



## THE CITY OF SAN DIEGO

DATE: December 20, 2011

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Supplemental Memo - Performance Audit of the Public Utilities Capital Improvement Program**

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### **Background**

On September 27, 2011, the Office of the City Auditor released a performance audit of the Public Utilities Capital Improvement Program (CIP). On October 3, 2011, we presented the report to the Audit Committee, which included four findings and 18 recommendations to improve asset management, planning, and project delivery of Public Utilities CIP projects. On October 17, 2011, City Auditor staff also presented the report to the Independent Rates Oversight Committee (IROC), and they passed a motion to accept the report and support its content and the recommendations.

### **Additional Requested Information**

On October 3, 2011, the Audit Committee passed a motion to move the report to the City Council and IROC and to:

1. Specifically highlight the audit report's recommendations to be responded to in the context of any future rate case that IROC may examine; and
2. Request from the Office of the City Auditor a recommended set of performance audits in the area of water and wastewater public utilities.

We address both items in this memorandum. To address Item 1 above, we have highlighted the following six Public Utilities CIP audit recommendations that we believe are the most pertinent in the context of a future rate case that IROC may examine.

### **Highlighted Recommendations to Public Utilities**

*Recommendation #2:* Determine the frequency of which the condition of appropriate assets should be assessed and establish a schedule for these assessments, particularly for water transmission mains.

- Reassess the most cost effective approach for assessing the condition of and prioritizing water distribution pipes as the Department develops its replacement program for asbestos cement pipes, such as the use of predictive software to forecast asset condition.

*Recommendation #3:* Develop a schedule for implementation of SAP Enterprise Asset Management (EAM) and provide updates on progress to the Independent Rate Oversight Committee (IROC) and other stakeholders.

- To ensure that all City departments, including Public Utilities, derive benefits from the Department's SAP EAM implementation, coordinate with the Enterprise Resource Planning Department's efforts to merge with the existing EAM system, which the Transportation and Storm Water Department currently uses.

*Recommendation #6:* Complete a consolidated asset management plan and ensure it is in line with best practices and includes a schedule for implementation with a combination of short-, mid-, and long-range initiatives to ensure that funds and staff availability are not barriers to successful implementation.

- Ensure that the plan includes:
  - measurable goals and objectives;
  - clear, numeric goals for the target level of condition the Department wants to achieve for appropriate assets; and
  - performance measures that are linked with these goals.
- Monitor and report out performance measures to IROC, City Council, customers, and other stakeholders.

*Recommendation #7:* Develop a comprehensive Wastewater Master Plan based on a full assessment of the wastewater system's needs and best practices when it updates this plan in three to five years.

- Provide links to other plans or documents when best practice elements are excluded from master plans.

*Recommendation #9:* Include the basis for determining the funding mix in future Master Plans, CIP plans, or a financing plan, and make these available to the public.

*Recommendation #10:* Improve the Department's strategy for communicating capital needs to stakeholders, including providing estimated deferred maintenance and unfunded needs if needed rate increases are not secured and implications of deferring projects.

**Future Public Utilities Performance Audits**

To address Item 2 above, we have recommended to Public Utilities management and IROC that we conduct an Audit of Valve Maintenance and an Audit of Chemical Purchases and Usage. These recommended audits are based on our previous risk assessment of Public Utilities. On October 28, 2011, we met with Public Utilities management, and they supported these audits. On November 21, 2011, we presented to IROC our proposal to conduct an Audit of Valve Maintenance, and they passed a motion to support the audit as proposed. We plan to begin the Audit of Valve Maintenance in January 2012 and to begin the Audit of Chemical Purchases in April 2012.

Below is a list of the potential audits from our risk assessment.

<b>Key Issues</b>	<b>Potential Audits</b>
Purchased Water	1. Conservation 2. Reclaimed Water 3. Indirect Potable Reuse (IPR)
Water Distribution System	4. Valve Maintenance <i>(Recommended)</i>
Capital Improvement Program <i>(Audit Completed 9/27/11)</i>	5. Long-term Planning 6. Compliance with Regulations 7. Efficiency and Oversight of Projects
Water and Wastewater Treatment	8. Chemical Purchases and Usage <i>(Recommended)</i>
Overhead Rates and Interdepartmental Charges	9. Overhead Rates and Interdepartmental Charges

Respectfully Submitted,



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Eduardo Luna  
City Auditor

cc: Honorable Mayor Jerry Sanders  
Honorable City Council Members  
Jay M. Goldstone, Chief Operating Officer  
Mary Lewis, Chief Financial Officer  
Independent Rates Oversight Committee Members  
Rodger Bailey, Public Utilities Director  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst