

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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We have performed the procedures enumerated below, which were agreed to by the City of San Diego, solely to assist you with respect to the Public Utilities Department, Wastewater (Wastewater) Bid to Goal Public Contracts Operations Agreement (Bid to Goal) for the year ended June 30, 2009. Wastewater is responsible for the procedures performed on Wastewater's Bid to Goal Program. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the Bid to Goal Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our findings and recommendations related to the Wastewater Bid to Goal Program for the year ended June 30, 2009 are included below. Additional items and areas for improvement that did not impact goal achievement, savings, or eligibility have been issued as a separate memorandum and provided to Wastewater.

The purpose and scope of the agreed-upon procedures is as follows:

Savings Calculation

- To perform a comprehensive review of Wastewater's budgetary savings calculation.

Key Performance Service Levels

- To verify that adequate documentation supports reported results of achievement for all Key Performance Service Level goals.
- To identify practices and procedures to assist Wastewater in improving future Key Performance Service Level program reporting.

Division Performance Goals

- To verify that adequate documentation supports reported percentages of goals "met" or partially "met."
- To identify practices and procedures to assist Wastewater in improving future Division Performance Goals program reporting.

Assurance Fund/Employee Efficiency Incentive Reserve (EEIR)

- To verify the activity in the EEIR is accurate.

Gainsharing Payments

- To verify the calculation of employee payouts (net of payroll taxes and other deductions) is accurate.

We performed the following procedures:

Savings Calculation

- Compared total expenditures and encumbrances presented in the Labor-Management Partnership Annual FY 2009 Performance Report (Annual Report) to the total expenditures and encumbrances reported in the City of San Diego's Simpler reports.
- Performed testwork and analysis related to expenditures presented as out-of-scope.
- Performed testwork and analysis related to released encumbrances.
- Recalculated supporting schedules and documentation.
- Recalculated savings based upon results of testwork.
- Reviewed pass-through documentation and calculations.
- Reviewed budgetary documentation and calculations.
- Identified practices and procedures to assist Wastewater in improving future Savings Calculation reporting.

Key Performance Service Levels

- Reviewed goal objectives.
- Compared the results for all 8 of the Key Performance Service Level Goals presented in the Annual Report to supporting documentation to verify achievement. One Key Performance Service Level had two-parts. One part was granted administrative relief, therefore, it was excluded from the procedures. However, we did perform procedures on the part that was reported as met.
- Calculated percentages of Key Performance Service Levels met per results of testwork and verified that these percentages agreed with percentages reported by Wastewater.

Division Performance Goals

- Selected only goals that were reported as met or partially met by Wastewater.
- Reviewed the goals provided by Wastewater and compared them to the goals presented in the goal summaries at the beginning of the fiscal year.
- Judgmentally selected a sample of goals for testing based on the following criteria:
 - o Complexity of the goal
 - o Coverage of all functional areas
 - o Emphasis on goals barely met
 - o Emphasis on new goals
 - o Emphasis on goals not met in prior year
 - o Emphasis on goals with findings in prior year
 - o Prior experience with other Performance Goal programs
 - o Results of previous Wastewater Performance Goal programs
 - o Coverage – test at least 50% of goals reported as achieved
- Interviewed goal contacts to gain an understanding of the goal and how it was tracked and measured.
- Reviewed reports and supporting documentation provided by Wastewater to determine the most effective approach for testwork.
- Performed substantial testwork on 14 of the 21 goals provided to us by Wastewater, that were reported as met, and reviewed the supporting documentation to verify goal achievement.
- Performed additional procedures to verify the completeness of the population provided to us by Wastewater.
- Calculated the percentage of goals met, per audit, and verified that they agreed with the percentages reported by Wastewater.
- Identified practices and procedures to assist Wastewater in improving future Performance Program reporting.

