Reducing the frequency and amount of construction contract change orders will be critical as the Public Utilities Commission embarks upon the Water System Improvement Program. The Public Utilities Commission projects approximately \$2.85 billion in local and regional

water system construction costs. If the Public Utilities Commission continues to approve change orders for 30 percent of all construction contracts, resulting in contract cost increases of 8.3 percent of the original contract amount, the Public Utilities Commission could incur estimated construction cost overruns due to change orders of \$71.0 million. If the Public Utilities Commission tightens the process for evaluating and negotiating change orders, in accordance with the Budget Analyst's recommendations, the Public Utilities Commission would save approximately \$7.1 million in Water System Improvement Program expenditures.

6. Security and Emergency Preparedness

- Although the Public Utilities Commission is responsible for ensuring the safety and security of the clean water and water systems, including the local and regional water systems, the Public Utilities Commission has failed to implement security enhancement projects at its facilities in a timely manner. More than two years after Lawrence Livermore National Laboratory identified the Public Utilities Commission's various critical sites that are vulnerable to potential security-related emergency situations, the Public Utilities Commission is only now drafting the Request for Proposals for a security design consultant to oversee the assessment, integration, and installation of electronic security equipment. The Public Utilities Commission has also failed to implement capital projects to enhance the physical security system of its facilities in a timely manner. For example, the Public Utilities Commission has not spent \$3.9 million, or approximately 81.3 percent, of the \$4.8 million budget for the Facilities Security Project originally appropriated by the Board of Supervisors in FY 2003-2004.
- The Public Utilities Commission has not filled the new Security Director position, which reports to the Public Utilities Commission's Deputy General Manager and has been vacant for more than one year. According to Public Utilities Commission staff, the failure to fill the vacant Security Director position has resulted in a lack of guidance in security program coordination and decision-making and setting performance measures. Without this position, the Public Utilities Commission lacks a voice to communicate and understand security-related issues for all of the Public Utilities Commission.
- The Deputy General Manager has not ensured that the operating divisions' Emergency Operations Plans are updated regularly. Because these plans assign responsibility in emergencies to individuals within the organization, the plans need to be current to ensure accurate information in an emergency. For example, the City Distribution Division's current Emergency Operations Plan is outdated, not reflecting staff turnover and recent organizational changes.

- **During a site visit to the Southeast Water Pollution Control Plant, a management audit team member, along with Public Utilities Commission staff, witnessed two people outside the Southeast Water Pollution Control Plant facility carrying two metal tubes. The Public Utilities Commission staff suspected that the two people just jumped the facility’s fence and stole the metal tube to be sold for money. According to the Public Utilities Commission, staff are specifically directed not to confront intruders to avoid unnecessary injury. However, the Public Utilities Commission has no written department-wide policy covering responses to criminal activity or security breaches, no department-wide program to train staff regarding the policy, no department-wide incident reporting system, and no process to identify the relative costs of criminal activity and programs to reduce criminal activity.**

The Public Utilities Commission’s Security Plan

The Public Utilities Commission has several components to its security planning process, including the Emergency Operations Plan and capital planning to enhance the physical and electronic security of the Public Utilities Commission’s facilities. The Public Utilities Commission Deputy General Manager is responsible for managing the Public Utilities Commission’s security planning and monitoring functions.

The Emergency Operations Plans

The Public Utilities Commission currently has an Emergency Operations Plan that contains a general framework for responding to any type or magnitude of emergency or disaster. This Emergency Operations Plan, which was first implemented in 1998 and most recently updated in September of 2004, , addresses a broad range of potential emergency situations that may affect the Public Utilities Commission. This plan aligns with the City and County of San Francisco’s Emergency Operations Plan and is considered a “living” document, which is updated periodically, as emergency contacts change and new policies and procedures arise. Since the Emergency Operations Plan is comprised of multiple documents in one binder, a pocket-sized Emergency Reference Guide has been developed to serve as a quick reference for those assigned to perform emergency situations. Some of the materials contained in this Emergency Operations Plan binder are the Public Utilities Commission’s basic plan in the event of natural or man made emergencies and disasters, lines of succession, an employee emergency action plan, emergency response roles and priorities for each division and bureau, and a Security Contingency Plan. The purpose of this Security Contingency Plan is to provide a security-preparedness plan to protect Public Utilities Commission personnel against injuries and loss of lives and to protect the Public Utilities Commission water and water/power infrastructures against contamination and/or damage.

The Public Utilities Commission's Security Section, which is under the direction of the Public Utilities Commission's Deputy General Manager, regularly provides the operating division staff with updated emergency preparedness information. Each operating division has its own version of the Emergency Operations Plan. Although these operating division Emergency Operations Plans should be reviewed at least annually and updated as needed, the Security Section has not ensured that the operating Emergency Operations Plans are current. For example, the City Distribution Division has its own emergency operations plan that needs to be updated due to staff turnover and recent organizational changes. Further, the Security Division should ensure that these plans are user-friendly and easily accessible to field staff.

The Public Utilities Commission's Delays in Implementing Facilities Security Enhancements

The Public Utilities Commission has identified critical sites that are vulnerable to security breaches or emergency events, but the Department has failed to implement security enhancement projects at its facilities in a timely manner. In March 2003, the Lawrence Livermore National Laboratory completed the Vulnerability Assessment for the Public Utilities Commission. This report identifies the primary critical Public Utilities Commission sites (for example, the water supply system) that are vulnerable to potential security-related emergency situations or incidents.

Overall, the Department has been slow in implementing recommendations included in the vulnerability report. Over two years after Lawrence Livermore National Laboratory completed the Vulnerability Assessment, the Public Utilities Commission is only now drafting the Request for Proposals for a security design consultant to oversee the planning, design, and implementation of security enhancement projects at the various Public Utilities Commission enterprises, including the assessment, integration, and installation of electronic equipment. The Department intends to award the contract in the fall of 2005, approximately two and a half years after the Vulnerability Assessment was completed.

According to Public Utilities Commission staff, the Public Utilities Commission's security enhancement projects have two parts: (a) physical security and (b) electronic security. Although the Public Utilities Commission has the resources to address physical security enhancements by performing tasks such as putting up barriers, fences, locks, and lighting, the Department lacks qualified staff to implement electronic security enhancement. For this reason, the Department plans to hire a security consultant to integrate and install such electronic security equipment. The Public Utilities Commission's engineering staff can plan the electronic enhancements, many of which will be included in the Water System Capital Improvement Program projects, including retrofitting of reservoirs, updating other facilities, and standardizing various security operations, such as standard vents, alarms, and card readers. The security consultant would be tasked with actually assessing, integrating, and installing the electronic components of their security enhancement plans.

In addition to the delay in the hiring of a consultant to implement electronic security measures, the Public Utilities Commission has also failed to implement the capital projects to enhance the physical security system of its facilities in a timely manner. For example, of the \$4.8 million budget for the Facilities Security Project (CUW253) originally appropriated in FY 2003-2004,¹ the Public Utilities Commission has an outstanding unexpended balance of \$3.9 million, approximately 81.3 percent of the original appropriation.

Delays in Filling the Vacant Security Director Position

The Public Utilities Commission has failed to fill the vacant Security Director position for more than a year, which has resulted in a lack of guidance in security program coordination and decision-making within the organization. The new Security Director position, first approved by the Board of Supervisors in FY 2004-2005 would report directly to the Public Utilities Commission's Deputy General Manager and manage the Public Utilities Commission's security program. According to the Public Utilities Commission, this Security Director position has been vacant for over one year. This position, which is placed high in the organization, would ultimately oversee the planning and implementation of all security projects and programs at the Public Utilities Commission, including coordinating various components of the organization and accessing all of Public Utilities Commission's sites and facilities. The Department needs to prioritize the hiring of its Security Director in order to ensure that security projects go beyond planning and into implementation.

Day-to-Day Field Security

The operating divisions, particularly the Southeast Water Pollution Control Plant, risk loss from theft, break-ins, vandalism, and other illegal acts. The Public Utilities Commission lacks a mechanism to systematically document and determine the costs of such thefts. Public Utilities Commission staff informed the Budget Analyst that there have been a number of break-ins in their Southeast Water Pollution Control Plant involving people stealing such materials as copper lines, equipment, and aluminum covers from their facilities. According to Public Utilities Commission staff, such break-ins and thefts happen almost every week and that the situation is getting worse.

During the Budget Analyst's site visit to the Southeast Water Pollution Control Plant, a management audit team member, along with Public Utilities Commission staff, witnessed two people outside the Southeast Water Pollution Control Plant facility carrying two metal tubes. The Public Utilities Commission staff suspected that the two people just jumped the facility's fence and stole the metal tube to be sold for money. According to the Public Utilities Commission, staff are specifically directed not to confront intruders to avoid unnecessary injury. Although the Public Utilities Commission's stated policy is to report these incidents to law enforcement personnel, the Public Utilities Commission

¹ The Board of Supervisors appropriated \$2 million in FY 2003-2004 and \$2.8 million in FY 2004-2005 for the Facility Security Project.

does not have a written department-wide policy or formal procedure to inform staff of the policy.

The Public Utilities Commission Security Director should develop department-wide written policies regarding (a) employees' responsibilities when witnessing a criminal act, including procedures to notify management and law enforcement personnel, and (b) an incident reporting system to track criminal activity or security breaches to determine commonly occurring or high cost incidents. Further, the Security Director, in conjunction with the Assistant General Managers, Infrastructure, Clean Water, and Water, should develop (a) a loss prevention program for losses associated with theft, vandalism, or other criminal activity, and (b) annual reports to the General Manager and the Public Utilities Commission on the estimated costs of loss associated with criminal activity and proposals to reduce loss from criminal activity.

Conclusions

The Public Utilities Commission has identified its various critical sites that are vulnerable to potential security-related emergency situations, but the Department has failed to move forward in implementing its various security enhancement projects in a timely manner. The delay in the Department's hiring of a security consultant to assess, integrate, and install the Department's electronic security measures, over two years after the Vulnerability Assessment has been completed, is evident of the Department's untimely response to its security issues and needs. In addition, this delay is also evident from the fact that only 18.7 percent of its \$4.8 million budget for the Facilities Security Project have been expended so far.

Further, the Public Utilities Commission has also been slow in hiring a Security Director, which is a position that has been vacant for over one year. The failure to fill the vacant Security Director position has resulted in a lack of guidance in the Department's security program coordination and decision-making.

Lastly, although the Department's facilities are vulnerable to day-to-day security problems such as thefts and break-ins, the Department has no consistent procedures to respond to these field security issues. This lack of clear guidelines has resulted in the Department's inability to systematically document and determine the costs of such illegal acts.

Recommendations

The Public Utilities Commission General Manager should:

- 6.1 Direct the Deputy General Manager to ensure that the Security Director and operating division managers regularly revise department-wide and facility-specific Emergency Operations Plans.

- 6.2 Direct the Deputy General Manager to ensure that the department-wide and facility-specific Emergency Operations Plans are easily accessible to its staff.
- 6.3 Present a plan and timelines to develop comprehensive electronic security measures for the Public Utilities Commission's facilities to the Public Utilities Commission no later than December 31, 2005.
- 6.4 Present a capital spending plan and timelines for the Facilities Security Project to the Public Utilities Commission during the February 2006 budget presentation.
- 6.5 Prioritize the hiring of a Security Director to manage the Public Utilities Commission's security and emergency planning program.
- 6.6 Direct the Security Director to develop department-wide written policies regarding:
 - (a) employees' responsibilities when witnessing a criminal act, including procedures to notify management and law enforcement personnel, and
 - (b) an incident reporting system to track criminal activity or security breaches to determine commonly occurring or high cost incidents.
- 6.7 Direct the Security Director, in conjunction with the Assistant General Managers, Infrastructure, Clean Water, and Water, to develop:
 - (a) a loss prevention program for losses associated with theft, vandalism, or other criminal activity, and
 - (b) annual reports to the General Manager and the Public Utilities Commission on (i) the estimated costs of loss associated with criminal activity and (ii) proposals to reduce loss from criminal activity.

Costs and Benefits

The costs of the above recommendations include the resources used for regularly revising the Emergency Operations Plans and systematically keeping track of security-related incidents. In addition, the Public Utilities Commission's budget contains \$4.8 million for the Facilities Security Project, which includes the implementation of both physical and electronic security measures. Benefits include improved measures to identify security weaknesses at Public Utilities Commission facilities, as well as the benefits from being prepared in case of an emergency and disaster. Additionally, filling out the vacant Security Director position with a competent and experienced person would enable the entire organization to have a centralized voice in addressing and coordinating the organization's multifaceted security and emergency preparedness needs and plans.

Finally, improvements to facilities security will safeguard against break-ins and theft of the Public Utilities Commission assets.

7. Water System Capital Improvement Program Management Services Contracts

- Since the mid-1990s, the Public Utilities Commission has been developing a long-term capital improvement program which has decreased in scope from more than 150 water and clean water projects (1998) to 71 water projects only (2005), with a current total timeframe of 15 years and a total estimated cost of \$4.3 billion. Since September 22, 2000, the Public Utilities Commission has contracted with three contractors for program management services and, under the latest contract, for project and pre-construction management services as well.
- The Budget Analyst identified major deficiencies in the first contract, including inadequate performance measures, problematic performance fee payments, inadequate training and skills transfer, consistent under-expenditure, and inadequate consideration of the need for an programmatic environmental impact report.
- The new Program, Project, and Pre-construction Management Services Contract between the Public Utilities Commission and Parsons Water and Infrastructure, Inc. does not explicitly include program performance measures or key milestones. The Board of Supervisors has requested the development of programmatic performance measures. Such programmatic performance measures should address the contractor's performance in relation to the following important issues which would not be captured by the contract's current sole reliance on task order evaluation: (a) the programmatic integration of the individual projects, which are subject to change, (b) the program's progress towards achieving the Public Utilities Commission's programmatic policy parameters, which are subject to change, and (c) identifying opportunities for economies of scale, program efficiencies, streamlined contracting strategies, innovative technologies, and improved program management procedures across groups of individual projects. Further, programmatic performance measures would evaluate the contractor's contribution to (d) the program's compliance with environmental mitigation requirements and the key milestones set forth in AB 1823 and any future State legislation, (e) scheduling and cost projections, (f) the program's Disadvantaged Business Enterprise participation goals, (g) the total amount of knowledge and skills transfer from the contractor to City personnel, (h) the ratio of contractor personnel to City personnel, and (i) compliance with the contract's compensation provisions.

- **As a result of these findings, the Budget Analyst recommends that the Department and the contractor jointly develop measurable programmatic performance goals for incorporation into the annual performance review requested by the Board of Supervisors.**
- **In response to the Budget Analyst's review of the Program, Project, and Pre-construction Management Services Contract's costs, which showed that the contract would be over-budgeted by \$7 million, the Board of Supervisors approved the contract at a not to exceed total budget of \$38 million, rather than the Department's original not to exceed total budget of \$45 million.**
- **There is an ongoing pattern of Department position vacancies and inadequate staffing projection plans while, instead, contractors provide personnel in technical classifications. Although the new Program, Project, and Pre-construction Management Services Contract provides for certain classifications of personnel which are more experienced and/or more specialized than the City's existing civil service classifications, the Department has a responsibility, given its commitments to City labor unions, to hire into already budgeted engineering and other technical positions as and when they are required by the Water System Capital Improvement Program.**

Background

The Public Utilities Commission has been developing its Water System Capital Improvement Program since the mid-1990s, during which time the estimated total program has decreased in scope from more than 150 water and clean water projects (1998) to 71 water projects only (2005), with a total timeframe of 15 years and a total estimated cost of \$4.3 billion. Since September 22, 2000, the Public Utilities Commission has contracted for program management services from three contractors: (1) the San Francisco Water Alliance, from September 22, 2000 through June 28, 2002; (2) Water Infrastructure Partners, from June 28, 2002 through December 31, 2005; and (3) Parsons Water and Infrastructure, Inc., from July 20, 2005 through July 19, 2010.

Ten Year Capital Improvement Program Proposal (February of 1998)

In his 1994 management audit of the Water Department, the Budget Analyst recommended the development of a long-term capital improvement program. Between September of 1997 and February of 1998, the Department prepared and published its *Ten Year Capital Improvement Program, 1998 Through 2008, for the Water Enterprise* at a total cost of \$2,423,820,000 to ensure:

- System reliability (64 projects at an estimated cost of \$1,768,950,000).

- Water quality (14 projects at an estimated cost of \$510,130,000).
- Water supply (four projects at an estimated cost of \$144,740,000).

The plan as a whole contained 82 water projects, each with a proposed scope, cost estimate, and schedule. Of the total \$2,423,820,000 estimated cost for these 82 projects, a preliminary financing plan estimated that \$1.8 billion would be funded from revenue bond proceeds, while the balance of more than \$600 million would be paid out of current revenues (assuming an annual repair and replacement program of \$14 million). The first increment of financing, Propositions A and B bond revenue measures totaling \$304 million, was approved by San Francisco voters in November of 1997.¹ Although never formally adopted by the Commission, subsequent iterations of the *Ten Year Capital Improvement Program, 1998 Through 2008, for the Water Enterprise* formed the basis for the Department's long-term water system capital improvement program planning during the period 1997 and 2005.

Contemporaneous with the *Ten Year Capital Improvement Program, 1998 Through 2008, for the Water Enterprise* report were the following major studies and planning initiatives which contributed to the Public Utilities Commission's thinking about system reliability, water quality, and water supply:

- A *Facilities Vulnerability Study* which assessed water system facilities' seismic risk and susceptibility to failure from other natural causes. Phase I of this study was completed prior to the *Ten Year Capital Improvement Program, 1998 Through 2008, for the Water Enterprise* report. Key findings related to Bay Division Pipeline No. 1, the Irvington Tunnel, and San Joaquin Pipeline No. 4.
- The *Water Supply Master Plan* initiated in 1997 to maximize existing water supplies, conserve and manage demand, and provide for future water needs. This plan was finalized in April of 2000 in conjunction with the Bay Area Water Users Association (the predecessor of the Bay Area Water Supply and Conservation Agency).
- The *Alameda Watershed Management Plan* (draft plan in 1997; final plan in 2000) and the *Peninsula Watershed Management Plan* (draft plan in 1998; final plan in 2001). These plans set policies and procedures for the management and land use of the two watersheds over 20 years.
- Two multi-year water treatment studies, the *Water Quality Planning Study Phase 5* and the *Information Collection Rule Study*. The Department undertook capital improvements to improve water quality, including Sunol Valley Water Treatment Plant improvements, chloramination facilities, and the Priest Reservoir Bypass.

¹ Proposition A provided \$157 million for structural reliability and seismic safety construction. Proposition B provided \$147 million for safe drinking water quality improvements. Proposition A and B funding is still being expended in FY 2005-2006.

- The *Recycled Water Master Plan* (yet to be completed) and the *Groundwater Master Plan* (yet to be completed).
- The *Clean Water Program 10 Year Capital Plan, 1998 - 2007* (draft in May of 1998).

Program Management Services Contract Proposal (1999)

In 1998, the *Ten Year Capital Improvement Program, 1998 Through 2008, for the Water Enterprise* and the draft *Clean Water Program 10 Year Capital Plan, 1998 - 2007* had an estimated combined cost of approximately \$3.545 billion for more than 150 water and clean water projects. In order to implement these two plans, the Public Utilities Commission directed staff on December 15, 1998 to prepare a Request for Proposals for a contract (CS-524) for program management services and specialized technical expertise to support Department staff members and increase their capacity to accomplish the Integrated Water and Clean Water Systems Capital Improvement Program. The Public Utilities Commission wanted one prime contractor responsible for both program management and construction management services in order to centralize liability and accountability, with the prime contractor being fully responsible for the management of, and liability issues related to, all subcontractors. Further, the Public Utilities Commission considered that a single contract would avoid multiple, expensive, and lengthy contractor selection processes. As stated in the December 15, 1998 Commission packet:

The [Public Utilities Commission] intends to retain the [contractor] for the duration of the \$3.5 billion capital improvement program. The cost of program management services is estimated to range from 3% to 5% of total program costs over twelve years. Construction management services will cost an additional 5%. To maintain a high level of performance over the long term, the [Public Utilities Commission] will initially contract with the [contractor] for a four year period, allowing for two contract renewals of four years each. [...] The contract for program management services will be terminated when construction of the preferred water treatment facilities for the Hetch Hetchy water supply is complete in 2011, or earlier if major program construction is concluded.

Therefore, the Public Utilities Commission's initial concept was a contract for up to 12 years, renewable in four-year installments to permit renegotiation of terms, for an estimated total cost of between \$106,350,000 and \$177,250,000. In this initial concept, the Department considered that the proposed contract would avoid the need for the Department to hire all the staff required by the program and would result in time savings of four to six years, thereby generating programmatic cost savings of between \$150 million (approximately 4.2 percent of the estimated \$3.545 billion program cost) to \$200 million (approximately 5.6 percent of the estimated program cost). The contract was intended to more than cover its costs through programmatic cost savings achieved through economies of scale, program efficiencies, project acceleration, streamlining of contracting strategies, negotiations for professional services, innovative technologies,

value engineering,² scope and schedule control, and program management procedures covering program/project monitoring and reporting, design activities, construction management, and professional development of Department personnel. The Public Utilities Commission did not intend to pay the contractor any more than the money it saved, so that the ratepayers would not have to pay for the contractor's services. The Public Utilities Commission also wanted the contractor to report directly to the Commission, and a senior consultant team would report directly to the Manager of the Utilities Engineering Bureau. Integrated Department and contractor staff would share decision-making responsibilities and program risks.

However, the contract as finally advertised in July of 1999 was limited to four years and a not-to-exceed contract price of \$45 million, with the contractor reporting to Department managers, and not directly to the Commission. This reduced contract scope was the result of (a) concerns that the contract would exceed available funding, (b) increased Department of Public Works capacity to contribute the required services, and (c) a lengthy drafting process involving intensive review by:

- The Public Utilities Commission which formally considered the proposed contract three times.
- The International Federation of Professional and Technical Engineers, Local 21, AFL-CIO, which litigated the contract as originally proposed given its concerns about (a) privatization of work which would otherwise be done by unionized City employees, and (b) direct supervision of City staff by contractor staff. The proposed contract was scaled down so that as-needed contractor staff would report to Department managers, with no direct reporting line to the Public Utilities Commission, and no direct supervision of City staff by contractor staff.
- The Department of Public Works which criticized what it deemed to be insufficient monitoring by City staff, due to a lack of intermediate managers, and the inclusion of a construction management component.
- The Board of Supervisors Budget Analyst who was requested by the Board of Supervisors to review the proposed contract to "determine if contracting out management functions will result in savings or increased costs; increased or decreased oversight of expenditures; and, provide any other benefits or costs when compared to managing the [Public Utilities Commission's] Capital Improvement Program with existing and/or new City staff." The Budget Analyst identified major deficiencies in the proposed contract, some of which persisted throughout the life of the resulting contract, as outlined in Table 7.1 below.
- The Civil Service Commission which was concerned that the proposed contract did not ensure that the Department would retain management responsibility for the

² "Value engineering" is the independent overview of a facilities plan, its design criteria, and its conception at no more than 20 percent design completion, to ascertain how well the plan addresses problems it is meant to solve. It is a second look at a design to see if there is a cheaper way to build it. Value engineering can also help to reconceptualize the problem being addressed so that better solutions can be found.

program and would therefore set a precedent which would erode the Civil Service Commission's jurisdiction. The Civil Service Commission only approved the Department's application once it considered a second version on August 2, 1999.

Contract Scope

The scope of the four year contract, in the not-to-exceed amount of \$45 million, included:

- Provision of program management services and expertise for the first four years of the Integrated Water and Clean Water System Capital Improvement Program. This included developing (a) an integrated system to plan project work and resource requirements, choose the best project options, track performance against baseline budgets and schedules, forecast costs, report progress, and identify problems for effective intervention, (b) appropriate management information systems, (c) standardized procedures and a document control system, (d) streamlined contracting and procurement procedures, and (e) public information programs. The Department stated that it did not have experience in managing a capital improvement program on this scale.
- Provision of expert technical input not available from City staff through one contract, rather than a multitude of small contracts.
- Provision of staff for workload peaks in order to avoid (a) hiring permanent staff who would not be required in the long term, (b) Civil Service classification restrictions, and (c) the difficulty of trying to hire numerous staff through the Civil Service system.
- Development and implementation of an employment diversity program to achieve a minimum of 30 percent Minority Business Enterprise participation goal and a 10 percent Women-owned Business Enterprise participation goal.
- Development and implementation of a Department staff development program.

To avoid conflicts of interest, the contract scope prevented the successful bidder from bidding on detailed engineering design or construction contracts.

At the time of advertising the contract, funding had been identified only for the first \$542 million of program implementation (including the \$304 million in Proposition A and B revenue bonds), with progressive financing thereafter from future operating revenues and future revenue bond authorizations. By Contract Year 2, in 2001, identified funding for the Water System Capital Improvement Program had only increased to \$580,200,771, or approximately 12.6 percent of the increased program cost estimate of \$4.6 billion.³ The Public Utilities Commission estimated that the \$45 million cost of the Program Management Services Contract would be more than offset by an anticipated \$138 million

³ The estimate of \$4.6 billion comprised (a) approximately \$3.6 billion for water system capital improvement projects, and (b) approximately \$1 billion for clean water capital improvement projects.

savings generated by the contractor during that four year period. The sum of \$138 million was 10 percent of the estimated \$1.38 billion budget for the first four years of the Integrated Water and Clean Water Systems Capital Improvement Program. During Contract Year 2, the estimated cost savings resulting from the contract significantly increased.⁴

First Contract for Program Management Services

In September of 2000, the Board of Supervisors approved the Program Management Services Contract, with the "San Francisco Water Alliance," a joint venture between Bechtel Infrastructure Corporation, Sverdrup Civil Inc., and The Jefferson Company, subject to the following modifications as recommended in the Budget Analyst's review of the proposed contract: (a) Board of Supervisors approval for annual renewal in Contract Years 2 - 4, contingent upon independent audit evidence that the contractor had performed successfully against its performance measures, (b) independent peer review, (c) the Controller's independent financial audits of the contractor, and (d) Controller certification of available funds. The San Francisco Water Alliance had been ranked second by the initial expert evaluation panel. No reason was publicly given for the Public Utilities Commission's preference for the San Francisco Water Alliance over the top ranked competitor, the H₂O Partnership.⁵

The initial term of the Program Management Services Contract with the San Francisco Water Alliance was from September 22, 2000 through September 21, 2004. However, on June 28, 2002, the Board of Supervisors approved Amendment No. 1 accepting the withdrawal of Bechtel Infrastructure Corporation from the San Francisco Water Alliance and accepting reassignment of the contract from the San Francisco Water Alliance to a newly constituted joint venture of the other two former San Francisco Water Alliance joint venture partners, Primus Infrastructure, LLC and Jacobs Civil, Inc., called "Water Infrastructure Partners." During Contract Year 2, as noted in the *Phase I Management Audit of the Public Utilities Commission - Clean Water Enterprise Fund* (September 27, 2004), the former Public Utilities Commission General Manager severed the clean water projects from the long-term capital improvement program. There was no proportionate decrease to the Program Management Services Contract, despite the significant decrease in the size of the long-term capital improvement program for which they were providing program management services from the \$4.6 billion Integrated Water and Clean Water

⁴ During Contract Year 2, the Contractor was anticipating total capital improvement program savings of \$205 million to \$420 million between Contract Years 2 and 4, including (a) \$150 million to \$250 million resulting from optioneering, (b) \$25 million to \$100 million from an owner-controlled insurance policy, (c) \$10 million to \$20 million from project labor agreements, and (d) \$20 million to \$50 million from new plans and procedures. "Optioneering" is a process which uses alternative analyses to (a) identify the real project needs, (b) determine the appropriate evaluation criteria, (c) evaluate solutions against those criteria, (d) select the optimum project, (e) define its design basis, and (f) obtain engineering and customer concurrence. Optioneering assessments include capital and operating costs, specification requirements, environmental implications, and preliminary schedules.

⁵ The H₂O Partnership was a joint venture between O'Brien-Krietzberg Associates, CH2M Hill, and EPC Consultants, Inc., in association with ten subcontractors.

Systems Capital Improvement Program to the \$3.6 billion Water System Capital Improvement Program approved by the Public Utilities Commission on May 28, 2002.

Due to delays caused by the reassignment of the contract, on February 26, 2003, the Board of Supervisors approved a three month time extension, from September 22, 2002 to December 21, 2002, for the performance of Contract Year 2 work at no added cost in order to permit the new contractor to perform the contract work which had been delayed by the contract reassignment. As a consequence, the term of Contract Year 3 was from December 22, 2002 to December 21, 2003. Contract Year 3 of the contract and the related funding appropriation was approved in three stages: (a) from December 22, 2002 through February 28, 2003, (b) from March 1, 2003 through April 30, 2003, and (c) from May 1, 2003 through December 21, 2003. This staged approval was due to Board of Supervisors concerns about (a) insufficient coordination between the Department and the contractor, (b) issues raised by the Budget Analyst and the International Federation of Professional and Technical Engineers, Local 21, and (c) ensuring a contract amendment that all future performance fee payments would be subject to Board of Supervisors approval, as recommended by the Budget Analyst. To address these concerns, Amendment No. 2 was added to the contract to set the criteria for the payment of performance fees, Amendment No. 3 was added to ensure that the contractual language conformed with audit recommendations and that the contractual terms were clarified, and Amendment No. 4 was added to ensure that the forms of compensation conformed with audit recommendations.

Subsequently, Parsons Corporation acquired Primus Infrastructure, LLC in July of 2004. On November 9, 2004, the Public Utilities Commission approved Amendment No. 5 which removed Primus Infrastructure, LLC from the Water Infrastructure Partners joint venture and added Parsons Water and Infrastructure, Inc. in its place.

The term of Contract Year 4, December 22, 2003 to December 21, 2004 was extended by the Public Utilities Commission twice. Contract Amendment No. 5, approved by the Public Utilities Commission on November 9, 2004, extended the contract until June 30, 2005 to permit completion of all major task orders. Contract Amendment No. 6, approved by the Public Utilities Commission on June 14, 2005 extended the contract for a further six months, through December 31, 2005, "to ensure that all task orders are complete, the transfer of knowledge from the current consultant to City Staff and the new consultant is accomplished, sufficient time is available for the Controller's audit to be completed, and to allow for any adjustments for short pay or overpayments before closeout of the agreement," as stated in the Public Utilities Commission agenda item. As a consequence of these two extensions, the total term of the program management services contract is five years and three months. On July 26, 2005, the Board of Supervisors approved additional funding for the contract extension of \$180,188 for three months of transition services and knowledge transfer under the existing Water Infrastructure Partners program management services contract.

Second Contract for Program, Project, and Pre-construction Management Services

On July 19, 2005, the Board of Supervisors approved a new Program, Project, and Pre-construction Management Services Contract with Parsons Water and Infrastructure, Inc. for an amount not to exceed \$38 million and for a term of five years subject to sufficient funding appropriations. In response to the analysis of the second contract's costs prepared by the Budget Analyst for the Board of Supervisors Government Audits and Oversight Committee, which showed that the second contract would be over-budgeted by \$7 million, the Board of Supervisors approved the second contract at a not to exceed total budget of \$38 million, rather than the Department's original not to exceed total budget of \$45 million.

Parsons Water and Infrastructure, Inc. achieved the top score of five bidders in terms of written proposals, oral interviews, and fee proposals. Parsons Water and Infrastructure, Inc. was part of Water Infrastructure Partners because, as noted above, in July of 2004, its parent company, Parsons Corporation, acquired Primus Infrastructure, LLC, one of the two joint venture members of Water Infrastructure Partners. However, the award of the second contract to Parsons Water and Infrastructure, Inc. is the first time that Parsons Water and Infrastructure, Inc. became a Water System Capital Improvement Program contractor through a contractor selection process initiated by the City, rather than through its purchase of another contractor.

