THE CITY OF SAN DIEGO

DATE: May 6, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Options to Assess the Reasonableness and Challenge Level of Gainsharing Goals for the Public Utilities Department Bid to Goal (B2G) Programs**

At the request of the Audit Committee, we met with Public Utilities Department officials and five water and wastewater engineering consultants as well as other consultants to discuss the feasibility of benchmarking B2G gainsharing goals. Based on these discussions and informal proposals provided by engineering consultants, we are providing information on the level of effort, scope of work, time, and estimated cost range for benchmarking a sample of 50 percent, or about 40, gainsharing goals.[1] We did not conduct a formal Request for Information (RFI) due to timing and the need to provide this information to you within 30 days.

We are also providing an option suggested by HDR Inc. to convene a volunteer panel of regional experts to review and comment on the reasonableness and challenge level of gainsharing goals. Finally, we are also providing a cost estimate submitted by AKT Certified Public Accountants, LLP (AKT)—the external auditor for the B2G programs—to increase the existing scope of work in its contract with the Public Utilities Department to include evaluating gainsharing goals before they are approved. We identified this option in our Memorandum to the Audit Committee on April 7.

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[1] This includes all gainsharing goals for the fiscal year 2011 B2G programs, including the Wastewater Fund and proposed Water Fund B2G programs. The draft Memorandum of Understanding for the proposed Water Fund B2G program was presented to the Independent Rates Oversight Committee on April 21, 2010 and is expected to be presented to the City Council Rules Committee in May or June.

OFFICE OF THE CITY AUDITOR
1010 SECOND AVENUE, SUITE 1400 ● SAN DIEGO, CA 92101
PHONE 619 533-3165, FAX 619 533-3036

Options for Reviewing Justification and Challenge Level of Goals Based on Industry Benchmarks and Standards

We met with Department officials and representatives from five water and wastewater engineering consultants as well as other consultants to discuss the feasibility of engaging their firm to evaluate and comment upon the reasonableness of the Department's gainsharing goals based on industry standards and benchmarks. Five firms provided cost estimates to us. Two firms chose not to participate because they had concerns about (1) potential conflicts of interest in reviewing goals of employees with whom they have worked previously and (2) meeting the deadlines for completing the work—fiscal year 2011 goals will not be ready for review until June 1 and need to be completed for the new fiscal year on June 30.

Qualifications

The engineering consultants we met with have extensive experience in the water and wastewater industry and benchmarking; with the creation of performance management systems; and with programs, industry-wide benchmarking, and organizational assessments. Other firms we contacted have experience in benchmarking and performance measurement and can retain technical specialists.

Scope of Work and Proposals

The scope of work includes measuring a cross section of fiscal year 2011 gainsharing goals for the Water and Wastewater Fund B2G Programs to assess the reasonableness and challenge level of the goals based on industry standards and benchmarks. According to the Department, for the fiscal year 2011 goals, the audit testing should begin on or about June 1 and be completed on or about June 30, 2010. This deadline may be extended for one month if necessary. These proposals do not constitute firm bids, and any contract will have to be awarded through an appropriate procurement process.

After receiving cost estimates for the engineering consultants to perform this work, HDR Inc. suggested an alternative that could be implemented by the Department, which could potentially save time and money by bypassing the contracting process. The proposal includes assembling an unpaid panel of local experts—for example, from the Independent Rates Oversight Committee—to review and comment on the relevance and challenge level of the goal. The proposed methodology, cost range, and timeframe provided by the engineering consultants for performing this work and HDR's suggestion are summarized in the following table.

	Proposed Methodology	Cost Range	Timeframe
Company 1	Identify about 50 percent or 40 goals for benchmarking; compare goals to similarly tracked performance metrics, key performance indicators, or goals from comparable utilities; assess how San Diego is doing relative to its peers.	$33,300-$39,700	30-60 days
Company 2	Review and categorize 40 goals; identify methodologies for goals and specified measurement method; evaluate reasonableness; develop recommendations for revisions of goals and measures; and issue report.	$83,600	30 days
Company 3	Identify 3-5 peer water or wastewater agencies serving similar populations in California; review goals and select half or 40 goals for the benchmark study; develop questionnaire for the benchmarking study; interview representatives from peer agencies and Department; evaluate data collected; provide summary of findings.	$78,000-$99,500	11 weeks
Company 4	Sample approximately 50 percent of the goals based on alignment with the Department's core business mission and impact of the goal; interview selected staff to learn about the goal-setting process; develop benchmarking information from relevant industry benchmarks and interviews with peer utilities; prepare and present a letter report.	$55,000	30 days
Company 5	Review all goals; sample a selection of goals; identify and solicit participation from up to 20 benchmarking partners (utilities); survey benchmarking partners to assess a selection of goals; prepare and present a report with findings and recommendations.	$66,000	30-60 days

HDR Inc. Suggestion	Assemble panel of 5 unpaid experts; convene panel 3 times to review the gainsharing goals and select a sampling of 50 to 100 percent of goals for evaluation; comment on the relevance and challenge level of goals based on best practices and industry standards; issue report and present findings to Audit Committee.	$0	30 days

Source: OCA analysis of data provided by consultants and Department officials.

Option for AKT to Test Support for Measurability and Justification of Challenge Level of Goals

In response to our request, AKT provided cost estimates of $42,000 to $50,000 to increase the scope of work in its contract with the City to include evaluating gainsharing goals before they are approved. Specifically, this would involve reviewing goals for measurability and Justification of Challenge Level; determining whether supporting documentation is sufficient; and providing input when appropriate for improving the measurability and challenge level of goals. However, AKT indicated that it would be difficult for them to review the goals for fiscal year 2011 within the required timeline.

We compiled the information contained in this memo based on discussions with and information provided by the engineering consultants, AKT, and Department staff. We did not audit this information or conduct an additional performance audit of the B2G program.

Respectfully Submitted,

Eduardo Luna

Eduardo Luna
City Auditor

cc: Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Ken Whitfield, City Comptroller
Alex Ruiz, Acting Public Utilities Director
Thomas Crane, Assistant Department Director
Jim Fisher, Assistant Department Director
Ann Sasaki, Assistant Department Director
Andrea Tevlin, Independent Budget Analyst
Jan Goldsmith, City Attorney