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## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Michael Vogl, Deputy Director  
Public Utilities Department, Customer Support Division  
600 B Street, 12<sup>th</sup> Floor  
San Diego, CA 92101

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, Customer Support Division (Customer Support) Bid to Goal Program for the year ended June 30, 2009. Customer Support is responsible for the procedures performed on Customer Support'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 Customer Support 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, Gainsharing savings, or eligibility have been issued as a separate memorandum and provided to Customer Support.

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

### Savings Calculation

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

### Division Performance Goals (Pay for Performance Program)

- To verify adequate documentation supports reported percentages of goals "met" or "partially met."
- To identify practices and procedures to assist Customer Support in improving future Pay for Performance program reporting.

### Assurance Fund/Employee Efficiency Incentive Reserve

- To verify the activity in the Assurance Fund is accurate.

### Gainsharing and Pay for Performance Payments

- To verify the calculation of employee payouts for the FY09 Bid to Goal Program (net of payroll taxes and other deductions) is accurate.

We performed the following procedures:

#### Savings Calculation

- Compared total expenditures and encumbrances presented in the Customer Support Bid to Goal FY2009 Annual Report – 3rd Revision (Annual Report) to the total expenditures and encumbrances reported in the City of San Diego 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 Customer Support in improving future Gainsharing program reporting.

#### Division Performance Goals (Pay for Performance Program)

- Selected only goals that were reported as met or partially met by Customer Support.
- Reviewed the goals provided by Customer Support 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:
  - Complexity of the goal
  - Coverage of all functional areas
  - Emphasis on goals barely met
  - Emphasis on new goals
  - Emphasis on goals not met in prior year
  - Emphasis on goals with findings in prior year
  - Prior experience with other Pay for Performance programs
  - Results of previous Customer Support Pay for Performance programs
  - 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 Customer Support to determine the most effective approach for testwork.
- Performed substantial testwork on 12 of the 19 goals provided to us by Customer Support, 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 Customer Support.
- Calculated the percentage of goals met, per our testwork, and compared it to the percentage reported by Customer Support.
- Identified practices and procedures to assist Customer Support in improving future Pay for Performance Program reporting.

#### Assurance Fund/Employee Efficiency Incentive Reserve

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

#### Gainsharing and Pay for Performance Payments

- Verified that Customer Support employees listed as eligible met eligibility criteria as listed in Water Customer Support Division Standard Operations Policy and Procedures Pay for Performance Eligibility and Rules, effective July 1, 2006 (Pay for Performance SOPP) and Customer Support Division Standard Operations Policy and Procedures Gainsharing Eligibility and Rules, effective July 1, 2006 (Gainsharing SOPP).
- Verified that Customer Support employees' total eligible hours were accurate.
- Verified that Customer Support employees listed as ineligible were ineligible according to the criteria in the Pay for Performance SOPP and Gainsharing SOPP.

- Identified practices and procedures to assist Customer Support in improving determining eligibility in future years.
- Verified that Customer Support's calculation of the net Gainsharing and Pay for Performance payout for all eligible employees was accurate. This report (Payout Calculation) was provided after our testwork was completed and was not used as the initial population for testwork selections.

### **SAVINGS CALCULATION**

#### SUMMARY:

Customer Support reported fixed objective budgetary savings of \$1,431,716 in the Annual Report. Per the Employee Bid agreement, 50% of the savings reported will be placed in an Assurance Fund for employee payouts. Based upon our comprehensive review, \$1,431,716 should be reported as fixed objective budgetary savings and \$715,858 should be eligible to be placed in the Assurance Fund for employee payouts. Adjustments to the budgetary savings are included in Exhibit A.

#### EXHIBIT A:

<b>Functional Area/Category</b>	<b>Amount per Customer Support</b>	<b>Amount per Testwork</b>	<b>Change in Savings</b>
<b>Division Administration</b>	(294,305)	(294,305)	-
<b>Water Conservation Section</b>	(137,536)	(137,536)	-
<b>Customer Service Office</b>	724,206	724,206	-
<b>Field Services and Investigations</b>	(85,443)	(85,443)	-
<b>Meter Services</b>	800,802	800,802	-
<b>Divisional Contingency</b>	360,000	360,000	-
<b>Inflation</b>	63,992	63,992	-
<b>TOTAL</b>	<b>1,431,716</b>	<b>1,431,716</b>	<b>-</b>

