

200

REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO				CERTIFICATE NUMBER (FOR AUDITOR'S USE ONLY)		
TO: CITY COUNCIL		FROM (ORIGINATING DEPARTMENT): Auditor		DATE: 10/16/2013		
SUBJECT: City Auditor's Performance Audit on the Transportation & Storm Water Department's Utilities Undergrounding Program						
PRIMARY CONTACT (NAME, PHONE): Chris Kime , 619-533-3039 605B				SECONDARY CONTACT (NAME, PHONE): , 619-533-3030 605B		
COMPLETE FOR ACCOUNTING PURPOSES						
FUND						
DEPT.						
ORGANIZATION						
OBJECT ACCOUNT						
JOB ORDER						
C.I.P./CAPITAL PROJECT No.						
AMOUNT	0.00	0.00	0.00	0.00	0.00	0.00
FUND						
DEPT.						
ORGANIZATION						
OBJECT ACCOUNT						
JOB ORDER						
C.I.P./CAPITAL PROJECT No.						
AMOUNT	0.00	0.00	0.00	0.00	0.00	0.00
COST SUMMARY (IF APPLICABLE):						
ROUTING AND APPROVALS						
CONTRIBUTORS/REVIEWERS:		APPROVING AUTHORITY		APPROVAL SIGNATURE		DATE SIGNED
Elser, Kyle Office of the City Auditor		ORIG DEPT.		Luna, Eduardo		10/28/2013
		CFO				
		COO				
		CITY ATTORNEY				
		COUNCIL PRESIDENTS OFFICE		Jurado-Sainz, Diana		12/5/2013
PREPARATION OF:		<input type="checkbox"/> RESOLUTIONS		<input type="checkbox"/> ORDINANCE(S)		<input type="checkbox"/> AGREEMENT(S) <input type="checkbox"/> DEED(S)
To accept the report and forward to the full Council						
STAFF RECOMMENDATIONS: Received the City Auditor's Performance Audit on the Transportation & Storm Water Department's Utilities Undergrounding Program						
SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)						

DEC 16 2013

COUNCIL DISTRICT(S):	
COMMUNITY AREA(S):	
ENVIRONMENTAL IMPACT:	
CITY CLERK INSTRUCTIONS:	

**COUNCIL ACTION
EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO**

DATE: 10/16/2013

ORIGINATING DEPARTMENT: Auditor

SUBJECT: City Auditor's Performance Audit on the Transportation & Storm Water
Department's Utilities Undergrounding Program

COUNCIL DISTRICT(S):

CONTACT/PHONE NUMBER: Chris Kime /619-533-3039 605B

REQUESTED ACTION:

Our office requests that this be a discussion item on the Council's Agenda

STAFF RECOMMENDATION:

Received the City Auditor's Performance Audit on the Transportation & Storm Water
Department's Utilities Undergrounding Program

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

This report was conducted in accordance with the City Auditor's Fiscal Year 2013 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The goal of the City of San Diego's Utilities Undergrounding Program (UUP) is to convert every residential overhead utility line in San Diego to underground service over the next 53 years. With roughly \$48 million in annual revenue from San Diego Gas and Electric (SDG&E) and another \$13 million in an expenditure obligation from SDG&E, our objectives were to determine whether SDG&E is remitting the proper amount of revenue to the City, the City is managing those funds correctly, and if SDG&E is meeting their expenditure obligation. The Office of the City Auditor conducted this performance audit of the UUP at the request of Audit Committee members Thomas Hebrank and former Councilmember Carl DeMaio.

Specifically, we found the following:

- 1) The SDG&E payments appeared correct and procedures are in place to verify SDG&E's remittance to the City; 2) The UUP keeps approximately one year of operating funds in total balance and reserves, of which \$20 million could be utilized for additional undergrounding; and 3) The UUP could improve financial oversight by reviewing labor expenditure reports and reviewing the SDG&E expenditure obligation.

We made four recommendations to address the issues we identified. The recommendations we made are intended to improve the control over and accountability for the UUP's expenditures.

The Transportation & Storm Water Department's UUP agreed to all four recommendations.

PREVIOUS COUNCIL and/or COMMITTEE ACTION (describe any changes made to the item from what was presented at committee):

The report was presented to the Audit Committee on October 7, 2013, and the Committee took the following action:

Action: Motion by Councilmember Sherman, second by Committee Member Hebrank, to accept the report and forward to the full Council.

Vote - 5-0; Faulconer-yea, Sherman-yea, Schreiner-yea, Valdivia-yea, Hebrank – yea

Voted YEA: Faulconer, Sherman, Schreiner, Valdivia, Hebrank

No changes have been made to the report since it was presented to the Committee.

