

COUNCIL DOCKET OF Oct 28, 2008 ~~Nov 10, 2008~~ Nov 18, 2008

Supplemental Adoption Consent Unanimous Consent Rules Committee Consultant Review

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AKT LLP Amendment No. 2 to Bid No. 8584-07-V – External Auditor for Bid to Goal and Pay for Performance Programs

Reviewed Initiated By Audit On 10/06/08 Item No. 5

RECOMMENDATION TO:

Forward the audit consultant contract with AKT to City Council with the recommendation that it be extended for one year.

VOTED YEA: Faulconer, Young

VOTED NAY:

NOT PRESENT: Atkins

CITY CLERK: Please reference the following reports on the City Council Docket:

REPORT TO THE CITY COUNCIL NO.

COUNCIL COMMITTEE CONSULTANT ANALYSIS NO.

OTHER:

AKT's reports from December 11, 2007 to January 22, 2008; Administrative Services Department's October 2, 2008, memorandum; Administrative Services Department's October 6, 2008, PowerPoint

COUNCIL COMMITTEE CONSULTANT *[Signature]* 10/16/08



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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Tim Bertch, Director
Metropolitan Wastewater Department
9192 Topaz Way
San Diego, CA 92123

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 Metropolitan Wastewater Department (MWWWD) Pay for Performance Program for the year ended June 30, 2007. MWWWD is responsible for the procedures performed on MWWWD's Pay for Performance 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 performed the following procedures:

1. We reviewed the goals provided by MWWWD and compared them to the goals presented in the goal summaries at the beginning of the fiscal year.
2. We judgmentally selected a sample of goals for testing based on the results reported by management, the complexity of the goal, and the results of prior year testing.
3. We tested 21 of the 39 goals provided to us by MWWWD indicated as met or partially met, and reviewed the supporting documentation to verify goal achievement.
4. We calculated the percentage of goals met, per audit, and verified that they agreed with the percentages reported by MWWWD.
5. We recalculated the departmental savings.
6. We followed-up on prior audit recommendations.
7. We identified practices and procedures to assist MWWWD in improving future Pay for Performance Program Reporting.

Our findings and recommendations related to the Pay for Performance Program for the year ended June 30, 2007 are included in a separate report provided to MWWWD.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the Pay for Performance 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.

This report is intended solely for the information and use of the City of San Diego and the Metropolitan Wastewater Department and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Carlsbad, California
December 11, 2007



000884

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December 11, 2007

Tim Bertch, Director
Metropolitan Wastewater Department

SUBJECT: PAY FOR PERFORMANCE VERIFICATION OF GOALS

PERIOD: FISCAL YEAR 2007

PURPOSE:

- To verify that adequate documentation supports reported percentages of goals "met" or "partially met."
- To verify Departmental savings reported.
- To identify practices and procedures to assist Metropolitan Wastewater Department in improving future Pay for Performance program reporting.

PROCEDURES:

- Compared goals reported on at fiscal year end to goals presented in the goal summaries at the beginning of the fiscal year.
- Judgmentally selected a sample of goals from each division for testing based on the results reported by management, the complexity of the goal, and the results of prior year testing.
- Calculated percentages of goals met, per audit.
- Recalculated Departmental savings, per audit.
- Reviewed prior audit recommendations.

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SUMMARY:

Metropolitan Wastewater Department (MWWD) indicated 39 of the 48 goals that comprise the fiscal year 2007 Pay for Performance Program were met or partially met. We tested 21 of the 39 goals (54%) to determine if adequate supporting documentation exists to substantiate the status of those goals. One department-wide goal was tested and was weighted as five goals, as it appears in all five divisions. Of the 21 goals we tested, we agree with the status reported for 17 goals as met, with variances on the other four goals. Payouts should be based on the percentages below:

Division	% Met per MWWD	% Met per Audit	Difference
Engineering and Program Management	59.82%	63.39%	3.57%
Environmental Monitoring and Technical Services	82.81%	82.81%	0.00%
Administrative Services	89.83%	82.69%	(7.14%)
Wastewater Treatment	70.00%	67.87%	(2.13%)
Wastewater Collection	54.76%	55.49%	0.73%

FINDINGS AND RECOMMENDATIONS:

Finding 1:

Wastewater Treatment (WWT) Division's 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 "Eight large pump stations will maintain minimum capacity during both dry and wet seasons." The goal further states that each month is equally weighted at one-twelfth toward goal achievement. During our review, we identified that PS2 fell below the minimum requirement in October 2006 and ORPS1 and ORPS2 fell below the minimum requirement in January 2007. Therefore, two of the 12 months were not met which results in 83% goal achievement. In addition, the calculation used to determine capacity was subject to interpretation.

Recommendations:

WWT should compare the supporting documentation with the goal requirements to ensure accuracy prior to finalizing the results. In addition, WWT should provide an example that clearly identifies the calculation method.

Finding 2:

Administrative Services (Admin) Division's goal number three was reported as met. The results of our review did not agree with the status of the goal achievement.

Goal number three states "Prepare Revenue and Expenses Statements at the close of each accounting period within 10 business days of the information being available 95% of the time." The supporting schedules provided by the goal contacts indicated that these statements were prepared within 10 business days of month end, not period end. Based on the parameters and criteria set in the goal summaries, the goal was not achieved. In addition, there are only 13 accounting periods, therefore, preparing the reports 95% of the time is not attainable. For example, just one statement not prepared within 10 days results in a 92% completion rate.

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Recommendations:

We recommend thoroughly reviewing the specifications listed in the goal summary to ensure that the criteria used fits the goal. For example, the goal criteria should have been "Prepare Revenue and Expenses Statements at the close of each accounting period within 10 business days of the information being available for 12 of the 13 periods." In addition, the goal criteria should be clearly communicated to employees involved with performing, administering and reporting of goal requirements.

Finding 3:

Wastewater Collection (WWC) Division's goal number five was reported as partially met. The results of our review did not agree with the status of the goal achievement.

Goal number five relates to "Construction Section Productivity." The three-part goal further states that achievement will be determined by the following:

- Complete an average of 80 sewer main/lateral job activities per month or more while achieving a lineal footage average of 10 lineal feet or more per activity
- Perform work on an average of 52 manholes per month
- CCTV an average of 10 miles of sewer main monthly

The average CCTV footage was reported at 8.64 miles per month. According to the goal summary, this level of activity qualifies for 25% goal achievement. The summary of goal results generated by MWWD indicated that this portion of the goal had 0% achievement. In addition, related to the CCTV testwork, we selected 40 days and traced the feet inspected to Daily Activity Sheets. Of these 40 selections, two days did not agree with the Daily Activity Sheets with a net variance of 356 feet. When projecting the error across the entire population, the average miles per month decreases to 8.57. This level of activity still results in 25% of goal achievement.

Recommendations:

We recommend thoroughly reviewing source documents and reports generated by the employees responsible for the goals to ensure that the final results summary is accurately prepared. Also, supporting documentation and summaries should be carefully reviewed for accuracy.

Finding 4:

Engineering and Program Management (Engineering) Division's goal number three was reported as partially met with 50% achievement. The results of our review did not agree with the status of the goal achievement.

Goal number three states "Achieve defined project milestones." The goal further states that 28 milestones were to be met for the following achievement:

- 100% met = 100% credit
- 90 - 99% met = 75% credit
- 80 - 89% met = 50% credit
- <80% = 0% credit

Engineering reported that 25 of the 28 milestones were met. Our testing indicated that all selections had adequate supporting documentation and one milestone had been granted administrative relief. The percentage met should be calculated based on 25 milestones met out of 27 resulting in 92.6% achievement. Therefore, 75% achievement of goal number three was reached.

Recommendations:

All relevant information, including administrative relief, should be considered when calculating results and goal achievement.

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Finding 5:

Environmental Monitoring and Technical Services (EMTS) Division's goal number eight was reported as partially met with 75% achievement. Although we agree with the status of the goal achievement, our procedures identified errors in the calculation and several areas for improvement.

