CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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April 26, 2004

Honorable Chris Daly, Chair of the Finance and Audits 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 Supervisor Daly and Members of the Board of Supervisors:

The Budget Analyst is pleased to submit this *Management Audit of the Port of San Francisco.* The management audit was authorized by the Board of Supervisors of the City and County of San Francisco on July 15, 2003, pursuant to its powers of inquiry defined in Charter Section 16.114. The purpose of the management audit has been to evaluate the economy, efficiency and effectiveness of the Port's programs, activities, and functions and the Port's compliance with applicable State and Federal laws, local ordinances, and City policies and procedures. The management audit also assessed 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 included all of the Port's programs, activities, and functions.

The management audit was conducted in accordance with *Government Auditing Standards, 2003 Revision,* issued by the Comptroller General of the United States, U.S. General Accounting Office. As part of the management audit, the Budget Analyst interviewed the Executive Director, Deputy Directors and selected managers, supervisors and line staff; representatives from other City and County departments; Port tenants; advisory committees; and other parties vested in the Port. Additionally, the management audit staff reviewed the Burton Act and the agreement relating to the transfer of the Port of San Francisco to the City and County of San

Francisco, the Waterfront Land Use Plan, and various State statutes and local codes; examined various documents, reports and work products prepared by the Port; reviewed the Port's audited financial statements, including management letters prepared by the independent auditors; obtained and analyzed various data and financial reports, contracts, and tenant agreements; and evaluated the effectiveness of the various tools used by Port management to oversee the activities of the organization.

This management audit report includes 13 findings and 185 related recommendations prepared by the Budget Analyst, that encompass major areas of the Port's operations. A list of the management audit recommendations are shown in the Attachment to this transmittal letter. Included are findings and recommendations related to the Port's organization, strategic planning, financial management, budgetary controls, management and development of the Port's assets, internal controls over the Port's processes, and management of the Port's engineering and maintenance activities.

Implementation of the Budget Analyst's recommendations would result in at least $ 2,532,251 in reduced annual expenditures and $615,000 in increased annual revenues, resulting in total estimated savings of $3,147,251. Additional annual increased revenues and reduced expenditures could be realized if the Port implements recommendations in this report to increase the efficiency and effectiveness of the Port's operations. The following sections summarize our findings and recommendations.

We have included the written response of the Executive Director of the Port of San Francisco, beginning on page 229 of this report. According to the Executive Director, the Port agrees to 179 of the management audit's 185 recommendations, and disagrees with six of the management audit's recommendations.

1. Strategic Planning and Organization of the Port of San Francisco

The Port's revenues, which come from its real estate and maritime business activities, fluctuate with changes in the economy. However, over the past five fiscal years the Port's routine operating and facilities maintenance expenses have continued to grow, despite fluctuations in the Port's revenues, resulting in significantly higher growth in the Port's operating expenses compared to the Port's revenues. The Port's operating expenses have grown by 38 percent between FY 1998-1999 to FY 2003-2004, compared to 15 percent growth in revenues. The Port's financial statements show operating losses of $5.4 million in FY 2001-2002 and $4.3 million in FY 2002-2003, including depreciation of the Port's assets. The Port's net assets declined by $6.4 million in FY 2002-2003, indicating that the Port's draw-down on its available resources was not offset by an increase in the value of its total assets.

Despite the fluctuations and uncertainty in revenues, the Port has not controlled its discretionary spending for personnel and other operating expenses, such as office space. The Port has created new positions and upgraded existing positions over the past five years, resulting in 9.5 net new positions and estimated increased salary and fringe benefit costs of approximately $1.7 million annually. The Port created a new management classification in FY 2000-2001, adding nine new Assistant Deputy Director positions to the budget. Although the Port deleted or substituted other management positions to offset the nine new Assistant Deputy Director positions, the Budget Analyst estimates that ongoing salary costs for this new classification have increased by approximately $170,177, or 20.4 percent, from an estimated $834,725 to $1,004,902.

The Port increased its ongoing costs for office space by an estimated $500,000 annually when it relocated its offices from the Ferry Building to Pier One in FY 2001-2002. As part of the relocation, the Port exceeded its estimates for tenant improvement costs by 70 percent, increasing the cost of the Port's tenant improvements from $1 million to $1.7 million.

The Port does not closely monitor its budget. For example, the Port failed to include two capital-funded positions in the Annual Salary Ordinance in FY 2002-2003. In FY 2003-2004, the Port deleted six capital-funded positions in the Annual Salary Ordinance. The Port stated an intention to lay-off these eight positions, costing an estimated $630,000 annually in salary and fringe benefits, on July 1, 2003, but was unable to do so because the Memoranda of Understanding for these eight positions contained a "no lay off" clause in FY 2003-2004.

The Port has failed to manage its workers compensation claims and liability insurance premium costs, which have nearly doubled since FY 1998-1999. Over the past five fiscal years, the Port's general liability insurance costs have increased by $1,124,746, 173 percent, from $649,841 in FY 1998-1999 to $1,774,587 in FY 2002-2003. The Port's workers compensation costs have increased by $488,766, or 191 percent, from $255,381 in FY 1998-1999 to $744,147 in FY 2002-2003. Although the Port's workers compensation claims and liability insurance premium costs have gone up in part due to industry-wide increases, the Port does not have a formal risk management program to reduce its exposure and costs, contributing to the cost increases. The Port should establish a formal risk management program and implement a mandatory muscular-skeletal and back training program to reduce the Port's most common cause of workplace injury.

The Port could increase its efficiency by combining the Real Estate and Planning and Development divisions into one division and reassigning the Environmental, Health and Safety section of the Engineering and Maintenance Division to the Administrative Services Division. The Planning and Development Division and the Real Estate Division both have business responsibilities for the Port's assets. Combining the two divisions would bring together the skills and expertise of both divisions and allow the Port to develop common strategies and policies for planning for the use of, developing and managing the Port's assets.

Because the Environmental Health and Safety section is responsible for a variety of environmental programs, including the monitoring of the Engineering and Maintenance Division's compliance with environmental regulations, the Port should reassign the Environmental Health and Safety Section of the Engineering and Maintenance Division to Administrative Services. This reassignment would promote the Section's independence in overseeing and enforcing environmental compliance and employee safety programs, and to recognize the Environmental Health and Safety Section's Port-wide responsibilities. As part of the reorganization, the Port should delete the Engineering and Maintenance Division Director position, and re-assign the remaining Engineering and Maintenance Division duties to the Chief Harbor Engineer.

The Budget Analyst has made recommendation, which are attached to this transmittal letter, which would result in an estimated $1,758,000 annually in reduced salary and fringe benefit costs for the deletion of eight vacant positions, reduction in eight capital-funded positions, and elimination of three positions through re-organization. The Port would also avoid future costs by eliminating discounted employee parking and not expanding Port office space at Piers 1 1/2 and 3. Our recommendations would increase the Port's efficiency by (a) requiring a systematic assessment of the Port's operating and capital staffing needs, (b) developing a more effective risk management and loss prevention program, and (c) consolidating Port functions more appropriately.