Luna, Eduardo

Originating Department

Performance Audit of the Utilities Undergrounding Program

**IMPROVED FINANCIAL PRACTICES COULD
BENEFIT THE PROGRAM**

AUGUST 2013

Audit Report

**Office of the City Auditor
City of San Diego**



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THE CITY OF SAN DIEGO

August 12, 2013

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is an audit report on the Transportation & Storm Water Department's Utilities Undergrounding Program. This report is in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 18 of the report.

We would like to thank the Utilities Undergrounding Program's staff, as well as representatives from the City Treasurer and other City departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff responsible for this audit report is Shoshana Aguilar, Andy Horita, Chris Kime, and Kyle Elser.

Respectfully submitted,

A handwritten signature in cursive script, reading "Eduardo Luna".

Eduardo Luna
City Auditor

cc: Lee Burdick, Chief of Staff
Nelson Hernandez, Director of Policy
Walt Ekard, Interim Chief Operating Officer
Scott Chadwick, Assistant Chief Operating Officer
Greg Bych, Interim Chief Financial Officer
Ken Whitfield, City Comptroller
Kip Sturdevan, Director, Transportation & Storm Water Department
Hasan Yousef, Deputy Director, Transportation & Storm Water Department
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Gail Granewich, City Treasurer



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Results in Brief

The goal of the City of San Diego's Utilities Undergrounding Program (UUP) is to convert every residential overhead utility line in San Diego to underground service over the next 53 years. With roughly \$48 million in annual revenue from San Diego Gas and Electric (SDG&E) and another \$13 million in an expenditure obligation from SDG&E, our objectives were to determine whether SDG&E is remitting the proper amount of revenue to the City, the City is managing those funds correctly, and if SDG&E is meeting their expenditure obligation. The Office of the City Auditor conducted this performance audit of the UUP at the request of Audit Committee members Thomas Hebrank and former Councilmember Carl DeMaio.

We evaluated the extent to which the City provides for effective control over and accountability for the UUP's revenue and expenses. We analyzed fund management data from the UUP from fiscal years (FY) 2010-2012 and found that improved financial practices and policies could benefit the program.

Specifically, we found the following:

- The SDG&E payments appeared correct and procedures are in place to verify SDG&E's remittance to the City;
- The UUP keeps approximately one year of operating funds in total balance and reserves, of which \$20 million could be utilized for additional undergrounding; and
- The UUP could improve financial oversight by reviewing labor expenditure reports and reviewing the SDG&E expenditure obligation.

We made four recommendations to address the issues we identified. The recommendations we made are intended to improve the control over and accountability for the UUP's expenditures.

If the UUP expands or accelerates utility undergrounding efforts in the future, adopting formal policies and increasing financial oversight will be necessary to keep pace with program administration demands. Audit objectives, scope, and methodology are found in Appendix A.

The Transportation & Storm Water Department's UUP agreed to all four recommendations.

Background

The goal of the City of San Diego (City) is to convert every residential overhead utility line in San Diego to underground service over the next 53 years. The City, through its Utilities Undergrounding Program (UUP), has relocated an average of 15 miles of overhead utility lines underground throughout the City each year since 2003. Overhead utility lines include power, cable, and telephone lines.

This audit focuses on the UUP, which is part of the Right of Way Coordination Division of the Transportation & Storm Water Department (TSWD). According to program management, there are two and one half full time equivalent positions assigned to the program in TSWD, with an expenditure of approximately \$40 million in FY 2012. A project engineer is responsible for managing the program on a daily basis. Numerous other City employees produce work for the program including four engineering positions that charge the bulk of their time to the UUP.

Exhibit 1 summarizes the UUP's Underground Surcharge Fund revenues and expenditures for FY 2012 to 2014. In FY 2012, management of the UUP was transferred from the Engineering & Capital Projects Department to TSWD.

Exhibit 1

Utilities Underground Surcharge Fund

	FY-2012 Actual	FY-2013 Budget	FY-2014 Proposed
Beginning Balance and Reserves	\$40,031,898	\$35,502,780	\$46,344,787
Electric Surcharge Revenue – SDG&E	48,051,392	48,944,555	48,791,916
Interest Earnings	357,027	500,000	300,000
Total Revenue	48,408,419	49,444,555	49,091,916
Total CIP Expenditures	4,389,787		
Operating Expense	35,296,835	49,444,555	49,091,916
CIP Expenditure of Prior Year Funds		15,000,000	3,000,000
Total Expense	39,686,622	64,444,555	52,091,916
Total Balance and Revenue less Total Expense	\$48,753,695	\$20,502,780	\$43,344,787

Source: City of San Diego FY 2014 Proposed Budget

The UUP is responsible for administering the underground surcharge fund, which includes: budgeting, processing invoices for payment, monitoring program revenues and expenditures, producing the undergrounding master plan, and coordinating and overseeing undergrounding activity with San Diego Gas and Electric (SDG&E). The UUP also conducts public outreach and manages Capital Improvement Program (CIP) work related to street repaving, installation of new streetlights, curb ramps, and underground connections to traffic signals. SDG&E handles the actual utility undergrounding project design, contracting, and construction management.