Goal number eight states "Complete all Performance Testing Studies with Acceptable Results." The goal further states that to obtain 100% achievement, all Division laboratories should obtain provider reported results within certified provider's standards ("acceptable" or "Check for Error") on 100% of determinations reported on performance testing studies during FY 2007. The goal summary did not specify how to calculate the percentage met. The calculation could be done by an overall percentage, percentage by laboratory, percentage by study number, etc. Also, the goal summary did not specify if the results should be rounded to the nearest whole percentage. If the 99.7% of certified provider standards met could be rounded, the division would have completed the goal with 100% achievement.

Recommendations:

Clearly define all goal specifications and provide examples of how to perform calculations to avoid reporting uncertainties.

Finding 6:

WWT Division's goal number seven was reported as partially met with 67% achievement. Although we agree with the status of the goal achievement, our procedures identified an area for improvement.

The Goals state "Global Positioning System / Automated Vehicle Locator (GPS/AVL) Implementation." The three-part goal further states that "all first, second, and third-level supervisors, who have fleets equipped with GPS/AVL units, will be trained in the VTRAC system by June 30, 2007 and a list of such supervisors will be compiled no later than September 1, 2006." A revised list of supervisors was provided that was dated October 1, 2006, one month after the due date. The goal contacts indicated that the original list was completed within the goal specifications, but no documentation could be produced that indicated the list was created by September 1, 2006.

Recommendations:

Ensure that all reported results can be fully substantiated with supporting documentation that includes dates and signatures of the responsible parties.

Finding 7:

MWWD reported excess budgetary savings of \$544,220. The errors were primarily related to encumbrances released subsequent to year end and calculation mistakes.

Division	Savings per MWWD	Savings per Audit	Over Claimed Savings
Engineering and Program Management	\$34,110	\$24,254	(\$9,856)
Environmental Monitoring and Technical Services	\$2,858,774	\$2,810,158	(\$48,616)
Information and Organizational Support	\$3,364,592	\$3,364,592	\$0
Services and Contracts	\$6,433,630	\$6,173,352	(\$260,278)
Operations and Maintenance	\$6,277,920	\$6,272,141	(\$5,779)
Wastewater Collection	\$8,048,741	\$7,829,050	(\$219,691)
Totals	\$27,017,767	\$26,473,547	(\$544,220)

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MWWD reported actual savings of \$27,017,767. Per our review of MWWD's reports and calculations, we determined the savings to be \$26,473,547. The adjustments reduced budget savings by \$544,220 and were the result of several errors. MWWD reduced current year total costs with encumbrances that were recorded in previous and future years. These encumbrances were not reflected in the current year total costs, therefore, they should not have been used to reduce the total costs in the calculation. Also, we identified errors where MWWD reduced current year total costs with encumbrances that were released prior to year end. These encumbrances were already removed from the current year total costs, therefore, they should not have been used to reduce the total costs in the calculation.

Due to the level of savings in each division, payouts were not impacted by the differences.

Recommendations:

We recommend that all adjustments to either the budget or actual costs reported in the budgetary savings calculation be carefully reviewed. This includes a more detailed review of encumbrances released to specifically identify purchase orders that do not meet the criteria to be included in the savings calculation.

OTHER RECOMMENDATIONS

Recommendation 1:

Goals that have time periods for achievement should be specific. Avoid using the term "within." We recommend using "greater than" or "less than." We also recommend being very consistent with the usage of days versus hours. In addition, we also recommend providing an example of what is considered met.

Recommendation 2:

Some of the goals tested were very difficult to audit. Goals should be established that can be easily substantiated. Internal controls need to be in place to mitigate the possibility of any false or tampered information and goals should be set where entire populations are easily determined and tested. Goals should be clearly defined to avoid vagueness that is left up to interpretation.

Recommendation 3:

Some of the goals tested were impacted by reductions in the number of employees that supported the goals. Administrative reliefs were not used in all instances where changes in circumstances greatly impacted the chance of achieving the goals. We recommend that whenever there are significant organizational changes, it should be considered whether all goals are still obtainable to help keep goals challenging yet achievable.

Recommendation 4:

We noted some instances where substantial savings were caused by circumstances that resulted in decreases to expected expenditures. More specifically, three accounts from different divisions accounted for approximately \$18,100,000 in savings. We recommend adjusting the budgetary savings calculation to account for large budgeted projects or costs that did not occur.

This report is intended solely for the information and use of the City of San Diego and Metropolitan Wastewater Department and is not intended to be and should not be used by anyone other than these specified parties.

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Jim Fisher, Deputy Director
Water Operations Division
2797 Caminito Chollas
San Diego, CA 92105

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 Water Operations Division (Division) Pay-for-Performance program for the year ended June 30, 2007. The Division is responsible for the procedures performed on the Division's Pay-for-Performance 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 performed the following procedures:

1. We reviewed the goals provided by the Division and compared them to the goals presented in the goal summaries at the beginning of the fiscal year.
2. We judgmentally selected a sample of goals for testing based on the results reported by management, the complexity of the goal, and the results of prior year testing.
3. We tested 18 of the 29 goals reported as met or partially met by the Division, and reviewed the supporting documentation to verify goal achievement.
4. We calculated the percentage of goals met, per audit, and verified that they agreed with the percentages reported by the Division.
5. We identified practices and procedures to assist the Division in improving future Pay for Performance Program Reporting.

Our findings and recommendations related to the Pay-for-Performance program for the year ended June 30, 2007 are included in a separate report provided to the Division.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the Pay-for-Performance 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.

This report is intended solely for the information and use of the City of San Diego and Water Operations Division and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Carlsbad, California
December 27, 2007



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December 27, 2007

Jim Fisher, Deputy Director
Water Department Operations Division
2797 Caminito Chollas
San Diego, CA 92105

SUBJECT: PAY FOR PERFORMANCE VERIFICATION OF GOALS

PERIOD: FISCAL YEAR 2007

PURPOSE:

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

PROCEDURES:

- Compared goals reported on at fiscal year end to goals presented in the goal summaries at the beginning of the fiscal year.
- Judgmentally selected a sample of goals from each functional area for testing based on the results reported by management, the complexity of the goal, and the results of prior year testing.
- Calculated percentages of goals met, per audit.
- Reviewed prior audit recommendations.

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SUMMARY:

Water Department Operations Division (Water Ops) indicated 29 of the 29 goals that comprise the fiscal year 2007 Pay for Performance Program were met or partially met. We tested 18 of the 29 goals (62%) to determine if adequate supporting documentation exists to substantiate the status of those goals. Of the 18 goals we tested, we agree with the status reported for 17 goals as met, with a variance on the other goal. Payouts should be based on the percentages below:

Functional Area	% Met per Water Ops	% Met per Audit	Difference
Administration Support	91.67%	91.67%	0.00%
Construction	100.00%	100.00%	0.00%
Production Engineering	100.00%	100.00%	0.00%
Facility Information Management Section	83.33%	66.67%	(16.66)%
Systems Operations / Facility Maintenance	100.00%	100.00%	0.00%
Systems Operations / Optimization	100.00%	100.00%	0.00%
Reservoirs and Recreation	100.00%	100.00%	0.00%
Safety	100.00%	100.00%	0.00%
Environmental Management	100.00%	100.00%	0.00%
Water Laboratory / Treatment Plants	100.00%	100.00%	0.00%

FINDINGS AND RECOMMENDATIONS:

Finding 1:

Facility Information Management Section's (FIMS) goal number three was reported as met. The results of our review did not agree with the status of the goal achievement.

Goal number three states "Enter all work orders within one day." The goal further specifies to enter 90% of all work orders into SWIM within one working day following the date stamped on the work order. The goal also states that data entry for all work orders stamped before 1:00 PM needs to be completed on the same day for the work order to count towards goal achievement. FIMS reported 70,659 work orders entered during the period and 70,504 entered within the one day criteria, resulting in a 99.8% completion rate. The database provided by FIMS reported 54,565 work orders entered during the period and 48,024 entered within one day, resulting in an 88% completion rate. The error was caused by several factors. Incorrect work orders were erroneously included in the population which overstated both the total number of work orders and those entered within one day. Also, the goal contact reported the goal activity as if the 1:00 PM rule had been excluded. In addition, one of 40 work orders selected for test work could not be located. When projecting this error across the entire population, the percentage decreases to 85.8%, resulting in 50% goal achievement.