2. Planning and Development of Port Properties

The Port finances large development projects through private developer participation rather than issuing debt because the Port has insufficient revenue coverage to issue revenue bonds. This approach has allowed the Port to undertake large projects on the Port's property. Since the adoption of the Waterfront Land Use Plan in 1997, governing land use and development on Port property, the Port has completed or nearly completed three development projects with private developers: the China Basin Ball Park, the Pier One building, and the Ferry Building.

Under the Port's agreements with private developers, the developers bear the risk of constructing large-scale projects, including retrofitting deteriorating piers or rehabilitating historic bulkhead buildings, but by guaranteeing that the developer receives a preferred return on equity, the Port shares the risk with the developer. According to the Port, the Port enters into leases that provide the developer a preferred return on equity to encourage developers to make substantial capital investments in Port property. However, because the developer receives the preferred return on equity before the Port participates in the project's income, the Port increases its uncertainty about its financial return from these projects. In two of the Port's projects, the Port has transferred much of the risk to itself, by guaranteeing that the developer receives the preferred return on equity before the Port receives minimum annual rent, as in the Pier One lease, or by not capping the amount of the construction costs that can be used to determine the developer's equity contribution and preferred return on equity, as in the Ferry Building lease.

In the lease for the Pier One building, in which the developer rehabilitated the historic building located on Pier One for use as office space, the Port guaranteed that the developer would receive an 11 percent return on equity prior to the calculation of the minimum annual rent to the Port. Because the Pier One construction costs were higher than anticipated and therefore the developer's equity contribution and preferred return on equity were higher, the actual minimum annual rent to the Port of $1.34 million is $440,000, or 24.7 percent, less than the minimum annual rent of $1.78 million originally anticipated in the lease. The Budget Analyst estimates that the net present value of the Port's revenues over the first 30 years of the lease will be reduced by $6.5 million, or approximately 14.8 percent, from the original estimated revenues of approximately $43.9 million to $37.4 million, on a net present value basis.

In the lease for the Ferry Building, in which the developer rehabilitated the historic Ferry Building structure for multi-purpose use, the Port did not cap the amount of the construction costs that could be used to determine the developer's equity contribution and preferred return on equity. The Port receives minimum annual rent of $1.4 million, but the developer is guaranteed an 11 percent preferred return on equity before the Port participates in the Ferry Building's surplus revenues. Because final estimated construction costs for the Ferry Building of approximately $100 million are approximately $30.1 million, or 43 percent, more than the original estimate of $69.9 million, the developer's equity contribution will increase by an estimated $8.0 million and the developer's preferred return on equity will increase by an estimated $880,000, resulting in decreased revenues to the Port. The Budget Analyst estimates that the net present value of the Port's revenues over the first 30 years of the lease will be reduced by $3.8 million, or 9.6 percent, from the original estimated revenues of $39.6 million to approximately $35.8 million on a net present value basis.

Under the Charter, the Port Commission has the complete and exclusive authority to manage the Port of San Francisco and to do all that the Port Commission deems necessary in operating and managing Port property. The Waterfront Land Use Plan provides for a community planning process to develop the concept, goals and objectives of Port development projects, but the Port Commission has the authority to make decisions regarding Port development projects, including approving the project concept and selecting the developer. However, the Port Commission has approved two development projects, the Broadway Hotel and the Piers 27 to 31 mixed-use recreation project, that did not respond to the goals and objectives developed through the community planning process, contributing to project delays. The Port Commission approved developing the Broadway Hotel as a large hotel, despite community opposition to the size of the hotel and lack of response to the Request for Proposal (RFP). The Port has had to revise the scale of the project and extend the negotiating period for 4 ½ years. The Port Commission awarded the Piers 27 to 31 mixed-use recreation project to the Mills Corporation, although the RFP evaluation conducted by Port staff and an outside consultant found the Chelsea Piers proposal more responsive to the project's goals and objectives, which were developed through the community planning process. The negotiations for this project have extended for 45 months, and the current Exclusive Right to Negotiate extends through January of 2005.

The Port staff have recommended approval of two development projects, the Rincon Park Restaurants and Broadway Hotel projects, to the Port Commission despite Port staff concerns about the financial feasibility of the projects. The Board of Supervisors approved the development agreement and associated ground lease for the Rincon Park Restaurants in 2000, but the Port has not yet completed negotiations for the development agreement and associated lease for the Broadway Hotel, and therefore, has not submitted the Broadway Hotel lease to the Board of Supervisors for approval. The developer of the Rincon Park Restaurants project, which was approved by the Port Commission in 1998, later defaulted, and the Port assigned the development agreement to a new developer in 2003. The Port staff expressed concerns about the Broadway Hotel construction costs and the feasibility of the large scale hotel project when recommending approval of the developer who was selected through the RFP process in 1999. The Port Commission has approved four extensions to the timelines for negotiating the development agreement and lease with the selected developer of the Broadway Hotel project, until July of 2004.

The Budget Analyst has made recommendations regarding these findings, which are attached to this transmittal letter. Implementation of these recommendations would increase accountability and reduce uncertainty in awarding, negotiating the terms and conditions, and approving development projects, thus reducing financial risks to the Port from uncertain revenues and project delays or defaults.

3. Appropriation and Budgetary Control and the Port's Capital Program

The Port does not have a clear vision of how to define and manage its capital program. The lack of a capital improvement program as well as deficiencies in the tracking and monitoring of capital project appropriations have resulted in inconsistent and flawed decision-making and a lack of accountability.

First, the capital budget does not reflect the overall capital needs of the Port or effectively set capital priorities. An internal and perfunctory cost estimate developed by the Engineering and Maintenance Division in order to determine the order of magnitude of capital needs and dated July of 2003 computed the Port's substructure and superstructure capital needs to be approximately $545 million. According to the Port, this would bring the Port's infrastructure up to a condition that would support further development and capital improvements. This estimate does not include capital needs for a significant number of Port buildings and facilities that are not on piers. A subsequent cost estimate calculated three months later in October of 2003, and after the Budget Analyst's management audit commenced, estimated these costs to be $358 million, which is $187 million or 34.3 percent lower than the original $545 million estimate. According to the Director of Engineering and Maintenance, the revised estimate of $358 million was based on costs developed by an outside consultant for a specific scope of work on Pier 31. In contrast to this estimate, the FY 2003-2004 Capital Plan has identified $74.4 in unfunded capital needs and $80.6 million in funded capital needs, for a total of $155 million in capital needs, including the capital needs for buildings and facilities that are not on piers. Thus, the Port provided three different estimates of its capital needs and, clearly, does not have a complete or accurate estimate of its substantial capital needs at this time.