**Utilities Undergrounding
is a 100 Year Endeavor**

SDG&E has been undergrounding utility lines in the City since 1970 in compliance with California Public Utilities Commission (CPUC) Rule 20A. In 2003, the City began to actively manage the UUP with the ratification of the Memorandum of Understanding (MOU) between the City and SDG&E, and the City expects to move all lines underground in the coming five decades. According to the program's report to the City Council, an average of 15 miles of lines per year have been undergrounded since 2003, with 353 total miles completed and 1,086 miles of utility lines remaining as of December 31, 2011. The most recent master plan estimates that all construction will be complete by 2066. **Exhibit 2** shows a sample of undergrounding projects under construction.

Exhibit 2

Sample of Utilities Undergrounding Projects under Construction

Council District	Project Title	Location
1	La Jolla Scenic Drive	Surgarman Dr to Via Posada
2	Residential Project Block 2J	Point Loma
3	Residential Project Block 2E	Mission Hills
4	Residential Project Block 4G	Lincoln Park
5	No active projects	
6	Mesa College Drive	Ashford St
7	Residential Project Block 7CC	Del Cerro
8	Residential Project Block 8F	Sherman Heights
9	Monroe Ave	Winona to Collwood

Source: Transportation and Storm Water Department

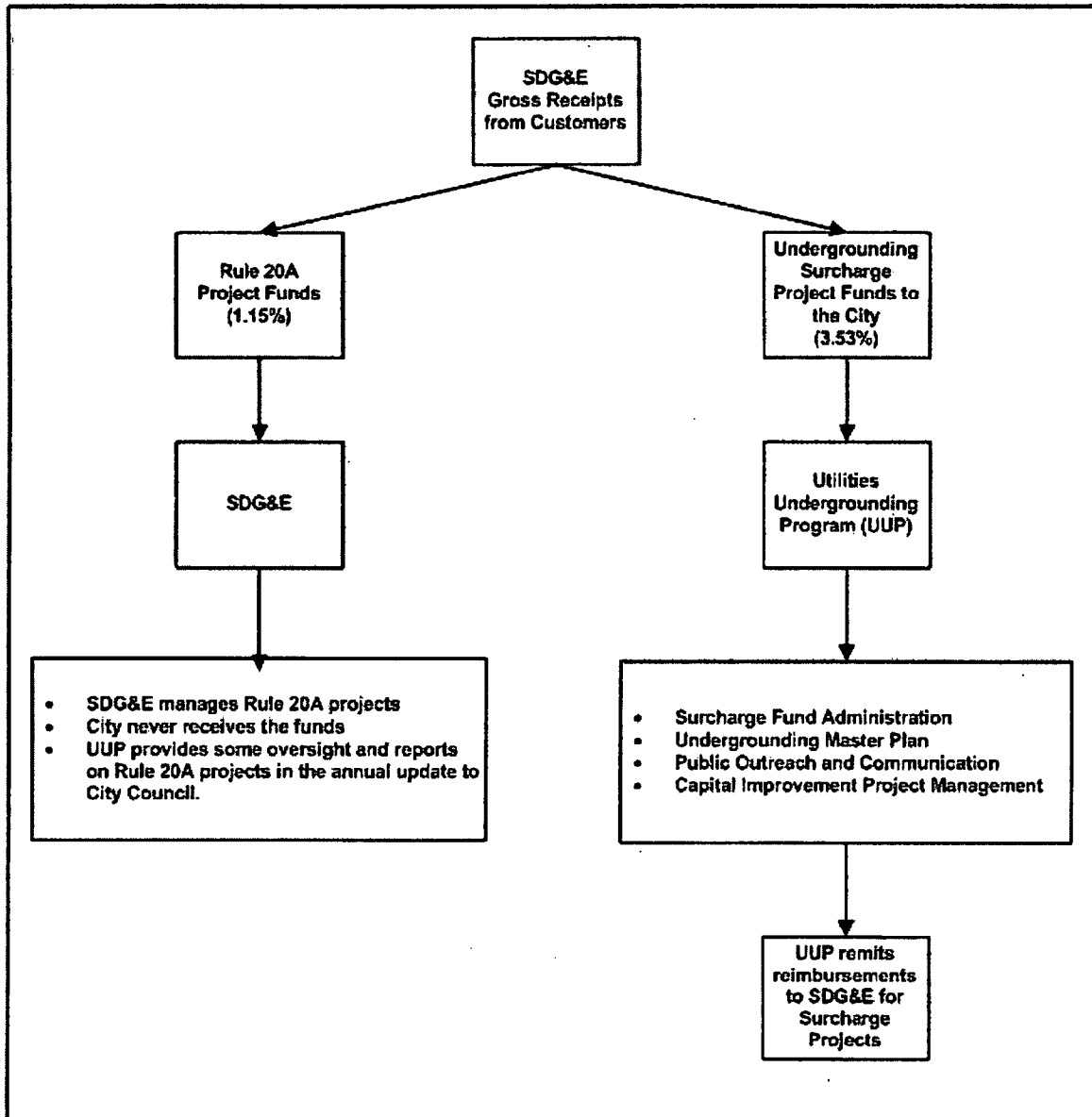
**Utilities Undergrounding
Has Two Primary
Funding Sources**