Recommendations:

FIMS should revise the goal to clearly state which water work orders should be included in goal measurement. Prior to finalizing results, FIMS should calculate goal achievement based upon the specific goal criteria and this information should agree with the results submitted to management for approval. If there is any confusion about the population or the exact criteria of the goal, the personnel responsible for calculating goal achievement should resolve this before submitting results to management. FIMS' document retention policy should be revised to ensure proper support is maintained.

Finding 2:

Water Laboratory / Treatment Plants' (Water Laboratory) goal number one was reported as met. Although we agree with the status of the goal achievement, our procedures identified an area for improvement.

Goal number one states "Perform 100% of sampling and analysis on time and have no primary MCL violations." During fieldwork, no documentation could be provided from the Department of Health Services that supported the Water Laboratory's goal achievement. Verification from the Department of Health Services that there were no Primary MCL Violations during the period was then provided subsequent to our fieldwork. This level of activity results in a 100% goal achievement.

Recommendations:

The goal should be revised to include a procedure to substantiate whether or not Water Laboratory received a State or County DHS Primary MCL violation during the period. This documentation should be provided during fieldwork as support that there were no MCL violations.

Finding 3:

Water Laboratory's goal number two was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number two states "Maintain costs of certain tests at or below costs of private labs." It further states "control lab costs will be the average of the costs collected during the year. Costs will be collected a minimum of once every six months. The private labs used as controls are: MWH Laboratories (Monrovia), LA Testing (S Pasadena), and Del Mar Analytical (Irvine)." During test work, AKT noted that the costs from the control labs were collected only one time in November 2006 and the labs used differed from those listed in the goal criteria. Subsequent to our test work, the Water Laboratory provided evidence that costs from control labs were obtained every six months. In addition, Water Laboratory calculated results using the lowest control lab cost instead of the average cost. The differences between average and lowest cost are as follows:

Test	Lowest Cost	Average Cost	Difference
CST	\$15.00	\$22.50	(\$7.50)
MPN	\$45.00	\$46.50	(\$1.50)
QT-CST	\$35.00	\$40.00	(\$5.00)
EPA 525.2	\$250.00	\$300.00	(\$50.00)
EPA 300	\$90.00	\$96.25	(\$6.25)
Alkalinity	\$15.00	\$21.25	(\$6.25)

The Management Scorecard Report listed the control lab cost for QT-CST as \$90.00. The supporting data provided to AKT for test work reported the lowest cost as \$35.00 and the average cost as \$40.00. Although the differences in cost were errors, they did not impact the status of the goal achievement.

Recommendations:

We recommend using the specific goal criteria in calculating goal achievement. If the labs listed cannot provide the required data, then the goal should be revised to list labs that will provide this information. Although the difference between the lowest cost and the average cost was not significant, errors of this type could impact achievement status for future goals. Cost quotes should be obtained every six months to assure the most current costs are being used to calculate average costs. This information should be readily available during test work.

Finding 4:

Administration Support's (Admin) goal number two was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number two states "Respond to customers (internal & external) by the following business day, no later than the close of business (5:00 p.m.) with initial acknowledgement of inquiry greater than or equal to 86% of the time." Admin reported 1,326 customer inquiries received during the period and 1,258 responded to within one business day, resulting in a 94.9% completion rate. The database provided by Admin reported 1,306 customer inquiries received during the period and 1,228 responded to within one business day, resulting in a 94.0% completion rate. Our testing indicated that one of 45 selections reported as being within one business day was incorrect. When projecting this error across the entire population, the percentage completion rate decreases to 91.9%. During our test work, we also noted that one selection was entered twice into the database. This level of activity still results in a 100% goal achievement.

In addition, there is no way to determine if the population, as entered in the database, is a complete listing of all customer inquiries during the period.

Recommendations:

We recommend thoroughly reviewing source documents and reports generated by the employees responsible for the goals to ensure that the final results summary is accurately prepared.

Finding 5:

Construction's goal number one was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number one states "Investigate reported distribution leaks within 2 working days." The goal further specifies that completion of greater than or equal to 80% of the investigations within 2 working days will result in goal achievement and that "only leaks reported from July 1, 2006 through June 27, 2007 will be included." Construction reported 2,324 investigations were completed during the period and 1,989 were investigated within 2 working days, for a completion rate of 85.6%. The SWIM database does not factor in weekends and holidays. We also identified some of the completed investigations in the SWIM database occurred after June 27, 2007. In addition, our testing indicated that one of 44 selections reported as being investigated within two working days was incorrect. When excluding investigations reported after June 27, 2007 and weekends and holidays from the calculation of goal achievement, the projected error across the entire population decreases to 84.4%. This level of activity still results in 100% goal achievement.

Recommendations:

Construction should run SWIM database reports once the data entry for the fiscal year has been completed. This report should be saved and used to calculate the goal achievement. Investigations specified in the goal as out of scope, should be identified in the database and excluded from the calculation. This database should be provided to the auditors as part of the audit. In addition, a Water Ops' employee familiar with SWIM should reexamine the filters and parameters used to calculate this goal, to assure that the definition of the goal and the actual calculation by the software are identical.

Finding 6:

Systems Operations / Optimization's (Optimization) goal number one was reported as met. Although we agree with the status of the goal achievement, our procedures identified an area for improvement.

Goal number one states "Perform 477 inspections and maintenance on pressure regulating valves." The goal further specifies that completion of greater than or equal to 95% of 477 inspections will result in goal achievement. Optimization reported 467 inspections were completed in the period for a completion rate of 97.9%. During our test work, one of 42 service requests could not be located. When projecting this error across the entire population, the percentage decreases to 95.6%. This level of activity still results in 100% goal achievement.

Recommendations:

Optimization's document retention policy should be revised to ensure proper support is maintained. Prior to finalizing the goal results, Optimization should compare the inspection worksheets with the inspection logs, to ensure accuracy.

Finding 7:

Reservoirs and Recreation's (Reservoirs) goal number two was reported as met. Although we agree with the status of the goal achievement, our procedures identified an area for improvement.

Goal number two states "Complete routine property and watershed inspections." The goal further specifies that completion of greater than or equal to 90% of the inspections as scheduled will result in goal achievement. Reservoirs reported 93% of routine property and watershed inspections were completed on time. During our test work, one of the 40 inspection worksheets listed in the inspection log as having been completed on time could not be located. When projecting this error across the entire population, the percentage decreases to 90.7%. This level of activity still results in 100% goal achievement.

Recommendations:

Reservoirs' document retention policy should be revised to ensure proper support is maintained. Prior to finalizing the goal results, Reservoirs should compare the inspection worksheets with the inspection logs, to ensure accuracy.

Finding 8:

Environmental Management's goal number two was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number two states "Review and revise as needed all ISO 14001 / EMS-related SOPPs." The goal further specifies that completion of greater than or equal to 75% of all ISO-related SOPPs will result in goal achievement. As part of the criteria for achievement the goal states, "as of July 1, 2006 there are 70 ISO-related SOPPs; thus a minimum of 53 SOPPs are to be reviewed." Environmental Management reported that 53 were reviewed. The database provided by Environmental Management reported a population of 61 SOPPs, and 54 were reviewed. During our test work, 4 of the 54 SOPPs indicated they needed to be revised, but had not been revised as of June 30, 2007. This resulted in 50 out of 61 SOPPs being reviewed for an 82% completion rate. This level of activity still results in 100% goal achievement.

Recommendations:

Unless staffing dramatically decreased, or there were other unexpected organizational changes, this goal should have been revised to require a minimum of 53 (86% of 61) SOPPs to be reviewed and revised if necessary. When the population decreased by 12.8%, this should have been considered in determining if the target percentage was still challenging. At present, only 46 SOPPs would need to be reviewed to achieve the minimum 75% target. If the total number of SOPPs changes during the period, the goal should be revised to reflect the new population so that the purpose of the goal is still achieved.

