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.

- 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

$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.

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 <u>all</u> 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.

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,

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Budget Analyst

cc:

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