Utilities undergrounding is an approximately \$61 million per year endeavor funded by two revenue sources: Rule 20A and an undergrounding surcharge fee, displayed in **Exhibit 3**. The first funding source is a requirement of the CPUC Rule 20A that all utilities must spend a percentage of revenue to underground utility lines in the general public interest. In 2002, the City updated the franchise agreement, which requires SDG&E to devote 1.15 percent of gross receipts to undergrounding to comply with Rule 20A. In calendar year 2012, the Rule 20A spending obligation was approximately \$13 million. SDG&E manages these projects, and the City never receives the funds. However, the UUP does provide some oversight and reports on Rule 20A projects in the annual update to the City Council. Additionally, the UUP incorporates Rule 20A project information into the master plans for each council district and oversees City capital improvements work such as the installation of overhead streetlights and connections to traffic signals.

The second funding source for utility undergrounding work in the City is derived from a 3.53 percent surcharge fee based on gross receipts from utility customers. The collection and remittance to the City of the undergrounding surcharge fee on ratepayers' SDG&E utility bills began in 2003. It has increased the amount of available funding for utilities undergrounding. The 2003 MOU will expire in 2021. From surcharge funds, the City receives about \$48 million per year for undergrounding projects. SDG&E manages the construction work and bills the City for reimbursement, which the City remits from the surcharge fund to SDG&E. The City also uses the surcharge fund to cover CIP work, such as street repaving for all undergrounding projects, as well as to fund other undergrounding program expenses. The City's \$48 million surcharge fee and SDG&E's additional \$13 million for Rule 20A provide approximately \$61 million in total undergrounding dollars per year. **Exhibit 3** diagrams the funding streams and responsibilities of utilities undergrounding.

Exhibit 3

Diagram of Utilities Undergrounding Funding Streams and Responsibilities



Source: Office of the City Auditor

Audit Results

Finding 1: There are Existing Controls to Review the Accuracy of Revenue Received, but Improved Financial Practices and Policies Could Benefit the Utilities Undergrounding Program.

While there are opportunities for improvement with the overall financial management of the City's Utilities Undergrounding Program (UUP), program revenue is consistent and reliable. Specifically, our review of program revenue found that San Diego Gas and Electric (SDG&E) appears to remit the correct amount to the City for their utilities undergrounding surcharge fee obligation. SDG&E also appears to spend the correct amount on Rule 20A undergrounding within the City. We also found that the UUP keeps approximately one year of operating funds in total balance and reserves and should adopt a formal policy to establish a target cash balance amount and utilize any excess funds to increase the amount of undergrounding accomplished. The UUP could further improve financial oversight by reviewing labor expenditure reports and by reviewing the SDG&E spending obligation with more scrutiny.

**Controls are in Place to
Verify the SDG&E
Utilities Undergrounding
Revenue Obligations**

The San Diego Office of the City Treasurer (City Treasurer) conducts revenue reconciliation audits of City income including SDG&E's 3.53 percent undergrounding payment obligation. The Memorandum of Understanding (MOU) between the City and SDG&E requires that SDG&E pay 3.53 percent of gross receipts to the City for utilities undergrounding and spend an additional 1.15 percent of gross receipts to comply with California Public Utilities Commission (CPUC) Rule 20A. SDG&E appears to remit the correct amount to the City for their utilities undergrounding surcharge fee obligation and spends the correct amount on Rule 20A undergrounding within the City as well.