The purpose of the contract with Parsons Water and Infrastructure, Inc. is to procure program, project, and pre-construction management services in three situations:

- Emergencies, when there is unanticipated work.
- When City personnel do not possess the required specialist qualifications or experience in the fields of tunnel design, treatment process technologies, pipelines, dams, and other technical specialties as required on a project-by-project basis.
- Peak workloads, where there is planned work for a short duration, for which the City cannot hire additional permanent employees in a timely manner or without a significant risk of layoff or displacement.

As with the first contract, the contractor's services will be executed according to a task order process. A bureau manager would initially identify tasks and, in conjunction with the contractor, stipulate a project scope, sub-tasks, a staffing plan, a Disadvantaged Business Enterprise plan, schedule, deliverables, budget, and costs to complete the task. A final task order scope proposal would be agreed by the responsible bureau managers and the contractor, and then submitted to (a) the Assistant General Manager, Infrastructure for approval, and (b) the Controller for certification of funding, after which (c) a notice to proceed would be issued. The contractor would commence work on receipt of the notice to proceed. Any work performed by the contractor without a notice to proceed would be at the contractor's own commercial risk. Occasionally, the

contractor may be asked to provide services directly to Department divisions other than the Infrastructure Division. Such task orders would only be issued through the Assistant General Manager, Infrastructure.

Issues Raised by the Budget Analyst

Due to the requirement for annual Board of Supervisors approval of the contract with the San Francisco Water Alliance, later assigned to Water Infrastructure Partners, the Budget Analyst prepared a number of reports for the Board of Supervisors. The Budget Analyst also prepared a report on the second program management services contract, awarded to Parsons Water and Infrastructure, Inc. In addition, as part of the Budget Analyst's *Phase III Management Audit of the Public Utilities Commission - Water Enterprise Fund*, the Budget Analyst reviewed the San Francisco Water Alliance's and Water Infrastructure Partners' roles in relation to the programmatic environmental impact report requirements of the Water System Capital Improvement Program. Table 7.1 below summarizes (a) the key issues presented by the Budget Analyst during the four years of renewals for the first program management services contract, his report on the second contract, and his Phase III management audit report, and (b) whether or not those issues are addressed in the contract with Parsons Water and Infrastructure, Inc.

Table 7.1

Summary of Issues Related to the First and Second Program Management Services Contracts

<u>Issues Identified by the Budget Analyst</u>	<u>How Those Issues are Addressed in the Contract With Parsons Water and Infrastructure, Inc.</u>
<p>Annual renewal of the contract by the Board of Supervisors:</p> <p>This ensured annual Board of Supervisors scrutiny of the first contract.</p>	<p>The Board of Supervisors chose not to continue the annual renewal process for the second contract. However, the Board of Supervisors will still annually review contractor performance as part of its budget deliberations when funding for future contract years are submitted to the Board of Supervisors for review and consideration.</p>

<p style="text-align: center;"><u>Issues Identified by the Budget Analyst</u></p>	<p style="text-align: center;"><u>How Those Issues are Addressed in the Contract With Parsons Water and Infrastructure, Inc.</u></p>
<p>Performance evaluation:</p> <p>The Department and contractor negotiated 15 performance measures for the first contract's Contract Year 1 to address the Budget Analyst's concern that there were no performance measures at all. However, not all of the selected performance measures were sufficiently measurable and the key performance measure related to programmatic cost savings was "highly speculative." Subsequently, the majority of performance measures were annually rewritten, thereby reducing the opportunities to make year-to-year comparisons of contractor performance.</p> <p>In his report on the first contract's Contract Year 4, the Budget Analyst noted that not all of the stated accomplishments against the performance measures were measurable or complete.</p> <p>No Water System Capital Improvement Program projects have yet been completed during the first contract.⁶</p>	<p>Evaluation of contractor performance against task orders is solely the purview of the responsible bureau manager authorizing each task order. The second contract does not specify any performance measures for either the Water System Capital Improvement Program as a whole, or for any of its 71 component projects.</p> <p>The second contract does not specify any key milestone dates either for the Water System Capital Improvement Program as a whole, or for any of its 71 component projects.</p> <p>The second contract does not explicitly reference the reporting, timing, and work product requirements of State legislation (AB 1823⁷) which could be modified during the life of the Water System Capital Improvement Program..</p>

⁶ The first five Water System Capital Improvement Program projects are due for completion by December 31, 2006: (1) the Summit Reservoir rehabilitation project; (2) the Crocker Amazon Pump Station upgrades project; (3) the Forest Hill Tank rehabilitation and seismic upgrade project; (4) the Fire protection project at the City Distribution Division; and (5) the Lincoln Way transmission line project.

⁷ The Wholesale Regional Water System Security and Reliability Act (AB 1823) imposes various reporting requirements on the Public Utilities Commission. Annual progress reports and updates on the Water System Capital Improvement Program must be submitted to the State Department of Health Services, the Joint Legislative Audit Committee, and the Seismic Safety Commission. AB 1823 also establishes a timeline for completion of nine regional water system projects which are specified due to their significance. According to the AB 1823 schedule submitted on February 1, 2003, the Water System Capital Improvement Program schedule "shall require that projects representing 50 percent of the total program cost be completed on or before 2010 and that projects representing 100 percent of the total program cost be completed on or before 2015." The City and County of San Francisco may revise the projects and project schedules within the Water System Capital Improvement Program (subject to State review), and AB 1823 does not require the revised schedules to show completion of projects equivalent to 50 percent of the total program cost by 2010 nor completion of the balance of the projects by 2015. All of the provisions set forth by AB 1823 terminate in 2010 or upon award of the last of nine key construction contracts.

<p><u>Issues Identified by the Budget Analyst</u></p>	<p><u>How Those Issues are Addressed in the Contract With Parsons Water and Infrastructure, Inc.</u></p>
<p>Performance fee payments:</p> <p>Due to the inadequacy of the performance measures, assessing the contractor's performance has been problematic. There was no substantive data to quantify the projected savings and to prove that such savings could offset the contract's cost, as initially promised.</p> <p>The Department and contractor only reluctantly agreed to Contract Amendment No. 2 to the first contract which made the first contract's Contract Year 3 performance fee payment subject to Board of Supervisors approval. No performance fee payment has been requested for the first contract's Contract Year 4.</p>	<p>The second contract contains no performance payment provisions.</p>
<p>Training and skills transfer:</p> <p>The Department's failure to hire technical staff limited the benefits of the training provided by the contractor.</p>	<p>Under a specific task order, the contractor is required to provide a minimum of 1,000 hours of training to City personnel in areas or programs requested by the Department, and issue a quarterly report documenting the type of training and mentoring received by City personnel.⁸</p>
<p>Consistent under-expenditure:</p> <p>In his report on the first contract's Contract Year 4, the Budget Analyst noted that the Department "consistently under-expended contract funds on Project Management Contract services during Contract Years 1 through 3."</p>	<p>The second contract does not include Project Management Contract Services.</p>

⁸ This is specified in Appendix A of the second contract.

<p style="text-align: center;"><u>Issues Identified by the Budget Analyst</u></p>	<p style="text-align: center;"><u>How Those Issues are Addressed in the Contract With Parsons Water and Infrastructure, Inc.</u></p>
<p>Independent audits:</p> <p>There have been a number of evaluations and independent audits over the first contract's lifespan, including ones performed by the Department's project managers,⁹ the Controller's Office,¹⁰ a Peer Review Panel,¹¹ a Blue Ribbon Panel,¹² and an engineering consultant.¹³</p>	<p>The second contract contains no independent audit provisions. The second contract budget contains no funding for independent audits. This deficiency will be rectified, in part, by the City Services Auditor auditing the contractor's performance from FY 2005-2006 through FY 2009-2010. The Board of Supervisors Government Audits and Oversight Committee requested that there be a performance review conducted annually prior to the annual Department budget review. The resulting report would be analyzed by the Budget Analyst as part of the annual budget review process.</p>

⁹ Sixteen of the Department's project managers assessed the contractor's task order performance during Contract Year 1 and determined that the contractor met requirements. This internal evaluation process was repeated and fed into the determination of the contractor's performance fee payments in the first contract's Contract Years 2 and 3.

¹⁰ The retroactive semiannual audits prepared by the Controller's Office (which are ongoing) primarily focus on compliance with the contract's compensation provisions despite the Board of Supervisors request that they also evaluate the contractor's performance. These audits have identified ongoing minor compensation deficiencies. The Department has not yet received (a) the semiannual reports on Contract Year 3, despite agreeing to accept a consolidated annual report, or (b) either of the semiannual reports on Contract Year 4. The Budget Analyst notes that such delays could negatively impact close-out of the first contract.

¹¹ An independent peer review panel, requested by the Board of Supervisors Finance Committee, conducted a review of the first contract's Contract Year 1 during August and September of 2001, and found that (a) Department employees indicated a high degree of satisfaction with the Contractor's services, (b) there had been insufficient user input into a new program management information system, (c) fundamental revision of the long term key performance measures and inclusion of performance measures within each task order were required, (d) the Department was providing inadequate leadership and staff involvement and direction, (e) there was inappropriate physical separation between Department and contractor staff, (f) there was confusion between Department and contractor staff over their respective project responsibilities, and (g) the ten year timeframe was unrealistic.

¹² On May 23, 2002, a Blue Ribbon Panel convened by the former Public Utilities Commission General Manager to review a May 21, 2002 R. W. Beck analysis, recommended that the Public Utilities Commission develop "a larger policy context to guide implementation and define priorities." (A fuller discussion of the Blue Ribbon Panel's findings can be found in the Budget Analyst's *Phase III Management Audit of the Public Utilities Commission - Water Enterprise Fund*, page 160.)

¹³ HDR Engineering, Inc. undertook an independent assessment of the 2003 performance evaluations completed by Department project managers and in its January 7, 2004 report concluded that the evaluation process and results "were conducted in a fair and valid manner."

<p align="center"><u>Issues Identified by the Budget Analyst</u></p>	<p align="center"><u>How Those Issues are Addressed in the Contract With Parsons Water and Infrastructure, Inc.</u></p>
<p>Hiring of Department personnel:</p> <p>During Contract Year 1, the first contract was not supported by a Department staff and contractor workload analysis or by a strategic human resources plan for the Department. There were no future staffing projections, no assessment of the number and type of staff required, no assessment of the most appropriate employment conditions and civil service classifications, and no schedule for when staff from other City departments could be used.</p> <p>In Contract Year 1, of the 33 to 68 weeks (or more) that it took the Department to hire a staff member into a budgeted position, between 21 and 29 weeks (42.6 - 63.6 percent of the entire process) was consumed by processing the vacancy <u>within</u> the Department.</p> <p>There was an ongoing pattern of Department position vacancies and inadequate staffing projection plans while, instead, contractors provided personnel in technical classifications.</p>	<p>The high number of Department position vacancies, and the Department's ability to hire into them in a timely manner, continue to be ongoing issues. There is still overlap between such vacancies and contractor personnel who will be performing like work.</p>

<p style="text-align: center;"><u>Issues Identified by the Budget Analyst</u></p>	<p style="text-align: center;"><u>How Those Issues are Addressed in the Contract With Parsons Water and Infrastructure, Inc.</u></p>
<p>Programmatic environmental impact report:</p> <p>In Section 14 of the <i>Phase III Management Audit Report - Water Enterprise Fund</i>, the Budget Analyst noted that "In its planning for the Water System Capital Improvement Program, the Public Utilities Commission has failed to make a timely determination of the need for a programmatic environmental impact report under the California Environmental Quality Act. This is in spite of the Public Utilities Commission's considerable investment in expert consultant support, most notably the \$45 million, greater than four years Program Management Services Contract which has environmental services subconsultants, one of whom is now being separately contracted to develop a programmatic environmental impact report. The Program Management Services Contract did not identify the need for a programmatic environmental impact report." The Budget Analyst further noted that "The work scope throughout the 2000 - 2005 Program Management Services Contract ... never charged the consultant with the task of considering the need for a programmatic environmental impact report. The Budget Analyst questions why such a fundamental component of a large-scale capital improvement program was neither included in the contractor's scope of work from the outset, nor identified during the course of the contractor's work by the contractor itself, given that the contractor's prime responsibility was to provide program management and coordination services. The Budget Analyst noted that environmental regulatory issues were part of the contractor's mandate from the outset ..." Given that mandate, the Budget Analyst concluded that " the late identification of the need for a programmatic environmental impact report was due, in part, to the contractor's inadequate appraisal of the regulatory framework governing the Water System Capital Improvement Program." As noted in Section 14 of the Phase III management audit report, nine critical regional water system projects are being delayed because their scope is dependent on definition of the Water System Capital Improvement Program. At a cumulative cost of \$1.2 billion, these nine projects represent over two thirds of the cost of the \$1.8 billion regional water system component of the Water System Capital Improvement Program.</p>	<p>The second contract operates within the context of the Public Utilities Commission's policy parameters for the program as a whole, as determined by the Public Utilities Commission in February of 2005 and enshrined in the Water System Capital Improvement Program description submitted to the City Planning Department.</p> <p>The second contract requires Parsons Water and Infrastructure, Inc. to have environmental planners available for environmental planning and permitting tasks. The Department estimates that it will expend \$1.6 million over five years on an average of 1.50 full-time equivalent (FTE) environmental planners per year under the Parsons Water and Infrastructure, Inc. contract.</p>

Programmatic Performance Measures

As noted in Table 7.1 above, the Department's contract with Parsons Water and Infrastructure, Inc. does not explicitly include any performance measures or key milestone dates. Rather, it states that the Assistant General Manager, Infrastructure and the Infrastructure Division bureau managers will be solely responsible for contractor work product evaluation. As stated in Appendix A of the contract with Parsons Water and Infrastructure, Inc., such evaluations will be made on a quarterly summary basis and on an annual comprehensive basis, and will be part of the quarterly status review submitted to the Public Utilities Commission.

In the professional judgement of the Budget Analyst, there would be merit in also having performance measures explicitly incorporated into the contract which measure the contractor's contribution to the programmatic goals of the Water System Capital Improvement Program over the life of the second contract. The second contract is for program, project, and pre-construction management services which infers that the contractor has a role in supporting the Department in achieving its programmatic goals. Therefore, the Budget Analyst recommends the development of programmatic performance measures in addition to the performance measures contained in each of the individual task orders. At its July 19, 2005 meeting, the Board of Supervisors concurred with the Budget Analyst's judgement and requested the Department to develop programmatic performance measures.

Assigning responsibility to the bureau manager who authorizes a task order for evaluating the quantity, quality, timeliness, and cost of the contractor's resulting work product appropriately promotes managerial accountability. The evaluation of individual task orders will provide important information on how each project is contributing to the overall progress of the Water System Capital Improvement Program and its compliance with AB 1823. However, there is a risk that this focus on task order evaluation will not capture important information about the contractor's contribution to the following:

- The programmatic integration of the individual projects. There is a high probability, as projects advance and the programmatic environmental impact report is issued, that projects will be re-scoped, deleted from the program, and/or added to the program over the next five years. At the July 11, 2005 meeting of the Board of Supervisors Government Audits and Oversight Committee, the Public Utilities Commission Deputy General Manager advised the committee that the Department did not know, at this time, what task orders the Department would be issuing to the contractor over the next five years. Under the terms of the contract, the contractor is a co-participant with the Department in developing, scoping, and sequencing the task orders to be issued. Therefore, given the contractor's important role in shaping the work plan for next five years, it will be important to be able to evaluate the contractor's contributions to the program's overall goals and milestones.
- The program's progress towards achieving the programmatic policy parameters set forth by the Public Utilities Commission in February of 2005 in relation to water

quality, seismic reliability, delivery reliability, water supply, and environmental sustainability goals for the Year 2030 which could be subject to change over time. The programmatic environmental impact review process could result in the Public Utilities Commission having to reexamine its programmatic policy parameters and/or having to develop operational policies and procedures, and consequent monitoring mechanisms, to constrain water system operations in order to address environmental concerns.

- The identification of opportunities for economies of scale, program efficiencies, streamlining of contracting strategies, innovative technologies, and improved program management procedures across groups of individual projects.
- The program's cumulative compliance with environmental mitigation requirements.
- The program's cumulative compliance with the key milestones set forth in AB 1823 (which could be modified during the term of the Water System Capital Improvement Program) and any future State legislation related to the Water System Capital Improvement Program.
- Scheduling and cost projections. In the Department's August 18, 2004 *Capital Improvement Program Status Report and Update* report, the Department stated that "Based on the July 1, 2004 schedule update, the [Water System Capital Improvement Program] can now be completed approximately two years ahead of the original schedule" (page 4) in May of 2014, rather than May of 2016. The Department reiterated this shorter timeframe in its November of 2004 *Capital Improvement Program Regional Water Monthly Status Report and Update*. In its August 18, 2004 report, the Department also estimated a budget requirement of \$3.8 billion. However, shortly afterwards, as a result of the Public Utilities Commission's process to define policy parameters for the Water System Capital Improvement Program which concluded in February of 2005, the Department no longer anticipated early completion and had revised its total budget requirement upwards to \$4.3 billion. The Water Infrastructure Partners was party to the August of 2004 projections, and it is likely that Parsons Water and Infrastructure, Inc. will be party to future projections. The accuracy of the contractor's projections for the program as a whole should be subject to evaluation.
- Responses to independent audit findings related to the program as a whole.
- Achievement of the program's Disadvantaged Business Enterprise participation goals.
- The total amount of knowledge and skills transfer from the contractor to City personnel. Contractor performance in relation to training will be evaluated in terms of (a) a specific task order to provide a minimum of 1,000 hours of training to City personnel in areas or programs requested by the Department, and (b) a quarterly report documenting the type of training and mentoring received by City personnel. However, there will also be knowledge and skills transfers made through the contractor's collaboration with Department personnel on all aspects of the program

which will not be captured by the evaluation of the specific task order to provide a minimum of 1,000 hours of training.

- The ratio of contractor personnel to City personnel across the program as a whole.
- Compliance with the contract's compensation provisions.

As a result of these findings, the Budget Analyst recommends that the Department and the contractor jointly develop measurable programmatic performance goals for incorporation into the annual performance review process requested by the former Board of Supervisors Finance and Audits Committee (as discussed in more detail below) and the current Board of Supervisors Government Audits and Oversight Committee (as noted in Table 7.1 above).

Hiring of Department Personnel

As noted in Table 7.1 above, the Department's failure to hire into all its vacant engineering and other technical positions has been a theme of the Budget Analyst's reports on the program management services contracts for the Water System Capital Improvement Program.

First Contract

In his first report on the proposed first program management services contract, the Budget Analyst:

- Noted that the proposed contract lacked the support of an internal staff workload analysis or a strategic human resources plan. There were no staffing or budget projections beyond FY 2000-2001, no assessment of the number and type of staff required to fully staff the program, no assessment of what the most appropriate employment conditions (such as permanent, limited tenure, or temporary positions, or personal service contracts) or civil service classifications would be, and no schedule for when other City department staff could be used in the future. Without a staffing plan and program budget, the Budget Analyst could not calculate the anticipated workload per staff member, or compare the relative costs and benefits of using City employees versus contractor staff. The Budget Analyst questioned how the Department would be able to evaluate the contractor's proposed staffing levels.
- Questioned the likelihood of the Department hiring staff who would be surplus to the Department's future staffing needs, as the Department frequently contends, given natural staff attrition over the length of the Water System Capital Improvement Program.
- Noted that of the 33 to 68 weeks (or more) it took the Department to hire a staff member into a budgeted position, between 21 and 29 weeks (approximately 42.6 percent to 63.6 percent of the whole process) is consumed by processing the vacancy

within the Department, despite the increasing size of the Department's Human Resources Services Division.

- Noted that the Department should have been able to absorb a significant workload increase because (a) it had been investing in a number of productivity initiatives, including extra technical staff and enhanced training, (b) a considerable number of new hires were journey level or above, and (c) long term staff members' experience and expertise increases significantly each year.

In his report on the first contract's proposed Contract Year 2, the Budget Analyst noted that the Utilities Engineering Bureau had 70 vacant positions (approximately 29.2 percent of the total 240 positions) despite the utilization of 40 FTE contractor staff members during Contract Year 1. During FY 2000-2001, the Department only managed to hire a total net gain of nine engineers and, in anticipation of the FY 2001-2002 budget, the Department deleted 12 budgeted engineering positions, which had been vacant for two years or more, without the benefit of a staffing projection plan.

In his report on the first contract's proposed Contract Year 3, the Budget Analyst noted that the Utilities Engineering Bureau had reduced its number of vacant positions to 51 (approximately 21.3 percent of the total 240 positions), a net gain of 19 staff members. The FY 2002-2003 Public Utilities Commission budget authorized 18 new positions for the Water System Capital Improvement Program.

During the first contract's Contract Year 3, the Department submitted a staffing projection plan to the former Board of Supervisors Finance and Audits Committee which the Budget Analyst assessed as being a useful illustration of the total Department and contractor personnel requirements related to the Water System Capital Improvement Program, but which lacked meaningful context due to the lack of specificity about when Department vacancies would be filled, and the estimated number of staff required for other, simultaneous capital improvement programs and the ongoing repair and replacement program.

At its March 10, 2004 meeting to consider the first contract's Contract Year 4, the former Board of Supervisors Finance and Audits Committee requested the Department to report annually to the Board of Supervisors throughout the term of the Water System Capital Improvement Program on (a) the details of all outside consultants being used for the Water System Capital Improvement Program, including the scope and cost of each outside consultant contract, and (b) the details of all City staff working on the Water System Capital Improvement Program, including their classification, duties, and salary costs. The Budget Analyst notes that this request could be integrated into the Board of Supervisors Government Audits and Oversight Committee's request for a performance review to be conducted annually prior to the annual Department budget review.

Second Contract

In his report on the Department's contract with Parsons Water and Infrastructure, Inc. for program, project, and pre-construction management services, the Budget Analyst noted

that the Infrastructure Division had 59 vacant positions in May of 2005. The vacant positions include the following with their minimum years of experience required¹⁴:

- One 5203 Assistant Engineer (one year).
- Ten 5207 Associate Engineers (three years).
- Four 5211 Senior Engineers (seven years).
- One 5212 Principal Engineer (dependent upon specific position requirements).
- Fifteen 5241 Engineers (five years).
- One 5344 Mechanical Engineering Assistant (two years).
- One 5364 Civil Engineering Associate I (four years).
- Two 5366 Engineering Associate II (six years).
- Seven 5381 and 5382 Student Design Trainees.
- One 5504 Project Manager II (six years).
- Three 6318 Construction Inspectors (four years).

These vacancies exist despite the City's commitment to the labor unions to use contractors only as a supplement to City personnel. Contractor personnel are to be used only on a time-limited basis to provide expert technical staff (particularly in job classifications that do not exist in the City's civil service system) and additional staff during emergencies and peak workloads. The Budget Analyst noted that it was unlikely that the Department would hire engineering and other technical staff who would be surplus to the Department's future staffing needs given natural staff attrition over the length of the Water System Capital Improvement Program which is not scheduled to conclude until FY 2015-2016.

However, the Budget Analyst notes that there is not a one-to-one correlation between the City job classifications listed above and the services to be provided by the contractor. For example, the minimum years of experience required of the contractor's engineering and other technical personnel exceeds the minimum years of experience required by the job classifications listed above. The contractor's "Project Managers" and "Construction Managers" each require a minimum of 15 years experience, while the contractor's "Engineering Specialists" require a minimum of ten years experience. Further, the majority of the job classifications to be provided by the contractor are not job classifications currently existing within the City's civil service classification system (for example, "Cost Control Specialists," "Cost Estimators," and "Water System Engineers"¹⁵).

Further, as noted in the Budget Analyst's report on the second contract, the contract with Parsons Water and Infrastructure, Inc., which successfully competed for the contract in part based on its lower billing rates, has the potential to provide a cost-effective vehicle,

¹⁴ In many cases, educational qualifications or other types of professional experience can substitute for a portion of the minimum years required. The Department is, of course, free to hire applicants who possess more than the minimum years of experience required.

¹⁵ Water system engineers specialize in water systems as a whole, focusing on how a water system's multiple components work together. The City's civil service classification does not have a job classification for this specialty.

relative to the labor costs of City personnel, for the hiring on a time-limited basis of expert technical staff (particularly in job classifications that do not exist in the City's civil service system) and additional staff during emergencies and peak workloads. The contractor's labor costs relative to the City's labor costs, using selected job classifications, are shown in Table 7.2 below:

Table 7.2

Comparison of Annual Labor Costs for City and Contractor Personnel

City Personnel	Contractor Personnel	Annual Labor Cost (see Note below)
0955 Deputy General Manager		\$459,410
5166 Assistant General Manager, Infrastructure		433,181
0942 Manager VII		404,602
5162 Program Manager III		383,573
0941 Manager VI		378,685
5212 Principal Engineer		377,853
	Program Management Advisor	374,400
	Technical Expert Advisor	369,200
	Project Operations Planner	358,051
0933 Manager V		352,165
5211 Senior Engineer		341,765
	Staff Development and Technology Transfer Specialist	338,624
0932 Manager IV		327,163
5241 Engineer		295,214
0923 Manager II		282,668
	Water System Engineer	280,800
	Cost Estimator	280,717
	Right of Way Specialist	270,400
5207 Associate Engineer		255,070
	Engineering Specialist	252,245
	Labor and Contract Relations Specialist	249,226
	Project Manager	244,400
	System Integration Specialist	231,005
	Project Scheduler	229,528
6318 Construction Inspector		228,030
1823 Senior Administrative Analyst		226,949
	Communications Specialist	220,064
	Environmental Planner	217,235
5203 Assistant Engineer		215,030
	Cost Control Specialist	209,331
	Construction Manager	201,760
	Reporting Specialist	200,886
	Document Control Specialist	105,831

Note: The annual labor cost for City personnel includes salaries, mandatory fringe benefits, and an overhead allocation. The annual labor cost for Contractor personnel is based on the full hourly fee for each job classification which is the complete charge the contractor can make for any staff member.

While the contractor will provide more experienced and more specialist engineering and other technical staff at a potentially lower labor cost than City staff, the Department has a responsibility, under the City's commitment to the labor unions, to hire into already budgeted engineering and other technical positions as and when they are required by the Water System Capital Improvement Program.

Conclusions

Since the mid-1990s, the Public Utilities Commission has been developing a long-term capital improvement program which has decreased in scope from more than 150 water and clean water projects (1998) to 71 water projects only (2005) with a current total estimated cost of \$4.3 billion. Since September 22, 2000, the Public Utilities Commission has contracted with three contractors for program management services and, under the latest contract, for project and pre-construction management services as well.

The Budget Analyst identified major deficiencies in the first contract, including inadequate performance measures, problematic performance fee payments, inadequate training and skills transfer, consistent under-expenditure, and inadequate consideration of the need for an programmatic environmental impact report.

The new Program, Project, and Pre-construction Management Services Contract between the Public Utilities Commission and Parsons Water and Infrastructure, Inc. does not explicitly include program performance measures or key milestones. The Board of Supervisors has requested the development of programmatic performance measures. Such programmatic performance measures should address the contractor's performance in relation to the following important issues which would not be captured by the contract's current sole reliance on task order evaluation: (a) the programmatic integration of the individual projects, which are subject to change, (b) the program's progress towards achieving the Public Utilities Commission's programmatic policy parameters, which are subject to change, and (c) identifying opportunities for economies of scale, program efficiencies, streamlined contracting strategies, innovative technologies, and improved program management procedures across groups of individual projects. Further, programmatic performance measures would evaluate the contractor's contribution to (d) the program's compliance with environmental mitigation requirements and the key milestones set forth in AB 1823 and any future State legislation, (e) scheduling and cost projections, (f) the program's Disadvantaged Business Enterprise participation goals, (g) the total amount of knowledge and skills transfer from the contractor to City personnel, (h) the ratio of contractor personnel to City personnel, and (i) compliance with the contract's compensation provisions.

As a result of these findings, the Budget Analyst recommends that the Department and the contractor jointly develop measurable programmatic performance goals for incorporation into the annual performance review requested by the Board of Supervisors.

In response to the Budget Analyst's review of the Program, Project, and Pre-construction Management Services Contract's costs, which showed that the contract would be over-budgeted by \$7 million, the Board of Supervisors approved the contract at a not to exceed

total budget of \$38 million, rather than the Department's original not to exceed total budget of \$45 million.

There is an ongoing pattern of Department position vacancies and inadequate staffing projection plans while, instead, contractors provide personnel in technical classifications. Although the new Program, Project, and Pre-construction Management Services Contract provides for certain classifications of personnel which are more experienced and/or more specialized than the City's existing civil service classifications, the Department has a responsibility, given its commitments to City labor unions, to hire into already budgeted engineering and other technical positions as and when they are required by the Water System Capital Improvement Program.

Recommendations

The Public Utilities Commission General Manager should:

- 7.1 Ensure that the Department and the contractor jointly develop measurable programmatic performance measures for incorporation into the annual performance review process outlined in Recommendation 7.3.
- 7.2 Provide the Board of Supervisors with a staff hiring plan, prepared in conjunction with the Joint Union-City Committee, for positions related to the Water System Capital Improvement Program, by October 19, 2005.
- 7.3 Continue to provide the Board of Supervisors, throughout the term of the Water System Capital Improvement Program, with an integrated annual report which addresses (1) the former Board of Supervisors Finance and Audits Committee's request for an annual report on (a) the details of all outside consultants being used for the Water System Capital Improvement Program, including the scope and cost of each outside consultant contract, and (b) the details of all City staff working on the Water System Capital Improvement Program, including their classification, duties, and salary costs, and (2) the current Board of Supervisors Governmental Audits and Oversight Committee's request for a contractor performance audit conducted annually prior to the annual Department budget review.

Costs and Benefits

Programmatic performance measures, a staff hiring plan, and annual performance review reports could all be developed by existing Department staff, in conjunction with the contractor and the Joint Union/City Committee, without the need for additional resources. The benefits are improved evaluation tools to monitor the contribution of the second contract to the programmatic goals of the Water Supply Capital Improvement Program.

In response to the analysis of the second contract's costs prepared by the Budget Analyst for the Board of Supervisors Government Audits and Oversight Committee, which showed that the second contract would be over-budgeted by \$7 million, the Board of

Supervisors approved the second contract at a not to exceed total budget of \$38 million, rather than the Department's original not to exceed total budget of \$45 million.