### **DIVISION PERFORMANCE GOALS (PAY FOR PERFORMANCE PROGRAM)**

#### SUMMARY:

Customer Support indicated 19 of the 21 goals that comprise the fiscal year 2009 Pay for Performance Program were met. We tested 12 of the 19 achieved goals (63%) to determine if adequate supporting documentation exists to substantiate the status of those goals. One goal was shared by all functional areas and was weighted as five goals, as it appears in all five functional areas. Of the 12 goals we tested, we agree with the status reported for 11 goals, with an exception on one goal. Achievement of the goals should be based on the following percentages:

<b>Functional Area</b>	<b>% Met per Customer Support</b>	<b>% Met per Testwork</b>	<b>Difference</b>
<b>Division Administration</b>	100.00%	100.00%	0.00%
<b>Customer Service Office</b>	100.00%	100.00%	0.00%
<b>Field Services and Investigations</b>	75.00%	75.00%	0.00%
<b>Meter Services</b>	75.00%	62.50%	(12.50%)
<b>Water Conservation Section</b>	100.00%	100.00%	0.00%

**FINDINGS AND RECOMMENDATIONS:**

**Finding:**

Meter Services' (MS) goal number three was reported as 100% met. The results of our review did not agree with the status of the goal achievement.

Goal number three states "95% Percentage of Recycled Water Facilities (air valves, valves, PRVs) meeting City of San Diego specifications on annual preventive maintenance." The measurement method formula states, "The total number of Recycled Facilities to be tested annually is documented...The total number of facilities to be PMd is 770. The number of Facilities with completed PMd work orders meeting specifications will be subtracted from initial number which should match the number of facilities in SWIM. Air Valves to be PMd = 455; Butterfly valves to be PMd = 271 (10" to 36"); PRVs (Pressure Relief Valves) to be PMd = 44."

We noted that MS calculated goal achievement based upon 775 facilities (as counted after the goal was established). However, the number of facilities listed in the goal was 770.

In order to verify goal achievement, we stratified the population and made a selection of 60 PMs. For the PMs selected, we traced to the underlying Work Order to verify the information reported to use was accurate.

During testwork, we noted that four Work Orders could not be located. As a result of testwork, we projected the errors across the entire population. The re-calculated achievement percentage was 90.25%, which results in a 50% payout.

**Recommendation:**

We recommend that before submitting goal results, the person in charge of tracking the goal should review the calculation to ensure it accurately reflects what is stated in the goal.

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

**ASSURANCE FUND/EMPLOYEE EFFICIENCY INCENTIVE RESERVE**

	<u>Year 1</u> <u>FY2007</u>	<u>Year 2</u> <u>FY2008</u>	<u>Year 3</u> <u>FY2009</u>
Undesignated funds, beginning of year	\$ -	\$ 24,885	\$ 171,876
Allocation of savings to the Assurance Fund (AF)	<u>484,018</u>	<u>804,976</u>	<u>715,858</u>
AF balance available for payouts/approved expenses	484,018	829,861	887,734
Gainsharing payout	(459,133)	(592,466)	-
Pay for Performance payout	-	(60,664)	-
Approved AF expenses (equipment and supplies)	<u>-</u>	<u>(4,855)</u>	<u>-</u>
Undesignated funds, end of year	<u>\$ 24,885</u>	<u>\$ 171,876</u>	887,734
Amount per testwork			<u>887,734</u>
Difference			<u>\$ -</u>

## **GAINSHARING AND PAY FOR PERFORMANCE PAYMENTS**

### **SUMMARY:**

Customer Support provided us "Pay for Performance" and "Bid to Goal" Certification Reports (Cert Reports) by Division, employee, and time sheet level. The Cert Reports listed all employees deemed eligible for FY09 Gainsharing and Pay for Performance payments (payouts). These reports also included employees who worked in Water Department divisions that did not participate in the Program, and did not provide a total number of eligible Customer Support employees. The Cert Reports did not include payout calculations. Customer Support also provided us an internal memorandum listing employees ineligible for awards (Ineligible Report). We randomly selected 58 employees deemed eligible, and 2 employees deemed ineligible for FY09 Gainsharing and Pay for Performance payments.

Customer Support 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 183 employees with a total net payout of \$540,165.23. We verified the 58 employees previously tested were listed in the payout calculation report and that the information agreed to the Cert Reports. 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:

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

This report is intended solely for the information and use of the City of San Diego and Public Utilities Department, Customer Support Division 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