The City Treasurer conducts an audit of SDG&E payments every four years, reviewing the prior four calendar years. The City

Treasurer's audit methodology appears to be a reasonable and adequate means of ensuring that SDG&E remits the correct amount of undergrounding payments on a timely basis. We recalculated the underground surcharge fee obligation for calendar years 2005-2012, and, based on the information available, the SDG&E payments appeared correct.

However, the City Treasurer's audit does not include SDG&E's Rule 20A 1.15 percent spending obligation because the Treasurer's audits are limited to revenues that the City receives.

In 2012, the Rule 20A expenditure obligation was valued at over \$13 million. The MOU directs SDG&E to spend these funds without remitting them to the City. The City does not audit compliance with this MOU requirement, but program oversight would be stronger if SDG&E obligations were more closely monitored. SDG&E does report to the CPUC and the UUP on its Rule 20A obligation. According to SDG&E, the utility submits reports to the CPUC based on the twelve month period running November through October. We evaluated SDG&E's Rule 20A expenditure obligation based on the SDG&E January to December calendar year data we had available and found the payments appeared to be reasonable using the gross receipts information from the City Treasurer's audit. However, program oversight would be strengthened if the UUP reconciled the report it receives from SDG&E with the report SDG&E submits to the CPUC.

Recommendation # 1 The Utilities Undergrounding Program should obtain a copy of the yearly report that SDG&E submits to the California Public Utilities Commission on Rule 20A compliance and reconcile it to the report that SDG&E submits to the Utilities Undergrounding Program. Any discrepancies found should be investigated and resolved. (Priority Level 3)

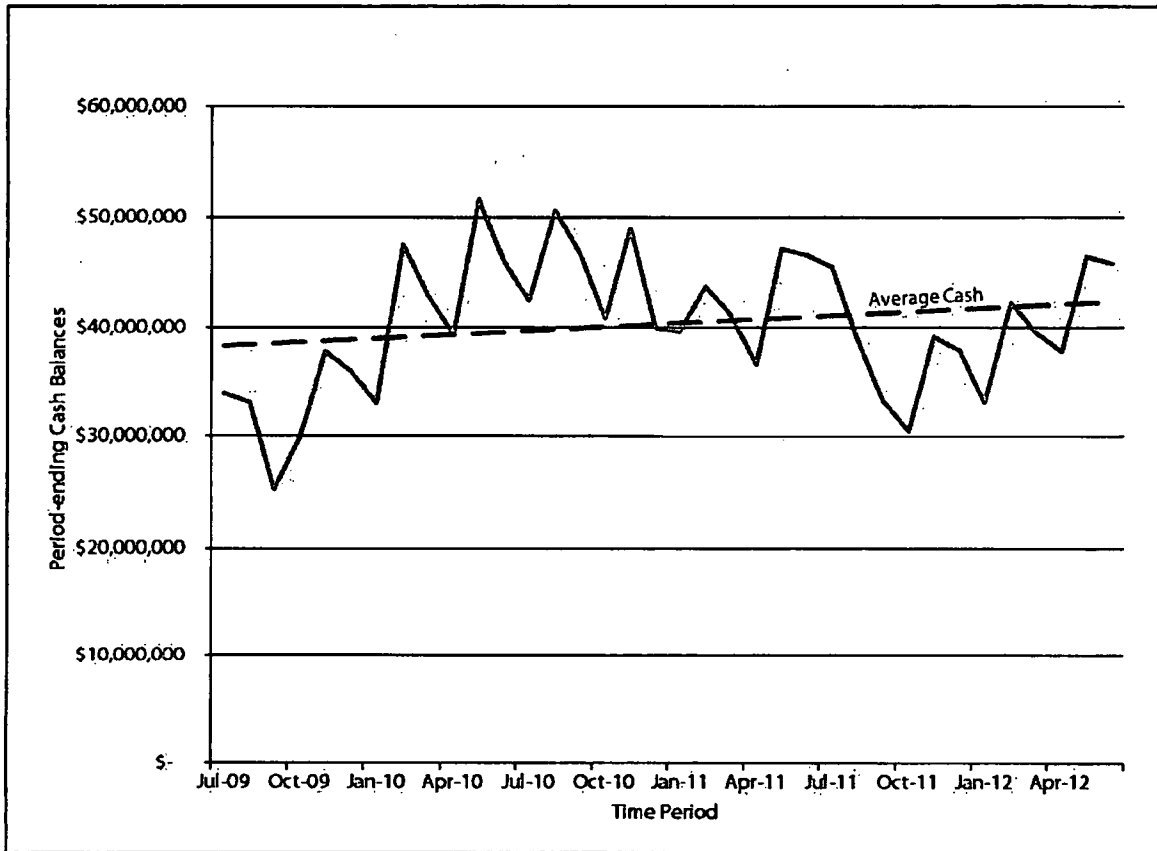
The Utilities Undergrounding Program has Approximately One Year of Operating Funds in Total Balance and Reserves, Some of Which Could be Utilized for Additional Undergrounding