Further, the Port has historically transferred significant appropriations between projects to meet its funding needs. From FY 1999-2000 through FY 2002-2003, a total of $12.6 million in appropriations were transferred between capital projects. $7.5 million or 59.5 percent were permanent transfers and were not returned to the original project appropriation.

In FY 2002-2003, over $12 million in projects were either closed because they were completed or fully or partially de-funded. The de-funding of project appropriations, which was approved by the Port Commission, was never brought forward to the Board of Supervisors. While most of the $12 million was subsequently used to fund the FY 2003-2004 capital plan, at least $1.5 million was re-appropriated in FY 2002-2003 to pay for soil remediation at Pier 92 which was the result of a notice of violation received from the California Department of Toxic Substance Control. This project and appropriation were never submitted to the Board of Supervisors for approval.

The de-funded projects included three projects that were reported as completed by the Engineering and Maintenance Division Director, the Fish Prep Building Relocation, Roundhouse Heating Ventilation and Air Conditioning (HVAC) project, and the Ferry Building Asbestos project, yet almost all of the capital funding originally appropriated for these projects remained unspent. The Fish Prep Building Relocation was completed with operating funds; the Roundhouse HVAC project was redesigned and engineered to significantly cut costs; and the Ferry Building Asbestos project was completed by a developer pursuant to a negotiated agreement. These projects demonstrate several issues with the management of capital projects, including inappropriate funding sources, flawed project scope and cost estimates, and timing differences between appropriations and project work. Another example of a project that has not progressed as initially envisioned is the Illinois Street Bridge project, which originally had a cost estimate of $7.2 million in FY 2000-2001, but is now estimated to cost $22.6 million, a $15.4 million or 214 percent increase. Not all funding sources for the project have been secured, nor have all existing appropriations been authorized by the Board of Supervisors.

Further, the Port's capital project appropriations as recorded in the financial accounting system, which is the mechanism by which budgetary control is maintained, are not simply correlated to project appropriations approved by the Board of Supervisors. Coupled with the significant project transfers, there has been a deterioration in budgetary control over capital expenditures. Additionally, the Port establishes appropriations for certain revenues, such as operating agreements, restricted revenues and mitigation fees, without obtaining appropriation authority from the Board of Supervisors. The Controller concurs that it is imperative for departments to seek approval for all expenditures through the Annual Appropriations Ordinance, a supplemental appropriation, or have authority granted through the Municipal Code or the City Charter. The Budget Analyst also noted that 20, 33, and 46-year old bond funds remain unspent and several large, negative appropriation balances totaling $6.7 million in project funds have not been reconciled.

Finally, three issues were identified where capital projects are either inappropriately being charged or are not being appropriately charged, including capital-funded labor working on operating activities, operating labor working on capital activities, and indirect capital costs not captured and allocated to capital projects.

Clearly, the capital budget process is not controlling or reflective of capital activities at the Port and the risks of poor capital planning and management are significant. Ultimately, the situation has impaired the financial stability of the Port because the precise extent of the Port's capital needs are unknown and there is no mechanism in place to effectively and efficiently meet those needs. The Port needs to establish a formal capital improvement program which would provide a mechanism for sound decision making and accountability, facilitate the implementation of the Port's long-range Waterfront Land Use Plan, and serve as a financial management tool.

The Budget Analyst has made recommendations concerning these findings, which are attached to this transmittal letter. The costs of establishing a capital improvement program, including a comprehensive capital needs assessment, will require the allocation of Port staff and management resources. The benefits, however, are substantial in that scarce resources will be efficiently and effectively deployed in meeting the Port's most pressing and costly capital needs. Reconciliation of all projects and closeout of completed or inactive projects may require additional staff resources, but such costs should be more than offset by the reduction in capital project appropriations. Establishment and maintenance of budgetary control at the level authorized by the Board of Supervisors, clearly delineating operating and capital activities, and establishment of guiding policies and procedures, will require minimal staff resources, but will ensure that appropriations are used for authorized purposes and that accountability is maintained. Further, the Port's future capital projects would be established and funded only with the full policy and appropriation approval of the Board of Supervisors.

4. Maintenance Division Management

The leadership shortcomings and conflicts among the members of the Maintenance Division's current top-level management have greatly hindered the Division's effectiveness. The disrespect, disloyalty, and lack of trust between the General Superintendent and his immediate subordinates are pervasive. The appearance of favoritism on the part of the General Superintendent has hindered the Maintenance Division's effectiveness. Thus, projects that would be challenging in a positive work environment with a strong management team, such as implementing an automated maintenance management system, or transforming an unorganized and chaotic storeroom into an effective operation, become much more difficult.

The Maintenance Division does not have a consolidated procedures manual for performing its work, does not report its performance on basic maintenance effectiveness measures, has one of the most poorly organized storerooms that our auditors have observed, had, until the progression of this management audit, the most disorganized and blighted storage yards ever observed by the auditors, has poor tool and equipment controls, has not provided a safe, healthy, and harassment-free work environment, has not implemented the Avantis facility maintenance management system in an effective manner (see Section 13), and has a top management team that is entirely dysfunctional.

In a survey conducted by the Budget Analyst, Maintenance Division staff supervisors and managers were asked on an individual, confidential basis to list the three top actions which, in the opinion of the supervisor or manager, would most benefit the performance of the Division. Fifty percent of those queried stated that an action to (a) resolve turmoil, (b) instill integrity, or (c) improve leadership at the upper-management level, was needed.

The Budget Analyst was informed that the occurrence of government jobs, which is the Maintenance Division term for working on non-government private property, such as private vehicles, in Port shops was widespread in the past, but had largely ceased since the inception of this management audit. A Port memorandum, dated March 5, 2003, speaks to the existence of private property in the Maintenance Division, requiring that all private property such as bikes, bird cages, bed frames and boxes of personal items are to be removed. The memorandum also states that, “no more government jobs are to be done using Port time, materials or equipment”.

In order to address these issues, the Budget Analyst recommends that the Port change the organizational structure to remove a management layer between the General Superintendent and Maintenance supervisors, to modify lines of reporting to achieve consistency of command, and to eliminate one nonessential position. Further, the Budget Analyst recommends that the Executive Director perform an examination and evaluation of the leadership changes that need to be made in the Maintenance Division.

The Budget Analyst has made recommendations regarding these findings, which are attached to this transmittal letter. The Budget Analyst recommends re-organizing the Maintenance Division to eliminate one layer of management between the General Superintendent and the supervisors. The proposed re-organization would result in the elimination of one classification 9363, Superintendent of Harbor Maintenance, position, which would result in savings of approximately $125,302 annually in salary and fringe benefits, and the creation of one new classification 9360, Construction/Maintenance Supervisor II, at an approximate cost of $106,893 in salary and fringe benefits, at the top step, for a net savings of $18,409. The elimination of the classification 7502, Chief Stationary Engineer, position would result in annual savings of approximately $96,842 in salary and fringe benefits. Therefore, reduced expenditures from position changes would total $115,251 ($18,409 plus $96,842) annually.