8. Infrastructure Division's Organizational Structure

- **The Resources Management Bureau is a centralized business services and administrative support team for the Infrastructure Division. The bureau's former responsibilities for contract administration and fleet management have been transferred elsewhere, resulting in a reduction of 18.50 full-time equivalent staff. The remaining bureau functions are the result of the Infrastructure Division creating itself as "a department within the Department." The resulting duplication of support services has resulted in unnecessary management costs and does not promote the integration of the Infrastructure Division's business needs into the Department's overall business support services. The Budget Analyst recommends (a) the transfer of functions to the Department's administrative bureaus and to the Infrastructure Division's Program Control and Support Bureau, (b) disbanding the Resources Management Bureau, and (c) eliminating five positions.**
- **Disbanding the Resources Management Bureau and eliminating five positions would result in (a) salary savings of up to \$340,761, plus mandatory fringe benefits of \$101,206, for total savings of \$441,967 annually, and (b) rationalization of functions between the Infrastructure Division and the Department's administrative bureaus, and within the Infrastructure Division itself. There would be no reduction in the purchasing, general administration, facilities logistics, personnel administration, finance, and reporting support services available to the Infrastructure Division.**
- **The Infrastructure Division needs up-to-date, definitive organization charts which relate to the Annual Salary Ordinance (or clearly show the deviations from the Annual Salary Ordinance) and support the Department's position control system. Such clarity will be essential as the Infrastructure Division moves into a matrix management model which creates bifurcated reporting lines.**

Current Organizational Structure and Proposed Reorganization

The Infrastructure Division was established in 2003 under the current Assistant General Manager, Infrastructure. The current organizational structure for the Infrastructure Division includes the six structural components listed below. Some of these structural components are subject to restructuring in line with an organizational structure initially presented in the Request for Proposals for the \$38 million Program, Project and Pre-

construction Management Services Contract (CS-765) with Parsons Water and Infrastructure, Inc., which was approved by the Board of Supervisors on July 19, 2005. (The contract is discussed in more detail in Section 7 of this Phase IV management audit report.) No final decision has yet been taken on this restructuring proposal. The six structural components of the Infrastructure Division are:

1. The **Office of the Assistant General Manager, Infrastructure**. This office comprises:
 - The Assistant General Manager, Infrastructure, who is supported by a Classification 1824 Principal Administrative Analyst who acts as his Chief Assistant, and a Classification 1452 Executive Secretary II.
 - A Classification 0941 Manager VI position responsible for workforce development who is supported by a Classification 1404 Clerk, and a "Contractor Outreach Team" comprising a Classification 5408 Coordinator, Community Outreach, and a Classification 1823 Senior Administrative Analyst. The Manager VI, Workforce Development position has assumed direct management responsibilities over staff formerly in the Resources Management Bureau and now in the "Contractor Outreach Team" as a result of the restructuring.
2. The **Construction Management Bureau**. This bureau comprises (a) construction field management services grouped by the six regional project groups for the Water System Capital Improvement Program,¹ and clean water system construction projects, and (b) pre-construction support services, including staffing coordination, an occupational health and safety program, and an owner controlled insurance program (which is being phased out). Consultants will provide plan coordination and constructability review services.

¹ The Water System Capital Improvement Program (which the Department is currently naming the "Water Supply Improvement Program") has six regional project groups:

- (1) The San Joaquin Water System Improvement Projects. For project management purposes, this regional project group includes the San Joaquin Pipeline System Project. However, for budget appropriation purposes, that project is budgeted separately.
- (2) The Sunol Valley Water System Improvement Projects. For project management purposes, this regional project group includes the Irvington Tunnel/Alameda Siphons Project, the Calaveras Dam Replacement Project, and the Programmatic Environmental Impact Report Project. However, for budget appropriation purposes, those three projects are budgeted separately.
- (3) The Bay Division Water System Improvement Projects. For project management purposes, this regional project group includes the Bay Division Pipelines Reliability Upgrade Project. However, for budget appropriation purposes, that project is budgeted separately.
- (4) The Peninsula Water System Improvement Projects. For project management purposes, this regional project group includes the Crystal Springs/San Andreas Trans Upgrade Project. However, for budget appropriation purposes, that project is budgeted separately.
- (5) The San Francisco Regional Water System Improvement Projects. For project management purposes, this regional project group includes the Groundwater Projects and the Recycled Water Project. However, for budget appropriation purposes, those projects are budgeted separately.
- (6) The San Francisco Local Projects.

The primary roles and functions of this bureau would remain largely unchanged under the proposed restructuring.

3. The **Engineering Management Bureau**. This bureau provides engineering design services. Formerly, the engineering staff members were organizationally structured by discipline: electrical engineers, civil engineers, and mechanical engineers. There was also a Contract Preparation Section to provide engineering review of all construction contracts.

Under the proposed restructuring, this bureau's organizational structure changes significantly with the bureau's staff restructured into three new divisions:

- The Civil Engineering Design Division which comprises teams based on skill or project specialty (the Engineering, Technical and CAD Section, the Pipeline Design Section, the Dam/Tunnel/Civil Design Section, and the Reservoir/Tanks Design Section).
- The Design Coordination Division which currently comprises (a) the Contract Preparation Section, (b) six Classification 5211 Senior Engineer positions, one each for the six regional project groups, and (c) various consultants responsible for technical advice and value engineering.
- The Mechanical and Electrical Engineering Design Division which comprises (a) the Electrical Design Section, (b) the Mechanical Design Section, (c) the Structural/Seismic Design Section, and (d) clean water capital improvement program projects.

Despite the organizational restructuring, the primary roles and functions of this bureau would remain largely unchanged under the proposed restructuring.

4. The **Program Management Bureau**. This bureau comprises project management teams responsible for capital improvement projects related to (a) the six regional project groups, (b) the Proposition A and B revenue bond funded capital improvement program, and (c) clean water capital improvement program projects.

The primary roles and functions of this bureau would remain largely unchanged under the proposed restructuring.

5. The **Program Control and Support Bureau**. This bureau comprises five main functions. First, the Program Controls Section provides cost estimating, project scheduling, cost control, and risk analysis services. Second, there is a quality assurance and quality control function. Third, water system integration/engineering support and operations coordination staff work with Water Enterprise operations to ensure adequate liaison between the Infrastructure Division and Water Enterprise operations. Fourth, the Infrastructure Division funds planner positions in the City Planning Department's Major Environmental Analysis Division to work on the

programmatic environmental impact report for the Water System Capital Improvement Program. Fifth, there is a document control function.

The water system integration/engineering support and operations coordination functions represent an expanded role for the Program Control and Support Bureau.

6. The **Resources Management Bureau**. This bureau comprises a variety of functions. The General Administration Section provides purchasing, general administration, facilities logistics, and personnel administration support services. The Business Services Section develops and implements the Infrastructure Division's financial and administrative systems, policies, and procedures.

Under the restructuring, the Contract Administration Section, which processes contracts for the entire Department, has been transferred out of the Resources Management Bureau in order to become a direct report to the Deputy General Manager. The Resources Management Bureau's fleet management function has been transferred to the Business Services Division and two staff have been transferred to the Classification 0941 Manager VI, Workforce Development position as a "Contractor Outreach Team."

Matrix Management

Underlying the Infrastructure Division's restructuring is the Department's intention to use a "matrix management" approach for the execution of the Water System Capital Improvement Program projects. This matrix management approach is structured as follows:

- The Deputy General Manager and the Assistant General Manager, Infrastructure have overall management responsibility for the Water System Capital Improvement Program. The new Program, Project, and Pre-construction Management Services contractor will work under the direction of the Assistant General Manager, Infrastructure.
- Each of the 71 individual projects which cumulatively comprise the Water System Capital Improvement Program will have a site-specific project manager from the Infrastructure Division's Project Management Bureau. These project managers have the decision-making authority related to what activities take place and when, and the related accountability for the management and completion of the individual projects. The Budget Analyst notes that this will result in bifurcated staff reporting lines whereby staff members report to project managers in terms of their technical contributions to project completion, and to supervisors in other bureaus in terms of administrative matters, including performance evaluations.
- All 71 individual projects that comprise the Water System Capital Improvement Program are grouped into six regional project groups. The Department proposes that each regional project group be the responsibility of a Classification 5508 Project Manager IV, "Senior Project Manager," in the Project Management Bureau. These

Senior Project Managers would directly manage the project managers of each individual project in that project group. (The interview and selection process is currently underway.) The Senior Project Manager positions would also manage a representative of each of the Department's finance, planning, communications, and operations functional groups. These representatives would be full- or part-time depending on a project's size, and would be accountable to the project manager for performance of project work relative to their respective functions. According to the Department's briefing to the Public Utilities Commission, "The philosophy is that, while the Project Management [Bureau] is the lead, department-wide representatives must be on the team to ensure that all departments work together to achieve common goals." Where bureau managers believe they cannot meet the needs stipulated by the project manager, the Assistant General Manager, Infrastructure will determine where resources will be allocated. Therefore, the Assistant General Manager, Infrastructure and the Deputy General Manager are the final arbiters of what departmental resources will be allocated to the Water System Capital Improvement Program.

FY 2005-2006 Budget Decisions Made by the Board of Supervisors Budget and Finance Committee

The following section details Infrastructure Division personnel funding decisions made by the Board of Supervisors Budget and Finance Committee during its review of the Department's FY 2005-2006 budget proposal.

Office of the Assistant General Manager, Infrastructure

Two 0941 Manager VI Positions

Prior to FY 2005-2006, the Office of the Assistant General Manager, Infrastructure contained two Classification 0941 Manager VI positions, one responsible for organizational development and the other responsible for workforce development. In response to the Budget Analyst's recommendations that these two Classification 0941 Manager VI positions be deleted from the FY 2005-2006 budget, the Board of Supervisors Budget and Finance Committee:

- Eliminated \$153,277 from work order 081 WG SF-DPW-General Administration for the work ordered Classification 0941 Manager VI, Organizational Development position which the Department concurred was no longer necessary. The Assistant General Manager, Infrastructure advises that the incumbent no longer works for the Department.
- Did not eliminate the Classification 0941 Manager VI, Workforce Development position pending the Phase IV management audit report.

The Budget Analyst's recommendation to eliminate the Classification 0941 Manager VI, Workforce Development position related, in part, to that position's potential duplication of functions which could be provided by the Department's (at that time proposed)

Program, Project, and Pre-construction Management Services Contract with Parsons Water and Infrastructure, Inc. Since the FY 2005-2006 budget review process, the Budget Analyst has reviewed the Department's Program, Project, and Pre-construction Management Services Contract with Parsons Water and Infrastructure, Inc. in more detail. That contract, approved by the Board of Supervisors on July 19, 2005, requires the contractor to provide "Labor and Contract Relations Specialists" if the Department issues task orders which specifically require such contractor services. At this time, the Department is estimating that it will require an average of 0.90 full-time equivalent (FTE) Labor and Contract Relations Specialists at \$224,303 per year, for a total five year cost of \$1,121,515. However, the Department's actual utilization of Labor and Contract Relations Specialists would be dependent on specific task orders approved by the Assistant General Manager, Infrastructure. Since it is currently too early to evaluate whether or not there would be duplicative workforce development services as a result of Program, Project, and Pre-construction Management Services Contract task orders with Parsons Water and Infrastructure, Inc., the Budget Analyst withdraws the recommendation to eliminate the 0941 Manager VI, Workforce Development position at this time. The Budget Analyst will continue to evaluate the necessity for this position as part of the annual budget review process.

One 1450 Executive Secretary I Position

The Board of Supervisors Budget and Finance Committee accepted the Budget Analyst's recommendation to delete \$74,213 from work order 081 WG SR-DPW-General Administration for the 1450 Executive Secretary I position work ordered from the Department of Public Works to the Office of the Assistant General Manager, Infrastructure. This second Executive Secretary position was unjustified. The deletion of this work ordered position was effective July 1, 2005 but the Assistant General Manager, Infrastructure advises that the incumbent will not transition into a permanent Public Utilities Commission position until September 30, 2005.

Summary

Table 8.1 below summarizes the impact of the Budget Analyst's recommendations on the existing staffing of the Office of the Assistant General Manager, Infrastructure. The elimination of one Classification 0941 Manager VI position and one Classification 1450 Executive Secretary I position would result in work order savings of \$227,490 per year.

Table 8.1**Office of the Assistant General Manager, Infrastructure**

Current Position	Budget Analyst Recommendation	FY 2005-2006 Budget Reduction
9989 Assistant General Manager, Infrastructure Division	No change	
0941 Manager VI, Organizational Development	Eliminated	\$153,277
0941 Manager VI, Workforce Development	No change	
1404 Clerk	No change	
1823 Senior Administrative Analyst	No change	
5408 Coordinator, Community Outreach	No change	
1824 Principal Administrative Analyst	No change	
2975 Citizens Complaint Officer	Located in the Communications Section ²	
1450 Executive Secretary I	Eliminated	\$74,213
1452 Executive Secretary II	No change	
Total Work Order Savings:		\$227,490

Source: Current position information derived from the Infrastructure Division's July 6, 2005 organization chart for the Office of the Assistant General Manager, Infrastructure.

Resources Management Bureau

The Resources Management Bureau is a centralized business services and administrative support team for the Infrastructure Division, providing purchasing, general administration, facilities logistics, personnel administration, finance, and reporting support. Its former responsibilities for contract administration and fleet management have been transferred elsewhere: (a) the Contract Administration Section (13.50 FTEs) is now a direct report to the Deputy General Manager; and (b) the fleet management function (2.00 FTEs) has been transferred to the new Fleet Manager position in the Business Services Division. In addition, 3.00 FTE staff have been transferred to the Classification 0941 Manager VI, Workforce Development to provide clerical support and a "Contractor Outreach Team." Therefore, the Classification 0941 Manager VI, Resources Management Bureau Manager's management responsibilities have reduced by a number of functions and by 18.50 FTEs.

² This position, which is funded by the Infrastructure Division operating funds, is located in the Communications Section. It was substituted for an 1844 Senior Management Assistant position in May of 2004 but not formally reclassified as part of the Department's FY 2005-2006 budget.

The remaining Resources Management Bureau functions are, to a significant degree, the result of the Infrastructure Division creating itself as "a department within the Department." This reflects (a) the Infrastructure Division's concern that the Department's administrative bureaus would be unable to support the Infrastructure Division's business needs in a timely manner, and (b) concerns of the Department's other divisions that Infrastructure Division's workload would be prioritized by the administrative bureaus over the rest of the Department's requirements for support services. However, the resulting duplication of support services has resulted in unnecessary management costs and does not promote the integration of the Infrastructure Division's business needs into the Department's overall business support services.

In order to rectify these deficiencies, the Budget Analyst recommends the following:

- The purchasing function and related positions should be transferred to Finance Services.
- The unnecessary 10th floor front desk function at 1145 Market Street should be terminated. The positions staffing this unnecessary function (2.00 FTE Classification 1404 Clerk positions and a 1.00 FTE Classification 9922 Public Services Aide position) also provide general administrative/clerical support to the Resources Management Bureau. However, none of these positions would be required if the Resources Management Bureau ceased to exist as a separate entity.
- The mail delivery function for the whole department should be transferred to the Business Services Division (1.00 FTE).
- The 1.00 FTE Classification 1452 Executive Secretary II position which works part-time on accommodation space planning and facilities logistics should be transferred to the Program Control and Support Bureau to work with the other staff members in that bureau who work part-time on accommodation space planning and facilities logistics issues during the FY 2005-2006 and FY 2006-2007 ramp up in Infrastructure Division hiring.
- The personnel administration function and related positions should be transferred to Human Resources Services to ensure that the Infrastructure Division receives sufficient human resources services support during the FY 2005-2006 and FY 2006-2007 ramp up in Infrastructure Division hiring.
- The above functional rationalizations would eliminate the need for the 1.00 FTE Classification 0922 Manager I, General Administration Manager position currently responsible for purchasing, general administration, clerical support, accommodation space planning, facilities logistics, and personnel services.
- The Classification 1823 Senior Administrative Analyst responsible for agenda writing should be transferred to either the Program Management Bureau (which is the major client of that position's services), the Contract Administration Section (from which

the position originally came), or to the Government Affairs function within the General Manager's Office.

- The Business Services Section's functions should be transferred to the Infrastructure Division's Program Control and Support Bureau, and, where there is not a pressing need to keep functions solely within the Infrastructure Division, to Finance Services. Integration of the data generation and reporting functions, currently bifurcated between the Program Control and Support Bureau (data generation) and the Resources Management Bureau (reporting) would foster functional integration and management accountability within the Infrastructure Division. Transfer of the finance functions to the Program Control and Support Bureau would maintain Infrastructure's internal budgeting, invoice processing, project close-out, and systems development capacity (comparable to the internal capacities of each of the Department's business enterprises), without the need for a separate Resources Management Bureau management structure.
- If implemented, the above functional transfers and recommended position elimination would cumulatively result in the abolishment of the Infrastructure Division's Resources Management Bureau. There would be no continued justification for the 1.00 FTE Classification 0941 Manager VI, Resources Management Bureau Manager position. This position is currently vacant.
- There would be no reduction in the purchasing, general administration, facilities logistics, personnel administration, finance, and reporting support services available to the Infrastructure Division.

Summary

Table 8.2 below summarizes the impact of the Budget Analyst's recommended position reductions in the Resources Management Bureau. The elimination of five positions would result in salary savings of \$269,456 - \$340,761 per year plus mandatory fringe benefits.

Table 8.2

**Recommended Future Distribution of Positions Currently Located in
the Infrastructure Resources Management Bureau**

Current Position	Recommended Future Distribution	Salary Savings
Bureau Management/Special Projects		
0941 Infrastructure Resources Management Bureau Manager (vacant)	Eliminate	\$98,449 - \$131,883
General Administration and Personnel		
0922 General Administration Manager	Eliminate	\$68,252 - \$91,507
1404 Clerk (Front Desk)	Eliminate	\$34,530 - \$41,838
1404 Clerk (Front Desk)	Eliminate	\$34,530 - \$41,838
9922 Public Service Aide (Front Desk)	Eliminate	\$33,695 - \$33,695
Total Salary Savings:		\$269,456 - \$340,761

Source: Current position information derived from the Infrastructure Division's June 9, 2005 organization chart for the Resources Management Bureau.

The above proposal would increase the functional responsibilities and staff management responsibilities of the Classification 0942 Manager VII responsible for the Program Control and Support Bureau. That position's staff management responsibilities would increase from the current 40 positions (the smallest of the existing bureaus) by up to 12 positions from the Resources Management Bureau. The increased functional and staff management responsibilities would still be within an acceptable scope of management responsibility for a Classification 0942 Manager VII (\$105,131 - \$140,914 plus mandatory fringe benefit costs) relative to the management responsibilities of the Infrastructure Division's other Classification 0942 Manager VII positions (57 positions in the Construction Management Bureau, 120 positions in the Engineering Management Bureau, and 62 positions in the Project Management Bureau).

Engineering Management Bureau

Prior to the proposed restructuring, the Engineering Management Bureau was managed by a Classification 0942 Manager VII, Engineering Management Bureau Manager position (\$105,131 - \$140,914 plus mandatory fringe benefit costs), which is currently vacant, and a Classification 0941 Manager VI, Deputy Engineering Management Bureau Manager position (\$98,449 - \$131,883 plus mandatory fringe benefit costs), the incumbent of which is the Acting Bureau Manager.

As part of his review of the Department's FY 2005-2006 budget, the Budget Analyst recommended deletion of the 0941 Manager VI position once the vacant 0942 Manager VII position is filled. The Budget Analyst stated that there was no justification for two

such senior positions to manage only four professional staff reports. In response, the Board of Supervisors:

- Reduced the salary of the Classification 0942 Manager VII position by \$35,780 plus mandatory fringe benefits, a reduction of 0.25 FTE to reflect the estimated hiring date of October 1, 2005.
- Reserved the remaining 0.75 FTE Classification 0942 Manager VII salary of \$107,340 plus mandatory fringe benefits.
- Decided to wait until the Phase IV management audit report before (a) determining whether or not to delete the Classification 0941 Manager VI position, and (b) release the salary reserve of \$107,340 plus mandatory fringe benefits for the Classification 0942 Manager VII position.

Since the FY 2005-2006 budget review, the Department has proposed the Engineering Management Bureau restructuring outlined above. As part of that restructuring, the Deputy Bureau Manager becomes one of three direct reports to the Engineering Management Bureau Manager position, and has direct management responsibility for the Design Coordination Division which currently comprises (a) the Contract Preparation Section, (b) six Classification 5211 Senior Engineer positions, one each for the six regional project groups, and (c) various consultants responsible for technical advice and value engineering.

Based on this restructuring, which gives the Deputy Bureau Manager position its own direct management responsibilities, the Budget Analyst withdraws his recommendation to delete the Classification 0941 Manager VI position and recommends release of the reserve of \$107,340 plus mandatory fringe benefits for the Classification 0942 Manager VII position.

Program Control and Support Bureau

As part of his review of the Department's FY 2005-2006 budget, the Budget Analyst recommended deletion of 4.50 FTE new Classification 0933 Manager V positions (6.00 FTEs on an annualized basis) intended to manage the interface between water system operations and Water Supply Capital Improvement Program projects. Each Classification 0933 Manager V position has an annual salary cost of \$91,507 - \$122,644 plus mandatory fringe benefits. The Department states that this salary level is necessary to ensure that the incumbents have sufficient knowledge and experience to speak on behalf of the Water Enterprise's operations staff.

On an annualized basis, five Manager V positions would be located in the Program Control and Support Bureau, each responsible for one of the regional project groups. They would report to a Classification 0941 Manager VI position already in place. That Classification 0941 Manager VI position will have direct management responsibility for:

- Coordinating the work of the Manager V positions, particularly when there are projects which cross the regional project group boundaries.
- The sixth regional project group.
- The Classification 5212 Principal Engineer who manages the interface between the Water Supply and Treatment Division, which is responsible for the entire wholesale water system, and the Water System Capital Improvement Program projects.
- Aspects of Water Enterprise operations. This allows the Manager VI to stay current with operational issues.

The sixth Manager V position would be located in the Water Quality Bureau to ensure that the Water Quality Bureau has a staff member dedicated to the Water System Capital Improvement Program.

In response to the Budget Analyst's recommendation to delete all six new Manager V positions, the Board of Supervisors Budget and Finance Committee reserved \$560,571 plus mandatory fringe benefits pending the Phase IV management audit report. The Budget Analyst continues to have the following concerns about these proposed new positions:

1. Managing the interface between water system operations and Water System Capital Improvement Program projects should be top priority for existing water supply system managers and Water System Capital Improvement Program project managers. The proposed positions could undermine existing managers' mutual accountability for the successful interface between ongoing operations and new capital improvement projects.
2. As noted above, there is already (a) a 1.00 FTE Classification 0941 Manager VI position (maximum salary of \$131,883 plus mandatory fringe benefits) responsible for the interface between water system operations and the Water System Capital Improvement Program, and (b) a 1.00 FTE Classification 5212 Principal Engineer position (maximum salary of \$132,849 plus mandatory fringe benefits) responsible for managing the interface between the Water Supply and Treatment Division and the Water System Capital Improvement Program projects. The Classification 5212 Principal Engineer focuses on organizational coordination and information dissemination between Water Enterprise operations and the Infrastructure Division.
3. The City Distribution Division is already successfully managing its interface with the Water System Capital Improvement Program over the in-City projects currently underway, five of which are expected to be completed by December 31, 2006.
4. The Department estimates that it will use a 1.00 FTE Project Operations Planner at \$358,051 per year, for a total two year cost of \$716,102, from its Program, Project, and Pre-construction Contract with Parsons Water and Infrastructure, Inc. The Project Operations Planner will be responsible for (a) integrating new systems and

procedures into existing water distribution and treatment systems, and (b) providing project support in developing operations philosophy, plans, standards, procedures, and commissioning for new facilities.

5. Despite the Department's intention to staff this interface management function on a full-time basis with one Classification 0941 Manager VI position, one Classification 5212 Principal Engineer position, and six Classification 0933 Manager V positions, with support from a 1.00 FTE Project Operations Planner contract position for two years, the Department has not completed a formal workload analysis of the need for this level of resourcing.

The Budget Analyst acknowledges that carefully managing the interface between Water Enterprise operations and the Water System Capital Improvement Program projects has the potential to avoid costly project redesigns or reconstruction. Further, allocation of interface management to dedicated positions avoids overloading positions which already have operational responsibilities. For example, there are currently two senior staff acting in the Manager V roles on behalf of the City Distribution Division and the Hetch Hetchy Enterprise who continue to retain their existing operational responsibilities.

The Budget Analyst, however, remains concerned that there has been no formal workload analysis of the need for six new positions. Therefore, the Budget Analyst recommends that the Board of Supervisors Budget and Finance Committee approve an incremental approach to the creation of these new positions and approve the release of \$183,966 plus mandatory fringe benefits for 1.50 FTE Classification 0933 Manager V positions (2.00 FTEs on an annualized basis) out of the reserve of \$560,571 plus mandatory fringe benefits for 4.50 FTE new Classification 0933 Manager V positions (6.00 FTEs on an annualized basis). These would relieve the dual roles of the two senior staff acting in the Manager V roles on behalf of the City Distribution Division and the Hetch Hetchy Enterprise who continue to retain their existing operational responsibilities. This incremental approach would better establish the value of investing in more new Manager V positions responsible for interface management.

Deputy General Manager

The Budget Analyst questions the long-term need for the Assistant General Manager, Infrastructure position to report to the General Manager through the Deputy General Manager. The Assistant General Manager, Infrastructure is the only Assistant General Manager position required to report to the General Manager through the Deputy General Manager. As shown in Table 7.2 in Section 7 of this Phase IV management audit report, the annual labor costs of these positions, including salaries, mandatory fringe benefits, and the Department's overhead allocation, are \$459,410 for the Deputy General Manager position and \$433,181 for the Assistant General Manager, Infrastructure position, for a total labor cost of \$892,591 for the two positions.

As noted in the Budget Analyst's *Phase I Management Audit of the Public Utilities Commission – Clean Water Enterprise Fund* (September 27, 2004), the Public Utilities Commission General Manager appointed a Deputy General Manager to assist her to

coordinate across the existing divisions on key issues. The particular focus of the Deputy General Manager position is the interface between Water Enterprise operations and the Infrastructure Division in relation to capital improvement projects. During the transition period, the General Manager does not support the flat organizational structure recommended by the Budget Analyst, whereby Assistant General Managers, including the Assistant General Manager, Infrastructure, would report directly to the General Manager. However, the General Manager has indicated that she is prepared to examine a flatter management structure in the medium term. Therefore, the Budget Analyst will assess, in the medium term, the Department's progress towards the recommended flatter organizational structure. While the Budget Analyst acknowledges that, in the short-term, the Department's budget will be accommodating senior personnel to manage the transition period, the Budget Analyst will be reviewing their justification in the medium term as part of the annual budget review process.

Organization Charts

During the course of this management audit, numerous Department managers and staff interviewed by the management audit team have noted the lack of clear organization charts which accurately depict the organization's positions and the reporting relationships between individual positions and between the Department's structural components. The management audit team has had to grapple with this deficiency from the outset of the management audit. The Department has a responsibility to ensure that there are up-to-date, definitive organization charts which relate to the Annual Salary Ordinance (or clearly show the deviations from the Annual Salary Ordinance) and support the Department's position control system.

This issue particularly applies to the Infrastructure Division due to repeated restructuring. The Budget Analyst recommends that:

- The Infrastructure Division organization charts be finalized as soon as the latest Infrastructure Division restructuring is complete.
- The finalized organization charts be definitively signed by the Assistant General Manager, Infrastructure.
- An Infrastructure Division staff member be charged with the responsibility to ensure that the finalized organization charts are amended as soon as personnel changes occur, and that all deviations from the Annual Salary Ordinance are accurately noted.

The Budget Analyst concludes that definitive organization charts will be essential as the Infrastructure Division moves into a matrix management model in which individual staff members could have bifurcated functional and supervisory reporting lines.

Conclusions

The Resources Management Bureau is a centralized business services and administrative support team for the Infrastructure Division. The bureau's former responsibilities for contract administration and fleet management have been transferred elsewhere, resulting in a reduction of 18.50 full-time equivalent staff. The remaining bureau functions are the result of the Infrastructure Division creating itself as "a department within the Department." The resulting duplication of support services has resulted in unnecessary management costs and does not promote the integration of the Infrastructure Division's business needs into the Department's overall business support services. The Budget Analyst recommends (a) the transfer of functions to the Department's administrative bureaus and to the Infrastructure Division's Program Control and Support Bureau, (b) disbanding the Resources Management Bureau, and (c) eliminating five positions.

Disbanding the Resources Management Bureau and eliminating five positions would result in (a) salary savings of up to \$340,761, plus mandatory fringe benefits of \$101,206, for total savings of \$441,967 annually, and (b) rationalization of functions between the Infrastructure Division and the Department's administrative bureaus, and within the Infrastructure Division itself. There would be no reduction in the purchasing, general administration, facilities logistics, personnel administration, finance, and reporting support services available to the Infrastructure Division.

The Infrastructure Division needs up-to-date, definitive organization charts which relate to the Annual Salary Ordinance (or clearly show the deviations from the Annual Salary Ordinance) and support the Department's position control system. Such clarity will be essential as the Infrastructure Division moves into a matrix management model which creates bifurcated reporting lines.

Recommendations

The Public Utilities Commission General Manager should:

- 8.1 Eliminate the Classification 0941 Manager VI (Resources Management Bureau Manager) position in the Resources Management Bureau.
- 8.2 Eliminate the Classification 0922 Manager I (General Administration Manager) position in the Resources Management Bureau.
- 8.3 Eliminate two Classification 1404 Clerk positions and one Classification 9922 Public Services Aide position which provide front desk coverage and clerical support in the Resources Management Bureau.
- 8.4 Direct the Assistant General Manager, Infrastructure to finalize and sign the Infrastructure Division organization charts as soon as the latest Infrastructure Division restructuring is complete.

- 8.5 Direct the Assistant General Manager, Infrastructure to charge an Infrastructure Division staff member with the responsibility to ensure that the finalized organization charts are amended as soon as personnel changes occur, and that all deviations from the Annual Salary Ordinance are accurately noted.

The Board of Supervisors Budget and Finance Committee should:

- 8.6 Release the salary reserve of \$107,340 plus mandatory fringe benefits for the 0942 Manager VII, Engineering Management Bureau Manager position.
- 8.7 Release \$183,966 plus mandatory fringe benefits of the reserve of \$560,571 plus mandatory fringe benefits for new 0933 Manager V positions.

Costs and Benefits

Based on the Budget Analyst's recommendations on the Department's FY 2005-2006 budget proposal, the Board of Supervisors reduced the Infrastructure Division's budget by \$227,490 as follows:

- Eliminated \$153,277 from work order 081 WG SR-DPW-General Administration for the work ordered 0941 Manager VI, Organizational Development position which the Department concurred was no longer necessary.
- Eliminated \$74,213 from work order 081 WG SR-DPW-General Administration for the work ordered Executive Secretary I position which was unnecessary.

The Budget Analyst recommends the release of Board of Supervisors reserves in the FY 2005-2006 budget in the total amount of \$291,306 plus mandatory fringe benefits, including:

- Release of the reserve of \$107,340 plus mandatory fringe benefits for the Classification 0942 Manager VII, Deputy Engineering Management Bureau Manager position.
- Release of \$183,966 plus mandatory fringe benefits for 1.50 FTE Classification 0933 Manager V positions (2.00 FTEs on an annualized basis) out of the total reserve of \$560,571 plus mandatory fringe benefits for 4.50 FTE new Classification 0933 Manager V positions (6.00 FTEs on an annualized basis).

Disbanding the Resources Management Bureau would result in (a) salary savings of up to \$340,761, plus mandatory fringe benefits of \$101,206, for total savings of \$441,967 annually, and (b) rationalization of functions between the Infrastructure Division and the Department's administrative bureaus, and within the Infrastructure Division itself. There would be no reduction in the purchasing, general administration, facilities logistics, personnel administration, finance, and reporting support services available to the Infrastructure Division.

9. Managing General Liability and Workers' Compensation Costs

- The Public Utilities Commission incurs large costs each year to pay general liability and workers' compensation claims. In FY 2004-2005, the Public Utilities Commission paid \$1.6 million for general liability claims and litigation settlement or judgment costs and \$3.1 million for workers' compensation claims costs.
- Between FY 2000-2001 and FY 2004-2005, the Public Utilities Commission paid \$6.2 million to settle claims and litigation cases. Despite being self-insured and exposed to large general liability costs, the Public Utilities Commission has no risk management program to protect the Public Utilities Commission from unnecessary exposure to claims and litigation.
- The Clean Water, Water, and Hetch Hetchy Enterprises do not have formal programs to evaluate the common causes of claims and to develop programs to reduce the risk of exposure. Some common causes of claims resulting from water or sewer damage can be addressed through the Water and Clean Water Enterprises' maintenance and repair programs. However, other claim categories, such as "premises liability" or "property damage" are non-specific. The Public Utilities Commission has no procedure to identify causes behind such claims to identify and address root causes. Although the City Attorney's Office manages claims and provides information to the Public Utilities Commission about claims, the Public Utilities Commission should develop its own program to reduce the risk of claims exposure.
- The Public Utilities Commission faces significant risk from high workers' compensation costs and outstanding liability. From FY 1999-2000 through FY 2003-2004, the Public Utilities Commission's accrued liability for workers' compensation has increased by 204 percent, a compound growth rate of 32 percent annually, from \$6.17 million in FY 1999-2000 to \$18.77 million at the close of FY 2003-2004.
- In FY 2004-2005, 377 Public Utilities Commission employees, or 17.8 percent of 2,116 employees, had an open workers compensation claim. The Public Utilities Commission only implemented a department-wide modified duty program to return injured workers to work in FY 2004-2005 and has not developed measures to determine if the program is effective. The Public Utilities Commission's Director of Human Resource Services should not only measure the effectiveness of the modified duty program but should also work with the Department of Human Resources Workers' Compensation Division to determine best practices.