Adopting a formal target for cash balances would provide greater fiscal accountability, reduce idle resources, and increase program responsiveness. While the UUP performs budgetary analysis to anticipate revenues and expenditures, management could implement some financial management best practices, such as formalizing policies and procedures regarding working capital targets. The UUP maintains an average of \$40 million in cash based on an analysis of cash balances for FY 2010-2012.

Exhibit 4 illustrates the cash balance in the fund over the last three fiscal years.

Exhibit 4

Utilities Undergrounding Program Monthly Cash Balance – Fiscal years 2010-2012



Source: Office of the City Auditor

**The Utilities
Undergrounding
Program has a
Consistent and Reliable
Revenue Stream**

SDG&E has remitted quarterly payments that have averaged approximately \$12 million for calendar years 2011 and 2012, and the utility will continue to remit quarterly payments for the duration of the MOU. According to UUP management, there is an internal practice of maintaining a cash reserve for anticipated expenditures as well as contingencies in the construction process.

The City spent approximately \$40 million in FY 2012 to place overhead utility lines underground. Therefore, the cash balance of \$40 million is enough to fund roughly 12 months of undergrounding operations. According to program management, the UUP prefers to maintain six months of cash on hand to prevent cash flow problems. If the UUP reduced its cash balance to cover six months of expenses, an additional \$20 million would be made available for undergrounding program expenses such as trenching, street light replacement, and street repaving.

The cash balance in the undergrounding fund can be compared to working capital levels. Working capital is the liquid portion of a fund that constitutes a margin or buffer for meeting obligations, such as revenue shortfalls and unanticipated expenses. According to the Government Finance Officers Association (GFOA), it is sound fiscal practice to have a clear policy that establishes a target amount of working capital. GFOA recommends starting with a baseline of 90 days' worth of working capital and then adjusting the target based on program characteristics, with 45 days as the minimum acceptable level. If the UUP reduced its cash balance to cover three months of expenses, an extra \$30 million would be made available for additional undergrounding program expenses.

In FY 2011 and FY 2012, the UUP budgeted but did not spend all appropriated undergrounding funds. On a budgetary basis, this practice is not always evident because revenues are fully appropriated each year. The funds have been appropriated for the undergrounding program and should be spent for the appropriated purpose in a timely manner with a reasonable amount kept in reserve for contingencies.

Recommendation # 2 **The Utilities Undergrounding Program should create a policy that defines an appropriate target amount for the fund cash balance reserve. (Priority Level 2)**

Recommendation # 3 **The Utilities Undergrounding Program should spend any cash balance above the targeted amount identified in Recommendation #2. (Priority Level 3)**

**The Utilities
Undergrounding
Program Could Improve
Financial Practices by
Reviewing Labor
Expenditure Reports**

According to program management, the UUP does not have a practice of reviewing labor charges for time that City employees bill to the program. Time spent on UUP activities — such as building permit inspection, archeological monitoring, tree planting, planning and environmental review, field inspection, surveying, and administration — are tracked using internal order numbers in the City's enterprise resource planning system, SAP. This system allows employees in an approved department to charge labor hours to a predefined activity, which is assigned a unique internal order number. The labor charges associated with an internal order number are then summarized in a labor detail report. The labor detail report for the first three quarters of FY 2013 listed 120 employees in six different departments who charged time to the internal order number associated with the underground surcharge fund. Total labor charges for the report were over \$1.2 million. The time billed by individual employees varied from twelve minutes per day to ten hours per day, with over 5,000 entries for a nine month period.

The program has information at its disposal, such as the labor detail reports, to increase financial oversight. According to program management, the UUP has relied on institutional knowledge to identify employees who should be listed on the labor detail report, rather than employing formal review procedures. The development of a procedure to periodically review labor detail reports would improve the oversight of undergrounding resources. Without periodic review, the UUP may be unaware of any incorrect charges to the undergrounding fund. If the UUP expands in the future, the labor detail report would increase in size and complexity as the program grows.

