

Introduction

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

Purpose and Scope

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

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

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

- Containment of administrative costs.

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

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

Audit Methodology

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

Overview of the Public Utilities Commission

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

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

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

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

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

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

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

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

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

Exhibit I

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

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

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

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

Public Utilities Commission Administrative Bureaus

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

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

Public Utilities Commission Infrastructure Division

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

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

Public Utilities Commission Accomplishments

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

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

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

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

Acknowledgements

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

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