The Public Utilities Commission incurs large costs each year to pay general liability and workers' compensation claims. In FY 2004-2005, the Public Utilities Commission paid \$1.5 million for general liability claims and litigation settlement or judgment costs and \$3.1 million for workers' compensation claims costs. The Public Utilities Commission is self-insured for general liability and for workers' compensation, and pays general liability and workers compensation claims costs from operating revenues.

The Public Utilities Commission has a health and safety program to reduce the risk of injury and the associated workers' compensation costs, and has recently created a position responsible for managing a modified duty program to return injured workers to work. However, the Public Utilities Commission has no formal risk management program to manage the risks contributing to general liability claims, such as property damage and vehicle accident risks.

Managing General Liability Claims and Litigation Settlements or Judgments

The Public Utilities Commission does not have a designated risk manager to manage the Public Utilities Commission's exposure to claims and legal judgements resulting from the Public Utilities Commission's activities. The City Attorney's Office manages claims filed against the Public Utilities Commission and litigation resulting from such claims. The Public Utilities Commission pays for the City Attorney's services through an annual work order. The costs of claims and litigation settlement and of legal judgements are paid from the fund balances of the three enterprises, the Water, Clean Water, and Hetch Hetchy Water and Power Enterprises.

The Public Utilities Commission does not engage an actuary to determine the probability of claims and litigation and to calculate the required reserves to cover such claims and litigation costs. Instead, the City Attorney's Office analyzes outstanding or potential claims and litigation and the financial auditor includes the estimated liability in the Clean Water, Water, and Hetch Hetchy Enterprises' financial statements. As shown in Table 9.1, accrued general liability for each of the three enterprises varies from year to year with no pattern of increase or decrease.

Table 9.1

Increases and Decreases in Annual Estimated Accrued General Liability for the Water, Clean Water, and Hetch Hetchy Water and Power Enterprises

FY 1999-2000 through FY 2003-2004

	FY 1999-2000	FY 2000-2001	FY 2001-2002	FY 2002-2003	FY 2003-2004	Average Annual Increase/ (Decrease) in Accrued General Liability
Water Enterprise	\$13,380,000	\$7,023,000	\$4,968,000	\$3,823,000	\$6,111,000	(18%)
Clean Water Enterprise	433,000	1,086,000	4,728,000	974,000	4,761,000	82%
Hetch Hetchy Enterprise	<u>5,923,000</u>	<u>6,602,000</u>	<u>3,620,000</u>	<u>143,000</u>	<u>169,000</u>	(59%)
	\$19,736,000	\$14,711,000	\$13,316,000	\$4,940,000	\$11,041,000	(14%)

Source: Audited Financial Statements

The accrued liability for each of the three enterprises includes current and long term damage and claims liability. As noted in the Water, Clean Water, and Hetch Hetchy Water and Power Enterprises' audited financial statements, the enterprises manage their risk of loss by setting aside assets for claims settlements and recording a liability representing an estimate of the cost of all outstanding claims and incurred but not reported claims. Claim liabilities are recorded when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. Because the cost of claims cannot initially be calculated with certainty, estimated claims costs vary over time. The current and long term claims liability recorded in the audited financial statement are re-evaluated periodically to adjust for recently settled claims and other factors.

The Public Utilities Commission's Claims Management

Claims against the Public Utilities Commission are submitted to the Controller and then forwarded to the City Attorney's Office. Under the Administrative Code, the City Attorney has the authority to determine if a claim is insufficient or to reject a claim, and may settle claims in amounts of less than \$25,000. The City Attorney may also settle litigation with a settlement amount of less than \$25,000 with the approval of the Public

Utilities Commission General Manager. The Board of Supervisors must approve payment of claims and legal settlements in an amount greater than \$25,000.

Claims and their disposition, including settlement amounts, are recorded by general category in the City Attorney's Office database. From FY 2000-1001 through FY 2004-2005, the Public Utilities Commission paid \$3.0 million for claims, as shown in Table 9.2.

Table 9.2

**Actual Claims Payments by the Water, Clean Water, and Hetch Hetchy Water and Power Enterprises
FY 2000-20001 to FY 2004-2005**

	FY 2000-2001	FY 2001-2002	FY 2002-2003	FY 2003-2004	FY 2004-2005	Total Claims Costs FY 2000-2001 to FY 2004-2005
Water Enterprise	\$213,519	\$453,453	\$358,054	\$527,487	\$170,515	\$1,723,028
Clean Water Enterprise	379,743	439,537	207,508	117,716	102,709	1,247,213
Hetch Hetchy Enterprise	7,009	1,014	35,493	8,260	6,035	57,811
Public Utilities Commission Administration	<u>16,671</u>	<u>7,778</u>	<u>14,385</u>	<u>180</u>	<u>0</u>	<u>39,014</u>
	\$616,943	\$901,782	\$615,440	\$653,643	\$279,259	\$3,067,066

Source: City Attorney's Office

As shown in Table 9.2, the Water and Clean Water Enterprises pay the majority of claims costs each year. Between FY 2000-2001 and FY 2004-2005, the majority of Water Enterprise claims comprised three general categories: (a) premise liability, (b) street maintenance, and (c) vehicle-related claims. The majority of Clean Water Enterprise claims comprised two general categories: (a) property damage related to sewers, and (b) street maintenance.

From FY 2000-2001 through FY 2004-2005, the Public Utilities Commission paid \$3.2 million in litigation judgment or settlement costs, as shown in Table 9.3.

Table 9.3

Actual Litigation Judgment or Settlement Payments by the Water, Clean Water, and Hetch Hetchy Water and Power Enterprises

FY 2000-20001 to FY 2004-2005

	FY 2000-2001	FY 2001-2002	FY 2002-2003	FY 2003-2004	FY 2004-2005	Litigation Costs FY 2000-2001 to FY 2004-2005
Water Enterprise	\$284,000	\$395,770	\$162,500	\$237,462	\$1,247,294	\$2,327,026
Public Utilities Commission Administration	338,105	0	25,000	0	30,000	393,105
Clean Water Enterprise	43,508	0	98,500	200,000	25,235	367,242
Hetch Hetchy Enterprise	0	0	51,578	1,700	45,000	98,278
Total	\$665,612	\$395,770	\$337,578	\$439,162	\$1,347,529	\$3,185,651

Source: City Attorney's Office

The Public Utilities Commission paid litigation judgment or settlement costs for a variety of causes, including property damage, breach of contract, and employee or labor related causes. In FY 2004-2005, the Public Utilities Commission paid \$1,000,000 in two major litigation cases, including \$500,000 in settlement costs for litigation involving a pedestrian and a Public Utilities Commission vehicle, and \$500,000 in settlement costs for litigation involving street damage from Water Enterprise activities.

The Clean Water, Water, and Hetch Hetchy Enterprises do not have formal programs to evaluate the common causes of claims and to develop programs to reduce the risk of exposure. Some common causes of claims resulting from water or sewer damage can be addressed through the Water and Clean Water Enterprises' maintenance and repair programs. However, other claim categories, such as "premises liability" or "property damage" are non-specific. The Public Utilities Commission has no procedure to identify causes behind such claims to identify and address root causes. Although the City Attorney's Office manages claims and provides information to the Public Utilities Commission about claims, the Public Utilities Commission should develop its own program to reduce the risk of claims exposure.

Designating a Risk Manager

The Public Utilities Commission should designate the Assistant General Manager, Business Services, as the risk manager for the Public Utilities Commission. Specific functions could be delegated to the appropriate administration or operating division staff or committees.

Managing risk in this context means managing the risk of loss, such as costs of property damage, resulting from the Public Utilities Commission's activities. Risk management includes:

- Identifying the types of risks which have or potentially could result from the Public Utilities Commission's activities.
- Evaluating the potential for loss, either because the Public Utilities Commission has frequent exposure to specific types of risks, such as vehicle-related accidents, or certain risks could result in high costs, such as significant property damage from flooding.
- Planning and implementing a loss prevention program to reduce risk exposure, such as drivers training and safety programs to reduce vehicle accidents.

The designated risk manager should (a) coordinate loss prevention programs among the Clean Water, Water, and Hetch Hetchy Enterprises and (b) develop measures and reporting mechanisms to monitor the effectiveness of the loss prevention program. Also, the designated risk manager should conduct trend analyses to track the Public Utilities Commission's actual claims and litigation experience, annual claims and litigation costs, and reported liability in the audited financial statements. The General Manager should report quarterly to the Public Utilities Commission on the risk management measures and the trend analysis.

The Public Utilities Commission's Workers' Compensation Costs

The Public Utilities Commission is self-insured for workers' compensation claims, as is the City of San Francisco as a whole. The Department of Human Resources Workers' Compensation Division manages workers' compensation claims on behalf of City departments. The Public Utilities Commission pays the Department of Human Resources for claims management and for the medical, indemnity, and other direct costs of workers' compensation.

Workers' Compensation Claims, Liability, and Annual Payments

The Public Utilities Commission faces significant risk from high workers' compensation annual expenditures and outstanding liability. From FY 1999-2000 through FY 2003-2004, the Public Utilities Commission's accrued liability for workers' compensation has

increased by 204 percent, with a compound growth rate of 32 percent annually, from \$6.17 million in FY 1999-2000 to \$18.77 million in FY 2003-2004, as shown in Table 9.4.

Table 9.4

Estimated Annual Increase in the Public Utilities Commission's Current and Long Term Accrued Workers' Compensation Liability

FY 1999-2000 through FY 2003-2004

	FY 1999-2000	FY 2000-2001	FY 2001-2002	FY 2002-2003	FY 2003-2004	Annual Growth Rate
Current Liability	\$1,617,000	\$1,695,000	\$2,757,000	\$3,287,000	\$3,854,000	24%
Long Term Liability	<u>4,553,000</u>	<u>5,259,000</u>	<u>8,870,000</u>	<u>12,257,000</u>	<u>14,917,000</u>	35%
	\$6,170,000	\$6,954,000	\$11,627,000	\$15,544,000	\$18,771,000	32%

Source: Audited Financial Statements

The City contracts with an actuary, Tillinghast-Towers Perrin, to evaluate the City's current and long term workers' compensation liability and identify the needed reserves to cover the liability. According to the actuarial report, the Public Utilities Commission's accrued workers' compensation liability include (a) case reserves, or the amount expected to be paid in the future based on the known facts of open claims, (b) development of known claims, or the expected increases in known claims resulting from changing conditions or information, and (c) incurred but not reported claims, which includes late-reported claims and re-opening of claims.

Over the past three years, the Public Utilities Commission's actual annual workers' compensation payments have decreased from \$4.1 million in FY 2002-2003 to \$3.1 million in FY 2004-2005.

Table 9.5

**The Public Utilities Commission's Workers' Compensation Payments
FY 2002-2003 through FY 2004-2005**

	FY 2002-2003	FY 2003-2004	FY 2004-2005	Average Annual Percentage Increase/ (Decrease)
Indemnity	\$1,939,454	\$1,702,969	\$1,632,681	(8%)
Medical	1,862,064	1,446,755	1,324,658	(16%)
Vocational Rehabilitation	244,188	82,148	118,558	(30%)
Other Expenses	<u>63,853</u>	<u>57,811</u>	<u>40,794</u>	(20%)
Total Workers Compensation Payments	\$4,109,560	\$3,289,684	\$3,116,691	(13%)

Source: Department of Human Resources Workers' Compensation Division

The number of new workers' compensation claims and total open claims has also decreased, but the number of open workers' compensation claims equals 18 percent of the total number of full time equivalent positions.

Table 9.6

**Total Open Workers' Compensation Claims
FY 2002-2003 through FY 2004-2005**

	As of June 30, 2003	As of June 30, 2004	As of June 30, 2005
Total Workers Compensation Claims	389	372	377
Total PUC Full Time Equivalent Positions	1,977	2,118	2,116
Workers Compensation Claims as a Percent of Positions	20%	18%	18%

Source: Department of Human Resources Workers' Compensation Division

The number of new workers compensation claims filed in FY 2004-2005 decreased compared to FY 2002-2003. In FY 2002-2003, 277 of the 389 workers compensation

claims were new claims but in FY 2004-2005, 244 of the 377 workers compensation claims were new claims, representing an annual average decrease of six percent.

Workers' compensation claims consist of claims for medical expenses only and claims that require indemnity payments, such as temporary disability payments. In FY 2004-2005, the number of indemnity claims equaled 73 percent of all open claims and 65 percent of all new claims.

Injuries that result in lost work days drive up workers' compensation costs, not only due to indemnity payments, such as payments for temporary disability, but also for lost productivity or back filling vacant positions. As noted in Table 9.7, the number of lost work days per 100 employees has decreased between 2002 and 2004.

Table 9.7

Number of Lost Work Days due to Work Injuries per 100 Employees by Division

Calendar Year 2002 to Calendar Year 2003

	Calendar Year 2002	Calendar Year 2003	Calendar Year 2004	Annual Increase/ (Decrease)
Water Supply and Treatment (Water Enterprise)	274.6	218.9	263.0	(2%)
City Distribution Division (Water Enterprise)	975.5	579.6	269.5	(47%)
Water Pollution Control (Clean Water Enterprise)	672.6	449.0	572.5	(8%)
Hetch Hetchy Enterprise	45.1	153.7	143.1	78%
PUC Administration	45.5	108.5	1.3	(83%)

Source: Public Utilities Commission's Annual Reports to the California Occupational Health and Safety Agency

Although the Public Utilities Commission's annual workers' compensation payments, new claims, and lost work days have decreased over the past three years, the Public Utilities Commission's accrued workers' compensation liability has increased significantly over time, as shown in Table 9.4. While workers' compensation accrued liability represents the Public Utilities Commission's workers' compensation costs over time, annual workers' compensation payments represent current year expenditures only.

The State of California implemented workers' compensation reforms in April, 2004, that included a two-year cap on temporary disability payments for most types of injuries, incentives for workers to return to work, and stricter guidelines for determining permanent disability. Further, temporary disability and permanent total disability benefit payments have increased annually in 2003 through 2005. According to Tillinghast-

Towers Perrin, the new State law provisions are expected to result in FY 2004-2005 workers' compensation savings of 9 percent and should result in additional savings in future years.

The Public Utilities Commission's Injury and Illness Prevention Program

The most effective method of reducing workers' compensation costs is to reduce workplace injuries. The Public Utilities Commission has an established injury and illness prevention program that is administered by the Public Utilities Commission's Human Resource Service Health and Safety Unit.

The injury and illness prevention program outlines the General Manager's, Assistant General Managers', division and bureau managers', and supervisors' and employees' accountability and responsibility for maintaining effective health and safety programs. managers the injury and illness prevention program. The components of the injury and illness prevention program include:

- Evaluating and enforcing employees' compliance with health and safety requirements;
- Training manuals and programs to educated employees on health and safety policies and injury prevention procedures;
- Assessing and correcting potential hazards; and
- Investigating and accidents.

The Public Utilities Commission-wide safety committee meets monthly. A review of agenda items shows that managers from the divisions with the highest incidence of work-related injuries routinely attended the safety committee meetings. Also, workers' compensation costs are charged to the appropriate budgets so that managers become responsible for these costs in their budgets.

The Public Utilities Commission's Health and Safety Manager has identified some continuing weaknesses in the illness and injury loss prevention program, including a need to strengthen the relationship with the Capital Improvement Program and a need to continue to reduce the incidence of injuries in the City Distribution Division.

The Public Utilities Commission's Modified Duty Program

The Public Utilities Commission has only recently begun to actively manage workers' compensation claims by returning injured workers to modified duty. Prior to FY 2004-2005, each Public Utilities Commission division was responsible for identifying opportunities for returning injured workers to modified duty within the division. In FY 2004-2005, the Public Utilities Commission created a new position in the Human Resource Services Section to manage the modified duty program.

The Public Utilities Commission has a written policy covering the modified duty program. According to the Workers' Compensation Manager, each workers' compensation case is handled individually. Health and Safety Unit staff, in conjunction with the employee's supervisor identify opportunities to return the injured worker to modified duty. Currently, the Public Utilities Commission does not have a centralized job bank, so that injured workers are only returned to work within their own division if a modified duty assignment is identified.

Measuring and Tracking the Effectiveness of the Illness and Injury Prevention and Modified Duty Programs.

The Public Utilities Commission needs to develop better measures and tracking of the illness and injury prevention and modified duty programs to ensure that these programs are effective. The financial measures (expenditures) provide conflicting results. The financial statements show that the Public Utilities Commission's accrued workers compensation liability had increased annually by 32 percent, from \$6.17 million in FY 1999-2000 to \$18.77 million in FY 2003-2004. On the other hand, between FY 2002-2003 and FY 2004-2005, the Public Utilities Commission's annual workers' compensation payments decreased by approximately 24.4 percent, from \$4.1 million in FY 2002-2003 to \$3.1 million in FY 2004-2005.

The Department of Human Resources Workers' Compensation Division currently provides trends analysis in reported claims by quarter. The Human Resource Services Health and Safety Unit prepares annual (a) illness and injury rate reports, based on data provided to the California Occupational Safety and Health Administration, and (b) injury analysis reports of the nature and cause of injuries.

The Director of Human Resource Services should measure the performance of the modified duty program and report annually to the Public Utilities Commission. One measure would be to track temporary disability payments prior to the formal implementation of the modified duty program and periodically thereafter, to determine if the modified duty program has resulted in decreases in temporary disability payments. This measure should be adjusted to account for changes in State law.

Also, the Director of Human Resource Services should develop best practices for the modified duty program. The City of San Francisco has no citywide policy for a modified duty program, and each City department develops the program based on department resources. The Director of Human Resource Services should work with the Department of Human Resources Workers' Compensation Division to identify successful modified duty programs in other agencies.

The Director of Financial Services should report annually to the Public Utilities Commission on the accrued workers' compensation liability, including (a) increases or decreases in accrued liability over time and (b) causes for increases or decreases in accrued liability.

Conclusions

The Public Utilities Commission has failed to develop a risk management program to manage the Public Utilities Commission's exposure to claims and legal judgements resulting from the Public Utilities Commission's activities, despite paying more than \$6.2 million over the past five years to settle claims or litigation cases. Because responsibility for risk management should reside at the executive management level, the General Manager needs to designate the Assistant General Manager, Business Services as the risk manager for the Public Utilities Commission.

The Public Utilities Commission has only recently begun to actively manage workers' compensation claims by returning injured workers to modified duty. The Public Utilities Commission lacks any measures to determine if the modified duty program is effective. The Public Utilities Commission needs to develop better measures and tracking of the illness and injury prevention and modified duty programs to ensure that these programs are effective.

Recommendations

The Public Utilities Commission General Manager should:

- 9.1 Designate the Assistant General Manager, Business Services, as the risk manager for the Public Utilities Commission.
- 9.2 Direct the Assistant General Manager, Business Services to:
 - (a) Coordinate loss prevention programs among the Clean Water, Water, and Hetch Hetchy Enterprises.
 - (b) Develop measures and reporting mechanisms to monitor the effectiveness of the loss prevention program.
 - (c) Conduct trend analyses to track the Public Utilities Commission's actual claims and litigation experience, annual claims and litigation costs, and reported liability in the audited financial statements.
- 9.3 Report quarterly to the Public Utilities Commission on (a) the status of the loss prevention programs, (b) the risk management measures, and (c) the trend analysis.

The Director of Human Resource Services should:

- 9.4 Measure the performance of the modified duty program and report annually to the Public Utilities Commission on the performance measures.
- 9.5 Work with the Department of Human Resources Workers' Compensation Division to identify successful modified duty programs in other agencies and

develop best practices for the Public Utilities Commission's modified duty program.

The Director of Financial Services should:

- 9.6 Report annually to the Public Utilities Commission on the accrued workers' compensation liability, including (a) increases or decreases in accrued liability over time and (b) causes for increases or decreases in accrued liability.

Costs and Benefits

The Public Utilities Commission would reduce its risk of loss, such as property damage, by developing a formal risk management program to identify exposure and develop a loss prevention program. In FY 2004-2004, the Public Utilities Commission paid \$1.6 million in claims and litigation settlement costs. A five percent decrease in claims and litigation payments would save the Public Utilities Commission \$80,000 annually.

By better identifying modified duty program best practices and performance, the Public Utilities Commission could return injured workers to work and reduce workers' compensation payments. Based on \$1.6 million in workers' compensation indemnity payments in FY 2004-2005, a five percent decrease in workers' compensation indemnity payments would save the Public Utilities Commission \$80,000 annually.

10. Improving Human Resource Processes

- **The Public Utilities Commission's process to hire a new employee takes five months, on average. The Public Utilities Commission's Human Resource Services Section is responsible for all aspects of the hiring process, but the Section has most control over the timeline from the date that the requisition is approved to the date that an applicant pool is provided to the requesting division. Although the average time for the Human Resource Services Section to provide a list of applicants to the requesting division once the requisition has been approved was 40 days, the timeline ranged as high as 191 days, or 6.4 months.**
- **The Human Resource Services Section has not previously measured or fully analyzed the hiring process. The Human Resource Services Section is planning to implement an automated Work Flow system, with a possible implementation date in the Fall of 2005. As part of the implementation, the Human Resource Services Section has developed policies and procedures, and a flow chart, to map the hiring process, which will establish timelines for Human Resource Services staff to review the division's request to fill a vacant position and submit the position requisition to the Mayor's Office, Controller's Office, and the Department of Human Resources for review, but do not establish timelines for other parts of the hiring process. The Public Utilities Commission's Director of Human Resource Services should establish and measure timelines for all steps of the hiring process.**
- **The Human Resource Services Section provides both oversight and services for the Public Utilities Commission's payroll and personnel functions, but has not fulfilled these roles consistently. Until now, the Human Resource Services Section has not provided standardized personnel policies and procedures to the operating divisions, although the Human Resource Services Section has finally written draft personnel procedures for the Public Utilities Commission as a whole. The Human Resource Services Section needs to improve communication with the Public Utilities Commission's operating divisions, and should implement service agreements, which includes staff contacts, response times to requests for information, turnaround time for specific processes, and procedures to resolve complaints or disputes. The service agreements should also include regular meetings and sharing of information as needed to ensure that staff in the Human Resource Services Section and operating divisions understand their respective roles and responsibilities.**

- **In FY 2004-2005, the Public Utilities Commission identified 152 positions for which the incumbent's working classification differed from the position's budgeted classification. Of these 152 positions, the Public Utilities Commission requested reclassification for only 28 positions, or 18.4 percent, in the FY 2005-2006 budget. The total budgeted cost of these positions is \$10.5 million, compared to an actual cost of \$9.65 million, resulting in over-budgeting by approximately \$850,000. By budgeting positions to reflect the actual working classification, the Public Utilities Commission could reallocate up to \$850,000 without increasing its budget.**
- **Although the Public Utilities Commission has used three different timekeeping systems to facilitate payroll processing, the Public Utilities Commission will convert fully to its own enterprise timekeeping system, eTime, during FY 2005-2006. Conversion to eTime will facilitate payroll processing, reducing ongoing Human Resource Services staffing needs. Therefore, the Human Resources Services should reduce two 1222 Senior Payroll/Personnel Clerk positions in the FY 2006-2007 budget, after full conversion to the eTime system, resulting in annual salary and fringe benefit savings of approximately \$150,000.**

The Public Utilities Commission's Human Resource Services

The Public Utilities Commission's Human Resource Services provides all the human resource functions generally provided by the City's Department of Human Resources. Human Resource Services is divided into five main functions:

- Staffing, including recruitment, examination, and hiring functions;
- Employee relations, including requisition processing for newly hired employees, implementation of memoranda of understanding with employee organizations, processing grievances and disciplinary actions, and managing workers' compensation claims;
- Equal employment opportunity, including investigating and acting on discrimination or harassment claims;
- Payroll, including processing the Public Utilities Commission's employee payroll; and
- Health and safety, including responsibility for the Public Utilities Commission's injury and illness prevention program.

Additionally, the Human Resource Services has assigned staff to coordinate training and special projects, such as the development of the Public Utilities Commission's position inventory system.

During the five-year period from FY 1999-2000 through FY 2004-2005, the Human Resource Services budget increased by approximately 11 percent, from \$3.7 million in FY 2000-2001 to \$4.2 million in FY 2004-2005. The number of full time positions in the Human Resource Services budget increased from 42 positions in FY 1999-2000 to 43 positions in FY 2004-2005. In addition to the 43 positions providing personnel and payroll services, the Health and Safety Unit was transferred from the Bureau of Environment and Regulatory Management Section to the Human Resource Services Section during FY 2004-2005, in accordance with the Budget Analyst's recommendation during Phase I of the management audit.

Increasing Efficiency in the Hiring Process

One of the Public Utilities Commission's core functions is recruiting and hiring new employees. These functions are divided between two units, Staffing and Employee Relations. The hiring process consists of several phases, which begins when the operating division submits a requisition request to fill a vacant position. The Staffing Unit processes the requisition, including reviewing and recommending the position classification if necessary. The Employee Relations Unit submits the position requisition to the Mayor's Office, Controller's Office, and the Department of Human Resources for approval. Once the position requisition has been approved, the Staffing Unit recruits for the position by either (a) requesting an eligibility list from the Department of Human Resources if a current eligibility list exists, or (b) developing and conducting an exam for the position. The Staffing Unit is responsible for the hiring process until a candidate is selected for the position. The Employee Relations Unit is responsible for processing the candidate for hire.

During the 2000 review of year one of the Public Utilities Commission's contract with the San Francisco Water Alliance, the Budget Analyst found that the Public Utilities hiring process, from the time that the operating division submitted the requested requisition to the Public Utilities Commission's Human Resource Services Section until the selected candidate's start date ranged from eight to 17 months. Since that time, the Public Utilities Commission has shortened the hiring process. In FY 2004-2005, the average time to hire a new employee into a vacant permanent civil service position was 153 days, or 5.1 months¹, which includes:

- 52 days from the date that the position requisition is submitted to the Mayor's Office, Controller's Office, and Department of Human Resources for review to the date of approval.
- 40 days from the date that the requisition is approved to the date that an applicant list is available to the division requesting to hire the position.
- 61 days from the date that the applicant list is available to the requesting division to the selected employee's start date.

¹ The average time is based on 46 permanent civil service positions hired in FY 2004-2005.

The Human Resource Services Section is responsible for all aspects of the hiring process, but the Section has most control over the timeline from the date that the requisition is approved to the date that an applicant list is provided to the requesting division. Although the average time for the Human Resource Services Section to provide a list of applicants to the requesting division once the requisition has been approved was 40 days, then timeline ranged as high as 191 days, or 6.4 months.

Implementation of the Work Flow System

The Human Resource Services Section has not previously measured or fully analyzed the Public Utilities Commission's hiring process. The Human Resource Services Section is planning to implement an automated Work Flow system, with a possible implementation date in the Fall of 2005, which will consolidate the hiring process documents into an electronic system. This Work Flow system can track the progress of the position requisition as it moves through the steps of the hiring process. As part of the implementation, the Human Resource Services Section has developed policies and procedure and a flow chart to map the hiring process. The policies and procedures establishes timelines for Human Resource Services staff to review the division's request to fill a vacant position and submit the position requisition to the Mayor's Office, Controller's Office, and the Department of Human Resources for review, but do not establish timelines for other parts of the hiring process.

According to the Human Resource Services, four possible measures of the Work Flow system are proposed, which include the timeline between:

- The date that the operating division requests a requisition to the date that the requisition is submitted into the Department of Human Resources' PeopleSoft system for review.
- The date that the requisition is submitted into PeopleSoft to the date that the requisition is approved by the Mayor, the Controller, and the Department of Human Resources.
- The date that the requisition is approved to the date that the Human Resource Services staff provide the eligibility list or applications to the requesting division.
- The date that the requesting division receives the eligibility list or application to the candidate selection date.

The Director of Human Resource Services should establish timelines for the steps of the hiring process and benchmark these measures against the established timelines.

Providing Services to the Public Utilities Commission's Divisions

The Human Resource Services Section provides (a) oversight for the Public Utilities Commission's payroll and personnel functions and (b) personnel services to the operating divisions. The Human Resource Services Section has not fulfilled these roles

consistently. Until now, the Human Resource Services Section has not provided standardized personnel policies and procedures to the operating divisions. Although some operating divisions, such as the Clean Water Enterprise's Water Pollution Control Division, have developed their own policies and procedures, development and application of personnel policies and procedures throughout the Public Utilities Commission have been inconsistent. The Human Resource Services Section has finally written draft personnel procedures covering attendance, leaves, political activity, timekeeping, and work hours, which are undergoing final review.

According to interviews with the Public Utilities Commission divisions' staff, the Human Resource Services Section needs to improve communication with the divisions, especially for the hiring process. Implementation of the proposed Work Flow system will allow operating division staff to track the movement of the position requisition through the hiring process, but the Director of Human Resource Services will need to ensure that Human Resource Services staff are available to discuss the status of hiring or other personnel transactions and to work with operating division staff to resolve problems.

As discussed in Section 1 of the management audit report, the Director of Human Resource Services Section should establish service agreements with the operating divisions that outline the Human Resource Services oversight and service responsibilities. The service agreement should spell out specific service requirements as appropriate, including (a) an identified Human Resource Services contact person, (b) timelines for responding to phone calls or requests for information, (c) turnaround time for specific processes, and (d) procedures to resolve complaints or disputes. The service agreements should also include regular meetings and sharing of information as needed to ensure that staff in the Human Resource Services Section and operating divisions understand their respective roles and responsibilities.

The Position Control Function

Currently, the Public Utilities Commission has limited position control but is in the process of implementing a new position control system. The new system, which is expected to be fully implemented by September of 2005, will allow the Public Utilities Commission to identify positions by the (a) position, (b) requisition, or (c) employee. The history of a position can be traced, including employees who held position previously, reassignment of positions between index codes, and substitution of positions. Also, the new position control system will be able to generate various inventory, vacancy, substitution, employee status, and index code reports to allow the Public Utilities Commission to better track positions.

Reconciling Position Inventory with the Budget

The Public Utilities Commission's new position control system is expected to contain more detailed and accurate position information than in the current system. The Financial Services Section staff will have access to position control reports, including reports that specify actual compared to budgeted positions.

In FY 2004-2005, the Public Utilities Commission identified 152 positions in which the classification in which the incumbent was working differed from the position's budgeted class. Of these 152 positions, the Public Utilities Commission requested reclassification for only 28 positions, or 18.4 percent, in the FY 2005-2006 budget. The total budgeted cost of these positions is \$10.3 million, compared to an actual cost of \$9.5 million, resulting in over-budgeting by approximately \$800,000.

The Financial Services Section needs to review all positions in which the actual position differs from the budgeted position and revise the position in the annual budget. By not budgeting positions to reflect the actual classification, the Public Utilities Commission is tying up approximately \$850,000 annually that could be allocated to other purposes.