Recommendation # 4 The Utilities Undergrounding Program should establish a standard operating procedure to review the labor detail reports periodically for allowable charges to the underground surcharge fund. (Priority Level 2)

Conclusion

The City of San Diego's Utilities Undergrounding Program (UUP) is an ambitious long-term undertaking to move all utility lines below ground over the next five decades, with expenditures projected to exceed \$2 billion. Given the program's considerable scope, this audit sought to examine the City's management of undergrounding funds. We found that, while program revenues appear accurate, the UUP could improve its financial management. Specifically, we found that the UUP maintains approximately one year's worth of cash and lacks a formal policy to manage cash balances above a designated target amount. Further, the UUP does not review labor detail reports for incorrect personnel charges or review SDG&E's expenditure obligation. The Transportation and Storm Water Department's UUP agreed to implement all four of our recommendations, which will put in place stronger financial controls. The City's ability to provide good program stewardship is important given the magnitude of the undergrounding project and the possibility of program expansion in the coming years.

Recommendations

- Recommendation #1** The Utilities Undergrounding Program should obtain a copy of the yearly report that SDG&E submits to the California Public Utilities Commission on Rule 20A compliance and reconcile it to the report that SDG&E submits to the Utilities Undergrounding Program. Any discrepancies found should be investigated and resolved. (Priority Level 3)
- Recommendation #2** The Utilities Undergrounding Program should create a policy that defines an appropriate target amount for the fund cash balance reserve. (Priority Level 2)
- Recommendation #3** The Utilities Undergrounding Program should spend any cash balance above the targeted amount identified in Recommendation #2. (Priority Level 3)
- Recommendation #4** The Utilities Undergrounding Program should establish a standard operating procedure to review the labor detail reports periodically for allowable charges to the underground surcharge fund. (Priority Level 2)

Appendix A: Objectives, Scope, and Methodology

Objectives

As requested by the Audit Committee, the Office of the City Auditor (OCA) included an audit of the Utilities Undergrounding Program (UUP) in our fiscal year 2013 audit work plan. To define our audit scope, we compiled a risk and vulnerabilities assessment and identified the financial oversight of the program as a high risk area to audit. Given the high dollar value of the surcharge fund with roughly \$48 million in annual revenue, it was important to determine whether SDG&E is remitting the proper amount and whether the City is managing those funds correctly.

Our review of the UUP focused on the following objectives:

- Determine the extent to which the City receives the correct amount of revenue from SDG&E for utilities undergrounding;
- Evaluate the extent to which the City provides for effective control over and accountability for the Utilities Undergrounding Program's revenue and expenses; and
- Determine whether SDG&E is meeting their expenditure obligation.

The UUP is administered by the Right of Way Coordination Division of the Transportation & Storm Water Department.

Scope and Methodology

To accomplish our objectives, we performed the following audit procedures:

- Reviewed pertinent laws, regulations, and agreements related to utilities undergrounding;
- Interviewed relevant management and staff to obtain an understanding of the UUP, which included conducting site visits;
- Obtained and analyzed financial data from the Office of the City Treasurer, SAP, and the UUP; and
- Obtained and analyzed information from other cities on utilities undergrounding audits and financing options.

For testing of financial transactions, our scope included FY 2010-2012. We reviewed the most recently completed City Treasurer revenue audit of SDG&E franchise fees, which was completed in 2009. As of April 2013, the City Treasurer was in the process of conducting another such audit. We did not audit Rule 20A expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ¹	Description ²	Implementation Action ³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.

Appendix C: Projects Under Construction

New CD	Project Title	Limits	Old CD	Fund
1	La Jolla Scenic Drive	Sugarman Dr to Via Posada	1	20A
1	Regents Road	Executive Dr to Regents Rd	1	20A
3	30th St PH IIIA	Juniper St to Ash St	3	20A
9	Euclid Ave	Euclid Ave to University Ave	3	20A
2	Lincoln Ave	30th St to Wabash Ave	3	20A
9	Monroe Ave	Winona to Collwood	3	20A
4	Briarwood Rd	Brookhaven to Nebraska	4	20A
4	Potomac St	Calle Tres Lomas to Sea Breeze Dr	4	20A
1	Eastgate Mall	Eastgate Dr to I-805 SB	5	20A
2	Jutland Dr	Camino Coralina to Luna Ave	6	20A
2	Moraga Ave PH I	Moraga Ct to Idlewild Way	6	20A
9	Altadena, Wightman, Winona	El Cajon Bl to Euclid	7	20A
8	24th St	G St to Imperial Ave	8	20A
3,8	Island Ave PH I	16th St to 24th St	8	20A
8	Island Ave PH II	26th St to 30th St	8	20A
8	K Street PH I	19th St to 24th St	8	20A
8	K Street PH II	26th St to 30th St	8	20A
8,9	National Ave	32nd St to 43rd St	8	20A
3	Residential Project Block 2E	Mission Hills	2	Surcharge
2	Residential Project Block 2J	Point Loma	2	Surcharge
1,2	Residential Project Block 2T		2	Surcharge
9	Residential Project Block 3EE		3	Surcharge
9	Residential Project Block 3FF		3	Surcharge
4	Residential Project Block 4AA		4	Surcharge
4	Residential Project Block 4G		4	Surcharge
4	Residential Project Block 4Z		4	Surcharge
2	Residential Project Block 6I		6	Surcharge
9	Residential Project Block 7A		7	Surcharge
7	Residential Project Block 7CC		7	Surcharge
3,8	Residential Project Block 8B		8	Surcharge
8	Residential Project Block 8F		8	Surcharge
8	Residential Project Block 8G		8	Surcharge
6,7	Mesa College Drive		6	Surcharge
7	Ridge Manor Avenue		7	Surcharge
8	28th Street		8	Surcharge
7	Patrick Henry High Block		7	Surcharge