EEIR

- Reviewed all supporting documentation for the EEIR activity in FY09
- Reviewed all management approvals for Assurance Fund expenditures.
- Recalculated EEIR activity schedule to ensure accuracy

Gainsharing Payments

- Verified that Wastewater employees to be paid are eligible according to the criteria set forth in fiscal year 2009 "City of San Diego Metropolitan Wastewater Department (MWWD) Bid to Goal Gainsharing Guidebook" (Gainsharing Guidebook).
- For eligible employees, verified that total eligible hours were accurate.
- Verified that Wastewater employees not to be paid are ineligible according to the criteria set forth in the Gainsharing Guidebook.
- Verified the fiscal year 2009 net payout for all employees deemed eligible by Wastewater was accurate.
- Identified practices and procedures to assist the Department in improving future payouts.

OVERVIEW

As described in the "Purpose and Scope" description above, the purpose of our testwork is to verify accuracy of processing and implementation of the Bid to Goal Program. In particular, results that have an impact on whether or not -- and to what extent -- incentive pay is awarded to eligible employees. In FY08, Wastewater put in place a Bid to Goal Implementation Team that has improved upon readiness and program checks and balances from what has been observed in prior program years.

SAVINGS CALCULATION

SUMMARY:

Wastewater reported savings of \$16,099,898 in the Bid to Goal (Bid), FY09 Annual Report. Per the employee bid agreement, 50% of the savings reported will be placed in the EEIR for employee payouts. Based upon our comprehensive review, \$16,099,898 should be reported as savings and \$8,049,949 should be eligible to be placed in the EEIR for employee payouts. Adjustments to the savings are included below in Exhibit A.

EXHIBIT A:

<u>Savings Calculation</u>	<u>Amount per Wastewater</u>	<u>Amount per Testwork</u>	<u>Change in Savings</u>
TOTAL ADJUSTED BID	\$195,139,703	\$195,139,703	-
IN-SCOPE SPENDING			
Expended and Encumbered per Simpler Financials	\$203,691,531	\$203,691,531	-
Out-of-Scope Items	(\$1,076,890)	(\$1,076,890)	-
Bid to Goal payments in FY 2009	(\$5,282,780)	(\$5,282,780)	-
Released Encumbrances	(\$7,571,878)	(\$7,571,878)	-
Post-Close Adjustments	\$2,434,144	\$2,434,144	-
Service Level Agreements	<u>(\$13,154,322)</u>	<u>(\$13,154,322)</u>	-
TOTAL IN-SCOPE SPENDING	\$179,039,805	\$179,039,805	-
TOTAL SAVINGS	<u>\$16,099,898</u>	<u>\$16,099,898</u>	-

KEY PERFORMANCE SERVICE LEVELS

SUMMARY:

Wastewater indicated all 8 of the Key Performance Service Levels as defined in the MOU for the fiscal year 2009 were met. We tested all of them (100%) to determine if adequate supporting documentation exists to substantiate the status. We agree with the status reported for all 8 service levels. One of the Key Performance Service Levels, a two-part goal, was granted Administrative Relief; therefore we tested the part of the goal that was reported as met.

According to the MOU, "the performance service levels...are considered key metrics to overall wastewater utility service delivery. In that context, should any of these core measures not be met, the deposit to the Employee Efficiency Incentive Reserve [Reserve]...shall be decremented by 10% for each unmet key performance metric." Based on the results of our test work, no amounts should be decremented from the Reserve. A summary of the results is listed below:

Key Performance Service Levels	% Met per Wastewater	% Met per Testwork	Difference
Sanitary Sewer Overflows: Number of SSOs per 100 miles of Main	100.00%	100.00%	0.00%
Point Loma Wastewater Treatment Plant Permit Compliance	100.00%	100.00%	0.00%
North City Water Reclamation Plant Permit Compliance	100.00%	100.00%	0.00%
South Bay Water Reclamation Plant Permit Compliance*	100.00%	100.00%	0.00%
Metro Biosolids Center Performance	100.00%	100.00%	0.00%
ISO 14001 Certification for Wastewater Collection Division	100.00%	100.00%	0.00%
ISO 14001 Certification for Wastewater Treatment and Disposal Division	100.00%	100.00%	0.00%
ISO 14001 Certification for Environmental Monitoring and Technical Services Division	100.00%	100.00%	0.00%

* One part of this two-part goal was granted Administrative Relief.