Changes to Existing Payroll Processes

Until May of 2005, the Public Utilities Commission used three timekeeping systems to facilitate payroll processing, which included the system previously used by the Department of Public Works to manage Clean Water Enterprise timekeeping, the Public Utilities Commission's existing in-house system, and the system established for the Capital Improvement Program. The Public Utilities Commission will convert fully to its own enterprise timekeeping system, eTime, during FY 2005-2006. Conversion to eTime will facilitate payroll processing, reducing ongoing Human Resource Services staffing needs. Therefore, the Human Resources Service should reduce two 1222 Senior Payroll/Personnel Clerk positions in the FY 2006-2007 budget, after full conversion to the eTime system, resulting in annual salary and fringe benefit savings of approximately \$150,000.

Conclusions

The Public Utilities Commission has several inefficient human resource practices, including hiring and position control. The 10 to 17 month timeline to hire a new position harms the Public Utilities Commission's ability to hire qualified individuals to meet its operating needs. Although the Public Utilities Commission is implementing a new position control system that will allow the department to better track and monitor positions, the Public Utilities Commission has not ensured that actual positions will be included accurately in the budget.

The Public Utilities Commission should set performance standards for its hiring process. By streamlining the process when possible, establishing timelines, and benchmarking performance against the timelines, the Public Utilities Commission's Director of Human Resource Services could ensure a more efficient and timely hiring process.

The Public Utilities Commission should also ensure that when the actual working position classification differs from the budgeted classification, the budget is revised to reflect the actual classification. The Public Utilities Commission over-budgets by approximately \$800,000 annually because it does not revise budgeted positions to reflect actual classifications. By budgeting positions to reflect actual classifications, the Public Utilities Commission could reallocate up to \$800,000.

Also, the Director of Human Resource Services should reduce staffing in the Payroll Unit once the eTime timekeeping system is fully operational to ensure cost-efficient payroll processing.

Recommendations

The Director of Human Resource Services should:

- 10.1 Evaluate the steps and timelines for recruiting and conducting exams for vacant positions and processing the selected candidate.
- 10.2 Establish timelines for specific stages of the hiring process and streamline steps in the hiring process when possible.
- 10.3 Establish performance measures for the hiring process, including meeting established timelines and preparing complete information.
- 10.4 Benchmark the Work Flow system measures against the timelines established for specific steps of the hiring process.
- 10.5 Reduce two 1222 Senior Payroll/Personnel Clerk positions in the FY 2006-2007 budget, after full conversion to the eTime system.

The Director of Financial Services should:

- 10.6 Review all Public Utility Commission positions in which the actual position differs from the budgeted position and revise the position in the annual budget.

Costs and Benefits

The Public Utilities Commission would save approximately \$150,000 in salary and fringe benefit costs by reducing staffing in the Human Resource Services Payroll Unit to correspond to actual staffing needs when the eTime timekeeping system is fully implemented in FY 2005-2006. The Public Utilities Commission would be able to reallocate up to \$800,000 in one-time savings by revising the budget to ensure that the budgeted classification for a position is the same as the working classification.

11. Automotive and Mobile Equipment Management

- As of March 14, 2005, 30 of 99 general purpose vehicles maintained by Central Shops for the Department, or approximately 30.3 percent, were overdue for the six-month preventive maintenance inspection. One of the vehicles had been overdue for the preventive maintenance inspection since November 19, 2004. Proper preventive maintenance is required to meet or exceed the expected useful life of a vehicle and to avoid costly repairs, thereby achieving savings in maintenance and replacement costs.
- The California Highway Patrol is responsible for regulating the safe operation of certain types of vehicles and has instituted safety programs covering vehicle maintenance requirements and a State driver license Employer Pull Notice Program for all drivers who are required to possess a Class A or Class B driver license. Each of the Department's operating divisions operates numerous vehicles requiring enrollment in the State's Employer Pull Notice Program, but these programs have not been consistently implemented among the operating divisions. For example, as discussed in Section 13 of this report, the City Distribution Division has not complied with the State's Employer Pull Notice Program. The Public Utilities Commission Fleet Manager has begun to implement a department-wide Employer Pull Notice Program, including enrolling in the program with the State and collecting information on employees required to enroll. The Fleet Manager should present a report to the Assistant General Manager, Business Services, on implementation of the Public Utilities Commission's department-wide Employer Pull Notice Program prior to December 31, 2005.

- **Although Section 4.10-1 of the City's Administrative Code incorporates all general purpose vehicles into the Fleet Management Program, only the general purpose vehicles of General Fund departments have thus far been included in the Lease – Charge Back Program.¹ The Budget Analyst recommends that the fleet management responsibilities of the 99 vehicles assigned to the Public Utilities Commission's headquarters that are currently maintained by Central Shops should be placed in the Lease – Charge Back Program under the administration of the Director of Administrative Services. By so doing, the vehicle base, over which the administrative costs of the City's Fleet Management Program is spread, would be increased, greater opportunities for City-wide carpool programs would be realized, and the Department's Manager, Fleet Operations and Management, would be relieved of carpooling and other management responsibilities for the 99 general purpose vehicles, thus providing additional time for managing the Department's 1,201 other pieces of automotive and other mobile equipment. The Budget Analyst estimates that the General Fund savings would equal approximately \$160,000 annually based on a ten percent reduction of the Fleet Management Program's General Fund cost of \$1.6 million in FY 2005-2006.**

Background

The Department is currently assigned a total of 1,300 vehicles and pieces of mobile equipment. Of the 1,300 vehicles and mobile equipment, 738 are general purpose vehicles, defined as non-emergency response automobiles, carts, and light-duty trucks and vans, and the remaining 562 are special purpose vehicles or pieces of equipment such as flatbed trucks, tractors, trailers, forklifts, mowers, and compressors. Included in the Department's general purpose fleet are 144 sedans and 18 SUVs (sports utility vehicles). Assignments of the vehicles and pieces of mobile equipment within the Department, along with the identity of the organization that performs maintenance on the equipment, are shown below.

¹ The Director of Administrative Services has established a Lease – Charge Back Program, whereby departments participating in the Fleet Management Program lease their general purpose vehicles from the Director of Administrative Services and are charged periodic lease payments to cover the maintenance of the vehicle, an administrative fee of \$10 per vehicle, and a cost element to cover the eventual replacement of the vehicle.

Table 11.1

**Public Utilities Commission
Vehicle and Mobile Equipment Assignments**

Facility	Number of General Purpose Vehicles	Number of Other Pieces of Equipment	Maintenance Performed by:
Public Utilities Commission Administration, including Customer Services	99	0	Central Shops
Water Pollution Control Division	171	137	Central Shops
Hetch Hetchy Water and Wholesale Power Division	83	77	Hetch Hetchy
City Distribution Division	202	228	City Distribution Division
Water Supply and Treatment Division	<u>183</u>	<u>120</u>	Water Supply and Treatment Division
Total	738	562	

The Department’s Fleet Management Initiative

Prior to FY 2004-2005, there was no centralized control of vehicles and mobile equipment within the Department; the Department's divisions managed their vehicles and mobile equipment individually. In November of 2004, the Department hired a Classification 0922 Manager I to head up a newly created Office of Fleet Operations and Management with responsibility for “the establishment, implementation, and maintenance of policies and procedures governing PUC city-owned mobile equipment.” The Manager, Fleet Operations and Management, has identified specific responsibilities of his office, as follows:

1. Specifying, acquiring, maintaining, and disposing of approximately 1,300 vehicles and heavy-duty mobile pieces of equipment.
2. Overseeing the services provided by the four Service Centers² that provide maintenance of the Department's fleet.
3. Providing alternatives to avoid fuel price volatility, and managing fuel costs.
4. Creating and implementing a vehicle and equipment replacement plan.

² The four Service Centers are the automotive shops at (a) the City Distribution Division, (b) the Hetch Hetchy Water and Wholesale Power Division, (c) the Water Supply and Treatment Division, and (d) the Central Shops.

5. Ensuring compliance with Environmental Protection Agency and Clean Air requirements, and reducing the number of high emission vehicles.
6. Implementing a comprehensive fleet safety policy that includes monitoring employees' driving records.
7. Establishing vehicle take home policies and procedures, and overseeing the management of such vehicles.
8. Developing and managing a Department-wide carpool program.
9. Determining the right size of the fleet for the Department.
10. Providing maintenance scheduling for the Department's carpool vehicles.
11. Assigning and redistributing all vehicles and heavy mobile equipment based on the needs of the organization.

The need for better management of the Department's general purpose vehicle fleet is exemplified in the following two deficiencies encountered by the Budget Analyst during the course of this audit:

1. As of March 14, 2005, 30 of 99 general purpose vehicles maintained by Central Shops for the Department, or approximately 30.3 percent, were overdue for the six-month preventive maintenance inspection. One of the vehicles had been overdue for the preventive maintenance inspection since November 19, 2004. Proper preventive maintenance is required to meet or exceed the expected useful life of a vehicle and to avoid costly repairs, thereby achieving savings in maintenance and replacement costs.
2. The California Highway Patrol is responsible for regulating the safe operation of certain types of vehicles. Accordingly, the California Highway Patrol has instituted safety programs covering vehicle maintenance requirements and a State driver license Employer Pull Notice Program for all drivers who are required to possess a Class A or Class B driver license. Each of the Department's operating divisions operates numerous vehicles requiring enrollment in the State's Employer Pull Notice Program. An employer enrolled in the State's Employer Pull Notice Program is assigned a requester code. The requester code is added to an employee's driver license record. When an employee's driver license is updated to record an Employer Pull Notice Program action/activity, a check is made electronically to determine if a pull notice is on file. If the action/activity is one that is specified to be reported under the State's Employer Pull Notice Program, a driver record is generated and mailed to the employer. The California Highway Patrol periodically checks sites required to be in the safety programs in order to determine compliance with the requirements.

The Budget Analyst tested the Employer Pull Notice Program at the City Distribution Division in order to determine whether required employees are enrolled and whether the individual Driver Record Information is current. We determined that the Employer Pull Notice Program at the City Distribution Division was non-existent. The only document concerning the Employer Pull Notice Program was a calendar year 2001 listing of those enrolled in the program. No individual Driver Record

Information forms were available for any of the 28 drivers required to be enrolled. According to City Distribution Division management, the person who had been overseeing the Employer Pull Notice Program had departed the organization and no one had subsequently assumed the responsibility.

The Department advises that the Department's new Fleet Manager has begun the process of centralizing the Employer Pull Notice Program for the Department. The Department has enrolled in the program and information on those employees requiring enrolment for all divisions is currently being collected by Human Resource Services.

The instances cited denote the need for management emphasis on vehicle maintenance and compliance with regulatory requirements. The Budget Analyst, in general, concurs with the initiative to enhance vehicle and mobile equipment management. However, concerning the fleet management responsibilities for the 99 vehicles assigned to the Public Utilities Commission's headquarters that are currently maintained by Central Shops, the Budget Analyst recommends that the fleet management responsibilities for those general purpose vehicles can be more effectively administered by the City's Director of Administrative Services, as explained in *The City's Fleet Management Program* part of this audit report section, which follows below.

The City's Fleet Management Program

Section 4.10-1 of the Administrative Code, *City-Owned and Leased Vehicles; Fleet Management Program*, provides for a Fleet Management Program to be administered by the Director of Administrative Services, including transfer of all general purpose vehicles owned, leased, or rented by the City to the City's Fleet Management Program.

Salient features of the Fleet Management Program as are follows:

- The legislation mandates that *all* general purpose vehicles “are hereby transferred to the jurisdiction of the Director of Administrative Services.”
- The Director of Administrative Services has primary authority over general purpose vehicles but may assign such vehicles for use by City officers and departments.
- The Director of Administrative Services shall adopt rules and regulations implementing the Fleet Management Program, “including rules covering: terms, conditions, and fees for assignment of vehicles by the Department of Administrative services to individual City officers and departments, vehicle maintenance programs; and vehicle replacement plans.”
- Fees charged “shall be used to pay for acquisition and replacement of vehicles, maintenance and repair, and other costs of administering the program.”
- “The Director of Administrative Services may make appropriate provision for vehicles previously acquired using special, dedicated or otherwise restricted funds.”
- The Director of Administrative Services is empowered to “establish, maintain and operate an automobile pool, the location of which shall be subject to the approval of

the Board of Supervisors by resolution ... Vehicles now or hereafter allocated to any department ... shall be transferred to the jurisdiction ... [of] the Purchaser of Supplies for assignment to and use in the automobile pool, whenever such transfer shall be authorized and directed by resolution of the Board of Supervisors.”

Although Section 4.10-1 of the Administrative Code incorporates *all* general purpose vehicles into the Fleet Management Program, only the general purpose vehicles of General Fund departments have thus far been included in the Lease – Charge Back Program. The Budget Analyst recommends that the fleet management responsibilities for the 99 vehicles assigned to the Public Utilities Commission's headquarters that are currently maintained by Central Shops should be placed in the Lease – Charge Back Program under the administration of the Director of Administrative Services. By so doing, the vehicle base, over which the administrative costs of the City's Fleet Management Program is spread, would be increased, greater opportunities for City-wide carpool programs would be realized, and the Department's Manager, Fleet Operations and Management, would be relieved of carpooling and other management responsibilities for the 99 general purpose vehicles, thus providing additional time for managing the Department's 1,201 other pieces of automotive and other mobile equipment.

Conclusions

The Department should continue with its initiative to enhance vehicle and mobile equipment management. The Manager, Fleet Operations and Management, should develop a plan, including a schedule or schedules, for implementing a program to administer the Department's general purpose and mobile equipment fleet in an effective and efficient manner.

The fleet management responsibilities of the 99 vehicles assigned to the Public Utilities Commission's headquarters that are currently maintained by Central Shops should be placed in the Lease – Charge Back Program under the administration of the Director of Administrative Services. The Budget Analyst estimates that the General Fund savings would equal approximately \$160,000 based on a ten percent reduction of the Fleet Management Program's General Fund cost of \$1.6 million in FY 2005-2006.

The instances of non-compliance with the California Employer's Pull Notice Program and 30 of 99 general purpose vehicles assigned to the Public Utilities Commission's headquarters, or approximately 30.3 percent, being overdue for scheduled preventive maintenance inspection indicate the need for management emphasis on vehicle maintenance and compliance with regulatory requirements.

Recommendations

The Public Utilities Commission General Manager should:

- 11.1 Transfer fleet management responsibilities for the 99 general purpose vehicles currently maintained by Central Shops to the Director of Administrative Services.
- 11.2 Emphasize the importance of vehicle maintenance including complying with preventive maintenance inspection schedules and complying with the State's Employer Pull Notice Program.
- 11.3 Direct the Fleet Manager to present a report to the Assistant General Manager, Business Services, on implementation of the Public Utilities Commission's department-wide Employer Pull Notice Program prior to December 31, 2005.

Costs and Benefits

The Budget Analyst's recommendations can be accomplished with existing staff in-house. The benefits of the recommendations would include spreading the administrative costs of the City's Fleet Management Program over a wider base, which would result in General Fund savings, and relieving the Department's Manager, Fleet Operations and Management, of managing a fleet of 99 general purpose vehicles that can more efficiently be administered by the City's Director of Administrative Services. The Budget Analyst estimates that the General Fund savings would equal approximately \$160,000 based on a ten percent reduction of the Fleet Management Program's General Fund cost of \$1.6 million in FY 2005-2006.

12. Maintenance and Materials Management

- Neither the Water Supply and Treatment Division nor the City Distribution Division have their own consolidated policies and procedures manuals to assist in controlling maintenance operations. The absence of up-to-date maintenance policies and procedures manuals is a serious deficiency that should be corrected on a priority basis. Further, neither Division has adequate maintenance management reporting. Such reporting is a basic and essential component of professional management.
- Although the MAXIMO Computerized Maintenance Management Software system is standard among all of the Public Utilities Commission's divisions, the divisions have not implemented the MAXIMO system uniformly.
- While the Water Supply and Treatment Division currently uses MAXIMO for material tracking, cost tracking, purchasing, and planning some preventive maintenance, it only uses MAXIMO minimally for planning work other than preventive maintenance work and not at all for scheduling maintenance operations, although the scheduling function is one of the major benefits of a computerized maintenance management software system.
- The City Distribution Division does not have adequate procedures for planning and scheduling maintenance work. Maintenance planning and scheduling is a vitally important aspect of maintenance effectiveness and efficiency. The City Distribution Division's use of MAXIMO for planning and scheduling is almost non-existent.
- Organizations with adequate planning and scheduling processes can achieve significant productivity improvement through implementation of a computerized maintenance management software system. The Budget Analyst conservatively estimates that a 5 percent improvement in overall productivity can be achieved in both Divisions' maintenance activities. A 5 percent productivity improvement would be the equivalent of approximately seventeen additional positions, which would otherwise cost approximately \$1,700,000 annually in base salaries and mandatory fringe benefits.

- **The Divisions' Materials Management Sections do not have documented mission statements, performance measures, or objectives. Further, the Materials Management Sections do not have policies and procedures manuals, which is a significant deficiency.**
- **The Water Supply and Treatment Division and City Distribution Division do not have adequate inventory records of tools and equipment. In response to a Budget Analyst request for a copy of the most recent inventory of shop tools and equipment, the Water Supply and Treatment Division's reply was that each supervisor or foreman is responsible for his or her crews' tools and equipment, but that there had not been an organized inventory of such equipment in some time. The City Distribution Division's reply was that the date of the last inventory is unknown, a copy of the inventory results does not exist, and that the Division would conduct an inventory by the end of the current fiscal year.**
- **The Water Supply and Treatment Division's most recent physical inventory was performed from June 29 through July 1, 2004. The before count inventory was \$429,987 and the after count inventory was \$420,206. Thus, the inventory "shrinkage" was \$9,781 or 2.27 percent of the before count inventory value. The auditor performed counts of various inventoried items at 14 bin locations and found that the counts matched the information in the computer records on 12 of the 14 counts. However, on more than one occasion, the storeroom staff had to search for additional bin locations in order to tally the item counts as contained in the computer records.**
- **The City Distribution Division's most recent physical inventory of its storeroom was performed on December 18 and 19, 2004. The before count inventory value was \$3,482,178 and the after count inventory value was \$3,404,532. Thus, the "shrinkage" was \$77,646, or 2.23 percent of the before count inventory value. The Budget Analyst performed counts of various inventoried items at six storage bin locations and found that the storage bin counts matched the information in the computer records on only three of the six counts.**

Divisions' Missions and Organizational Structures

The Water Supply and Treatment Division and the City Distribution Division are major organizational elements of the Public Utilities Commission's Water Enterprise. The other major elements of the Water Enterprise are: (a) Hetch Hetchy Water and Wholesale Power, (b) Water Quality, and (c) Natural Resources.

Water Supply and Treatment Division

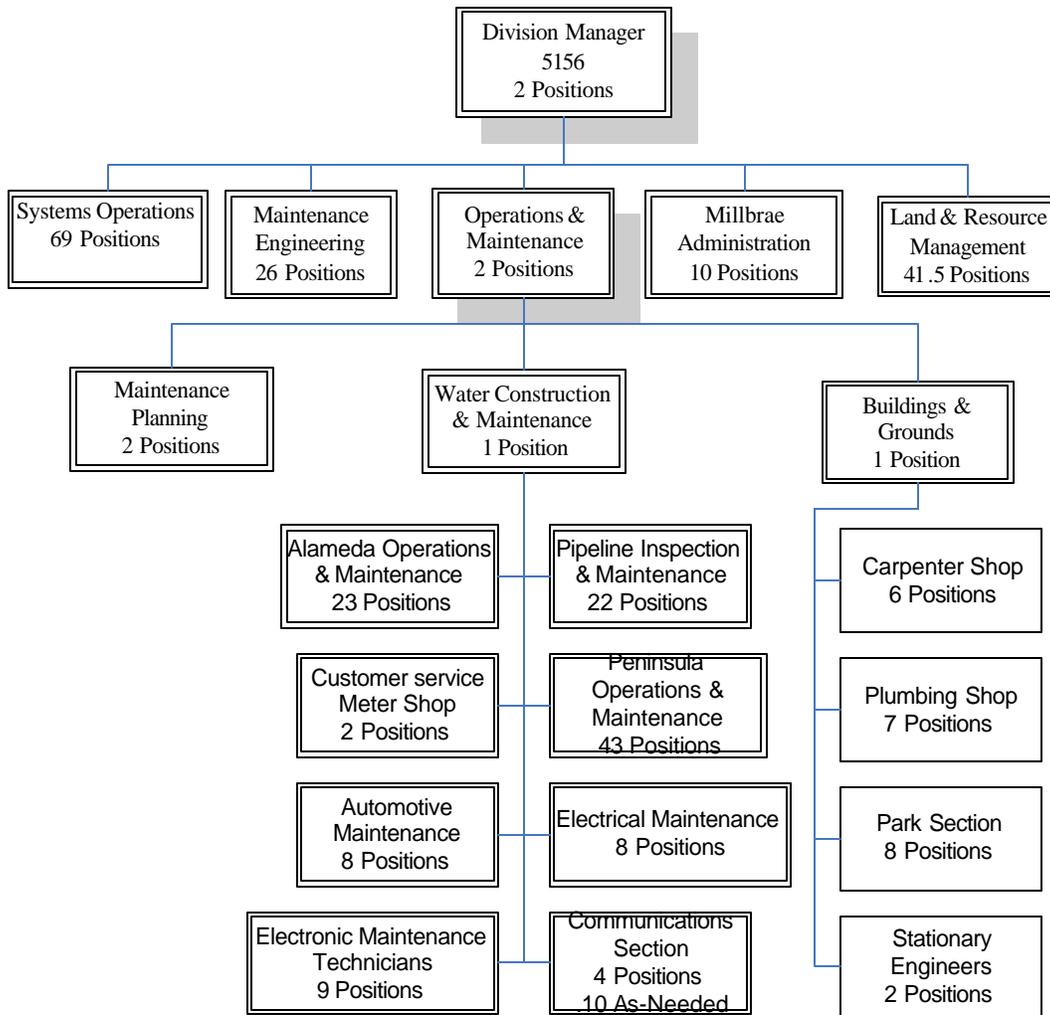
Water from Hetch Hetchy Reservoir is transported by gravity through approximately 121.6 miles of tunnels and pipes to the Alameda East Portal near Sunol in Alameda County, where responsibility for transport of the water is transferred from the Hetch Hetchy Water and Wholesale Power Division to the Water Supply and Treatment Division. The Water Supply and Treatment Division is responsible for supplying water to 28 municipalities in Alameda, Santa Clara, and San Mateo Counties, in addition to the City.

The mission of the Water Supply and Treatment Division is to operate as an effective, reliable water supplier while managing resources in an environmentally sound manner and supporting the health, productivity, and professional development of its employees. The mission of the Maintenance Section is to maintain regional water assets in a manner that supports these goals.

The Water Supply and Treatment Division organizational chart, with the maintenance organization elaborated, is shown in Exhibit 12.1 below:

Exhibit 12.1

Water Supply and Treatment Division Organizational Chart



Source: Water Enterprise Final Budget Book: 2004-2005

To accomplish its mission during FY 2004-2005, the Water Supply and Treatment Division is authorized 301.53 full-time equivalent (FTE) positions, including 276.5 FTE operating budget positions, 22 FTE capital-funded positions, and 3.03 FTE temporary positions. Funding in the amount of \$55,477,061 has been appropriated to the Water Supply and Treatment Division for FY 2004-2005 as shown in Table 12.1 below.

Table 12.1

**Water Supply and Treatment Division
Appropriated Funding – FY 2004-2005**

Water Supply and Treatment Division Organizational Element	Budgeted Amounts
Administration	\$22,357,481
Operations and Maintenance	14,342,063
Maintenance Engineering	2,436,781
Systems Operations Management and Treatment	11,354,315
Land and Resources Management	4,986,421
Total Appropriation	\$55,477,061

Source: Water Enterprise Final Budget Book: 2004-2005

The Board of Supervisors also appropriated \$24,345,000 in capital funds for Water Supply and Treatment Division projects in FY 2004-2005, including \$6 million for water main replacement and \$4 million for Peninsula Sportsman's Club Clean Up.

City Distribution Division

The mission of the City Distribution Division is to distribute high quality water reliably to San Francisco customers. The City Distribution Division assumes responsibility for the four transmission mains at the City's southern boundary and maintains those four transmission main lines to their endpoints, two each into the Sunset and the University Mound Reservoirs. Thereafter, water is distributed to City users through a system of transmission, feeder, and distribution mains, pumps, reservoirs, tanks, and service lines. Major roles included in the Division's mission are as follows:

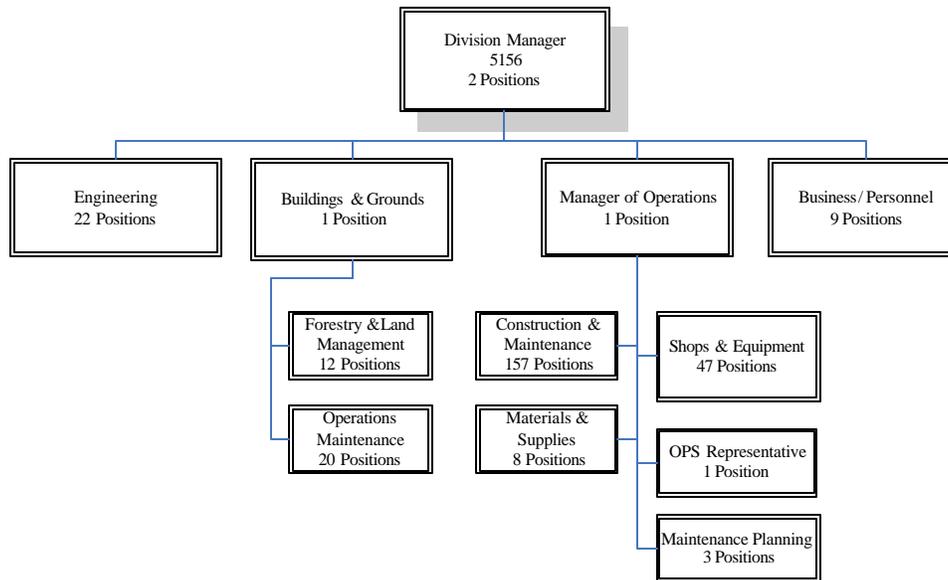
- Operate and maintain storage and distribution facilities to a high standard of safety and reliability.
- Maintain lands and properties consistent with public health and neighborhood concerns.
- Promote diversity and the health, safety, and professional development of City Distribution Division employees.

The City Distribution Division's responsibilities are all within the City's geographical boundaries. The City Distribution Division's primary responsibilities are to operate and

maintain water distribution facilities and provide equipment maintenance and other services as described below:

- Operate and maintain 22 pump stations, ten reservoirs, ten disinfection stations, seven storage tanks, eight pressure-reducing stations, and ancillary equipment within the City.
- Maintain 984 acres of San Francisco Public Utilities Commission property within the City.
- Maintain approximately 1,200 miles of water mains, as well as repair and replace service lines and connection/meters, and maintain 13,000 valves within the City, Yerba Buena Island, and Treasure Island.
- Replace over 5,000 water meters per year.
- Respond to all fires of two-alarms and above.
- Operate a 24-hour dispatch.
- Engineer and design water main, feeder extensions, and replacements.
- Distribute chloraminated water in San Francisco.
- Manage an equipment fleet consisting of 202 general-purpose vehicles and 228 other vehicles and pieces of motorized equipment.

To accomplish its mission during FY 2004-2005, the City Distribution Division is authorized 285.34 full-time FTE positions, including 212 FTE operating budget positions, 71 FTE capital-funded positions, and 2.34 FTE temporary positions. The City Distribution Division is organized into the major elements shown in Exhibit 12.2 below.

Exhibit 12.2**City Distribution Division
Organizational Chart**

Although funding in the amount of \$111,908,898 has been appropriated to the City Distribution Division for FY 2004-2005, as shown in Table 12.2 below, discretionary funding for the Division's operations and maintenance activities is only approximately \$37.9 million because a total of approximately \$74 million is designated for debt service payments (\$38.4 million), Public Utilities Commission Administrative Services (\$16.6 million), and water purchases (\$19 million).

Table 12.2
City Distribution Division
Appropriated Funding – FY 2004-2005

City Distribution Division Organizational Element	Budgeted Amounts
Maintenance Shops	\$5,051,246
Administration	65,613,892
Buildings and Grounds	6,310,134
Engineering	1,264,906
Construction and Maintenance	14,296,591
Departmental Transfer Adjustment ¹	19,037,000
Recovery for Services Performed	335,129
Total Appropriation	\$111,908,898

Source: Water Enterprise Final Budget Book: 2004-2005

The Board of Supervisors also appropriated capital funds in the amount of \$26,641,000 for City Distribution Division projects in FY 2004-2005, including \$6 million for water main replacement and \$4.415 million for rehabilitation of the City's largest reservoir, the Sunset Reservoir.

Maintenance Management Policies and Procedures

The maintenance operations of the Water Supply and Treatment Division and the City Distribution Division are unique in the City. The facilities, pumps, and apparatus for conveying water to the City's reservoirs, and thence to users via feeder and distribution water mains, are unlike those of other City departments. However, neither the Water Supply and Treatment Division nor the City Distribution Division have their own consolidated policies and procedures manuals to assist in controlling maintenance operations. The absence of up-to-date maintenance policies and procedures manuals is a serious deficiency that should be corrected on a priority basis. Policies and procedures serve multiple functions, including the following:

- A self-regulating control standard for performing work.
- An efficiency and effectiveness tool incorporating best practices or lessons learned.

¹ Transfer from the City Distribution Division to the Hetch Hetchy Water and Wholesale Power Division for purchases of water.

- A training tool for newly assigned personnel.

A maintenance policies and procedures manual serves to standardize such maintenance functions as setting maintenance priorities, controlling tools and equipment, recording maintenance time, providing an overview of MAXIMO, and providing means of increasing “wrench time.”² Examples of additional topics appropriate for inclusion in policies and procedures manuals are shown below in Table 12.3 below.

Table 12.3

**Maintenance Management Policies and Procedures
Manual Example Contents**

• Work Order Procedures	• Preventive Maintenance
• Backlog Tracking	• Warranty Tracking
• Daily Work Schedule	• Failure Analysis
• Weekly Maintenance Plan	• Contractor Control
• Job Card Procedure	• Job Control
• Work Assignment Monitoring	• Procedure and Form Revision
• Mechanical Inspection	• Management Reporting

Source: Water Pollution Control Division’s *Maintenance Management Policies and Procedures Manual*

A policies and procedures manual should be a dynamic document, continually incorporating updated information. The Water Supply and Treatment Division and the City Distribution Division can use appropriate sections of other departments’ policies and procedures manuals as starting points in the development of its own. However approached, a good policies and procedures manual is a guidance, control, and training tool that the two Divisions need to develop on a priority basis.

Maintenance Planning and Scheduling

Maintenance planning and scheduling is a vitally important aspect of maintenance effectiveness and efficiency. Effective maintenance operations can be planned and scheduled in a manual mode, as currently described in the Water Pollution Control Division’s *Maintenance Management Policies and Procedures Manual*, or, as is the practice in many organizations, using a computerized maintenance management software

² Productivity is frequently measured by “wrench time” which is defined as the amount or percentage of time that a craftsperson is actually using his or her tools to perform maintenance work. Wrench time is a measure of the craftsperson’s productivity and is impacted by a variety of factors, such as the amount of time spent waiting for parts, traveling to and from the job site for tools or materials, or waiting for equipment to be made available for maintenance.

system. Although the MAXIMO Computerized Maintenance Management Software system is standard among all of the Public Utilities Commission's enterprise departments, the enterprise departments have not implemented the MAXIMO system uniformly. The MAXIMO system was implemented beginning in 1999 and completed in mid-2000 at an approximate cost of \$350,000.

The Water Supply and Treatment Division and the City Distribution Division currently use the MAXIMO Computerized Maintenance Management Software system for material tracking, cost tracking, purchasing, and planning some preventive maintenance. However, the two Divisions use the MAXIMO Computerized Maintenance Management Software system minimally for planning work other than preventive maintenance work and not at all for scheduling maintenance operations, although the scheduling function is one of the major benefits of a computerized maintenance management software system.