However, the most significant benefits of implementing the proposed recommendations cannot be calculated directly. Adequate inventory controls will save the Port the cost of carrying inventory that should be procured on a purchase order or by direct purchase. The Budget Analyst noted that it takes 134.8 months, or more than 11 years, for items held in inventory in the Maintenance Division to turn over. Adequate inventory controls will also reduce the amount of inventory shrinkage. A policies and procedures manual would serve to standardize such supervisory functions as checking on work crews and controlling tools and equipment, which are currently not standardized practices within the Maintenance Division. Effective management of tools and equipment will reduce replacement costs for those items and help to instill a sense of discipline within the Maintenance Division. By employing effectiveness and efficiency performance measures, the Maintenance Division would have objective measure of its performance, which could be used to set more challenging performance objectives.

Based on the problematic nature of the Avantis System thus far, and the fact that other ports that we queried that have implemented facility maintenance management systems have not implemented the scheduling module of such systems, the Budget Analyst questions the Maintenance Division's ability to implement all of the major components of the Avantis System at once. However, the Maintenance Division is currently allocating significant resources to the effort and the payoff, if successful, will be significant.

During the period of July 1, 2002, through March 18, 2004, members of the Maintenance Division were involved in two formal grievances and 26 formal complaints concerning a variety of issues, including sexual harassment by a vendor, "prepping" for a promotive interview, and alleged violence in the workplace. By ensuring a harassment-free work environment and employing corrective action against any breaches of harassment-free work environment policies, the top management and supervisors of the Maintenance Division would be providing a workplace where all have the opportunity to perform at their highest level. Further, by making known that harassment will not be tolerated, and by taking effective action should an instance occur, such instances, which require time and effort to process, should be reduced.

By performing an examination and evaluation of the leadership changes needed to make the Maintenance Division an effective organization and then by acting on the results of that examination and evaluation, the Executive Director of the Port would be taking the action without which the other recommendations, even if fully implemented, would not yield the optimum results. Above all else, effective management and leadership is needed at the Maintenance Division.

5. Engineering Division Management

Based on our review of the Port's Engineering Division, we found that a consolidated Engineering Manual that explains how engineering work is requested, approved, planned, budgeted, controlled, and closed out does not exist for use by Engineering Division employees and Engineering Division clients within the Port's organization. In response to a written inquiry concerning the management of engineering work, the Acting Chief Harbor Engineer stated, "Currently the Port's Engineering procedure for engineering management, control, quality control and close out is under development . . . At this time, these items are handled by individual project assessment and needs based on decisions made by the Chief Harbor Engineer, the Project Managers and Project Engineers."

The Budget Analyst found that Port divisions that receive services from the Engineering Division and certain staff members within the Engineering Division have concluded that engineering projects have not been adequately coordinated and have entered construction without proper circulation for comment within Port departments, especially within the Engineering Division itself.

An example of other Port Departments not coordinating their work with the Engineering Division and the consequences thereof is apparent in two written statements attributable to the Engineering Division concerning the berthing of Drydock #1 at Pier 70, Wharf #8, by the Maritime Division. Drydock #1 broke loose from 13 moorings at Pier 70 in a gale-force wind storm on November 7, 2002, and went adrift before going aground on Yerba Buena Island. The two statements, which were made by the Port's structural engineer in the Engineering Division, are as follows:

> "The Maritime and Maintenance departments never consulted the Engineering Department before tying the Port's dry dock to Wharf #8."
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> and
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> "In retrospect the likelihood that the berthing of the 650' long drydock at Wharf 8 during the winter months would have resulted in the disengagement of the drydock from the pier was very large."

The two most recent "large" capital projects managed by Port Engineering are the Downtown Ferry Terminal and the Hyde Street Harbor. Both capital projects have numerous deficiencies that could have been avoided had the Engineering Division adhered to appropriate engineering policies and procedures, including proper coordination with the project user. In response to a Budget Analyst inquiry to review evidence of project sign-offs by end-user Port Divisions for the Hyde Street Harbor, Downtown Ferry Terminal, and the China Basin Ferry Terminal projects, the Engineering Division's response was, "Engineering Dept. has no written documentation of peer review documents for these three projects. . . . Several volumes of meeting notes pertaining to these projects can be made available to the auditor for review."

The Port's former Americans with Disabilities Act (ADA) Coordinator, whose sign-off on construction projects is required prior to completion and Engineering Division closeout, has made the following written statements concerning the Hyde Street Harbor Project and the Downtown Ferry Terminal Project:

> "Hyde Street Harbor: This project was ultimately bid out and contracted in two parts; the "land side" and the "water side." I believe that I did review and approve the drawings and final construction of the water side, and its design and construction was OK for the most part. The land side however was a disaster from the early design stages onward. The poor and incomplete nature of the drawings and specifications and related design schedule overruns were a recurring source of frustration, as I reviewed them repeatedly and had to reject them each time. In successive reviews, I had to make the same observations of the same errors and

> omissions that had not been corrected per my prior review comments. I never signed-off on the drawings & specs, even after several reviews and resubmittals by the design team. The Port chose to send them out for construction contract bidding and entered into construction contracts regardless. I made punchlists of the final land side project, but the work remained so incomplete and of such generally poor quality that I never signed-off on it."

> "Downtown Ferry Terminal: I was never even given the opportunity to review the ferry float drawings, much less approve them. I submitted punch lists of all the deficiencies I noted in the design / construction of the ferry floats together with the related gangways and portals, including digital photos, to [name] and [name]. I don't think the Port has ever finished or corrected all those items, and I never signed-off on the ferry docking facilities and most of the Ferry Plaza work. I only signed off on one small raised mini-plaza area between the Ferry Building and Pier ½ that is alongside the Embarcadero."

Concerning the Port's attitude toward and compliance with ADA requirements in general, the Port's former ADA Coordinator has made the following statement:

> "City Policy, per the Mayor's Office on Disability (MOD), was and remains that all City projects are to be reviewed and approved by MOD staff or other city staff they designated as having permission to do it in their stead. Only two people outside MOD had that status at the time of this project: the DPW Disability Access Coordinator and the Port ADA Coordinator (i.e. me). MOD did not sign off on these projects, the DPW Disability Access Coordinator was not involved since these projects did not involve DPW. MOD was not involved since it had delegated plan review and inspection to the Port's ADA Coordinator. I as the Port's ADA Coordinator was not fully included in the process and / or was ignored in the process. The result is publicly funded projects that do not comply with all applicable federal, state and local ordinances, codes, statutes and regulations that are intended to provide for the health, safety, welfare and equal rights of the people who use them."

The Budget Analyst's recommendations concerning these findings are attached to this transmittal letter. There would be no new direct costs associated with these recommendations, which can all be accomplished in-house without additional staff. The benefits of the recommendations would include having an Engineering Manual to serve as a guide to performing engineering activities and to completing engineering and construction projects that are well coordinated and better serve user needs.