Source: Transportation & Storm Water Department

Appendix D: Management's Response



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: August 8, 2013

TO: Eduardo Luna, City Auditor

FROM: Garth K. Sturdevan, Director, Transportation & Storm Water Department

SUBJECT: Management Response to Performance Audit of the Utilities Undergrounding Program

The Transportation & Storm Water Department has reviewed the Audit report titled "Performance Audit of the Utilities Undergrounding Program" dated August 2013. The report provides a detailed analysis of the revenues and expenditures of the Utilities Undergrounding Program and provides recommendations to improve financial oversight of the program. The following is the Department's response to the report's findings and recommendations.

FINDING 1 – There are Existing Controls to Review the Accuracy of Revenues Received, but Improved Financial Oversight and Policies Could Benefit the Utilities Undergrounding Program.

Recommendation #1:

The Utilities Undergrounding Program should obtain a copy of the yearly report that SDG&E submits to the California Public Utilities Commission on Rule 20A compliance and reconcile it to the report that SDG&E submits to the Utilities Undergrounding Program. Any discrepancies found should be investigated and resolved. (Priority Level 3)

Response:

Agree. The Utilities Undergrounding Program (UUP) has obtained a copy and is in the process of reviewing SDG&E's most recent Rule 20A report to the California Public Utilities Commission (CPUC) "Report on Conversion of Overhead to Underground Electric Distribution Facilities, Year 2012". In accordance with the Auditor's recommendation, the UUP will continue to review SDG&E's reports to the CPUC and reconcile them with the reports provided to the UUP on an annual basis and take appropriate action as necessary.

Recommendation #2:

The Utilities Undergrounding Program should create a policy that defines an appropriate target amount for the fund cash balance reserve. (Priority Level 2)

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Management Response to Performance Audit of the Utilities Undergrounding Program
August 8, 2013

Response:

Agree. The UUP will work in conjunction with the Financial Management Department and Office of the City Comptroller to define and establish the appropriate target amount for the fund cash balance reserve. Given the large number of active undergrounding projects at various stages, careful consideration will be given to ensure this policy will not impact the progress of any active or planned undergrounding project.

Recommendation #3:

The Utilities Undergrounding Program should spend any cash balance above the targeted amount identified in Recommendation # 2. (Priority Level 3)

Response:

Agree. The UUP is currently working with SDG&E, other utilities, Development Services Department - Neighborhood Code Compliance, and Public Works Department - Engineering & Capital Projects to explore means to increase the efficiency of undergrounding project delivery. This will result in increased spending and therefore the cash balance will gradually be reduced to the appropriate target level.

Recommendation #4:

The Utilities Undergrounding Program should establish a standard operating procedure to review the labor detail reports periodically for allowable charges to the underground surcharge fund. (Priority Level 2)

Response:

Agree. The UUP will establish the recommended standard operating procedure by October 1, 2013 and begin to review allowable labor charges on a monthly basis. The UUP is in the process of filling an Associate Management Analyst position which will be tasked with ensuring the legitimacy of labor charges.

Respectfully,



Garth K. Sturdevan

cc: Walt Ekard, Interim Chief Operating Officer
Scott Chadwick, Assistant Chief Operating Officer
Hasan Yousef, Deputy Director, Transportation & Storm Water Department

Office of the City Auditor
City of San Diego

**Performance Audit of the
Utilities Undergrounding Program**

*Improved Financial Practices Could Benefit the
Program*

Presentation to the City Council