The City Distribution Division does not have adequate procedures for planning and scheduling maintenance work. In that regard, the City Distribution Division's use of MAXIMO for planning and scheduling is almost non-existent.

The Water Supply and Treatment Division position authorizations for FY 2004-2005 include two Classification 7262 Maintenance Planner positions to lead the maintenance planning and scheduling functions. Both positions are filled.

The City Distribution Division's position authorizations for FY 2004-05 include three positions to lead the maintenance planning and scheduling functions, as follows:

- Classification 7263 Maintenance Manager.
- Classification 7262 Maintenance Planner.
- Classification 7205 Chief Stationary Engineer.

However, only the Chief Stationary Engineer position is filled, and the incumbent is not engaged in planning and scheduling.

Additionally, the Board of Supervisors approved one new Classification 7263 Maintenance Manager and one new Classification 7262 Maintenance Planner position in the FY 2005-2006 budget to support the proposed asset management program.

Because maintenance planning and scheduling is an important component of maintenance efficiency and effectiveness, the Assistant General Manager, Water should fill the vacant maintenance manager and maintenance planner positions and ensure that the Classification 7205 Chief Stationary Engineer is assigned to maintenance planning functions.

Need for Improved Planning and Scheduling of Maintenance Projects

As previously stated, wrench time is a critical determinant of maintenance productivity and, therefore, of a maintenance organization's effectiveness. Maintenance industry literature cites productivity rates, as measured by wrench time, of approximately 25 percent to 35 percent as typical for maintenance organizations performing maintenance operations similar to those of the Water Supply and Treatment Division and the City Distribution Division. Given the travel times to some of the facilities requiring maintenance, one-way travel times of up to 90 minutes for Water Supply and Treatment Division work sites and up to 30 minutes for City Distribution Division work sites are required. Under such conditions, failure to bring a critical tool or replacement part can drastically affect a day's productivity. Maintenance planning and scheduling can reduce such occurrences.

The Water Supply and Treatment Division and the City Distribution Division:

- Do not set or track productivity measures such as wrench time.
- Do not use the scheduling module in MAXIMO, which reportedly has deficiencies that are being fixed by the vendor.
- Use the MAXIMO planning module on a limited basis.

In order to reduce the percentage of non-productive time in its maintenance activities and improve its overall maintenance performance, the two Divisions should thoroughly integrate planning and scheduling into their maintenance operations, including using MAXIMO to the extent of that system's capabilities.

Organizations with adequate planning and scheduling processes can achieve significant productivity improvement through implementation of a computerized maintenance management software system. A 5 percent productivity improvement in the Water Supply and Treatment Division's maintenance activities would be the equivalent of approximately seven additional positions, which would otherwise cost approximately \$700,000 in base salaries and mandatory fringe benefits. A 5 percent productivity improvement in the City Distribution Division's maintenance activities would be the equivalent of approximately ten additional positions, which would otherwise cost approximately \$1,000,000 in base salaries and mandatory fringe benefits.

Maintenance Management Performance Measurement and Reporting

The Water Supply and Treatment Division and the City Distribution Division have inadequate maintenance management reporting. Reporting is a basic and essential component of professional management. Comparison of actual performance to planned accomplishment is absolutely necessary to an effective and efficient operation. Planning and controlling is a dynamic process: learning gained from actual experience should be incorporated into updated standards and into new plans. Accurate reporting is required by (a) maintenance managers in order to improve their operations, and (b) executive management in order to assess the performance of maintenance management and to

coordinate the activities or operations and support functions with the maintenance function.

Although the Water Supply and Treatment Division and the City Distribution Division collect data on time charged to work order, they do not enter reliable estimated times into the MAXIMO system. As a consequence, the two Divisions are unable to measure productivity (actual hours of work performed compared to estimated hours of work to be performed). Further, in order to determine compliance (all hours compared to planned hours), all outstanding work and performance measures must be entered into MAXIMO, but the two Divisions do not enter all performance measures.

The Water Pollution Control Division reports its maintenance performance quarterly for the months ending in March, June, September, and December by publishing a *Management by Objectives Report*; however, the Water Supply and Treatment Division and City Distribution Division do not produce such a report. The *Management by Objectives Report* produced by the Water Pollution Control Division uses efficiency and effectiveness ratios and other metrics that show the performance of most of the maintenance crews and related disciplines assigned to the its Maintenance Section. The primary metrics developed are shown in Table 12.4 below:

Table 12.4

Management by Objective Report Characteristics

Report Section Name	Type Measure	Numerator	Denominator
Productivity	Efficiency	Estimated Hours Required to Complete the Job	Actual Hours Expended to Complete the Job
Compliance	Effectiveness	Hours of Priority 1 Work Planned	Hours of All Work Performed
Backlog	Combination Efficiency and Effectiveness	Work Planned, In Progress, and Awaiting Completion	None

Source: Budget Analyst' analysis of *Management by Objectives Report*

The *Management by Objectives Report* is a useful management tool. The Water Supply and Treatment Division and the City Distribution Division should produce their own *Management by Objectives Reports*. As the Budget Analyst recommended in the Water Pollution Control Division component of the *Phase I Public Utilities Commission Management Audit-Clean Water Enterprise Fund* report, the two Divisions should add to the usefulness of the report by setting standards for each of the management by objectives measures, adjusted for seasonal variations.

The City Distribution Division Manager should compare the newly established MAXIMO performance measures for the City Distribution Division against measures proposed in American Water Works Association literature and the literature of other

water associations, and incorporate additional and/or replacement performance measures as deemed appropriate. Further, the City Distribution Division Manager should ensure the accuracy of the data collected and reported on actual performance.

Using MAXIMO Data to Justify and Analyze Resource Requests

The MAXIMO Computerized Maintenance Management Software system has extensive data collection and reporting capabilities, including backlog, planned work, and maintenance history data. Given these capabilities, the Water Supply and Treatment Division and City Distribution Division's requests for maintenance resources should be accompanied by backlog, planned work, and maintenance history data.

The Public Utilities Commission is currently undertaking implementation of a department-wide asset management program, which includes identifying all assets, including historical costs, maintenance history, and projected future costs and lifespan. In conjunction with the asset management program implementation, the Water Supply and Treatment Division and the City Distribution Division should develop accurate workload data, such as preventive maintenance work required by each asset.

Materials Management

The mission of the Water Supply and Treatment Division and the City Distribution Division's materials management staff members is to provide required materials at the correct location, at an economical cost, and in a timely manner. Their three functions are:

- Procurement: the function of procurement is to procure materials, equipment, and spare parts at an economical price and in a timely manner.
- Inventory Control: the function of inventory control is to ensure that the storeroom is stocked with critical items and items whose usage warrants stocking.
- Storeroom Operation: the function of the storeroom is to receive, store, issue, or deliver material to users in the most efficient means available.

The Water Supply and Treatment Division's materials management function has six permanent positions, as follows:

- Classification 1936 Senior Storekeeper.
- Classification 1930 Warehouse Worker.
- Classification 1934 Storekeeper.
- Classification 1950 Assistant Purchaser.
- Classification 1632 Senior Accounting Clerk (two positions).

The City Distribution Division's materials management function has eight permanent positions, as follows:

- Classification 1944 Materials Coordinator (the employee holding this lead position has been on an extended absence).
- Classification 1950 Assistant Purchaser (two positions).
- Classification 1934 Storekeeper (four positions).
- Classification 1920 Inventory Clerk.

Lack of a Materials Management Policies and Procedures Manual

The Water Supply and Treatment Division and the City Distribution Division’s Materials Management Sections do not have a documented mission statement, performance measures, or objectives. Further, the Materials Management Sections do not have policies and procedures manuals, which is a significant deficiency.

Examples of topics covered in materials management policies and procedures manuals are as follows:

Table 12.5

Materials Management Policies and Procedures Manual Example Contents

• Policy and Functions of Materials Management	• Authorization to Withdraw Materials from the Warehouse
• New Stock Requests	• Receiving
• Warehouse Issues and Credits	• Bin Locations
• Warehouse Scheduled Deliveries	• Low Value Items (Free Stock)
• Back Orders and Stock Reservations	• Repaired Components (Stock)
• Inventory Stratification	• Cost of Ordering and Cost of Carrying
• Active Inventory	• Inactive Inventory
• Technical Review	• Cycle Inventory
• Purchase Requisitions	• Management Reporting

Source: Water Pollution Control Division’s *Maintenance Management Policies and Procedures Manual*

The Water Supply and Treatment Division Manager advises that the development of a policy and procedures manual for the Water Supply and Treatment Division is a priority work item for FY 2005-2006 and a task force of operations, maintenance, treatment plant, and administrative staff has already begun meeting.

Storeroom Operations

Water Supply and Treatment Division

The Water Supply and Treatment Division's main storeroom, located at the Division's facility at 1000 El Camino Real, Millbrae, contains approximately 1,290 line items, including automotive items. A much smaller storeroom at the Sunol facility contains approximately 240 line items.

The Water Supply and Treatment Division's most recent physical inventory was performed from June 29 through July 1, 2004. The before count inventory was \$429,987 and the after count inventory was \$420,206. Thus, the inventory "shrinkage" was \$9,781 or 2.27 percent of the before count inventory value.

The auditor performed counts of various inventoried items at 14 bin locations in order to obtain an indication of the accuracy of the information contained in the computer records. The counts matched the information in the computer records on 12 of the 14 counts, although some of the items checked were located in more than one bin location because of physical limitations. On more than one occasion, the storeroom staff had to search for additional bin locations in order to tally the item counts as contained in the computer records.

The bin location labels were difficult to read in some instances and require cleaning or replacement. The layout of the bin locations and the facility itself are sub-par when compared to the storerooms at the Water Pollution Control Division and the Hetch Hetchy Water and Wholesale Power Division.

The Budget Analyst obtained a listing from the Water Supply and Treatment Division storeroom staff of inventory items with zero issues for the six-month period of August 17, 2004 through February 17, 2005. The listing includes 551 line items with a total value of \$89,827. Many are very low unit cost items such as fuel and oil filters; however, some items, such as couplings, flanges, and valves have unit costs in the hundreds of dollars. The Water Supply and Treatment Division Manager should direct a review of inventory items for the purpose of determining which items should be stocked regardless of demand history, which items should be retained in inventory but only reordered when there is a demand, and which items should be reported for disposal.

City Distribution Division

The City Distribution Division's main storeroom at 1990 Newcomb Avenue is spacious and stores approximately 1,000 line items, some of which are very large, plus automotive items which are stored in the automotive shop. In addition to the main storeroom and much smaller ancillary storerooms located at 1990 Newcomb Avenue, the Materials Management Section stores many items outside in the maintenance yard and at the University Mound Reservoir.

The City Distribution Division's most recent physical inventory of its storeroom was performed on December 18 and 19, 2004. The before count inventory was \$3,482,178 and the after count inventory, as noted above, was \$3,404,532. Thus, the "shrinkage" was \$77,646, or 2.23 percent of the before inventory value.

The Budget Analyst performed counts of various inventoried items at six storage bin locations in the main storeroom in order to obtain an indication of the accuracy of the information contained in the computer records. The storage bin counts matched the information in the computer records on only three of the six counts, which compares unfavorably to the tests performed at the two other Water Enterprise Divisions and at the Water Pollution Control Division.

As previously stated, the Classification 1944 Materials Coordinator who heads the Materials Management staff has been on an extended absence in excess of one year. The permanent classification of the Acting Materials Coordinator is Classification 1934 Storekeeper. In response to inquiries concerning the \$77,646 shrinkage between the before count inventory and after count inventory and the results of the storage bin count tests, the Acting Materials Coordinator and one of the storekeepers attributed the inventory reconciliation discrepancies to the following causes:

- Human Error: improper issues and returns.
- Human Error: inaccurate inventory counting.
- Warehouse access during non-regular duty hours.
- Unsecured inventory in the maintenance yard.

Currently, supervisors in need of material from the storeroom after regular duty hours obtain the key to the storeroom from the Communications Office and gain access. The supervisor is supposed to fill out an issue tag for any items removed from the storeroom; however, according to the storekeeper, that policy is not practiced, and there has not been an issue tag completed in the last two or three years. The Acting Materials Coordinator and his assistant offered the opinion that the most effective means of reducing items being taken from the storeroom and not recorded would be with a keycard system, whereby a record is made of everyone gaining entry during after duty hours.

Control of Tools and Equipment

The Water Supply and Treatment Division and the City Distribution Division do not have adequate inventory records of tools and equipment. In response to a Budget Analyst request for a copy of the most recent inventory of shop tools and equipment, the Water Supply and Treatment Division's reply was that each supervisor or foreman is responsible for his or her crews' tools and equipment, but that there had not been an organized inventory of such equipment in some time. The City Distribution Division's reply was that the date of the last inventory is unknown, a copy of the inventory results does not exist, and that the City Distribution Division would conduct an inventory by the end of the current fiscal year.

Tools and equipment of a specified value should be inventoried, formally tracked, and re-inventoried on an annual basis.

The Utility Plumber Apprenticeship Program

The Public Utilities Commission has 28 Classification 7463 Utility Plumber Apprentice positions in the FY 2004-2005 budget, of which 21 are allocated to the City Distribution Division and seven are allocated to the Water Supply and Treatment Division. The apprenticeship program is five years but can be extended without time limits. The City does not have a formal agreement with the labor organization, Plumbing and Pipefitting Industry Local No. 38, over the terms and conditions of the utility plumber apprentice program. The current Memorandum of Understanding between the City and the Plumbing and Pipefitting Industry Local No. 38, effective from July 1, 2003 through June 30, 2006, states that the City and the union agree to meet to discuss and develop an apprenticeship program. The apprenticeship program includes provisions (a) allowing the City to fill journey level positions with either journey level workers or apprentices as long as journey level to apprentice ratios established by the program are maintained, and (b) setting the apprentice entry level step at 40 percent less than the journey level wage rate.

Because the Public Utilities Commission's current practices in hiring and managing apprentices neither sets time limits for the length of the apprenticeship nor distributes apprentices proportionately to journey level workers across all operating sections, the apprenticeship program has resulted in staffing and operating inefficiencies. Therefore, the Public Utilities Commission should work in conjunction with the Director of Human Resources to establish a formal apprenticeship program agreement.

Conclusions

Water Supply and Treatment Division and City Distribution Division maintenance and materials management functions should be supported by written policies and procedures, and such policies and procedures should be fully implemented and monitored by Water Supply and Treatment Division and the City Distribution Division management. The written policies and procedures for maintenance management should include: (a) the setting of maintenance priorities, (b) procedures to control tools and equipment inventories, (c) recording maintenance time, (d) efficient use of the MAXIMO Computerized Maintenance Management System's capabilities, and (e) increasing "wrench time" or productive use of maintenance staff time.

The Water Supply and Treatment Division and the City Distribution Division should also adopt management by objectives, similar to those used by the Clean Water Enterprise, including setting standards for each of the objectives, adjusted for seasonal variations. The Water Supply and Treatment Division and the City Distribution Division should produce regular management by objectives reports to improve the performance of maintenance functions.

The maintenance performance measures developed by the Division Managers provide the basis for planning and controlling maintenance activities in order to optimize maintenance outputs. The performance measures provide a means of evaluating maintenance performance in an objective, quantifiable manner. Using the performance measures, the Divisions' management teams can set challenging but attainable goals in the pursuit of ultimate objectives.

The MAXIMO Computerized Maintenance Management Software system has extensive data collection and reporting capabilities, including backlog, planned work, and maintenance history data. The City Distribution Division does not effectively use the MAXIMO Computerized Maintenance Management System's capabilities. For example, the City Distribution Division uses MAXIMO minimally for planning maintenance work and not at all for scheduling. Given these capabilities, the Water Supply and Treatment Division's and the City Distribution Division's requests for maintenance resources should be accompanied by backlog, planned work, and maintenance history data.

Correction of these deficiencies would greatly enhance the two Divisions' efficiency and productivity. The Budget Analyst conservatively estimates that a 5 percent productivity improvement in both the Water Supply and Treatment Division's and the City Distribution Division's maintenance activities could be achieved. Such an improvement would benefit the Water Supply and Treatment Division by the equivalent of adding approximately seven additional positions, which would otherwise cost approximately \$700,000 annually in base salaries and mandatory fringe benefits. A 5 percent productivity improvement in the City Distribution Division's maintenance activities would be the equivalent of approximately ten additional positions, which would otherwise cost approximately \$1,000,000 annually in base salaries and mandatory fringe benefits. The City Distribution Division Manager should lead a Division-wide effort to improve controls over storeroom inventory.

Recommendations

The Water Supply and Treatment Division Manager should:

- 12.1 Establish a timeline for development of a Maintenance Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.
- 12.2 Establish a timeline for development of a Materials Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.
- 12.3 Ensure that the Water Supply and Treatment Division incorporates automated planning and scheduling processes into its everyday maintenance activities.

- 12.4 Ensure that the Water Supply and Treatment Division initiates maintenance reporting on a continuing, periodic basis. The *Management by Objectives Report* produced by the Water Pollution Control Division is a useful model.
- 12.5 Use MAXIMO reports when requesting maintenance resources.
- 12.6 Ensure that all tools and equipment are inventoried annually.
- 12.7 Direct a review of inventory items for the purpose of determining which items should be stocked regardless of demand history, which items should be retained in inventory but only reordered when there is a demand, and which items should be advertised for disposal.
- 12.8 Ensure that the material in the maintenance yard not currently in inventory be brought into inventory or reported for disposal.
- 12.9 Take necessary action to improve the physical condition of the warehouse, including ensuring that the leaking roof is repaired.

The City Distribution Division Manager should:

- 12.10 Fill the vacant maintenance manager and maintenance planner positions and ensure that the 7205 Chief Stationary Engineer is assigned to maintenance planning functions.
- 12.11 Compare the newly established MAXIMO performance measures for the City Distribution Division against measures proposed in American Water Works Association literature and the literature of other water associations, and incorporate additional and/or replacement performance measures as deemed appropriate.
- 12.12 Ensure the accuracy of the data collected and reported on actual performance.
- 12.13 Establish a timeline for development of the Maintenance Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.
- 12.14 Establish a timeline for development of the Materials Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.
- 12.15 Ensure that the City Distribution Division incorporates automated planning and scheduling processes into its everyday maintenance activities.
- 12.16 Ensure that the City Distribution Division initiates maintenance reporting on a continuing, periodic basis. The *Management by Objectives Report* produced by the Water Pollution Control Division is a useful model.

- 12.17 Use MAXIMO reports when deciding on resource allocations.
- 12.18 Ensure that all tools and equipment are inventoried annually.
- 12.19 Take necessary action to reduce shrinkage and improve the accuracy of the data contained in MAXIMO on material.

The Director of Human Resources should:

- 12.20 In accordance with the existing memorandum of understanding and in conjunction with appropriate officials of Plumbing and Pipefitting Industry Local No. 38 and the Public Utilities Commission, make every effort to establish an agreement between the City and Plumbing and Pipefitting Industry Local No. 38 on a Utility Plumber Apprenticeship Program.

Costs and Benefits

The Budget Analyst's recommendations can be accomplished with existing staff. Implementation of the Budget Analyst's recommendations would enhance the effectiveness and efficiency of the Water Supply and Treatment Division and the City Distribution Division's maintenance and material management functions.

The City Distribution Division can achieve significant benefits by improving the accuracy of its warehouse inventory, thereby providing better services to warehouse users, and by preserving funds through enhanced safeguarding of warehouse assets.

The Budget Analyst conservatively estimates that a 5 percent productivity improvement in the both Divisions' maintenance activities could be achieved. Such an improvement would benefit the Water Supply and Treatment Division by the equivalent of adding approximately seven additional positions, which would otherwise cost approximately \$700,000 annually in base salaries and mandatory fringe benefits. A 5 percent productivity improvement in the City Distribution Division's maintenance activities would be the equivalent of approximately ten additional positions, which would otherwise cost approximately \$1,000,000 annually in base salaries and mandatory fringe benefits.

The benefit of concluding a utility plumber apprenticeship agreement would be the ability to incorporate changes that better serve the interests of the City and the utility plumber apprentices.

13. Personnel and Management Issues

- **The Water Supply and Treatment Division has not adopted a final set of performance measures that serve to set objectives for the Division and provide a basis for evaluating how well the Division is accomplishing its mission. The Water Supply and Treatment Division Manager should obtain formal approval for the proposed performance measures and use the performance measures in managing the Division.**
- **The City Distribution Division has developed a set of performance measures for the operational aspects of its mission. The City Distribution Division Manager should expand the scope of the Division's performance measures to include all facets of the Division's responsibilities, such as performance measures for staff development and worker safety.**
- **The Water Supply and Treatment Division and the City Distribution Division do not have their own administrative Policy and Procedures Manuals, but rather rely upon Public Utilities Commission policies and procedures which have not been codified into a single, cohesive document. Organizations the size of the Water Supply and Treatment Division and City Distribution Division require a specific set of administrative policies and procedures to standardize and control activities and assist in accomplishing objectives.**
- **Due to the management emphasis on completing employee performance evaluations for FY 2003-2004, the Hetch Hetchy Water and Wholesale Power Division, the City Distribution Division, and the Water Pollution Control Division had very high employee performance evaluation completion rates for the most recent period. For example, although the City Distribution Division completed only 78 employee performance evaluations for FY 2002-2003, a total of 309 employee performance evaluations were completed for FY 2003-2004. However, the total number of employee performance evaluations completed for Water Supply and Treatment Division personnel for FY 2003-2004 increased by only 11, from 156 to 167, although the Division had a total of 294 employees as of December 20, 2004. The Water Supply and Treatment Division needs to achieve a much higher employee performance evaluation completion rate.**

- **The California Highway Patrol has a State driver license Employer Pull Notice Program for all drivers who are required to possess a Class A or Class B driver license. The Budget Analyst determined that the Employer Pull Notice Program at the City Distribution Division was non-existent.**
- **During FY 2002-2003, FY 2003-2004, and FY 2004-2005, standby pay in the amounts of \$341,203, \$323,670, and \$319,564 respectively were paid to City Distribution Division employees. Most of the standby payments were based on 25 percent of base pay, despite the fact that the City is only obligated to compensate standby pay at 10 percent of the regular straight time rate, if the employees are outfitted with a pager or cell phone. Further, the memorandum of understanding between the City and Plumbers and Pipe Fitters Local No. 38 states “standby pay shall not be allowed for positions with duties which are primarily administrative in nature.” Nonetheless, the incumbents in primarily administrative classifications received standby pay during calendar year 2004 at the 25 percent rate. The Budget Analyst recommends that the City Distribution Division Manager review standby pay requirements for the Division and reduce the number of positions required to the minimum consistent with operational prudence, and that standby pay be paid at 10 percent of base salary.**
- **Gatemen operate gate valves in the streets to regulate water supplies. The current 11-week rotational schedule used by the Gatemen requires one period of working 12 consecutive days. The City Distribution Division Manager has expressed concern about the level of stress imposed by the current schedule. Therefore, for purposes of health and safety and potential cost savings, the Budget Analyst recommends that the Division Manager and his staff review the work requirements for Gatemen and revise the work schedule. In comparison to the Gateman work schedule, the Water Pollution Control Division has employed a work schedule that is cost effective and achieves the required 24-hour, 365 day, annual coverage without an exorbitant number of consecutive workdays.**
- **The City Distribution Division Manager can achieve cost savings of up to \$335,814 annually by (a) changing the basis of standby pay from 25 percent to 10 percent of base salaries (up to \$171,710), and (b) employing the minimum essential standby and overtime staff necessary for effective and safe operations (up to \$164,104).**

Divisions' Missions and Organizational Structures

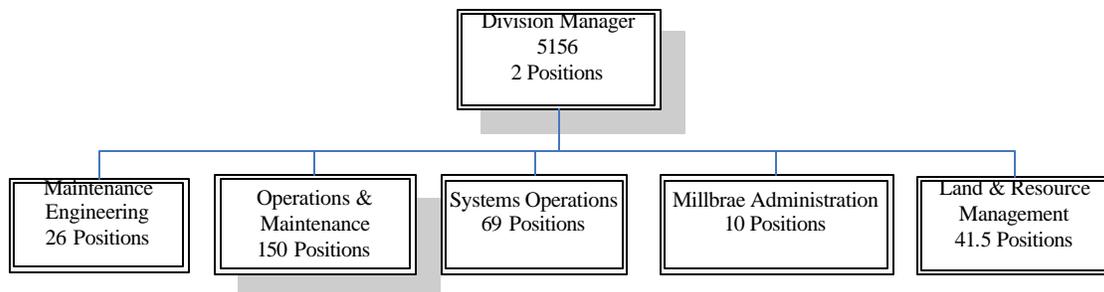
Water Supply and Treatment Division

The Water Supply and Treatment Division is located at 1000 El Camino Real in the City of Millbrae. The mission of the Water Supply and Treatment Division is to operate as an effective, reliable water supplier while managing resources in an environmentally sound manner and supporting the health, productivity, and professional development of its employees.

To accomplish its mission during FY 2004-2005, the Water Supply and Treatment Division is authorized 301.53 full-time equivalent (FTE) positions, including 276.5 FTE operating budget positions, 22 FTE capital-funded positions, and 3.03 FTE temporary positions. The Water Supply and Treatment Division is organized into the major elements shown below:

Exhibit 13.1

Water Supply and Treatment Division Organizational Chart



The Administration Section, which consists of ten authorized positions as shown in Table 13.1 below, is responsible for a wide-range of administrative support functions including budget preparation and budget execution, payroll activities, personnel actions, and providing information support to other Water Supply and Treatment Division elements and outside agencies.

Table 13.1

**Administrative Services Section
Authorized Positions**

Classification	Title	No. of Positions	Salary at Top Step	Total Salaries at Top Step
1823	Senior Administrative Analyst	1	\$77,491	\$77,491
1426	Senior Clerk Typist	1	47,685	47,685
1222	Senior Payroll and Personnel Clerk	1	58,647	58,647
1930	Warehouse Worker	1	45,962	45,962
1934	Storekeeper	1	45,727	45,727
1936	Senior Storekeeper	1	48,729	48,729
1632	Senior Account Clerk	2	51,939	103,878
1842	Management Assistant	1	62,196	62,196
1950	Assistant Purchaser	1	51,678	51,678
Totals		10		\$541,993

Source: Public Utilities Commission and Annual Salary Ordinance.

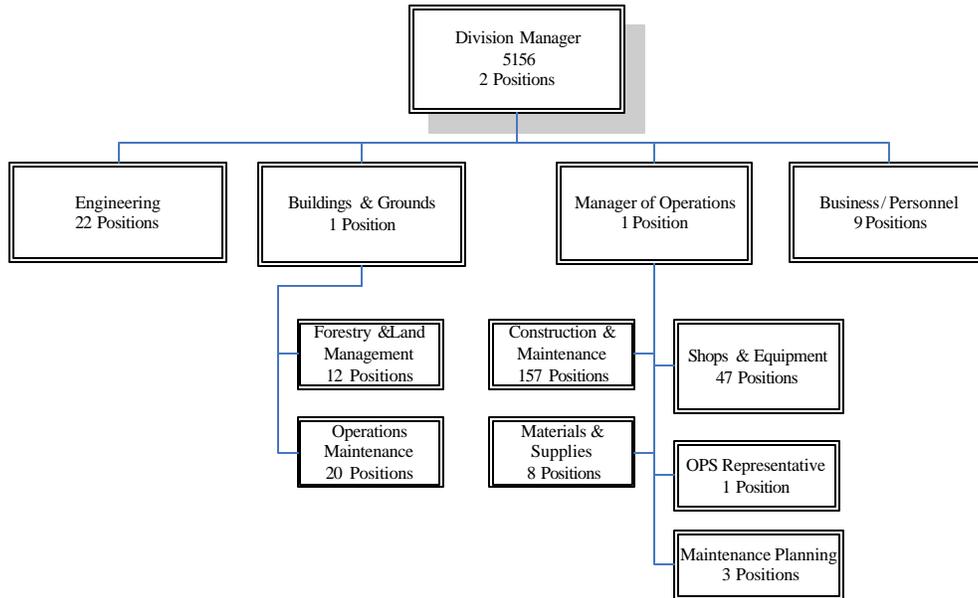
City Distribution Division

The City Distribution Division is located at 1990 Newcomb Avenue in the Southeast sector of San Francisco. The mission of the City Distribution Division is to distribute high quality water reliably to San Francisco customers.

To accomplish its mission during FY 2004-2005, the City Distribution Division is authorized 285.34 full-time equivalent (FTE) positions, including 212 FTE operating budget positions, 71 FTE capital-funded positions, and 2.34 FTE temporary positions. The City Distribution Division is organized into the major elements shown below:

Exhibit 13.2

City Distribution Division Organizational Chart



* The Operational Support Representative is the Division's liaison to the Public Utilities Commission's Water System Capital Improvement Program.

The Business Services Section, which provides the administrative support for the City Distribution Division, consists of nine authorized positions, as shown in Table 13.2 below:

Table 13.2

**Business Services Section
Authorized Positions**

Classification	Title	No. of Positions	Salary at Top Step	Total Salaries at Top Step
1824	Principal Administrative Analyst	1	\$90,567	\$90,567
1410	Chief Clerk	1	65,615	65,615
1426	Senior Clerk Typist	5	47,685	238,424
1222	Senior Payroll and Personnel Clerk	1	58,647	58,647
1842	Management Assistant	1	62,196	62,196
Totals		9		\$515,449

Source: Public Utilities Commission and Annual Salary Ordinance.

The Business Services Section is responsible for a wide-range of administrative support functions including budget preparation and budget execution, payroll activities, personnel transactions, and providing information support to other City Distribution Division elements and outside agencies.

Division Performance Measures

Water Supply and Treatment Division

The Water Supply and Treatment Division has not adopted a set of performance measures that serve to set objectives for the Division and provide a basis for evaluating how well the Division is accomplishing its mission.

The Water Supply and Treatment Division Manager has been in the process of developing performance measures for the past several months and has involved the sections of the Division and received direction from the Assistant General Manager, Water. The Water Supply and Treatment Division Manager has provided the Budget Analyst with a draft of the proposed performance measures that appear to be comprehensive and include measures for water supply, water quality, customer service, transmission facilities, operations and maintenance, and safety and injuries prevention. The Water Supply and Treatment Division Manager should obtain formal approval for the proposed performance measures and use the performance measures in managing the Division.

In addition, the Budget Analyst recommends that the Water Supply and Treatment Division Manager include “distribution system water loss” as one of the performance measures for the Division, as has the Division Manager, City Distribution Division. The “distribution system water loss” performance measure involves an issue that is of growing interest and concern in the water supply and distribution community. According to the Department’s Water Conservation Administrator, water losses have traditionally been a relatively unknown factor in the City’s delivery system, which is not uncommon for water agencies. The Department’s Water Conservation Administrator has proposed developing a program that identifies, quantifies, monitors, and controls water losses, and estimates that it would take two to three years to fully develop leak detection and repair programs to reduce real losses and conserve water resources.

The water loss issue applies to all of the Water Enterprise Divisions: the Hetch Hetchy Water and Wholesale Power Division, the Water Supply and Treatment Division, and the City Distribution Division. Department staff members have provided the Budget Analyst with American Water Works Association materials on water loss reduction programs and strategies that appear to provide effective methods for identifying and reducing water losses. Therefore, the Budget Analyst recommends that the Public Utilities Commission General Manager should (a) compile data on the Hetch Hetchy Water and Wholesale Power, Water Supply and Treatment, and City Distribution Divisions’ water loss, (b) determine the extent of water loss, and (c) evaluate the feasibility of developing and implementing a program “that effectively identifies, quantifies, monitors, and controls water losses”, including benchmarking the Public Utilities Commission’s water loss against industry standards, as applicable, and report the results of that evaluation to the Public Utilities Commission and the Board of Supervisors through its budget performance measures.