6. Management of the Port's Real Estate

The Port's revenues come largely from rents for Port real estate, including rents from its industrial and commercial properties, percentage of sales rents from restaurant and retail properties, parking, and, and filming and special event revenues. In FY 2002-2003, the Port's real estate revenues were $39.5 million, which is 72.5 percent of the Port's total FY 2002-2003 revenues of $54.5 million.

The Port has not consistently negotiated and monitored its leases to ensure maximum revenues. Although the Port Commission generally establishes minimum rental rates for Port properties and uses, the Port Commission has not established minimum rental rates for all Port properties and uses. For example, the Port Commission has not established minimum rental rates for most types of storage space although the Port has 135 property agreements for use of Port property for storage. This results in tenants paying different rental rates for comparable properties and uses. Additionally, the Port fails to consistently increase rental rates to meet the Port Commission's minimum rental rates for month-to-month leases and leases that are expired and held over. In a review of all month-to-month and expired leases in the Port's October, 2003 rent roll, the Budget Analyst found that 38 out of 226, or 16.8 percent, of the tenants with month-to-month or expired leases were paying less than the Port Commission's minimum rental rates, or if the Port Commission had not established rental rates for the property or use, were paying less than comparable leases, resulting in an estimated loss of $143,000 annually in rent revenues. Further, based on a review of ten new leases implemented in 2003, the Budget Analyst found two new leases with rental rates that were less than the Port Commission's minimum rental rates, resulting in $11,000 in lost rent revenues annually.

The Port does not consistently enforce lease provisions, resulting in unnecessary financial risk to the Port. In the review of ten new leases implemented in 2003, the Budget Analyst found that the Port did not check the tenant's credit rating in three leases or require proof of insurance in one lease. The Port also entered into a lease with one tenant with a "high risk" credit rating. The tenant paid rent for the first month of the lease, but failed to pay the security deposit or the second month's rent.

The Port does not aggressively pursue tenants who do not comply with lease provisions. During a review of four Port facilities, the Budget Analyst found one tenant occupying additional Port space not included in its lease with the Port, without Port permission and without paying additional rent. Another tenant has not paid the full amount of the security deposit although they have occupied the property since July of 2003.

The Port has continued to work with tenants or has re-negotiated leases for tenants who have failed to meet the terms of the original lease or comply with Port policy in leases. In leases with Big C Traders, Pacific Cement, and a restaurant development on Pier 80, the Port has delayed in resolving tenant issues or re-negotiated agreements because the tenant's proposed use of the property has met Port or community objectives. However, the tenants failed to comply with lease provisions, undermining the Port's objectives for the proposed use of the property. The Port Commission approved a new five-year lease with Big C Traders and wrote off $840,000 in bad debt, after the tenant failed to meet the terms and conditions of their original lease. Under the original lease, Big C Traders was to develop up to 50,000 square feet of office space on Piers 19 to 23 for maritime vendors, but was unable to finance construction of the office space and pay full monthly rent. During negotiation of the new five-year lease with Big C Traders, Big C Traders failed to provide audited financial statements to the Port, verifying Big C Traders' financial capacity to pay rent to the Port under the terms of the new lease.

Although Pacific Cement has not complied with various lease and environmental requirements, the Port Commission has approved two amendments to the Pacific Cement lease, extending the timelines for complying with lease requirements, including complying with the Southern Waterfront Supplemental Improvement Report mitigation measures and obtaining required permits. Further, Pacific Cement was fined by the Department of Public Health on March 30, 2004, in an amount net yet determined, regarding Pacific Cement's hazardous materials spills and related issues.

For the past 18 months, the Port has not resolved problems with a Pier 80 tenant who has entered into a lease to develop a restaurant site but has not obtained the necessary financing to do so. The tenant was the sole respondent to a Request for Proposal to develop the site, and when the Port staff presented the Pier 80 restaurant lease to the Port Commission for approval in October of 2002, the staff reported that the tenant, who also leases Port office space, was in good standing, although the tenant was in arrears for April and June of 2002 rent.

The Budget Analyst has made recommendations regarding these findings, which are attached to this transmittal letter. Under the Budget Analyst's recommendations, the Port would increase its annual rent revenue by at least $143,000 by adjusting all expired leases, which have been held over, and all month-to-month leases to meet the Port Commission's leasing parameters or to meet the rental rates of Port leases that are comparable in use, space type and location. The Port could also increase rent revenues by enforcing lease provisions, and entering into stipulated settlements or terminating leases in a more timely fashion.

The Port could reduce City Attorney and staff expenses if the Port did not negotiate new leases or terminated leases with non-compliant tenants. A ten percent reduction in City Attorney expenses would save the Port approximately $223,000 annually.

7. Monitoring Billing and Collections

The Port fails to consistently create accurate and timely bills for Real Estate and Maritime customers for property lease and vessel activity rents. Billing problems include: (i) errors in data entry into PROPworks, the billing and property management information system, (ii) incorrect application of Maritime tariff rates to vessel activity billings, and (iii) delayed, incorrect, or missing invoices for rent adjustments per the Consumer Price Index (CPI), lease terminations or lease amendments. For example, a limited review of property agreements found that the Port failed to issue retroactive invoices for three tenants for additional rent pursuant to amendments to their property agreements for a total of $1,573. The Port also failed to make several CPI adjustments resulting in underbilling of approximately $5,038.

The Port uses several reports of account receivables and cash collections to monitor overall performance of Port collections. Although the Port claims to have reduced account receivables by $1,096,028, or 49 percent, from $2,228,320 in April of 2003 to $1,132,292 in December of 2003, this improvement does not account for uncollectables that are due to rent credits or balances that are written-off as bad debt. For example, in October of 2003, the Port had $1.81 million in accounts receivables, of which approximately $1.47 million, or 81.4 percent, were rent credits or bad debt write-offs. The Port considered collectable only $337,032 of the outstanding balance, or 18.6 percent. The Port's collection policies are incomplete and not systematically applied to outstanding accounts. Although property managers are partially responsible for rent collections for the facilities that they manage, the Port does not document performance of their collection activities.

For Maritime activities, the Port does not adequately (i) monitor the accuracy of reports of casual landing and other vessel activities or (ii) maintain Maritime agreements, which are used to bill Maritime customers. Consequently, the Port incurs the risk of underbilling Maritime customers, thus reducing Port revenues.

The Budget Analyst has made recommendations concerning these findings, which are attached to this transmittal letter, which are intended to improve the Port's billing and collections process. Based on a one percent improvement in collections of selected types of Maritime and Real Estate revenues of approximately $47.2 million a year, which should be attainable, the Port of San Francisco would realize approximately $472,000 annually in additional revenues based on the implementation of the audit report recommendations. By increasing the efficiency of the billing and collections process, the Port could save approximately $31,000 annually, based on a time saving of one hour per week for those positions involved in the billing and collections process, excluding Legal staff. This time could be reallocated to other functions.