OTHER RECOMMENDATIONS

Recommendation 1:

For many goals, the population was defined as a specific number and a specific percentage of the population was required to be completed for goal achievement. However, the actual populations used in reporting goal status were different from the goal summaries. If goal criteria change during the year, we recommend the goal be revised and approved to reflect those changes. If the population is likely to change, the goal could also be worded to incorporate any anticipated changes.

Recommendation 2:

We noted that the SWIM database reports did not, in all cases, appear to be correctly calculating goal achievement. For example, in some goals, SWIM was using hours, but the goal was stated in days (excluding weekends and holidays). We recommend that an IT person, with knowledge of the reports generated from the SWIM database, carefully evaluate all the reports that are used to measure goal achievement to determine if the parameters set and the filters being used to generate the reports agree with the goals' measurement criteria.

Recommendation 3:

The Employee Bid states that the purpose of the Pay for Performance program is to improve operational performance by providing cash incentives to employees for achieving specified performance goals. Several goals we tested were achieved by a substantial margin. We recommend establishing goals that are challenging to employees to promote increased operational performance.

Recommendation 4:

Goals that have time periods for achievement should be specific. Some suggestions for goal wording include:

- Clearly define when an inquiry or work order is "received". If there is a specific individual or department, list that in the goal. Also list the date/time stamp that measures when the clock starts for goals with time lines.
- Provide examples to clarify goal wording. For instance, in non-emergency related goals, if an inquiry or reported leak comes in on a Sunday (non business day), define when the clock starts.

Recommendation 5:

There was no detailed database report that could support the results summary provided for several goals. In addition, goal contacts could not determine how data from the detail report was used to generate the results summary. We recommend, within a reasonable amount of time following the fiscal year end, that the individual responsible for tracking goal achievement create an electronic (excel) database that clearly identifies the following information:

1. The total population
2. The data within the population that meets goal achievement criteria
3. The data within the population that does not meet the goal achievement criteria

AKT also recommends that the same individual create a summary page indicating the results and other relevant information such as:

1. Where the report was generated (e.g. SWIM)
2. Any filters or parameters used to obtain the data
3. A description of the data used to track the goal (such as work orders and related work codes)
4. Any other information required to re-create the report at a later date

We recommend that this information be collected by one individual, and be signed off as part of the goal achievement. This will ensure accountability for tracking the goal achievement.

Recommendation 6:

There appears to be inconsistencies between management's intent for the goals and the interpretation by the goal contacts and employees. These conditions had a negative impact on some goals and functional areas again during the fiscal year 2007. Goals should be developed with specific guidelines on the intent of the goal, how the goal will benefit the Division, and the documentation that will substantiate goal achievement. This information should be provided and conveyed to all employees involved and should be clearly stated in the goal summary.

Recommendation 7:

We identified many typographical and data entry errors on supporting schedules. We recommend establishing a review process to ensure the accuracy of finalized goal results.

Recommendation 8:

There was no employee with a good working knowledge of SWIM software and the reports it generates that was available to assist auditors during fieldwork. It was difficult for many of the goal contacts to address our technical questions. Two employees helped obtain answers to our questions and ran the appropriate reports, but they were not IT personnel and didn't have an understanding of the software and how the reports are generated. We recommend that Water Ops assign an employee with the appropriate technical skills to be available for the full duration of field work.

Recommendation 9:

Many of the SWIM database reports contained data that fell outside of the defined population. For goals that have cut off dates, such as June 21, 2007 or April 30, 2007, we recommend the parameters of SWIM reports be changed to include only the population as defined in the goal summary.

Recommendation 10:

The support provided for several goals with relatively small populations did not agree to the summary report of goal results. Before finalizing the goal results, we recommend that the employee responsible for measuring goal achievement verify that the support, such as training logs or inspection work sheets, agree to the summary sheets.

This report is intended solely for the information and use of the City of San Diego and Water Department Operations Division and is not intended to be and should not be used by anyone other than these specified parties.

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Jim Fisher, Deputy Director
Water Department Operations Division
2797 Caminito Chollas
San Diego, CA 92105

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 Water Department Operations Division (Division) Bid-to-Goal program for the year ended June 30, 2007. The Division is responsible for the procedures performed on the Division'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 performed the following procedures:

1. We traced expenses from the City of San Diego Simpler reports to the schedule of savings reported in the Bid-to-Goal FY2007 Annual Report.
2. We reviewed, tested and recalculated pass-through expenses.
3. We reviewed, tested and recalculated out-of-scope expenses.
4. We reviewed encumbrances that were closed after year end.
5. We identified practices and procedures to assist the Division in improving future Bid-to-Goal program reporting.

Our findings and recommendations related to the Bid-to-Goal program for the year ended June 30, 2007 are included in a separate report provided to the Division.

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.

This report is intended solely for the information and use of the Office of the City Auditor and Comptroller, the City of San Diego, and Water Operations Division and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Carlsbad, California
May 9, 2008



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May 9, 2008

Jim Fisher, Deputy Director
Water Department Operations Division
2797 Caminito Chollas
San Diego, CA 92105

SUBJECT: BID-TO-GOAL VERIFICATION OF SAVINGS

PERIOD: FISCAL YEAR 2007

PURPOSE:

The purpose of our engagement was to verify the accuracy of the budgetary savings reported by the Water Department Operations Division in the Bid-to-Goal FY 2007 Annual Report. In addition, we were to identify practices and procedures that could assist the Water Department Operations Division in improving future Bid-to-Goal program reporting.

SCOPE:

We performed a comprehensive review of the Water Department Operation Division's budgetary savings calculation. In completing our review, we compared total expenditures and encumbrances presented in the Bid-to-Goal FY 2007 Annual Report to the total expenditures and encumbrances reported in the City of San Diego Simpler reports. We reviewed the expenditures classified in the Annual Report as fixed budget objective and pass-through budget objective. We also analyzed expenditures presented as out-of-scope. In addition, we reviewed the encumbrances at June 30, 2007 and those closed subsequent to the end of the fiscal year.

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SUMMARY:

Water Department Operations Division (Division) reported fixed objective budgetary savings of \$11,429,509 in the Bid-to-Goal (Bid) FY 2007 Annual Report (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, \$9,872,093 should be reported as fixed objective budgetary savings and \$4,936,047 should be eligible to be placed in the Assurance Fund for employee payouts. Adjustments to the budgetary savings are included below in Exhibit A.

EXHIBIT A:

Functional Areas	Savings per Annual Report	Savings per Audit	Increase (Decrease) in Savings
Treatment Plants	\$958,507	\$714,616	(\$243,891)
System Operations	\$286,717	\$287,139	\$422
Construction	\$810,269	\$790,790	(\$19,479)
Administration Support	\$2,055,969	\$1,910,982	(\$144,987)
Water Quality Laboratory	\$899,392	\$905,508	\$6,116
Engineering	\$2,951,318	\$2,951,318	\$0
Reservoirs and Recreation	\$808,887	\$808,887	\$0
Safety	\$303,913	\$280,316	(\$23,597)
Environmental Management	\$150,914	\$150,914	\$0
Divisional Contingency	\$1,132,000	\$0	(\$1,132,000)
Inflation	\$534,735	\$534,735	\$0
Electrical Consumption Credit	\$228,370	\$228,370	\$0
Revenue Credit	\$308,518	\$308,518	\$0
TOTAL	\$11,429,509	\$9,872,093	(\$1,557,416)

FINDINGS AND RECOMMENDATIONS:

Finding 1:

The Divisional Contingency (Contingency) is a line item presented in the Annual Report. As noted in the prior year, the Division included the Contingency of \$1,132,000 in the budgetary savings calculation for 2007. Although the MOU explicitly states that the Contingency is included as part of the Budget Objective, the inclusion of a contingency contradicts the objectives of the Bid program. An objective of the Program is to reward employees for efficiencies resulting in savings to the Division. Since the objective is to recognize efficiencies, the Contingency should not be included in the Budget Objective and, therefore, not be included in the savings calculation. A contingency is a budgetary tool that is not appropriate for the Bid program. The Division does not agree with this finding and it remains an unresolved issue. This is also an unresolved issue from the FY 2006 and FY 2005 audits.