Further, the Water Supply and Treatment Division should endeavor to ensure the accuracy of its data collection on actual performance.

City Distribution Division

During the course of this management audit, the City Distribution Division Manager and his staff, developed and refined the performance measures shown in Table 13.3 below to evaluate the performance of the City Distribution Division. The performance measures listed are all quantitative in nature and capable of objective verification. The City Distribution Division has provided the Budget Analyst with actual and target values, where available.

Table 13.3**City Distribution Division
Performance Measures**

Measure Description	FY 2002-2003	FY 2003-2004		FY 2004-2005
	Actual	Target	12-mo. Actual	Target
Number of main breaks per 100 miles of distribution piping	4.4 ¹		4.1	
Percentage of service calls responded to within 90 minutes			100%	100%
Water main replacement rate	0.53% (6.4 miles) ²	0.83% (10 miles)	0.43% (5.1 miles)	0.83% (10 miles)
Water meter replacement rate	3.5% (6,255 meters) ³	3.9% (7,000 meters)	2.2% (3,984 meters)	3.9% (7,000 meters)
Distribution system water loss percentage	10%		10%	9%
Percentage of main breaks returned to service within six hours				100%
Cost of operations and maintenance per millions of gallons produced			\$0.30/Gal	
Planned maintenance ratio				10%

Source: Division Manager, City Distribution Division

The City Distribution Division Manager should expand the scope of the Division's performance measures to include all facets of the Division's responsibilities, such as those in staff development and in safety and injuries prevention. Concerning water

¹ There are approximately 1,200 miles of water mains in the City. Thus, a rate of 4.4 breaks per 100 miles of water mains equals approximately 53 water main breaks for the year. Where applicable, the performance measures are denominated in rates rather than absolute values so that comparisons with water agencies of different sizes can be made.

² The replacement rates were obtained by taking the number of miles of main pipe replaced as a percentage of 1,200. A replace rate of 0.83 percent or 10 miles per year would require 120 years to replace all mains in the system.

³ There are approximately 180,000 water meters in the City.

distribution operations and maintenance, the City Distribution Division Manager should compare the newly developed performance measures to performance measures proposed in American Water Works Association literature and the literature of other water associations in order to identify the most useful measures available.

FY 2004-2005 Objectives

Water Supply and Treatment Division

In response to an inquiry concerning the objectives of the Water Supply and Treatment Division for FY 2004-2005, the Water Supply and Treatment Division Manager provided the following:

- To maintain the equipment and facilities of the regional water supply system in a way that supports reliable delivery of safe water to both current and future customers.
- To schedule maintenance work in a manner that does not interfere with meeting customer demand.
- To perform maintenance work in a manner that protects water quality, natural resources, and employee health.
- To plan, schedule, and execute work in a manner that uses staff time, equipment, supplies, and other resources efficiently.

An objective is a benefit to be achieved. As a guide to developing objectives that are measurable and verifiable, the Water Supply and Treatment Division could structure its objectives in accordance with the following guidelines:⁴

- State a single key result to be accomplished as specifically and quantitatively as possible.
- Specify a target date for accomplishment.
- Specify a maximum cost factor.

The objective statement should relate directly to the manager's mission and to higher level missions and objectives. Further, it should be understandable by those who will be contributing to its attainment, and it should represent a significant but attainable challenge. Using these guidelines, two of the objectives listed above might be specified as follows:

- To reduce accidents and injuries during FY 2004-2005 by 50 percent using in-house staff and a safety analyst at a cost not-to-exceed \$85,000.
- To obtain approval of an Emergency Preparedness Response Plan by May 31, 2004 at a cost not-to-exceed 200 hours of staff time.

⁴ Taken from *Management by Objectives and Results in the Public Sector* by George L. Morrisey.

City Distribution Division

In response to an inquiry concerning the objectives of the City Distribution Division for FY 2004-2005, the City Distribution Division Manager provided the following:

- Continue with the horizontal boring procedures to minimize public disruption and traffic congestion for street excavation service.
- Improve employee safety, through training, coaching and utilization of the safety analyst, thereby reducing accidents and injuries.
- Prepare an Emergency Preparedness Response plan.
- Continue chloramination program implementation including unidirectional flushing.
- Expand MAXIMO usage at City Distribution Division facilities to improve preventative maintenance program.
- Develop reliance on Geographic Information System.
- Implement the Supervisory Control and Data Acquisition System (SCADA) and security upgrades to include centralization of both.
- Continue management of computerized records at the Engineering, Warehouse, Construction and Maintenance, and Business Services Sections.
- Continue the use of Dive Team services to promote cost savings by use of the team among Department divisions and other water utility agencies.

As noted above, an objective is a benefit to be achieved and the objective statement should relate directly to the manager's mission and to higher level missions and objectives. Further, it should be understandable by those who will be contributing to its attainment and it should represent a significant but attainable challenge. Using these guidelines, two of the objectives listed above might be specified as follows:

- To reduce accidents and injuries during FY 2004-2005 by 50 percent using in-house staff and a safety analyst at a cost not-to-exceed \$85,000.
- To obtain approval of an Emergency Preparedness Response Plan by May 31, 2004 at a cost not-to-exceed 200 hours of staff time.

Division Administration

In addition to evaluating the quality of an administrative policies and procedures manual, if such a manual exists, the Budget Analyst selected five administrative processes by which to evaluate the Water Supply and Treatment Division and the City Distribution Division's compliance with the City's and the Public Utilities Commission's administrative regulations:

- Employee performance evaluations.

- Employee equipment and access processing.
- Discipline.
- Equal employment opportunity complaints.
- The State's Employer Pull Notice Program.

The Budget Analyst has selected an additional, sixth administrative process by which to evaluate the City Distribution Division:

- Work Scheduling and Pay Practices.

Based on our examination of the numbers and types of disciplinary actions and our observations of work crews at the Water Supply and Treatment Division and the City Distribution Division yards and in the field, the Budget Analyst did not note indicators of cause for concern about the state of discipline within the two Divisions. Further, based on the incidence of equal employment opportunity complaints submitted by Water Supply and Treatment Division and City Distribution Division staff persons between January of 2002 and February of 2005, and the decisions rendered on those complaints, the Budget Analyst concludes that there is no evidence of systemic discrimination against any protected group.

Administrative Policy and Procedures Manuals

A good set of administrative policies and procedures is an important element of administrative control and is a “best practice” in the management of a maintenance and repair function because of the need to provide management guidance over the complicated, technical work required to ensure that the City’s water distribution system operates properly. A Policies and Procedures Manual could cover such issues as employment policies, employee conduct, work hours and authorized absences, job performance, and health and safety. In addition, topics unique to the Water Supply and Treatment Division because of its location and widespread operations such as medical coverage, cabin assignment procedures, and official travel to the City, could be covered.

The Water Supply and Treatment Division and the City Distribution Division do not have their own administrative Policies and Procedures Manuals, but rather rely upon Public Utilities Commission policies and procedures, which are currently being codified into a single, cohesive document. In addition, the Business Services Manager maintains an extensive library of City policies and procedures.

The City Distribution Division initiated an effort in 1999 to develop a policies and procedures manual. Correspondence reviewed concerning that project begun in 1999 lists 33 topics for inclusion in a policies and procedures manual, including such topics as work habits, performance monitoring, software control, and warehouse access and safety procedures.

According to the Business Services Manager, the former City Distribution Division Manager cancelled the initiative to develop a Policies and Procedures Manual during 1999 due to a change in management priorities.

The Budget Analyst recommends that, in addition to the Public Utilities Commission developing an overall Policies and Procedures Manual for human resources functions which span the entire department (which is currently in final draft form), the Water Supply and Treatment Division and the City Distribution Division should develop their own Administrative Policies and Procedures Manuals on a priority basis for the administrative functions which are unique responsibilities of those divisions.

Employee Performance Evaluations

As stated in the City's Employee Handbook, the purposes of employee performance evaluations are to: (a) evaluate the strengths and weaknesses of work; (b) communicate those strengths and weaknesses to the employee; and (c) set goals for performance, improvement, and career development. City and Public Utilities Commission policies require that employees be evaluated once every year.

Water Supply and Treatment Division

According to information provided by the Department's Human Resource Services and the Water Supply and Treatment Division, numerous Water Supply and Treatment Division employees do not regularly receive performance evaluations. Such non-compliance with the annual employee performance evaluation policy was the case with the other Public Utilities Commission operating divisions prior to FY 2003-2004. Because of the management emphasis on performing the employee performance evaluations for FY 2003-2004, the Hetch Hetchy Water and Wholesale Power Division, the City Distribution Division, and the Water Pollution Control Division had very high employee performance evaluation completion rates for the most recent period. For example, although the City Distribution Division completed only 78 employee performance evaluations for FY 2002-2003, a total of 309 employee performance evaluations were completed for FY 2003-2004. However, the total number of employee performance evaluations completed for Water Supply and Treatment Division personnel for FY 2003-2004 increased by only 11, from 156 to 167, although the Division had a total of 294 employees as of December 20, 2004, as reported by Human Resource Services.

By ensuring that each Water Supply and Treatment Division employee is provided with an annual performance evaluation, Division management would be complying with an important City regulation and, combined with appropriate management actions, would also demonstrate to Division employees that the professional development of its staff members, of which sound employee performance evaluations are a necessary part, is a high priority task. Given the Water Supply and Treatment Division's performance on completing employee performance evaluations for FY 2003-2004, the top management of the Public Utilities Commission should place extra emphasis on ensuring that all

Water Supply and Treatment Division employees receive an annual performance evaluation.

City Distribution Division

According to information provided by the Human Resource Services Division of the Public Utilities Commission, the total number of employee performance evaluations completed for City Distribution Division personnel for fiscal years 2002-03 and 2003-04 were 78 and 309, respectively, although the number of authorized positions increased by only 9.46 FTEs between the two fiscal years, from 281.94 FTEs to 291.40 FTEs.

Clearly, the top management emphasis placed on completing employee performance evaluations during FY 2003-2004 resulted in complete or near complete adherence to the City's policy for performing such evaluations. However, such compliance is required every reporting period in order to track an employee's performance progress or address continued shortcomings. Thus, City Distribution Division and Department management should continue to emphasize the importance of, and ensure the completion of, annual employee performance evaluations.

By ensuring that each City Distribution Division employee is provided with an annual performance evaluation, Division management would be complying with an important City regulation and, combined with appropriate management actions, would also demonstrate to Division employees that the professional development of its staff members, of which sound employee performance evaluations are a necessary part, is a high priority task.

Employee Equipment and Access Processing and Exit Interviews

Human Resource Services of the Public Utilities Commission has prescribed a procedure for Unit Processing of Employee Equipment and Access. This procedure describes the process for documenting the issuance of equipment, tools, access codes, and related items to employees. The process is designed to track such issuances throughout the tenure of an employee's employment with the Department and to ensure that upon departure, each employee follows the proper procedure for turning in each item that has been assigned.

Human Resource Services initiates an Equipment Processing Form for each new employee as a part of the Public Utilities Commission's initial in-processing. Thereafter, the Equipment Processing Form should follow the employee to his or her first job assignment, and any subsequent changes in assignment, and should be updated as equipment and other items are issued and turned in.

Whenever equipment is assigned or access is provided, the employee's supervisor is responsible for indicating such on the Equipment Processing Form and updating the Form as needed. The supervisor is to maintain the Equipment Processing Form in a confidential location because it contains confidential personal information. When an

employee changes positions, is reassigned from one Division or Bureau to another, or separates from employment, the supervisor is required to initial on the Equipment Processing Form that each item has been returned. When all items are appropriately returned, the supervisor should sign and initial in the space indicated and transmit the form to the Departmental Personnel Liaison.

The procedure requires that the Departmental Personnel Liaison review the Equipment Processing Form of each departing employee to ensure that it was completed correctly and that the Department Personnel Liaison conduct an “exit” interview by noting responses to questions listed on an Exit Interview Form. The Departmental Personnel Liaison is then required to sign the forms and forward them to Human Resource Services.

In order to test whether the Equipment Processing Forms and the Exit Interview Forms are being completed and retained as required by policy, the Budget Analyst obtained a listing showing that of 14 Water Supply and Treatment Division employee separations during the period of December 2003 through September 2004, no Equipment Processing Forms had been forwarded by the Water Supply and Treatment Division to Human Resource Services and that only six Exit Interview Forms had been completed. The Budget Analyst also obtained listings showing that a total of 15 City Distribution Division employees had separated from the Department during the period of December 2003 through November 2004. However, for the period tested, only two Equipment Processing Forms and two Exit Interview Forms had been forwarded by the City Distribution Division to Human Resource Services.

Based on the foregoing, the Budget Analyst concludes that the Water Supply and Treatment Division and the City Distribution Division’s compliance with the Department’s Unit Processing of Employee Equipment and Access and Exit Interview procedures is clearly inadequate and that an important control for maintaining adequate safekeeping of both Division’s assets is not being enforced.

The State's Employer Pull Notice Program

The California Highway Patrol is responsible for regulating the safe operation of certain types of vehicles. Accordingly, the California Highway Patrol has instituted safety programs covering vehicle maintenance requirements and a State driver license Employer Pull Notice Program for all drivers who are required to possess a Class A or Class B driver license.

Each of the Public Utilities Commission’s operating divisions operates numerous vehicles requiring enrollment in the State's Employer Pull Notice Program. An employer enrolled in the State's Employer Pull Notice Program is assigned a requester code. The requester code is added to an employee's driver license record. When an employee's driver license is updated to record an action/activity, a check is made electronically to determine if an employer pull notice is on file. If the action/activity is one that is specified to be reported under the State's Employer Pull Notice Program, a driver record

is generated and mailed to the employer. The California Highway Patrol periodically checks sites required to be in the safety programs in order to determine compliance with the requirements.

The State's Employer Pull Notice Program allows an organization to monitor driver license records of employees who drive on the organization's behalf. This monitoring accomplishes the following:

- Improves public safety.
- Determines if each driver has a valid driver license.
- Reveals problem drivers or driving behavior.

The Budget Analyst tested the Employer Pull Notice Program within the Water Supply and Treatment Division and noted no deficiencies.

The Budget Analyst tested the Employer Pull Notice Program at the City Distribution Division in order to determine whether required employees are enrolled and whether the individual Driver Record Information is current.

We determined that the Employer Pull Notice Program at the City Distribution Division was non-existent: the only document concerning the Employer Pull Notice Program was a calendar year 2001 listing of those enrolled in the Employer Pull Notice Program and that no individual Driver Record Information forms were available for any of the 28 drivers required to be enrolled. According to City Distribution Division management, the person who had been overseeing the Employer Pull Notice Program had departed the organization and that no one had subsequently assumed the responsibility.

The California Highway Patrol regards single breaches of the State's Employer Pull Notice Program requirements, i.e., excluding a single required employee from the Employer Pull Notice Program, as serious deficiencies. In the instance noted, the City Distribution Division was out-of-compliance with the requirements for all of its Class A, Class B, and special category drivers. Aside from receiving an "Unsatisfactory" rating on the evaluation, the City Distribution Division would be charged for re-inspections until achieving satisfactory status, and would be subject to greater scrutiny.

As of the writing of this audit report, the City Distribution Division had re-enrolled in the State's Employer Pull Notice Program. The Department advises that the Department's new Fleet Manager has begun the process of centralizing the Employer Pull Notice Program for the Department. The Department has enrolled in the program and information on those employees requiring enrolment for all divisions is currently being collected by Human Resource Services.

Uneconomical Pay and Work Schedule Practices

Total Salaries and Salary Components

Table 13.4 below shows total salary amounts and the amounts for the components of total salaries for the City Distribution Division for FY 1995-1996 through FY 2004-2005. Table 13.4 also shows the percentage that each component of total salaries comprises. Finally, Table 13.4 shows the amount and percentage of growth between FY 1995-1996 and FY 2004-2005 for selected salary components.

As shown in the bottom part of Table 13.4, Total Salaries, Permanent Salaries – Misc., and Overtime each increased by similar percentages of between 50.2 percent and 55.3 percent during the nine-year period of FY 1995-1996 to FY 2004-2005. However, as also shown in Table 13.4, over the same period Premium Pay increased by \$505,210 or 414.8 percent, from \$121,797 to \$627,007.

Standby Pay, which is paid to employees who are required to be available on call to perform emergency services, is a major component of Premium Pay. Standby pay in the amount of \$319,564 was paid to City Distribution Division employees during FY 2004-2005, which is 50.1 percent of the \$627,007 in premium pay paid to City Distribution Division employees during FY 2004-2005.

Table 13.4
Total Salary and Salary Component Amounts - City Distribution Division
FY 1995-1996 through FY 2004-2005

Salary Component	FY 1995-96	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Permanent Salaries-Misc.	\$8,094,177	\$8,235,501	\$8,316,012	\$9,263,332	\$10,463,204	\$10,702,864	\$10,780,762	\$11,794,850	\$12,470,142	\$12,154,850
Permanent Salaries-Uniform	0	0	0	38,450	40,845	45,532	35,236	48,716	0	0
Temporary Salaries-Misc.	289,601	438,718	451,971	187,163	149,286	165,414	235,527	408,371	395,154	271,696
Premium Pay (Includes Standby Pay)	121,797	153,129	296,509	342,228	414,619	412,146	466,497	519,906	535,165	627,007
Note Only: Standby Pay								341,203	323,670	319,564
One-Time Payments	31,401	0	0	0	1,593	2,156	81,459	88,814	201,404	237,758
Overtime	813,068	782,951	1,059,182	1,060,280	1,011,667	1,316,410	1,151,545	1,228,454	1,210,559	1,252,562
Holiday Pay	<u>33,676</u>	<u>41,852</u>	<u>53,927</u>	<u>39,345</u>	<u>45,399</u>	<u>36,463</u>	<u>42,052</u>	<u>53,399</u>	<u>49,720</u>	<u>31,122</u>
Total Salaries	\$9,383,720	\$9,652,151	\$10,177,601	\$10,930,798	\$12,126,613	\$12,680,985	\$12,793,078	\$14,142,510	\$14,862,144	\$14,574,995
Percentage of Salaries - Total										
Permanent Salaries	86.3%	85.3%	81.7%	84.8%	86.3%	84.4%	84.3%	83.4%	83.9%	83.4%
Temporary Salaries	3.1%	4.6%	4.5%	1.7%	1.2%	1.3%	1.8%	2.9%	2.7%	1.9%
Premium Pay	1.3%	1.6%	2.9%	3.1%	3.4%	3.3%	3.7%	3.7%	3.6%	4.3%
One-Time Payments	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	0.6%	1.4%	1.6%
Overtime	8.6%	8.1%	10.4%	9.7%	8.4%	10.4%	9.0%	8.7%	8.1%	8.6%
Uniform Salaries and Holiday Pay	<u>0.4%</u>	<u>0.4%</u>	<u>0.5%</u>	<u>0.7%</u>	<u>0.7%</u>	<u>0.6%</u>	<u>0.6%</u>	<u>0.7%</u>	<u>0.3%</u>	<u>0.2%</u>
Total Percentages	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth Between FY 1995-96 and FY 2004-05	Amount	Percentage Change								
Total Salaries	\$5,191,275	55.3%								
Permanent Salaries - Misc	\$4,060,673	50.2%								
Premium Pay	\$505,210	414.8%								
Overtime	\$439,494	54.0%								
FTE Count per ASO	195.0*	246.00	269.59	276.25	283.15	282.15	278.41	281.94	291.4	285.34

* The FY 1995-1996 Annual Salary Ordinance does not show project positions.

The preponderance of the overtime pay and standby pay costs are made to the classifications shown in Table 13.5 below, excluding the Classification 5156 Utility Service Manager position which is the City Distribution Division Manager. That position is included for pay comparison purposes only. As shown in Table 13.5, by comparing the base salaries at the top step to the highest salaries for calendar year 2004, overtime pay and/or standby pay add substantially to the compensation paid out to the employees receiving such pay. Obviously, a certain amount of the overtime is unavoidable due to the need to respond to emergencies. However, there are certain practices within the City Distribution Division that serve to exacerbate the current levels of overtime pay and standby pay.

Our review of both Standby Pay and use of Overtime in the City Distribution Division revealed opportunities for cost savings in those pay categories.

Table 13.5
Salaries, Overtime Pay, and Standby Pay Statistics
City Distribution Division

Highest Total Pay Calendar Year 2004					
5156-Utility Services Manager (City Distribution Division Manager)	7134-Water Construction and Maint. Superintendent	7284-Utility Plumber Supervisor 2	7250-Utility Plumber Supervisor 1 (Gatemen)	7250-Utility Plumber Supervisor 1 (Non-Gatemen)	7388-Utility Plumber
\$130,979	\$155,555	\$150,975	\$154,130	\$140,306	\$126,498
			153,579	140,288	116,615
			151,032	139,511	116,390
			150,612	132,740	115,287
			143,264	129,809	110,709
Annual Salary at Top Step FY 2004-2005					
\$130,265	\$98,580	\$93,464	\$86,835	\$86,835	\$77,256
Average Increase Over Straight Salary					
Average of Salaries Shown	\$155,555	\$150,975	\$150,523	\$136,531	\$117,100
Percentage Above Base Salary	57.8	61.5	73.3	57.2	51.6

Standby Pay

The provisions for stand-by pay are included in the memorandum of understanding between the City and Plumbers and Pipe Fitters Local No. 38, as cited below:

"STAND-BY PAY - Employees who, as part of the duties of their positions are required by the Appointing Officer or designee to standby when normally off duty to be instantly available on call for immediate emergency service to perform their regular duties, shall be paid twenty-five (25%) percent of their regular straight time

rate of pay for the period of such standby service, except that employees shall be paid ten (10%) percent of their regular straight time rate of pay for the period of such standby service when outfitted by their department with a pager or cell phone. When such employees are paged or called to perform their regular duties during the period of such standby service, they shall be paid while engaged in such service at the usual rate of pay. Notwithstanding the general provision of this section, standby pay shall not be allowed for positions with duties which are primarily administrative in nature. Standby assignments at Millbrae location will be done on a rotational basis but only one person will be on standby."

As shown in Table 13.4 above, \$319,564, \$323,670, and \$341,203 in standby pay was paid to City Distribution Division employees in the most recent three fiscal years. Most of the standby pay payments were based on 25 percent of base pay, despite the fact that the memorandum of understanding cited above provides for a compensation rate of 10 percent of the regular straight time rate if the employees are outfitted with a pager or cell phone. For scheduled standby pay as shown in Table 13.6 below, if the employees had been outfitted with a cell phone or pager and paid at the 10 percent rate, scheduled standby costs would have been reduced by \$171,710 from \$286,178 to \$114,468, or by 60 percent. Further, the Classification 7134 Water Construction and Maintenance Superintendent and the Classification 7284 Utility Plumber Supervisor II positions shown in Table 13.5 above are primarily administrative positions. As stated in the memorandum of understanding cited above, "standby pay shall not be allowed for positions with duties which are primarily administrative in nature." Nonetheless, the incumbents in the Classification 7134 Water Construction and Maintenance Superintendent and Classification 7284 Utility Plumber Supervisor II positions received standby pay during calendar year 2004 at the 25 percent rate.

The Budget Analyst recommends that the City Distribution Division Manager review standby pay requirements for the Division and reduce the number of positions required to the minimum consistent with operational prudence. The Budget Analyst further recommends that standby pay be paid at 10 percent of base salary.

Table 13.6
Scheduled Standby Pay Statistics
City Distribution Division

Classification	FY 2004-05 Hourly Rate Top Step	25% Standby Rate	Standby hours per Week	Annual Cost at 25% Rate	Annual Cost at 10% Rate
7388	\$37.00	\$9.25	88	\$42,328	\$16,931
7388	\$37.00	\$9.25	88	\$42,328	\$16,931
7463	\$35.15	\$8.79	88	\$40,212	\$16,084
7463	\$35.15	\$8.79	88	\$40,212	\$16,084
7250	\$41.59	\$10.40	88	\$47,576	\$19,030
7284	\$44.76	\$11.19	61.5*	\$35,786	\$14,314
7134	\$47.21	\$11.80	61.5*	\$37,736	\$15,094
Totals			563	\$286,178	\$114,468

Source: City Distribution Division Business Services Section

* The Classification 7134 Water Construction and Maintenance Superintendent and the Classification 7284 Utility Plumber Supervisor II positions share 123 senior staff standby hours per week.

Overtime and the “Gateroom” Work Schedule

The Reservoirs and Operations Section is supervised by a Classification 7284 Utility Plumber Supervisor II and is authorized 26 positions, as shown in Table 13.7 below.

Table 13.7
Construction and Maintenance Division
Gateroom Section

Class	Title	No. of Positions	Salary at Top Step	Total Salaries at Top Step
7284	Utility Plumber Supervisor 2	1	\$93,464	\$93,464
7250	Utility Plumber Supervisor 1	13	86,835	1,128,855
7388	Utility Plumber	10	77,256	772,560
7463	Utility Plumber Apprentice	1	73,393	73,393
7514	General Laborer	1	48,363	48,363
Totals		26		\$2,116,635

The term “Gateman” refers to a specialty within Classification 7250 Utility Plumber Supervisor. The term “Gateman” comes from the function of operating gate valves in the streets to regulate water supplies. For example, gate valves can be regulated to increase water supplied to fire fighters at the scene of a fire, or to shut off water coming to an area with a broken main pipe. The Construction and Maintenance Division of the City Distribution Division is authorized a total of 23 Utility Plumber Supervisor I positions. Of those 23 positions, 13 positions are allocated to the Reservoirs and Operations Section to which Gatemen are assigned. Currently, 11 of the 13 Gatemen positions are filled.

Gatemen perform a variety of very important functions, including the following:

- Regulate reservoir levels.
- Shut down large and small water mains because of breaks or connections to new mains.
- Flush water mains to ensure high quality potable water.
- Respond to all second alarm and greater fires to assist the Fire Department with increased water supply.
- Coordinate interruptions to service with the public due to upgrading of water mains.
- Chlorinate new water mains to assure purification before connection to the existing system.
- Keep daily records of changes in the water supply system in log books and gate books.
- Inspect paving by contractors and the City to ensure that gate valves are readily accessible to operate in an emergency.
- Investigate complaints by the public regarding hazardous conditions, lack of water, low water pressure, or leaks in the area.
- Inspect reservoirs, tanks, and pump stations to maintain facilities for peak performance and guard against vandalism.

A Gateman is required to be on duty 24 hours per day, every day of the year. The current staff of 11 Gatemen work a schedule that provides 24 hour per day coverage, with one Gateman scheduled for each swing and night shift and one Gateman for each of the six weekend eight-hour shifts. Overtime is paid for the six weekend shifts, to which apply the swing shift differential of 8.5 percent (between 5:00 p.m. and 12:00 a.m.) and the night differential of 10 percent (between 12:00 a.m. and 7:00 a.m.). Applying the pay differentials to the base salary of \$41.5875 per hour and the overtime factor of 1.5 to those amounts yields a built-in scheduled overtime sum of approximately \$164,104 annually.

The current 11-week rotational schedule used by the Gatemen requires one period of working 12 consecutive days. The City Distribution Division Manager has expressed

concern about the level of stress of working 12 consecutive days of Gateman duty. Further, Gatemen are subject to being called out on overtime during those 12 consecutive days. Therefore, for reasons of health and safety, and for possible cost savings, the Budget Analyst recommends that the Gatemen's work schedule be reviewed and evaluated to address concerns of health and safety, and work efficiencies. In comparison to the schedule of built-in overtime to accommodate the 24-hour per day, 365 day coverage required employed by the City Distribution Division, the Water Pollution Control Division has employed a schedule that is cost effective and achieves the required 24-hour, 365 day, annual coverage.

Conclusions

Water Supply and Treatment Division and City Distribution Division administrative and personnel functions should be supported by written policies and procedures, and such policies and procedures should be fully implemented and monitored by Water Supply and Treatment Division and the City Distribution Division management. Further, Water Supply and Treatment Division Further and the City Distribution Division management should improve their compliance with Public Utilities Commission, City, and State policies, procedures, and regulations, such as ensuring compliance with the Public Utilities Commission's Unit Processing of Employee Equipment and Access and Exit Interview procedures, consistent compliance with the City's employee performance evaluation policy, and compliance with the State's Employer Pull Notice Program.

The City Distribution Division's use of standby pay and overtime are not economical. Standby pay at the rate of 25 percent of base pay is paid for standby services that can be compensated at the rate of 10 percent of base pay, saving up to \$171,710 annually. In addition, revising the Gateroom schedule would save approximately \$164,104 of built-in overtime annually, and would no longer gatemen to work 12 consecutive days during the 11-week rotation schedule.

Recommendations

The Public Utilities Commission General Manager should:

13.1 Direct the Assistant General Manager, Water to:

- (a) compile data on the Hetch Hetchy Water and Wholesale Power, Water Supply and Treatment, and City Distribution Divisions' water loss,
- (b) determine the extent of water loss,
- (c) evaluate the feasibility of developing and implementing a program "that effectively identifies, quantifies, monitors, and controls water losses", including benchmarking the Public Utilities Commission's water loss against industry standards, as applicable, and

(d) report the results of that evaluation to the Public Utilities Commission and the Board of Supervisors through its budget performance measures. The Water Supply and Treatment Division Manager should:

- 13.2 Establish a timeline for developing an Administrative Policies and Procedures Manual for the Water Supply and Treatment Division, and report to the Assistant General Manager, Water on the status of the Administrative Policies and Procedures Manual prior to December 31, 2005.
- 13.3 Require all Water Supply and Treatment Division managers and supervisors to complete employee performance evaluations for all staff annually.
- 13.4 Include completion of employee performance evaluations annually as an objective in the Water Supply and Treatment Division managers' and supervisors' own employee performance evaluations.
- 13.5 Establish procedures for and monitor compliance with the Unit Processing of Employee Equipment and Access and Exit Interview procedures.

The City Distribution Division Manager should:

- 13.6 Establish a timeline for developing a comprehensive set of performance measures for concentrating effort and evaluating performance and progress for the entire range of City Distribution Division responsibilities, including such areas as staff development and safety, and report to the Assistant General Manager, Water on the status of the performance measures prior to December 31, 2005.
- 13.7 Establish a timeline for developing an Administrative Policies and Procedures Manual for the City Distribution Division, and report to the Assistant General Manager, Water on the status of the Administrative Policies and Procedures Manual prior to December 31, 2005.
- 13.8 Require all City Distribution Division managers and supervisors to complete employee performance evaluations for all staff, annually.
- 13.9 Include completion of employee performance evaluations annually as an objective in the City Distribution Division managers' and supervisors' own employee performance evaluations.
- 13.10 Establish procedures for and monitor compliance with the Unit Processing of Employee Equipment and Access and Exit Interview procedures.
- 13.11 Ensure full compliance with the State's Employer Pull Notice Program.
- 13.12 Review standby pay requirements for the City Distribution Division and consider reducing the number of positions required, consistent with operational prudence.

- 13.13 Issue pagers or cell phones to employees on standby and implement standby pay based on 10 percent of base salaries.
- 13.14 Immediately discontinue standby payments to employees in administrative positions.
- 13.15 Review the Gateroom work schedule for the purpose of achieving overtime cost efficiencies and workload relief for Gatemen.
- 13.16 In conjunction with the Employee Relations Division and Plumbers and Pipe Fitters Local No. 38, develop a schedule for the Gatemen that promotes health and safety and that minimizes built-in overtime costs.

Costs and Benefits

The Budget Analyst's recommendations can be accomplished with existing staff in-house. The benefits of the recommendations would include a more efficient Water Supply and Treatment Division operation with improved internal controls and improved effectiveness of the City Distribution Department's administrative and personnel functions significantly assisting the City Distribution Department in accomplishing its objectives.

The City Distribution Division Manager can achieve cost savings of up to \$335,814 annually by (a) changing the basis of standby pay from 25 percent to 10 percent of base salaries (up to \$171,710), and (b) employing the minimum essential standby and overtime staff necessary for effective and safe operations (up to \$164,104).