8. Monitoring Parking Meter Collections

The Port is not fully utilizing the computer software and has insufficient internal controls over its collection, counting and accounting of parking meter revenue. Our review found significant inadequate processes in the establishment of policies and procedures, and necessary segregation of collection duties and responsibilities to properly safeguard the collection of Port revenue.

The Port of San Francisco is responsible for the maintenance, repair, and collection of revenue realized from a reported 756 to 817 parking meters located on City streets that fall under Port jurisdiction. To handle parking meter operations, the Port has an in-house Parking Meter unit staffed by two full-time equivalent positions and two as-needed collectors, as well as assistance from Information Systems staff and Accounting staff.

Since FY 1999-2000 the parking meters have generated approximately $4.8 million in revenue for the Port over a period of four years and eight months. To ensure that no misappropriations result from parking meter revenue, the Port has installed electronic parking meters and a computer program that assists the Port in (a) meter inventory control; (b) revenue control; and (c) provision of detailed analytical opportunities to the Port such as revenue analysis on a per meter basis.

Because the Port does not fully utilize its computer software and does not have sufficient internal controls, the Accounting unit cannot reconcile the amount of parking meter revenues deposited in the bank to the amount of revenues identified by the parking meter electronic count. From September of 2000 to March of 2004, the parking meter electronic count shows $1,438,975 in revenues compared to $3,790,024 in parking mater revenues deposited in the bank, a difference of $2,351,049. Such discrepancies include the underreporting by the computer system to the actual deposit amount. For example on December 17, 2003, the computer system indicated revenues of $9,834 but the actual deposit amount was $14,789 for a difference of $4,955. Staff indicated that such discrepancies are only investigated if the amount deposited into the bank is less than the amount shown in the computer system. To the contrary, in the view of the Budget Analyst, this large discrepancy indicates that the system is an ineffective revenue control feature due to ineffective utilization by Port staff. Thus, the major discrepancies are every bit as serious as if the amount deposited from collection is less than the amount reported since the discrepancies make it impossible to properly monitor collection.

The Port also does not have inventory control over parking meters and does not know the exact number of parking meters operating under their jurisdiction. Based on the two separate Port parking meter inventories of 756 and 817 meters, if the higher number is accurate, $106,170 in parking meter revenue annually is unaccounted for by the Port and the Port cannot ensure that revenue is not being misappropriated. The Budget Analyst conducted a physical count of parking meters on Port property and, instead of the 756 and 817 meters reported by the Port, found 880 meters, indicating $216,000 in parking meter revenues is unaccounted for annually by the Port. Moreover, the Port does not know the inventory of parking meter components, such as the internal canisters that hold deposited coins.

The Port should immediately strengthen its internal controls and oversight of the Parking Meter unit by addressing these significant weaknesses. Work plan and performance measures should be developed, documentation enhanced, and surprise cash audits should be fully developed and formalized with an audit plan. The Port should report to the Port Commission within three to six months of the issuance of this report on the status of these recommendations. If the Port has not sufficiently implemented adequate internal controls, made significant progress towards the full implementation of the computer software, and significantly increased parking meter management oversight, the Port may want to consider a competitive bid process to contract for parking meter operations, collection and revenue control.

The Budget Analyst has made recommendations concerning these findings, which are attached to this transmittal letter. These recommendations would result in additional staff time to develop performance measures, policies and procedures, and an audit plan but will not result in additional costs. There will be significant benefits in improved accounting of parking meter revenues, strengthening of internal controls, and reduced risk of loss from misappropriation of funds.

9. Non-Compliance with California Building Standards

The San Francisco Port Commission has not adopted its own building and building-related codes, and is therefore responsible for enforcing, at a minimum, the provisions of the 13 building-related codes contained in the California Building Standards Code.

The Port Commission through its regulatory and contracting authority, has imposed on Port permit applicants the standards properly adopted by the City and County of San Francisco under State law, Section 18941.5(a)(1).

In practice, the Port has been enforcing most provisions of the San Francisco Building and related Codes, which are amended versions of the California Building Standards Code. The Port's Building Inspection section generally applies the standards of the San Francisco Building Code in its reviews of permit application plans and in site inspections. The Port also uses the fee schedule adopted in the San Francisco Building Code, although that fee schedule varies from the fee schedule contained in the California Building Standards Code.

However, the California Building Standards Code contains many administrative and technical provisions that are required to be incorporated in any local code. The Port's approach to imposing the San Francisco Building Code through its permit regulations does not specifically address the required process for appeal, the designation of a Building Official, the recordation of any actions that grant approval of modifications or alternate materials or designs, and use of the fee schedule contained in the California Building Standards Code.

Although the Port has been working on adopting the California Building Standards Code with amendments similar to those adopted by the City and County of San Francisco, such adoption has not occurred as of the writing of this report. To properly address the California Building Standards Code's administrative and technical provisions that are required to be incorporated in any local code, the Port must either use the provisions adopted by the City and County of San Francisco, or adopt its own Code.

By adopting its own set of Building and related Codes, as amended in accordance with State regulations, the Port will affirm its independent authority to enforce those amendments and will thereby resolve any potential ambiguity on the part of the public in trying to comply with unknown or changing regulations. The Port has been working on a draft code with the assistance of a consultant. Additional consulting fees to complete the project should not be significant.

10. Port Building Inspection Issues

Procedures for processing building permit applications are inadequate. The current procedures consist of a two- and one-quarter page document that covers intake of building permit applications, distribution of applications and plans for review, and penalties for performing work without a permit, but does not cover such important subjects as required inspections, processing permit appeals, or pre-application plan reviews. Thus, the clarity provided by written procedures, and administrative bulletins that stem from those procedures, are not available to users of the Building Inspection section's services.

The Port stores building permits and related plans, specifications, etc., in cardboard box files in the Agricultural Building. Unless an interested party knows the permit numbers associated with a property, the only means of obtaining the permit history of the property is to manually search the record that lists the contents of each cardboard box. In other words, an electronic database that cross references a property location with all of the permits and related documents recorded on the property does not exist. By developing a permit history database, the Port can make historical records accessible to users to assist in project planning and plan reviews.

The State Government Code sections known as the California Permit Streamlining Act require that development project applications be reviewed by the permit agency and their completeness determined within 30 days of submission. Once determined complete, processing and a decision on applications that do not require an environmental impact report are required to be processed within 60 days. The Port often takes more than 30 days for the initial review for completeness, which is in violation of the Permit Streamlining Act and which does not provide the level of service imposed by the State. By filling two authorized but vacant positions, the Port can better serve its clients and comply with the California Permit Streamlining Act.