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Recommendation:

Modify the MOU to exclude the Contingency from the budgetary savings calculation.

Finding 2:

We identified the following errors related to encumbrances:

- Purchase orders with multiple encumbrances or adjustments to the encumbrances were calculated incorrectly at year end.
- Encumbrances that were released prior to year end were included in the released portion.
- Encumbrances that were not released by September 30, 2007 were included in the released portion.

As a result of these encumbrance errors, the functional areas overstated budgetary savings by the following amounts:

Functional Area	Overstatement of Budget Savings
Treatment Plants	\$82,130
System Operations	\$5,371
Construction	\$19,479
Administration Support	\$144,987
Safety	\$26,412
	<hr/>
	\$278,379
	<hr/>

Recommendation:

Carefully review all encumbrances and expenditures that are included in the released encumbrance portion of the budget savings calculation.

Finding 3:

Supporting schedules for released encumbrances did not agree with the overall savings calculation on functional financial summaries. As a result of these calculation errors, the functional areas understated budgetary savings by the following amounts:

Functional Area	Understatement of Budget Savings
System Operations	\$5,793
Water Quality Laboratory	\$6,116
	<hr/>
	\$11,909
	<hr/>

Recommendation:

We recommend establishing a system of review to help eliminate variances between the Annual report and the supporting documentation.

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Finding 4:

The Bid amount on Safety's supporting schedule did not agree with the functional financial summaries and was understated by \$2,815.

Recommendation:

We recommend establishing a system of review to help eliminate variances between the Annual report and the supporting documentation.

Finding 5:

The Employee Bid agreement states that chemical costs above the assumed prices are considered out-of-scope. Treatment Plants submitted an amendment request to increase the Bid amount by \$1,150,000 for recent chemical price increases. This request was approved by City of San Diego personnel subject to audit confirmation. The supporting schedule for the increase included an adjustment of the Bid assumed prices by the annual inflation factors. Treatment Plants overstated the adjustment by \$161,761 by not adjusting the assumed prices using the 2006 inflation factor.

Recommendation:

We recommend using all relevant inflation factors when calculating Bid adjustments based on prior year base costs.

This report is intended solely for the information and use of the City of San Diego and Water Department Operations Division and is not intended to be and should not be used by anyone other than these specified parties.

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Jim Barrett, Public Utilities Director
Metropolitan Wastewater Department
Wastewater Treatment and Disposal Division
9192 Topaz Way
San Diego, CA 92123

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 Metropolitan Wastewater Department Wastewater Treatment and Disposal Division (Division) Bid-to-Goal program for the year ended June 30, 2007. The Division is responsible for the procedures performed on the Division'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 performed the following procedures:

1. We traced expenditures from the City of San Diego Simpler reports to the schedule of savings reported in the Bid-to-Goal FY2007 Annual Performance Report.
2. We reviewed, tested and recalculated out-of-scope expenditures.
3. We reviewed encumbrances that were closed after year end.
4. We identified practices and procedures to assist the Division in improving future Bid-to-Goal program reporting.

Our findings and recommendations related to the Bid-to-Goal program for the year ended June 30, 2007 are included in a separate report provided to the Division.

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.

This report is intended solely for the information and use of the City of San Diego and Metropolitan Wastewater Department Wastewater Treatment and Disposal Division and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Carlsbad, California
June 12, 2008



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June 12, 2008

Jim Barrett, Public Utilities Director
Metropolitan Wastewater Department
Wastewater Treatment and Disposal Division
9192 Topaz Way
San Diego, CA 92123

SUBJECT: BID-TO-GOAL VERIFICATION OF SAVINGS

PERIOD: FISCAL YEAR 2007

PURPOSE:

The purpose of our engagement was to verify the accuracy of the budgetary savings reported by the Metropolitan Wastewater Department Wastewater Treatment and Disposal Division in the Bid-to-Goal FY 2007 Annual Performance Report. In addition, we were to identify practices and procedures that could assist the Wastewater Treatment and Disposal Division in improving future Bid-to-Goal program reporting.

SCOPE:

We performed a comprehensive review of the Metropolitan Wastewater Department Wastewater Treatment and Disposal Division's budgetary savings calculation. In completing our review, we compared total expenditures and encumbrances presented in the Bid-to-Goal FY 2007 Annual Performance Report to the total expenditures and encumbrances reported in the City of San Diego Simplar reports. We analyzed expenditures presented as out-of-scope. In addition, we reviewed the encumbrances at June 30, 2007 and those closed subsequent to the end of the fiscal year.

SUMMARY:

Metropolitan Wastewater Department Wastewater Treatment and Disposal Division (Division) reported budgetary savings of \$10,813,491 in the Bid-to-Goal (Bid) FY 2007 Annual Performance Report (Annual Report). Based upon our comprehensive review, an error was identified that caused in-scope expenditures to be understated by \$22,489. As a result, \$10,791,002 should be reported as budgetary savings in the Annual Report.

Per the Memorandum of Understanding (MOU), 50% of the savings reported in the Annual Report will be placed in an Assurance Fund that may be used for future employee incentive payouts. Based upon our comprehensive review, the savings will replenish the Assurance Fund to the \$4,000,000 cap as defined in the MOU. In addition, these funds will be available for the employees to receive an incentive payout up to \$3,000 allowed per the Bid agreement.

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FINDING AND RECOMMENDATION:

Finding:

The Division understated total expenditures and overstated budget savings by \$22,489 in the Annual Report. Total expenditures and encumbrances in the Annual Report can be reduced by encumbrances released after the fiscal year end and before the end of period 4 of the following fiscal year. The error was the result of reducing total expenditures with one encumbrance that was released subsequent to June 30, 2007. This encumbrance was expended in total in fiscal year 2008, therefore, the amount should not be released to reduce the total expenditures and encumbrances for fiscal year 2007.

Recommendation:

Ensure that released encumbrances include only amounts that were properly closed and were not expended subsequent to year end.

OTHER RECOMMENDATION:

As stated in the MOU, "It is understood that the goal detailed in this document reflects a significant and substantial optimization of operations and staffing levels which have been quantitatively determined to be within the competitive range for wastewater treatment organizations nationally." We have noted that there have typically been savings when comparing expenditures to the pre-set Budget Objectives or "Goals." Since a full benchmarking effort is made every 4 to 6 years, we conclude that the Goals in the out-years of an agreement have a tendency to become outdated. We suggest that you consider refreshing benchmarking efforts more frequently to ensure that the division is being held to a competitive spending level for services provided.

This report is intended solely for the information and use of the City of San Diego and Metropolitan Wastewater Department Wastewater Treatment and Disposal Division and is not intended to be and should not be used by anyone other than these specified parties

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Jim Barrett, Director of Public Utilities
City of San Diego Metropolitan Wastewater Department
Wastewater Collection Division
9192 Topaz Way
San Diego, CA 92123.

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 Metropolitan Wastewater Department Wastewater Collection Division (Division) Bid-to-Goal program for the year ended June 30, 2007. The Division is responsible for the procedures performed on the Division'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 performed the following procedures:

1. We traced expenditures from the City of San Diego Simpler reports to the schedule of savings reported in the Bid-to-Goal FY2007 Annual Performance Report.
2. We reviewed, tested and recalculated out-of-scope expenditures.
3. We identified practices and procedures to assist the Division in improving future Bid-to-Goal program reporting.

Our findings and recommendations related to the Bid-to-Goal program for the year ended June 30, 2007 are included in a separate report provided to the Division.

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.

This report is intended solely for the information and use of the City of San Diego and Metropolitan Wastewater Department Wastewater Collection Division, and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Carlsbad, California
July 27, 2008



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July 27, 2008

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Jim Barrett, Director of Public Utilities
City of San Diego Metropolitan Wastewater Department
Wastewater Collection Division
9192 Topaz Way
San Diego, CA 92123

SUBJECT: BID-TO-GOAL VERIFICATION OF SAVINGS

PERIOD: FISCAL YEAR 2007

PURPOSE:

The purpose of our engagement was to verify the accuracy of the budgetary savings reported by the City of San Diego Metropolitan Wastewater Department Wastewater Collection Division in the Bid-to-Goal FY 2007 Annual Performance Report (Annual Report). In addition, we were to identify practices and procedures that could assist the City of San Diego Metropolitan Wastewater Department Wastewater Collection Division in improving future Bid-to-Goal (Bid) program reporting.