DIVISION PERFORMANCE GOALS

SUMMARY:

Wastewater indicated 21 of the 24 goals that comprise the fiscal year 2009 division specific Gainsharing Performance Goals were met or partially met (the total excludes 1 goal that was granted administrative relief). We tested 14 of the 21 goals that were reported as met or partially met (67%) to determine if adequate supporting documentation exists to substantiate the status of those goals. One goal was shared by three divisions and was weighted as three goals, as it appears in all three divisions. Of the 14 goals we tested, we agree with the status reported for 13 goals, with a variance on 1 goal. Payouts should be based on the following percentages:

Division	% Met per Wastewater ⁽¹⁾	% Met per Testwork	Difference
Engineering and Program Management	87.50%	87.50%	0.00%
Environmental Monitoring and Technical Services	87.50%	87.50%	0.00%
Administrative Services	59.40%	59.40%	0.00%
Wastewater Treatment and Disposal	100.00%	100.00%	0.00%
Wastewater Collection	60.00%	50.00%	(10.00%)

⁽¹⁾ Summary percentage of all goals for the division

FINDING AND RECOMMENDATION:

Finding:

Wastewater Collection Division's (WWCD) goal number four was reported as 100% met. The results of our review did not agree with the status of the goal achievement.

Goal number four states "Secure a total of 600 manholes or more for the fiscal year to comply with the Final Consent Decree requirements." WWCD reported that 601 manholes were secured. Based upon the report provided by WWCD, we stratified the population and tested 60 manholes reported as secured. Of those tested, WWCD was unable to provide support for one manhole reported as secured. When projecting this error across the stratified population, the number of manholes secured decreases to 589, resulting in a 50% achievement rate.

Recommendation:

We recommend that all backup documentation required to measure goal achievement be maintained until after completion of the independent review.

EEIR

	Year 1 FY2008	Year 2 FY2009
Undesignated funds, beginning of year	\$ -	\$ 5,991,030
Allocation of savings to EEIR	<u>11,369,335</u>	<u>8,049,949</u>
Undesignated funds, end of year	11,369,335	14,040,979
Cap on EEIR set at \$10,000,000	<u>(1,369,335)</u>	<u>(4,040,979)</u>
EEIR balance available for payouts/approved expenses	10,000,000	10,000,000
Gainsharing payout	<u>(4,008,970)</u>	<u>(2,500)</u>
Undesignated funds at end of year	<u>\$ 5,991,030</u>	9,997,500
Amount per testwork		<u>9,997,500</u>
Difference		<u>\$ -</u>

GAINSHARING PAYMENTS

SUMMARY:

Wastewater provided us a "Gain Sharing Award Distributions Certification Report" (Cert Report) by Division, employee, and time sheet level. This report listed all employees deemed eligible for FY09 Gainsharing payments (payouts) by Wastewater. This listing included employees who worked in more than one time sheet level and were listed multiple times and did not provide a total number of employees. The Cert Report did not include payout calculations. Wastewater also provided us a "Gain Sharing Award Distributions Employees Ineligible for Awards" (Ineligible Report) by Division, employee and time sheet level. We randomly selected 55 employees deemed eligible, and 5 employees deemed ineligible for FY09 Gainsharing payments.

Wastewater provided us a separate payout calculation report after initial testwork described above was completed that included all employees deemed eligible for payouts. This report included 766 employees with a total net payout of \$2,591,280.91. We verified the 55 employees previously tested were listed in the payout calculation report and that the information agreed to the Cert report. We re-calculated the net payout for all employees based upon their eligible hours and Division Performance Goal achievement percentage.

We performed the agreed-upon procedures set forth above to the sample selected. A summary of results is listed below:

Procedures	Number of Exceptions	Error %	Dollar	Error %
Verification of Eligibility	0	0%	N/A	N/A
Verification of Ineligibility	0	0%	N/A	N/A
Verification of payment calculation	0	0%	N/A	N/A

This report is intended solely for the information and use of the Public Utilities Department, Wastewater and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Carlsbad, California
March 22, 2011