Section 106.2 of the California Building Code, Work Exempt from Permit, specifies those construction activities that may be undertaken without first obtaining a building permit. The exempted activities pertain to nonstructural work such as fences not over six feet high and painting, papering, and similar finish work. The Port, which has not adopted the State Codes with Port amendments thereto, is required to comply with the State exemption provisions. However, the Port does not require building and building-related permits for work performed by the Port Maintenance Division or by contractors engaged by the Engineering Division, whether the work is exempted from permit by the California State Codes or not. By not verifying that work performed is in accordance with building and building-related codes, the Port is increasing the probability that the work is not performed in accordance with such codes.

A wide range of construction standards are applied to the Port's facilities. Independent of code compliance, the wide range of standards indicates that the Port as a property manager has also not set clear and consistent standards to occupants of Port facilities. An example of such a range of construction standards is seen in the extreme variation of tenant construction in Pier 33, where some tenant office and work facilities are constructed of plywood boxes while others are well designed and constructed. In the Pier 33 tenant facilities that we visited, minimum code requirements that would apply to commercial construction in San Francisco were generally not met, including such basic elements as stair construction, general framing, exit door and locks, seismic bracing of nonstructural elements, and fire-resistive construction.

The Budget Analyst recommends that the Port take the following actions: (1) develop a comprehensive set of procedures; (2) develop an adequate permit history database system; (3) in conformance with State law, ensure that the Maintenance Division and contractors engaged by the Engineering Division obtain required permits prior to commencing work; and (4) fill the authorized but vacant Chief Building Inspector and Civil Engineering Associate I positions.

Implementing the above-listed recommendations would provide improved code enforcement, significantly reducing liability to the Port, and improved service to the clients of the Building Inspection section. The recommendation to inspect all construction, repairs, enlargements, etc., in accordance with State regulations would provide legal protection to the Port. Costs to the Port for implementing the recommendations cannot be accurately determined at this time, and to a large degree, depend on the extent of the inspection exemptions that the Port would allow. The cost of microfilming the Port's current permits and permit-related holdings cannot be accurately determined at this time. Reliable estimates of such costs should be available from consulting with the Department of Building Inspection and with vendors who perform microfilming and scanning services.

11. Environmental, Health and Safety Issues

The mission of the Environmental, Health and Safety section is to protect the health and safety of Port employees, while ensuring that the diverse activities of the Port and its tenants and the management of Port property is conducted in an environmentally sound manner.

At the request of the Budget Analyst, the PUC's Bureau of Environmental Regulation and Management (BERM) conducted independent environmental and health and safety inspections of Port facilities on October 9, 2003 and on February 5, 2004. The October 9 inspection of the Port Maintenance facility at Pier 50, Shed D, was unannounced and revealed major Storm Water – Industrial Management and Health and Safety compliance deficiencies. The re-inspection of Pier 50D on February 5, 2004 revealed significant improvement. However, given the state of the health and safety program at Pier 50D prior to that inspection, continued diligence is required to ensure that the prior deficiencies do not re-occur. The inspection of February 5, 2004 included evaluations of Port facilities at Pier 80 and at Pier 90. Of particular concern is the condition of Pier 90, which is a staging area for the Pile Workers and as stated in the PUC Inspector's evaluation, "Areas of the pier are very deteriorated and employees could fall through unguarded holes."

The Port leased property at Pier 92 to Bay Area Tank and Marine (BATM) in early 1989 with a permitted use of BATM accepting contaminated soil. According to the Port, BATM represented that only soil contaminated with petroleum at non-hazardous levels would be accepted. The Port did not require a removal bond in the agreement. BATM ceased operations in late 1996. Subsequent soil testing and discussions with East Bay Municipal Water District and the City's Department of Public Works resulted in the Port becoming owner of approximately 15,000 cubic yards of hazardous waste. The hazardous waste was finally disposed of in March of 2003 at a cost to the Port of $1,457,219. In September of 2002, the California Environmental Protection Agency, Department of Toxic Substances Control, issued a Notice of Violation regarding the soil stored at Pier 92 and, according to the Assistant Deputy Director for Environmental, Health and Safety, is in the process of levying monetary penalties against the Port. In order to guard against a recurrence of this type or similarly imposed environmental liability, the Real Estate Division should be required to obtain the concurrence of the Environmental, Health and Safety section on all leases, excepting leases of office space.

A potential hazardous waste condition exists at the Pacific Cement Leasehold and adjacent Pier 80 backlands. The tenant, Pacific Cement, has stockpiled concrete and other construction-related debris in a parcel directly south and adjacent to Pacific Cement's leasehold, without Port authorization. Further, Pacific Cement has performed unauthorized grading at the debris site without a required Port permit. According to Port personnel, the grading extends over five acres, which requires a Storm Water Pollution Prevention Plan. In response to an inquiry concerning what actions the Port had taken to move Pacific Cement into compliance with environmental regulations, the Environmental, Health and Safety section responded as follows: "Port staff formally notified Pacific Cement on April 18, 2002 of its compliance status relative to the requirements of the Industrial Storm Water Permit. . . . There have been informal discussions between Port and RWQCB [Regional Water Quality Control Board] staff regarding options for enforcement, but to date, no action has occurred due in part to concern regarding Pacific Cement's political influence at the state and local level. Port staff and the San Francisco Department of Public Health (SFDPH) have responded to a number of hazardous materials spills at the site. . . . Port E/H&S (Environmental, Health and Safety) staff has attempted on repeated occasions to prevail upon Pacific Cement to cease illegal disposal of concrete waste and soil on Port property." The Executive Director of the Port of San Francisco should, as a matter of the highest priority, ensure that Pacific Cement is brought into compliance with environmental regulations, if necessary, by appropriate legal action.

In response to an inquiry concerning whether the Port is in any way liable for Pacific Cement's environmental compliance, the Environmental, Health and Safety section stated that: "Pacific Cement's lack of compliance with the Industrial Storm Water Permit put the Port at risk for enforcement by the state, and as a secondary party to potential citizen's lawsuits. Similarly, the Port is also liable for materials dumped or currently stored in violation of BCDC regulations. The Port may also be liable if any of the uncharacterized materials imported to the property by Pacific Cement are found at some future date to be contaminated."

Based on discussions with current and past members of the Environmental, Health and Safety section staff, evaluations of Health and Safety, Storm Water Pollution Prevention, and Hazardous Material/Hazardous Waste programs at selected Port sites, and the responses of the

Environmental, Health and Safety section to environmental, health and safety inquiries, the Budget Analyst has concluded that Environmental, Health and Safety programs and issues have not been given the priority that they deserve. In addition to specific Environmental, Health and Safety program recommendations, the Budget Analyst has made recommendations for enhancing Environmental, Health and Safety programs overall.

The Budget Analyst has made recommendations concerning these findings, which are attached to this transmittal letter. There would be no new direct costs associated with these recommendations, which can all be accomplished in-house without additional staff. The recommendation to assign clerical assistance to the Environmental, Health and Safety section can be accomplished within existing Port staff allocations. The benefit of implementing the recommendations would be significantly improved compliance of Port-operated facilities and Port tenant-occupied facilities with environmental regulations, and a significantly improved health and safety environment at the Port of San Francisco. A major benefit of ensuring that tenants comply with hazardous materials regulations would be the reduction or elimination of financial risk due to potential penalties and costs of remediation.