SCOPE:

We performed a comprehensive review of the City of San Diego Metropolitan Wastewater Department Wastewater Collection Division's (Division) budgetary savings calculation. In completing our review, we compared total expenditures and encumbrances presented in the Annual Report to the total expenditures and encumbrances reported in the City of San Diego Simpler reports. We analyzed expenditures presented as out-of-scope. We recalculated and tested all supporting schedules and documentation. In addition, we recalculated the inflated budget in accordance with the Employee Bid.

SUMMARY:

The Division reported budgetary savings of \$4,712,912 in the Annual Report. Based upon our comprehensive review, we identified errors causing total savings to be overstated by a net amount of \$798,661. As a result, \$3,914,251 should be reported as budgetary savings in the Annual Report.

Per the Memorandum of Understanding (MOU), 50% of the savings reported in the Annual Report will be placed in an Assurance Fund that may be used for several purposes which include repayment of prior budgetary shortfalls and future employee incentive payouts. Based

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upon our comprehensive review, a portion of the savings will replenish the Assurance Fund to the \$3,000,000 cap as defined in the MOU. In addition, funds from the Assurance Fund will be available for the employees to receive an incentive payout of up to \$3,000 allowed per the MOU.

FINDINGS AND RECOMMENDATIONS:

Finding 1:

The Division overstated out-of-scope expenditures by a net amount of \$169,010. In the summary schedule of budgetary savings, the Division double counted an out-of-scope expenditure for organizational account #220 in the amount of \$170,860. In addition, Job Order #90001 in the amount of \$1,850 was not included in the total out-of-scope expenditures under organizational account #210.

Recommendation:

Establish a system of review to ensure that all summary and detail supporting schedules are accurate and included all relevant information.

Finding 2:

The Division overstated out-of-scope expenditures by \$14,528. The error was caused by incorrect formulas used in supporting schedules. Out-of-scope expenditures were duplicated as a result of these formula errors.

Recommendation:

Establish a system of review to ensure all formulas in supporting schedules are correct and accurately reflect the total out-of-scope expenditures.

Finding 3:

The Division understated out-of-scope expenditures and encumbrances by \$13,767. A calculation was performed to determine the amount of overtime that was reported as out-of-scope. This portion of overtime was considered to be above the 2002 baseline year. A formula was used that incorrectly reduced budgetary savings because the Division did not have overtime in two departments.

Recommendation:

Establish a system of review to ensure all formulas in supporting schedules are correct and accurately reflect the total out-of-scope expenditures.

Finding 4:

The Division overstated out-of-scope expenditures by \$120,083. Specific organizational accounts related to the two-year system-wide sewer system overhaul (Overhaul Project) have been determined to be out-of-scope. Certain expenditures related to these specific organizational accounts were double counted as out-of-scope, therefore, they should be removed from the savings calculation.

Recommendation:

Establish a system of review to ensure out-of-scope expenditures are only counted once in the budgetary savings calculation.

Finding 5:

The Division understated total expenditures by \$508,807. The total expenditures reported on the savings calculation summary did not agree with the City of San Diego Simpler reports.

Recommendation:

Establish a system of review to ensure the accuracy of the Annual Report. The City of San Diego Simpler reports should be compared to the Annual Report to ensure that all expenditures are reflected.

Finding 6:

The Division did not release fiscal year 2007 encumbrances, which should have been closed subsequent to year end and included in its budgetary savings calculation. These released encumbrances have been significant in prior years and are significant in fiscal year 2007. By releasing encumbrances subsequent to year end, the annual budgetary savings more accurately reflects the annual activity. In-scope encumbrances released would decrease expenditures resulting in increased savings. Alternatively, out-of-scope encumbrances released would decrease out-of-scope expenditures resulting in decreased savings. Without performing these adjustments, we cannot determine the effect on the annual savings.

Recommendation:

Release unused or closed encumbrances subsequent to year-end to provide a more accurate budgetary savings calculation.

OTHER RECOMMENDATIONS**Recommendation 1:**

The Overhaul Project was mandated subsequent to the implementation of the original Employee Bid. The Overhaul Project caused a substantial amount of additional work and made it difficult to compare actual costs to what was projected in the original Employee Bid. When a major event occurs that will significantly affect the current and future operations of the Division, the Employee Bid should be amended to reflect the change.

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Recommendation 2:

The performance measure regarding sewer overflows per 100 miles was affected by the Overhaul Project. The Employee Bid specifies that the sewer overflows per 100 miles target for fiscal year 2007 is 6.6. The actual sewer overflows per 100 miles for fiscal year 2007 was 3.00. The sewer overflows have decreased significantly from fiscal year 2001 primarily due to repair, maintenance, and monitoring efforts performed by additional employees hired and the efforts put forth by the Division to comply with the mandate. Although a significant effort was made to identify the costs associated with the Overhaul Project as out-of scope, no consideration was given to the benefits of the reduced overflows. If this situation occurs in future programs, we recommend amending the Employee Bid for sewer overflows to properly reflect current conditions.

This report is intended solely for the information and use of the City of San Diego and Metropolitan Wastewater Department Wastewater Collection Division and is not intended to be and should not be used by anyone other than these specified parties.

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January 18, 2008

Mike Bresnahan, Deputy Director
Water Department Customer Support Division
600 B Street, Suite 1200
MS 911
San Diego, CA 92101

SUBJECT: PAY FOR PERFORMANCE VERIFICATION OF GOALS

PERIOD: FISCAL YEAR 2007

PURPOSE:

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

PROCEDURES:

- Compared goals reported on at fiscal year end to goals presented in the goal summaries at the beginning of the fiscal year.
- Judgmentally selected a sample of goals from each functional area for testing based on the results reported by management, the complexity of the goal, and our prior experience with other pay for performance programs.
- Calculated percentages of goals met, per audit.

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SUMMARY:

Water Department Customer Support Division (Customer Support) indicated 13 of the 18 goals that comprise the fiscal year 2007 Pay for Performance Program were met. We tested 10 of the 13 goals (77%) to determine if adequate supporting documentation exists to substantiate the status of those goals. We agree with the status reported for the 10 goals we tested. Payouts should be based on the percentages below:

Functional Area	% Met per Customer Support	% Met per Audit	Difference
Division Administration	66.67%	66.67%	0.00%
Customer Service - Office	50.00%	50.00%	0.00%
Field Services and Investigations	75.00%	75.00%	0.00%
Meter Services	75.00%	75.00%	0.00%
Water Resources Management	100.00%	100.00%	0.00%

FINDINGS AND RECOMMENDATIONS:

Finding 1:

Division Administration's (Admin) goal number three was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number three states the criteria for goal achievement as "Responding to 90% of customer initiated complaints incoming via telephone contact or written correspondence within 21 days." The goal further states "Complaints not tracked in the data base...count against the achievement of this measure." There is no way to verify if any complaints were not entered into the database. Admin reported 177 out of 188 complaints were responded to within 21 days, resulting in a 94.1% completion rate. The data provided by Admin reported 177 out of 189 complaints were responded to within 21 days, resulting in a 93.7% completion rate. One of 24 complaints selected for test work was not responded to within 21 days. When projecting this error across the entire population, the percentage decreases to 89.8%. This level of activity still results in 100% goal achievement.

In addition, several months of supporting data (will pay cards) were disposed of prior to the audit.

Recommendations:

We recommend thoroughly reviewing source documents and reports generated by the employees responsible for the goals to ensure that the final results summary is accurately prepared. Admin's document retention policy should be revised to ensure proper support is maintained. Ensure the population for all goals can be supported. The goal summaries should specifically state whether the rounding of results is acceptable.

