

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

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

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

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

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

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

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

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

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

Source: Public Utilities Commission Financial Services Section

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

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

Allocation of Administration Overhead Costs to the Enterprises

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

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

Table 1.2

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

FY 2005-2006

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

Source: Public Utilities Commission Financial Services

Containing the Growth of Administrative Overhead Costs

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

Establishing Service Agreements

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

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

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

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

Direct Charging of Administration Overhead Costs to the Operating Divisions

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

Reducing Unnecessary Administrative and Support Services

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 1.3

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

FY 2000-2001 through FY 2004-2005

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

Source: Public Utilities Commission

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

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

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

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

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

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

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

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

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

Table 1.4

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

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

Source: Public Utilities Commission

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

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

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

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

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

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

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

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

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

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

Increasing the Cost Efficiency of Work Orders with Other City Departments

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

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

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

Table 1.5

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

FY 2000-2001 to FY 2004-2005

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

Source: City Attorney’s Office

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

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

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

Conclusions

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

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

Recommendations

The Public Utilities Commission General Manager should:

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

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

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

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

Costs and Benefits

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

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

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

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