12. Managing the Port's Human Resources

Port management is responsible for the performance and conduct of its employees. Employee performance evaluations, grievance and complaint procedures, and other personnel policies and procedures exist to facilitate an efficient organization and a healthy working environment. However, Port management is not effectively using these tools to manage its employees and as a result is experiencing performance issues as well as assuming a greater liability due to inappropriate employee conduct that is not adequately documented.

A review of employee performance evaluations revealed a large variability in use of such evaluations among the Port's divisions and units. However, overall, employee performance evaluations are not current, timely, or rigorous. Of 29 employee files reviewed, 11 employee files or approximately 37.9 percent did not contain a performance evaluation for FY 2002-2003 and eight more were signed and submitted after the deadline imposed by the Port's Human Resources unit. Nineteen employee files contained evaluations that were not sufficient to assess and document employee performance because evaluation criteria were deemed to be generic and not specific to job duties, there were no comments provided to substantiate ratings, or there were no recommendations or follow up to prior year recommendations. For example, there were clearly performance and conduct issues in one particular file, but management failed to provide any explanation or supporting documentation in its evaluations and for its ratings. The employee refused to sign two consecutive evaluations conducted between January 2001 and June 2002 and management has not conducted any subsequent evaluations.

The Port's Human Resources unit reports that there were 36 issues and complaints by employees against the Port or other Port staff that were internally resolved from July 1, 2002 through March 18, 2004. Of the 36 complaints and issues, 26 or 72.2 percent involved the Maintenance

Department, and 17 or 65.4 percent of these complaints and issues involved violence, harassment, discrimination, some other inappropriate behavior, and conflicts between staff. Clearly, issues remain that are not being resolved by training classes for staff or through the implementation of the progressive disciplinary program.

Finally, the Port currently has five employees on long-term leave working for other City departments or serving as a union representative. One employee has been on leave for almost nine years. Another employee was on leave for seven years, returned to the Port for one year – bumping a five year employee of the Port – and is again out on leave for other City employment. Long-term leaves distort staffing levels, and such leaves disrupt staffing and workload continuity, and can result in unjustified increases in staffing. Employee leaves should not be treated as placeholders or long-term safety nets for employees.

Management should be held accountable for employee performance and conduct. The Port should enhance and enforce policies such that: (a) managers in the Municipal Executive Association do not receive bonuses unless all employee evaluations are current, (b) all substantiated instances of inappropriate conduct should be documented in personnel files, and (c) employee leaves shall not exceed two years. Additionally, all managers and supervisors should be trained on managing employee performance and conducting evaluations and the principles of good management and supervision.

The costs of the above recommendations include the resources used for developing or otherwise acquiring and conducting training classes. All other costs related to the development and enforcement of policies would be minimal. Benefits include improved employee performance resulting from a healthier work environment, improved morale, and by holding employees accountable to agreed upon expectations. Additionally, the Port would reduce its exposure caused by inappropriate employee conduct.

13. Information Systems

The Port's information systems are not effectively meeting the business needs of the Port and are, in fact, supporting inefficient processes and practices. This is the result of the Port failing to do a comprehensive needs assessment and evaluation of the core business processes and how they relate to each other. Instead, the Port has implemented different systems for individual problem areas instead of addressing the underlying issues related to business processes. For the most part, the systems are not integrated, do not support each other, and are not efficient from an organization-wide perspective.

The Port has failed to address critical issues identified in its Information Systems Strategic Plan and reiterated in the 2000 Strategic Plan Update. These critical issues include running two parallel general ledger financial accounting systems and a laborious payroll time entry system. These systems are intrinsically related to the other major Port systems because they are necessary for tracking and monitoring Port financial activity and rely upon the other systems for data and information.

Despite these unresolved issues, the Port has been in the process of selecting and implementing a new facility maintenance management system, Avantis, and its functions for the last four years. The Information Systems Strategic Plan did not classify a facility maintenance management system as a high priority, ranking its replacement as 24th of 25 discrete actions and projects. Implementation of Avantis has been difficult, resulting in time delays and cost overruns. The Port initially reported to the Board of Supervisors that the system would result in one-time costs of $447,250 (including a $50,000 contingency) and on-going costs of $25,140 for annual maintenance and support. Through December of 2003, the Port has spent $711,198 on implementation costs and license fees, excluding internal staff time, which is $263,948 or 59.0 percent greater than reported. Additionally, the annual maintenance and support fee is estimated to be $43,800 in FY 2003-2004 or $18,660 and 74.2 percent greater than what was initially reported.

Further, not only are significant system functions not yet operational despite conversion to the Avantis system in December of 2002, implementation of the primary function, the work order module, has been problematic, with almost 55 percent of hours reported by Maintenance staff in October of 2003 charged to indirect time. Our review noted that the Port failed to do a comprehensive business process review and re-engineering as part of the planning phase.

The Port should form an Information Technology Advisory Committee to provide guidance and focus on information technology issues at the Port and a Project Team to conduct a comprehensive business process review and needs assessment. A coordinated and integrated information systems environment will greatly increase the efficiency and effectiveness of many Port operations. Direct impacts include the reduction in duplication of effort for data entry, production of reports, reconciliation between systems, and reduction in the complexity of work tasks and operations. At a minimum, the Accounting unit would see a significant reduction in workload resulting in at least $405,000 in annual savings based on a review of work tasks currently performed by Accounting staff.

The Port's response to this management audit report was delivered to the Budget Analyst on April 26, 2004. The Port's written response agrees with 179, or 96.8 percent, of our 185 specific recommendations. The Port disagrees with six specific recommendations, all of which recommend organizational and position changes in the Port's Engineering and Maintenance Division. The recommendations that the Port disagree with include: (a) recommendation 1.17 concerning transfer of the Environmental Health and Safety Section to the Administrative Services Division; (b) recommendation 1.18 concerning deletion of the Engineering and Maintenance Director Position and re-assignment of duties to the Chief Harbor Engineer; (c) recommendations related to recommendation 1.18 included in Section 4 of our report; (d) related organizational recommendations 4.4 and 4.5 to delete the classification 7205, Chief Stationary Engineer and substitute one classification 9360, Construction/Maintenance Supervisor II position for one classification 9363, Superintendent of Harbor Maintenance, position.

Based on the information provided in the Port's written response, the Budget Analyst is not retracting or altering the recommendations described above. Further, the Budget Analyst will provide written comments to the Port's written response to the Finance and Audits Committee at its hearing on the Port Management Audit report scheduled for May 5, 2004.

We would like to thank the Executive Director of the Port of San Francisco, his staff and various representatives from City departments for their cooperation and assistance throughout this management audit.

Respectfully submitted,

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Budget Analyst

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