Finding 2:

Meter Services' goal number four was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number four states the criteria for goal achievement as "Work Order data must match against field conditions and must be verified and compared against databases." The goal further specifies that

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"supervisors must fill out the 'Bid to Goal Quality Control Worksheet' and submit to contact monthly." The goal summary does not specify a minimum percentage of accuracy required for goal achievement but the minimum required percentage of 99% is stated in the FY2007 Annual Report. Meter Services reported that, based upon the results of their random sampling, they achieved a 98.57% of accuracy for the year. This level of activity results in 100% goal achievement.

We identified discrepancies between the Bid to Goal Quality Control Worksheet and the summary of results. According to our goal contact, because the Supervisors did not have a clear understanding of which work orders had a direct effect on billing issues, the Bid to Goal Quality Control Worksheets were inaccurate. The exceptions we noted were described by Meter Services' employees as not having a direct effect on billing. This was confirmed by our Pay-for-Performance contact. However, we were unable to independently verify this assertion because the goal summary does not define the data that would or would not directly affect billing.

Recommendations:

The goal summary should agree with the Annual Report and include the percentage required for goal achievement with exact language such as "greater than or equal to 99%." Before finalizing annual goals, Meter Services should review goal summaries to ensure all information necessary to understand and measure the goal is included. The goal summaries should specifically state whether the rounding of results is acceptable.

The definition of which work orders do and do not have a direct effect on billing issues should be defined in the goal, and all employees involved with the goal should be made aware of the measurement criteria.

Finding 3:

Customer Service – Office's (Office) goal number two and Field Service and Investigation's (FSI) goal number four, a joint goal, was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

The goals state "Service restoration requests completed within goal; 91% within the same business day; 99% by the next business day." FSI reported that 17,562 out of 17,740 restoration requests were completed the same day, resulting in a 99.0% completion rate. Office reported that 17,619 out of 17,810 restoration requests were completed the same day, resulting in a 98.9% completion rate. Also, one of 40 work orders selected for test work was not completed within one business day. When projecting this error across the entire population, the percentage decreases to 96.5%. This level of activity still results in 100% goal achievement.

The goal was difficult to audit because turn-backs from the previous day were not clearly identified in the information provided by Office (will pay cards / white cards). The cards are the initial record of a customer request for water restoration. The cards did not consistently identify the time of the customer inquiry, which could impact goal completion calculations.

Recommendations:

The measurement method used to calculate goal achievement should be clearly stated on the goal summaries. The data collected by each functional area should be reconciled before submitting final results. Any discrepancies between the functional areas should be resolved before results are finalized. Office and FSI should develop a tracking system that clearly identifies same day turn-on requests and turn-backs so that goal completion can be accurately calculated and audited. In addition, Office should develop procedures to date and time stamp incoming customer requests on the will pay cards.

Finding 4:

Office's goal number three was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number three states to achieve the goal, the "Percentage of call center and water repair staff availability be 65%." The goal further states that "Lunchtime will not be counted as CSR availability time" and "CSRs must log in at the assigned start time." Office reported staff availability of 72.4%. Based upon the monthly reports provided by Office, we agree with the calculation of the monthly totals using a rolling average, but we were unable to test supporting data. In addition, there was no way to verify if the CSRs logged in at their assigned start time and if lunch breaks were counted as availability time.

Recommendations:

We recommend that if the specific goal criteria cannot be tracked and used in calculating goal achievement, the goal summary should be modified. The goal criteria should include only data that can be documented and measured in support of goal completion.

Finding 5:

FSI's goal number two was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number two states the criteria for goal achievement as "Reduce skips [for bi-monthly read accounts] by 10% per year over years based on FY 2006 as a base year. Baseline for FY 2006 is total skips for the year." The goal further specifies that the measurement method is "(Meters read) divided by (total meters on route less meters that are removed or are duplicates)." FSI reported a 34.5% reduction from FY2006 meters skipped. Our recalculation of goal results resulted in a 33.5% reduction because FSI did not use the correct formula to calculate the percentage reduction from the base year. In addition, FSI did not exclude meters removed from the calculation for goal completion. The supporting data also did not identify duplicate meters. However, this level of activity still results in 100% goal achievement.

Recommendations:

The calculation used to determine the reduction from the base year should be clearly defined in the goal summary. In addition, goal measurement criteria should be used in calculating goal completion. This could potentially impact goal achievement.

Finding 6:

FSI's goal number three was reported as met. Although we agree with the status of the goal achievement, our procedures identified areas for improvement.

Goal number three states "Read all monthly read meter accounts on schedule 90% of the time." The goal further specifies that on schedule "is defined as reading the meter within plus/minus three days of the work flow date." The goal summary does not define the "work flow date." FSI reported 123,093 meters read out of 125,444 total meters (net of removed meters), for a completion rate of 98%. While we agree with measurement of the percentage of meters read, FSI did not measure the percentage of meters read on schedule. The monthly summaries provided by FSI did not indicate a time frame for the meter reads, and there were no reports available to calculate the timeliness of the meter read. FSI provided a database of all monthly read meters, including those skipped, therefore we could not identify those that should be included in the population. This level of activity still results in 100% goal achievement.

Recommendations:

We recommend that specific goal criteria be used in calculating goal achievement. If there is no way to determine whether meters are read on time, then the goal summary should be modified to include only measurable criteria. A monthly report should be prepared that summarizes the detailed schedules provided by the San Diego Data Processing Corporation.

Finding 7:

Water Resources Management's (Water Resources) goal number three was reported as met. We are unable to determine the status of goal achievement but our procedures did identify areas for improvement.

Goal number three states "Maintain an average cost/AF [acre foot] of water conserved at or below 25% the CWA [County Water Authority] Tier 1 treated water rate." The goal further specifies the measurement method for the goal calculation. However, the goal summary does not specify the number of gallons saved per day for the qualitative (soft) water savings used in calculating goal achievement. In addition, Water Resources did not provide signed management approval for these amounts. Therefore, we were unable to determine if the amounts were reasonable. We were unable to audit much of this goal.

Recommendations:

Water Resources' estimates for the number of gallons saved per day for qualitative (soft) water savings should be determined prior to finalizing the goal and included in the goal summary. Water Resources should maintain documentation that summarizes the methodology used to determine gallons saved per day.

Finding 8:

Meter Services' goal number two was reported as met. We are unable to determine the status of the goal achievement but our procedures did identify areas for improvement.

Goal number two states "Percentage of commercial water meters (3" and larger) meeting City of San Diego specifications on annual Preventive Maintenance test. Goal for FY 2007 is 90%." The goal further specifies that a "meter tested more than once will only be counted one time. Number of meters tested per period is tracked and the number of those meters meeting and not meeting specifications is also tracked." Meter Services reported a total population of 1,286 meters. The number of meters tested that meet the specifications were reported as 1,339, resulting in a 104% completion rate. Achieving greater than 100% was primarily due to meters being counted twice. Meter Services was unable to provide the total number of unique meters in the population, and of that total, the number that met specifications. Therefore, we were unable to calculate the goal achievement. In addition, the method used to calculate goal achievement differed from that of the goal summary. Meter Services counted meters twice and included replacements as meeting specifications.

Recommendations:

We recommend using specific goal criteria in calculating goal achievement. If there is no way to track the number unique meters that meet specifications on annual preventive maintenance as a percentage of the total number of unique meters, then the goal criteria should be revised. Due to the fact that the total number of meters frequently changes (due to removals and installations throughout the year), we recommend that the goal be worded to incorporate any anticipated changes in the population.

OTHER RECOMMENDATIONS**Recommendation 1:**

Some of the goals selected could not be audited. This is typical for programs going through their first year audit. Goals should be established that can be easily verified. Controls need to be in place to mitigate any false or tampered information and goals should be set where entire populations are easily determined and can be tested.

For example, we noted these issues in the following goals:

FSI – Goal number two: There was no detailed database to support monthly summaries available during the audit.

FSI – Goal number three: There was no report available that tracked the timeliness of the meters read.

Office – Goal number three: The Aspect system data does not provide detailed records that can be tested.

Water Resources – Goal number three: The goal summary did not define measurement criteria used in calculating goal achievement. Further, there was no third party verification to substantiate the amounts used to calculate "soft savings."