SAN FRANCISCO PUBLIC UTILITIES COMMISSION

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August 10, 2005

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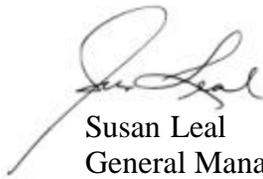
SUSAN LEAL
GENERAL MANAGER

Dear Mr. Rose,

This is the San Francisco Public Utilities Commission's (SFPUC) response to your management audit concluded in August 2005. My staff and I have reviewed the Budget Analyst's recommendations. We have summarized our responses and have provided them on the pages that follow.

Thank you for your analysis and recommendations. I expect that this and the three earlier reports will provide useful guidance to the SFPUC.

Sincerely,



Susan Leal
General Manager

Section 1. Containing the Costs of Administrative Overhead and Work Orders with Other City Departments

The Public Utilities Commission General Manager should:

- 1.1 Direct the Public Utilities Commission's Director of Financial Services to identify all areas of administration overhead that are currently allocated through the cost allocation plan but that could be directly charged to the receiving division, including (a) charging the Customer Services Section's costs for electricity billing directly to the Hetch Hetchy Enterprise, and (b) charging the Information Technology Service's costs for the Supervisory Control and Data Acquisition System (SCADA) unit directly to the Water Enterprise.

SFPUC Response: Agree. A focus of the FY 2006 budget reorganization was to minimize allocated bureau costs. We will continue to charge directly where appropriate.

- 1.2 Direct the Assistant General Manager, Business Services, to implement service agreements between Information Technology Services, Human Resource Services, and Financial Services, and the operating divisions, identifying (a) the role of the administrative overhead sections, including both oversight and service functions, and (b) the level of service to be provided to the operating divisions, including, as appropriate: (i) an identified administrative overhead section contact person, (ii) timelines for responding to phone calls or requests for information, (iii) turnaround time for specific processes, (iv) procedures to resolve complaints or disputes, and (v) regular meetings and sharing of information as needed.

SFPUC Response: Agree that overhead divisions are in service to the operating divisions and that it is important to identify services to be provided, to establish clear performance expectations and to measure results. Some staff members have already been assigned to specific projects and/or enterprises, and further changes will be made to make the administrative divisions more responsive to the enterprises.

- 1.3 Direct the Assistant General Manager, Business Services, to establish quantifiable performance measures to be included in the service agreements, which (a) identify expected timelines or costs for performing routine activities whenever possible, and (b) establish benchmarks and reporting requirements.

SFPUC Response: Agree that it is important to identify services to be provided, to establish clear performance expectations and to measure results. We propose leaving the specific form that this takes up to the relevant managers.

- 1.4 Direct the Director of Communications and Public Outreach to present an analysis of the Communications and Public Outreach Section's costs and consultant costs for communications and public outreach, which includes: (a) identification of the Communications and Public Outreach Section's and consultants' functions and how these functions are differentiated in practice, (b) an evaluation of the consultants' performance

in accomplishing the identified function, and (c) recommendations to better coordinate or streamline Public Utilities Commission's staff and consultant functions as necessary.

SFPUC Response: Agree, Communications goals for Fiscal Year 2005-06 were presented to the Commission in June 2005 and to the Citizens Advisory Committee in July 2005. As the Budget Analyst is aware, the role of consultants has been reduced significantly in the SFPUC's Communications planning, and we consider carefully how and when to use consultants.

- 1.5 Direct the Director of Information Technology Services to develop a staffing reduction plan to eliminate the six Mainframe Applications Unit positions over the next five years.

SFPUC Response: The SFPUC Billing and Customer Information System runs on the mainframe. As we improve our customer service operations in the next few years, we will assess the need for replacing this system in order to make the desired improvements to customer service. Specific plans to phase out mainframe operation cannot and should not be developed until the assessment of the Billing System has been completed. Most likely this will be done in Fiscal Year 2006-07.

- 1.6 Direct the Director of Information Technology Services to evaluate potential staffing and training plans to train Information Technology Services staff to assume more responsibility for maintaining the SCADA system, as part of the SCADA strategic planning process.

SFPUC Response: At present, ITS staff maintains the transportation SCADA but is not involved in the maintenance of the treatment plant SCADAs. A comprehensive evaluation of all Water Enterprise SCADAs is being conducted as part of the development of the SCADA Strategic Plan. This plan, which should be completed in the next few months, will almost certainly recommend that the maintenance responsibility for all SCADA systems be centralized and that skilled in-house staff be used to the extent practicable. Centralized SCADA maintenance may, or may not, end up being an ITS responsibility.

- 1.7 Direct the Director of Water Supply and Treatment Services to evaluate Water Supply and Treatment Division staff performance and potential improved staff performance in maintaining the SCADA system.

SFPUC Response: Agree.

- 1.8 Consolidate management of the SCADA system's in-house and contractual budget under one manager, as part of the SCADA strategic planning process.

SFPUC Response: Agree.

- 1.9 Negotiate an interdepartmental agreement between the Public Utilities Commission and the Department of Human Resources that identifies the Department of Human Resources responsibilities for specific services that are not currently covered by an

interdepartmental agreement, such as Employee Relations, including reporting and performance standards.

SFPUC Response: Agree that we must get full value from service agreements with other departments. We will work with relevant departments to clarify these agreements as appropriate.

- 1.10 Direct the Director of Financial Services to negotiate annual task plans with the Department of Public Works that measure the cost-efficiency of services, including: (a) identifying average hours and costs of routine activities, based on industry standards when possible, (b) measuring and reporting on the actual hours and costs of routine activities compared to the standard hours and cost, (c) benchmarking the hours and costs of services against a standard measure, and (d) tracking actual hours and costs of services over time.

SFPUC Response: See 1.9.

- 1.11 Direct the Director of Information Technology Services to review all Department of Telecommunications and Information Systems work orders to determine the actual number of productive staff hours and revise the work order to reflect the actual number of productive staff hours as appropriate.

SFPUC Response: Agree. At present there is only one relevant work order with DTIS for implementation support by a single DTIS analyst for the Learning Management System. No DTIS support is needed for this system beyond the current fiscal year. If we need DTIS support in other areas in the future, we will follow the auditor's recommendation.

- 1.12 Negotiate an interdepartmental agreement between the Public Utilities Commission and the City Attorney's Office that (a) specifies the estimated hours of service and cost per hour and other associated expenses for the City Attorney's management of claims, litigation and special projects, and (b) benchmarks the hours and costs of City Attorney's services for claims and litigation.

SFPUC Response: Agree, see 1.9.

- 1.13 Direct the Director of Financial Services to (a) identify all work orders between the Public Utilities Commission and other City Departments that do not currently have an interdepartmental agreement, (b) determine which work orders require an interdepartmental agreement, and (c) negotiate an interdepartmental agreement for the respective City Departments, including service levels and performance measures, prior to preparation of the FY 2006-2007 budget.

SFPUC Response: Agree, see 1.9.

Section 2. Implementing the Asset Management Program

The Public Utilities Commission General Manager should:

2.1 Direct the Assistant General Managers for Infrastructure, Water, and Clean Water to prepare and implement an asset management program work plan, that:

- (a) includes goals, work product, and timelines, and
- (b) identifies executive management oversight responsibilities.

SFPUC Response: Agree; this is underway.

2.2 Direct the Assistant General Managers for Infrastructure, Water, and Clean Water to develop criteria and prepare formal, written procedures for determining routine maintenance work orders and capital repair and replacement work orders to be set up as projects.

SFPUC Response: Agree.

2.3 Direct the Assistant General Managers, Infrastructure, Water, and Clean Water in conjunction with the Director of Financial Services to:

- (a) develop standard procedures for defining capital repair and replacement projects,
- (b) determine capital repair and replacement program funding criteria, and
- (c) include such criteria in the proposed FY 2006-2007 budget.

SFPUC Response: Agree; it is important to develop clear formal written procedures for distinguishing between repair/maintenance, reconstruction and replacement, and capital additions.

2.4 Implement the State Department of Finance audit recommendation to provide the Public Utilities Commission and the Board of Supervisors detailed capital repair and replacement program information as recommended in Phase III of this management audit, including:

- (a) providing water system capital repair and replacement program information as part of the monthly Water System Capital Improvement Program status reports to the Public Utilities Commission; and
- (b) providing water system capital repair and replacement program information to the Board of Supervisors as part of the quarterly Water System Capital Improvement Program status reports.

SFPUC Response: Agree that it is important to develop formal reconstruction and replacement program. Quarterly reporting will be more meaningful than monthly reporting.

2.5 Direct the Assistant General Manager for Water to draft a flowchart and policy governing the process of setting-up, charging, and closing work orders for maintenance and capital

repair and replacement projects, and to present the draft flowchart and policy to the General Manager and the Public Utilities Commission no later than December 31, 2005. The policy should include:

- (a) requirements that a senior manager sign off on the work order,
- (b) criteria to define routine maintenance work orders and capital repair and replacement work orders that will be set up as a project.

SFPUC Response: Agree.

- 2.6 Direct the Director of Financial Services to (a) review all of the Clean Water, Water, and Hetch Hetchy Enterprises' existing revenue-funded capital repair and replacement projects with unexpended appropriations and no current year expenditures, and (b) recommend de-funding and re-allocating unexpended appropriations to active repair and replacement projects.

SFPUC Response: Agree; this is underway.

- 2.7 Direct the Assistant General Manager, Infrastructure, to require all project managers to develop annual spending plans for repair and replacement projects which correspond to the annual project appropriations should correspond to the spending plan.

SFPUC Response: Agree.

- 2.8 Direct the Assistant General Managers for Infrastructure, Water, and Clean Water to develop procedures to review and approve capital repair and replacement project spending plans.

SFPUC Response: Agree.

Section 3. Managing Financial Data and Information

The Director of Accounting should:

- 3.1 Develop lead-sheets and schedules of account balances and track and monitor all audit adjustments for the FY 2005-2006 year-end close and financial audit process.

SFPUC Response: Agree, we already do these.

- 3.2 Augment the "Prepared by Client" listing with actual completion dates and track and monitor deadlines for the FY 2005-2006 year-end close and financial audit process.

SFPUC Response: Agree, we already do these.

- 3.3 Annually assess performance or process issues identified in 3.1 and 3.2 above and implement improvements as necessary.

SFPUC Response: Agree.

- 3.4 Develop written policies and desk procedures for the General Ledger and Financial Reporting area by March 30, 2006.

SFPUC Response: Agree, we will complete these policies and procedures by the end of the fiscal year.

- 3.5 Develop a training needs assessment and a formalized training plan for each staff and monitor as part of the employee evaluation process by December 31, 2005.

SFPUC Response: Agree.

The Director of Financial Services should:

- 3.6 Define and document the roles and responsibilities of vested parties within the Public Utilities Commission related to capturing critical financial data and information, including the Accounting, Budget and Finance units of the Financial Services Section and the Infrastructure Division's project managers and its Infrastructure Resources Management Bureau by December 31, 2005.

SFPUC Response: Agree.

- 3.7 Clearly define and document routine maintenance, repair and replacement, and capital activities by December 31, 2005.

SFPUC Response: Agree.

- 3.8 Revise the accounting structure and its use in budgeting, transaction processing and reporting to segregate routine maintenance, repair and replacement, and capital activities, in conjunction with segregating expenditures that should be capitalized as an asset from those expenditures that should be categorically expensed by March 31, 2006.

SFPUC Response: Agree.

- 3.9 Develop written policies and procedures for all staff in the Financial Services Section as well as in operations to provide practical guidance on the implementation of 3.8 above by June 30, 2006.

SFPUC Response: Agree.

- 3.10 Develop written instructions and guidance on the revision of the Public Utilities Commission's index codes, including detail on the index codes to be standardized across divisions if applicable, incorporation of industry standards, and documentation of any external reporting requirements by December 31, 2005.

SFPUC Response: Agree.

- 3.11 Develop written policies and procedures for the on-going creation of new index codes by December 31, 2005.

SFPUC Response: Agree.

Section 4. Management of the Accounting Unit

The Board of Supervisors should:

- 4.1 Eliminate one 1675 Supervising Fiscal Officer position for an annual salary and fringe benefit savings of \$134, 517.

SFPUC Response: Disagree. As noted in the Budget Analyst's report, the Accounting Unit needs substantial improvements in processes, staff training, organization and leadership. To effect these changes thoroughly and timely, we need hiring and staffing flexibility.

The Public Utilities Commission General Manager should:

- 4.2 Take any and all steps necessary to fill the Assistant General Manager, Business Services, the Director of Financial Services, the Director of Accounting, and one Accounting Manager position with technically qualified, highly skilled, permanent staff.

SFPUC Response: Agree.

The Director of Financial Services should:

- 4.3 Organize separate working groups to:

- (a) Revise and update by June 30, 2006 the Financial Services Section policies and procedures manual and clearly define the roles and responsibilities of all staff relative to these procedures.
- (b) Develop the mission, goals, objectives, work plans, and performance measures for the Accounting Unit by December 31, 2005.
- (c) Evaluate the extent of purchasing issues, develop benchmarks for measuring and monitoring performance, and work with the Purchasing Division of the Administrative Services Department to resolve performance issues and process weaknesses by March 31, 2006.

SFPUC Response: Agree.

- 4.4 Direct the Director of Accounting, in coordination with the Accounting Managers, to:

- (a) Conduct employee performance evaluations in a timely manner and in compliance with the Public Utilities Commission's policies and procedures.
- (b) Develop a training needs assessment and a training plan for all staff in the Accounting Unit which is tracked and monitored throughout the year and incorporated into the employee performance evaluation process.

- (c) Develop an ongoing training program for operations division and administrative bureau finance and administrative staff on the Financial Services Section and City accounting and finance policies and procedures.
- (d) Work with operations divisions and administrative bureaus to ensure that accounting and finance procedures are clearly assigned and are occurring at appropriate levels.

SFPUC Response: Agree.

- 4.5 Report back to the Deputy Director of Business Services and the General Manager by September 30, December 31, March 31, and June 30 on the status of the recommendations and the progress made by the working groups and the Director of Accounting.

SFPUC Response: Agree.

Section 5. Contracting

The Public Utilities Commission Contracts Administration Manager should:

- 5.1 Identify specific points of delay in the contracting process.

SFPUC Response: Agree, we have done this and will continue to review the process to make it as efficient as possible.

- 5.2 Implement specific procedures to reduce points of delay in the contracting process, including:
 - (a) Eliminating redundant steps;
 - (b) Scheduling future meetings with various entities, such as unions, the Civil Service Commission, and the City Attorney at an earlier point in the process;
 - (c) Setting up reminder notices to follow-up on steps in the contracting process with external entities, such as the City Attorney's Office and the Human Rights Commission; and
 - (d) Requiring the contractors to provide a complete set of insurance documents and other documents necessary to comply with the City's and Public Utilities Commission's contracting procedures no later than the end of the contract negotiating period.

SFPUC Response: Agree strongly that the contracting process is cumbersome, and we are working to streamline the process both internally and Citywide. We have already implemented some of the recommended actions and the new PUC Contract Manager will continue to work with PUC divisions and other City departments to make improvements.

- 5.3 Establish enforceable timelines for each step of the contracting process, as part of the Contracts Administration Section's planning for the Department's contracts webpage.

SFPUC Response: Agree, we are working to establish timelines that will be enforceable.

- 5.4 Benchmark the performance of the Contracts Administration Section as a whole and Contracts Administration Section employees individually against these enforceable timelines.

SFPUC Response: Agree, to the extent timelines are within the control of Contracts Administration Section staff.

The Construction Management Bureau Manager should:

- 5.5 Establish written guidelines for accurately and regularly completing the Department's Task Order Evaluation Form and mandate staff to adhere to these guidelines.

SFPUC Response: Agree.

- 5.6 Establish written guidelines for systematically reviewing the contractor's monthly invoices to determine their accuracy and completeness and mandate staff to adhere to such guidelines.

SFPUC Response: Agree.

- 5.7 Establish policies and procedures on how to process and evaluate change orders and mandate staff adherence to these guidelines.

SFPUC Response: Agree.

- 5.8 Establish a standard list of required documents and forms that are needed to internally process all change orders for construction projects.

SFPUC Response: Agree.

- 5.9 Establish a formal document retention policy for key contract-related documents and should specify where such documents should be maintained.

SFPUC Response: Agree.

The Deputy General Manager should

- 5.10 Develop a training program for Contract Administration and Project Management staff regarding (a) contract negotiations, (b) evaluating contractor performance, and (c) evaluating and negotiating change orders.

SFPUC Response: Agree. Some training has begun, and we are working to link Construction Management and Contracts more closely to improve communication.

Section 6. Security and Emergency Preparedness

The Public Utilities Commission General Manager should:

- 6.1 Direct the Deputy General Manager to ensure that the Security Director and operating division managers regularly revise department-wide and facility-specific Emergency Operations Plans.

SFPUC Response: Agree.

- 6.2 Direct the Deputy General Manager to ensure that the department-wide and facility-specific Emergency Operations Plans are easily accessible to its staff.

SFPUC Response: Agree.

- 6.3 Present a plan and timelines to develop comprehensive electronic security measures for the Public Utilities Commission's facilities to the Public Utilities Commission no later than December 31, 2005.

SFPUC Response: Agree, though this will require either a security consultant or a later deadline if the plan is to be developed in-house.

- 6.4 Present a capital spending plan and timelines for the Facilities Security Project to the Public Utilities Commission during the February 2006 budget presentation.

SFPUC Response: Agree.

- 6.5 Prioritize the hiring of a Security Director to manage the Public Utilities Commission's security and emergency planning program.

SFPUC Response: Agree.

- 6.6 Direct the Security Director to develop department-wide written policies regarding:

- (a) employees' responsibilities when witnessing a criminal act, including procedures to notify management and law enforcement personnel; and
- (b) an incident reporting system to track criminal activity or security breaches to determine commonly occurring or high cost incidents.

SFPUC Response: Agree.

- 6.7 Direct the Security Director, in conjunction with the Assistant General Managers Infrastructure, Clean Water, and Water, to develop:

- (a) a loss prevention program for losses associated with theft, vandalism, or other criminal activity; and
- (b) annual reports to the General Manager and the Public Utilities Commission on (i) the estimated costs of loss associated with criminal activity and (ii) proposals to reduce loss from criminal activity.

SFPUC Response: Agree.

Section 7. Water System Capital Improvement Program Management Services Contracts

The Public Utilities Commission General Manager should:

- 7.1 Ensure that the Department and the contractor jointly develop measurable programmatic performance measures for incorporation into the annual performance review process outlined in Recommendation 7.3.

SFPUC Response: Agree that progress on the WSIP should be measured against clear metrics, and we report quarterly to the Board of Supervisors and Bay Area Water Supply and Conservation Agency on our progress against project deadlines and budget.

- 7.2 Provide the Board of Supervisors with a staff hiring plan, prepared in conjunction with the Joint Union-City Committee, for positions related to the Water System Capital Improvement Program, by October 19, 2005.

SFPUC Response: Agree, this is underway.

- 7.3 Continue to provide the Board of Supervisors, throughout the term of the Water System Capital Improvement Program, with an integrated annual report which addresses (1) the former Board of Supervisors Finance and Audits Committee's request for an annual report on (a) the details of all outside consultants being used for the Water System Capital Improvement Program, including the scope and cost of each outside consultant contract, and (b) the details of all City staff working on the Water System Capital Improvement Program, including their classification, duties, and salary costs, and (2) the current Board of Supervisors Governmental Audits and Oversight Committee's request for a contractor performance audit conducted annually prior to the annual Department budget review.

SFPUC Response: Agree, we are doing this anyway through the annual appropriation process. We will submit all documentation timely to the Controller's Office for their audit process.

Section 8. Infrastructure Division's Organizational Structure

The Public Utilities Commission General Manager should:

- 8.1 Eliminate the Classification 0941 Manager VI (Resources Management Bureau Manager) position in the Resources Management Bureau.

SFPUC Response: We are reorganizing the Infrastructure Division and will take the Budget Analyst's recommendations into consideration.

- 8.2 Eliminate the Classification 0922 Manager I (General Administration Manager) position in the Resources Management Bureau.

SFPUC Response: We are reorganizing the Infrastructure Division and will take the Budget Analyst's recommendations into consideration.

- 8.3 Eliminate two Classification 1404 Clerk positions and one Classification 9922 Public Services Aide position which provide front desk coverage and clerical support in the Resources Management Bureau.

SFPUC Response: We are reorganizing the Infrastructure Division and will take the Budget Analyst's recommendations into consideration.

- 8.4 Direct the Assistant General Manager, Infrastructure to finalize and sign the Infrastructure Division organization charts as soon as the latest Infrastructure Division restructuring is complete.

SFPUC Response: Agree.

- 8.5 Direct the Assistant General Manager, Infrastructure to charge an Infrastructure Division staff member with the responsibility to ensure that the finalized organization charts are amended as soon as personnel changes occur, and that all deviations from the Annual Salary Ordinance are accurately noted.

SFPUC Response: Agree.

The Board of Supervisors Budget and Finance Committee should:

- 8.6 Release the salary reserve of \$107,340 plus mandatory fringe benefits for the 0942 Manager VII, Engineering Management Bureau Manager position.

SFPUC Response: Agree.

- 8.7 Release \$183,966 plus mandatory fringe benefits of the reserve of \$560,571 plus mandatory fringe benefits for new 0933 Manager V positions.

SFPUC Response: Agree.

Section 9. Managing General Liability and Workers' Compensation Costs

The Public Utilities Commission General Manager should:

- 9.1 Designate the Assistant General Manager, Business Services, as the risk manager for the Public Utilities Commission.

SFPUC Response: Agree that the AGM must monitor these functions; we will review the workload and assign specific duties.

- 9.2 Direct the Assistant General Manager, Business Services to:

(a) Coordinate loss prevention programs among the Clean Water, Water, and Hetch Hetchy Enterprises.

- (b) Develop measures and reporting mechanisms to monitor the effectiveness of the loss prevention program.
- (c) Conduct trend analyses to track the Public Utilities Commission's actual claims and litigation experience, annual claims and litigation costs, and reported liability in the audited financial statements.

SFPUC Response: Agree.

- 9.3 Report quarterly to the Public Utilities Commission on (a) the status of the loss prevention programs, (b) the risk management measures, and (c) the trend analysis.

SFPUC Response: Agree.

The Director of Human Resource Services should:

- 9.4 Measure the performance of the modified duty program and report annually to the Public Utilities Commission on the performance measures.

SFPUC Response: Agree.

- 9.5 Work with the Department of Human Resources Workers' Compensation Division to identify successful modified duty programs in other agencies and develop best practices for the Public Utilities Commission's modified duty program.

SFPUC Response: Agree.

The Director of Financial Services should:

- 9.6 Report annually to the Public Utilities Commission on the accrued workers' compensation liability, including (a) increases or decreases in accrued liability over time and (b) causes for increases or decreases in accrued liability.

SFPUC Response: Agree.

Section 10. Improving Human Resource Processes

The Director of Human Resource Services should:

- 10.1 Evaluate the steps and timelines for recruiting and conducting exams for vacant positions and processing the selected candidate.

SFPUC Response: Agree.

- 10.2 Establish timelines for specific stages of the hiring process and streamline steps in the hiring process when possible.

SFPUC Response: Agree.

- 10.3 Establish performance measures for the hiring process, including meeting established timelines and preparing complete information.

SFPUC Response: Agree.

- 10.4 Benchmark the Work Flow system measures against the timelines established for specific steps of the hiring process.

SFPUC Response: Agree.

- 10.5 Reduce two 1222 Senior Payroll/Personnel Clerk positions in the FY 2006-2007 budget, after full conversion to the eTime system.

SFPUC Response: Disagree. The eTimecard system is still new, and there are many developments and enhancements to be worked out. While we have eliminated two timekeeping systems, the main effect of those eliminations is a reduction in the time entry keying effort that was handled primarily by ITS data entry staff. The central HRS functions of auditing, adjusting and finalizing the time-entered data transmitted to Payroll remains the same.

The Director of Financial Services should:

- 10.6 Review all Public Utility Commission positions in which the actual position differs from the budgeted position and revise the position in the annual budget.

SFPUC Response: Agree.

Section 11. Automotive and Mobile Equipment Management

The Public Utilities Commission General Manager should:

- 11.1 Transfer fleet management responsibilities for the 99 general purpose vehicles currently maintained by Central Shops to the Director of Administrative Services.

SFPUC Response: Disagree.

- 11.2 Emphasize the importance of vehicle maintenance including complying with preventive maintenance inspection schedules and complying with the State's Employer Pull Notice Program.

SFPUC Response: Agree.

- 11.3 Direct the Fleet Manager to present a report to the Assistant General Manager, Business Services on implementation of the Public Utilities Commission's department-wide Employer Pull Notice Program prior to December 31, 2005.

SFPUC Response: Agree.

Section 12. Maintenance and Materials Management

The Water Supply and Treatment Division Manager should:

- 12.1 Establish a timeline for development of a Maintenance Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.

SFPUC Response: Agree.

- 12.2 Establish a timeline for development of a Materials Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.

SFPUC Response: Agree.

- 12.3 Ensure that the Water Supply and Treatment Division incorporates automated planning and scheduling processes into its everyday maintenance activities.

SFPUC Response: Agree.

- 12.4 Ensure that the Water Supply and Treatment Division initiates maintenance reporting on a continuing, periodic basis. The *Management by Objectives Report* produced by the Water Pollution Control Division is a useful model.

SFPUC Response: Agree.

- 12.5 Use MAXIMO reports when requesting maintenance resources.

SFPUC Response: Agree.

- 12.6 Ensure that all tools and equipment are inventoried annually.

SFPUC Response: Agree.

- 12.7 Direct a review of inventory items for the purpose of determining which items should be stocked regardless of demand history, which items should be retained in inventory but only reordered when there is a demand, and which items should be advertised for disposal.

SFPUC Response: Agree.

- 12.8 Ensure that the material in the maintenance yard not currently in inventory be brought into inventory or reported for disposal.

SFPUC Response: Agree.

- 12.9 Take necessary action to improve the physical condition of the warehouse, including ensuring that the leaking roof is repaired.

SFPUC Response: Agree.

The City Distribution Division Manager should:

- 12.10 Fill the vacant maintenance manager and maintenance planner positions and ensure that the 7205 Chief Stationary Engineer is assigned to maintenance planning functions.

SFPUC Response: Agree.

- 12.11 Compare the newly established MAXIMO performance measures for the City Distribution Division against measures proposed in American Water Works Association literature and the literature of other water associations, and incorporate additional and/or replacement performance measures as deemed appropriate.

SFPUC Response: Agree.

- 12.12 Ensure the accuracy of the data collected and reported on actual performance.

SFPUC Response: Agree.

- 12.13 Establish a timeline for development of the Maintenance Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.

SFPUC Response: Agree.

- 12.14 Establish a timeline for development of the Materials Management Policies and Procedures Manual and report on the status of the manual's development to the Assistant General Manager, Water prior to December 31, 2005.

SFPUC Response: Agree.

- 12.15 Ensure that the City Distribution Division incorporates automated planning and scheduling processes into its everyday maintenance activities.

SFPUC Response: Agree.

- 12.16 Ensure that the City Distribution Division initiates maintenance reporting on a continuing, periodic basis. The *Management by Objectives Report* produced by the Water Pollution Control Division is a useful model.

SFPUC Response: Agree.

- 12.17 Use MAXIMO reports when deciding on resource allocations.

SFPUC Response: Agree.

- 12.18 Ensure that all tools and equipment are inventoried annually.

SFPUC Response: Agree.

12.19 Take necessary action to reduce shrinkage and improve the accuracy of the data contained in MAXIMO on material.

SFPUC Response: Agree.

The Director of Human Resources should:

12.21 In accordance with the existing memorandum of understanding and in conjunction with appropriate officials of Plumbing and Pipefitting Industry Local No. 38 and the Public Utilities Commission, make every effort to establish an agreement between the City and Plumbing and Pipefitting Industry Local No. 38 on a Utility Plumber Apprenticeship Program.

SFPUC Response: Agree, we look forward to working with Local 38 to create a transparent, jointly-administered apprenticeship program.

Section 13. Personnel and Management Issues

The Public Utilities Commission General Manager should:

13.1 Direct the Assistant General Manager, Water to:

- (a) compile data on the Hetch Hetchy Water and Wholesale Power, Water Supply and Treatment, and City Distribution Divisions' water loss,
- (b) determine the extent of water loss,
- (c) evaluate the feasibility of developing and implementing a program "that effectively identifies, quantifies, monitors, and controls water losses", including benchmarking the Public Utilities Commission's water loss against industry standards, as applicable, and
- (d) report the results of that evaluation to the Public Utilities Commission and the Board of Supervisors through its budget performance measures.

SFPUC Response: Agree.

The Water Supply and Treatment Division Manager should:

13.2 Establish a timeline for developing an Administrative Policies and Procedures Manual for the Water Supply and Treatment Division, and report to the Assistant General Manager, Water on the status of the Administrative Policies and Procedures Manual prior to December 31, 2005.

SFPUC Response: Agree.

- 13.3 Require all Water Supply and Treatment Division managers and supervisors to complete employee performance evaluations for all staff annually.

SFPUC Response: Agree.

- 13.4 Include completion of employee performance evaluations annually as an objective in the Water Supply and Treatment Division managers' and supervisors' own employee performance evaluations.

SFPUC Response: Agree.

- 13.5 Establish procedures for and monitor compliance with the Unit Processing of Employee Equipment and Access and Exit Interview procedures.

SFPUC Response: Agree; we will coordinate with HRS.

The City Distribution Division Manager should:

- 13.6 Establish a timeline for developing a comprehensive set of performance measures for concentrating effort and evaluating performance and progress for the entire range of City Distribution Division responsibilities, including such areas as staff development and safety, and report to the Assistant General Manager, Water on the status of the performance measures prior to December 31, 2005.

SFPUC Response: Agree, this is underway.

- 13.7 Establish a timeline for developing an Administrative Policies and Procedures Manual for the City Distribution Division, and report to the Assistant General Manager, Water on the status of the Administrative Policies and Procedures Manual prior to December 31, 2005.

SFPUC Response: Agree, CDD will follow administrative policies established by the Water Enterprise and SFPUC.

- 13.8 Require all City Distribution Division managers and supervisors to complete employee performance evaluations for all staff, annually.

SFPUC Response: Agree, this is done.

- 13.9 Include completion of employee performance evaluations annually as an objective in the City Distribution Division managers' and supervisors' own employee performance evaluations.

SFPUC Response: Agree.

- 13.10 Establish procedures for and monitor compliance with the Unit Processing of Employee Equipment and Access and Exit Interview procedures.

SFPUC Response: Agree; we will coordinate with HRS.

13.11 Ensure full compliance with the State's Employer Pull Notice Program.

SFPUC Response: Agree, this is done.

13.12 Review standby pay requirements for the City Distribution Division and consider reducing the number of positions required, consistent with operational prudence.

SFPUC Response: Agree, policy has been established; Meet and Confer process will be required.

13.13 Issue pagers or cell phones to employees on standby and implement standby pay based on 10 percent of base salaries.

SFPUC Response: Agree, policy has been established; Meet and Confer process will be required.

13.14 Immediately discontinue standby payments to employees in administrative positions.

SFPUC Response: Agree, policy has been established; Meet and Confer process will be required.

13.15 Review the Gateroom work schedule for the purpose of achieving overtime cost efficiencies and workload relief for Gatemen.

SFPUC Response: Agree; however, this area requires negotiating a new arrangement with the affected employees' union.

13.16 In conjunction with the Employee Relations Division and Plumbers and Pipe Fitters Local No. 38, develop a schedule for the Gatemen that promotes health and safety and that minimizes built-in overtime costs.

SFPUC Response: Agree; however, this area requires negotiating a new arrangement with the affected employees' union.