Recommendation 2:

Goal definitions should be very specific and include all information necessary to calculate goal completion.

For example, we noted these issues in the following goals:

Office – Goal number three: The goal should clearly explain which employees or employee groups are included in the goal. In addition, the goal should state if 65% availability needs to be achieved each month or on average (totaling all months and dividing by 12).

Office – Goal number two and FSI – Goal number four: The goal should clearly define when a customer request is "received", and list the date/time stamp that measures when the clock starts for the goal.

Meter Services – Goal number four: The goal summary does not state the percentage required for achievement. Further, it does not clearly define which work orders have a direct affect on billing issues.

Recommendation 3:

Goal definitions should exclude extraneous information that does not apply directly to the criteria for the calculation of goal achievement.

For example, we noted these issues in the following goals:

FSI – Goals number two and three: The "Definitions" section of the goal summary included information that did not clearly relate to the understanding of the goal or to the calculation of the goal

Recommendation 4:

Supporting schedules provided should agree with the goal summaries.

For example, we noted these issues in the following goals:

Water Resources – Goal number one: The County Water Authority industry averages did not agree with the industry averages used in calculating goal achievement.

Meter Services – Goal number four: The "Bid to Goal Quality Worksheet" totals did not agree with the goal results provided by our goal contact.

Meter Services – Goal number four: The "Bid to Goal Quality Worksheet" totals did not agree with the goal results provided by our goal contact.

Recommendation 5:

Recommend continuing to improve the lines of communication. Goals should be developed with specific guidelines on the intent of the goal, how the goal will benefit Customer Support, and the documentation that will substantiate goal achievement. This information should be provided and conveyed to all employees involved and should be clearly stated.

For example, we noted these issues in the following goals:

Meter Services – Goal number two: The calculation of goal achievement should agree with the measurement method in the goal summary.

Meter Services – Goal number four: Supervisors and goal contacts should clearly understand and agree upon the Work Orders completed that could have a direct effect on billing issues, before signing off on the "Bid to Goal Quality Control Worksheet" and calculating goal achievement.

Recommendation 6:

There was no detailed database report that could support the results summary provided for several goals. In addition, goal contacts could not determine how data from the detail report was used to generate the results summary. We recommend, within a reasonable amount of time following the fiscal year end, that the individual responsible for tracking goal achievement create an electronic (excel) database that clearly identifies the following information:

1. The total population
2. The data within the population that meets goal achievement criteria
3. The data within the population that does not meet the goal achievement criteria

We also recommend that the same individual create a summary page indicating the results and other relevant information such as:

1. Where the report was generated
2. Any filters or parameters used to obtain the data
3. A description of the data used to track the goal (such as work orders and related work codes)
4. Any other information required to re-create the report at a later date

We recommend that this information be collected by one individual, and be signed off as part of the goal achievement. This will ensure accountability for tracking the goal achievement. This information should be made available to the auditors.

Recommendation 7:

Goals that have percentages for achievement should be specific. We recommend using "greater than" or "less than." In addition, we also recommend providing an example of what is considered met.

Recommendation 8:

We recommend amending the Pay-for-Performance Eligibility and Rules document to allow for partial achievement of goals. Two goals in 2007 were not met by a small percentage. The program encourages employees to strive for 100% status. However, a sliding scale for partial achievement of goals within an acceptable range might be a good motivational tool.

This report is intended solely for the information and use of the City of San Diego and Water Department Customer Support Division and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

AKT LLP



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CARLSBAD | ESCONDIDO | PORTLAND

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phone 760.431.8440 fax 760.431.9052

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Mike Bresnahan, Deputy Director
Water Department Customer Support Division
600 B Street, 12th 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 Water Department Customer Support Division (CSD) Pay for Performance Program for the year ended June 30, 2007. CSD is responsible for the procedures performed on CSD's Pay for Performance 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 performed the following procedures:

1. We reviewed the goals provided by CSD and compared them to the goals presented in the goal summaries at the beginning of the fiscal year.
2. We judgmentally selected a sample of goals for testing based on the results reported by management, the complexity of the goal, and our prior experience with other pay for performance programs.
3. We tested 10 of the 18 goals provided to us by CSD, and reviewed the supporting documentation to verify goal achievement.
4. We calculated the percentage of goals met, per audit, and verified that they agreed with the percentages reported by CSD.
5. We identified practices and procedures to assist CSD in Improving future Pay for Performance Program Reporting.

Our findings and recommendations related to the CSD Pay for Performance Program for the year ended June 30, 2007 are included in a separate report provided to CSD.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the Pay for Performance 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.

This report is intended solely for the information and use of the City of San Diego and the Water 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
January 18, 2008



000925

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phone 760.431.8440 fax 760.431.9052

January 22, 2008

Mike Bresnahan, Deputy Director
Water Department Customer Support Division
600 B Street, Suite 1200
MS 911
San Diego, CA 92101

SUBJECT: BID-TO-GOAL VERIFICATION OF SAVINGS

PERIOD: FISCAL YEAR 2007

PURPOSE:

The purpose of our engagement was to verify the accuracy of the budgetary savings reported by the Water Department Customer Support Division (Division) in the Bid-to-Goal FY 2007 Annual Report. In addition, we were to identify practices and procedures that could assist the Division in improving future Bid-to-Goal program reporting.

SCOPE:

We performed a comprehensive review of the Division's budgetary savings calculation. In completing our review, we compared total expenditures and encumbrances presented in the Bid-to-Goal FY 2007 Annual Report to the total expenditures and encumbrances reported in the City of San Diego Simpler reports. We reviewed the expenditures classified in the Annual Report as fixed budget objective and pass-through budget objective. We also analyzed expenditures presented as out-of-scope. In addition, we reviewed the encumbrances at June 30, 2007 and those closed subsequent to the end of the fiscal year.

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SUMMARY:

Customer Support Division (Division) reported fixed objective budgetary savings of \$1,001,464 in the Bid-to-Goal (Bid) FY 2007 Annual Report (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, \$968,036 should be reported as fixed objective budgetary savings and \$484,018 should be eligible to be placed in the Assurance Fund for employee payouts. Adjustments to the budgetary savings are included below in Exhibit A.

EXHIBIT A:

Functional Areas	Savings per Annual Report	Savings per Audit	Decrease in Savings
Administration	(41,341)	(41,341)	-
Water Resources	388,720	388,720	-
Customer Service	773,494	740,066	(33,428)
Field Services and Investigations	(43,674)	(43,674)	-
Meter Services	(216,479)	(216,479)	-
Inflation – Adjusted (2.64%)	140,744	140,744	-
TOTAL	1,001,464	968,036	(33,428)

FINDING AND RECOMMENDATION:

Finding 1:

Customer Service overstated budgetary savings by \$33,428. The variance was caused by the Division using year-end reports that did not include the final adjustments from the City of San Diego auditors. The Annual Report was due prior to the recording of the final adjustments by the City of San Diego auditors, therefore the Division used the most current Simpler reports that were available.

Recommendation:

We recommend verifying that all adjustments from the City of San Diego auditors are complete prior to finalizing budgetary savings. If the annual report is due prior to the completion of all adjustments, we recommend revising the budgetary savings to include the most recent Simpler reports for the audit.

OTHER RECOMMENDATION

Recommendation 1:

The Division identified additional out-of-scope expenditures that were not included in the fiscal year 2007 savings calculation. We recommend including in the Annual Report all out-of-scope expenditures and encumbrances that fall within the guidelines of the Employee Bid. It could result in increased budgetary savings for the Division.

This report is intended solely for the information and use of the City of San Diego and Water Department Customer Support Division and is not intended to be and should not be used by anyone other than these specified parties.

AKT, LLP
AKT LLP

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THE CITY OF SAN DIEGO
M E M O R A N D U M

DATE: October 2, 2008

TO: City Council Audit Committee
Councilmember, Kevin Faulconer, Committee Chair
Councilmember, Toni Atkins
Councilmember, Tony Young

FROM: Darlene Morrow-Truver, Deputy Director, Administrative Services, Metropolitan
Wastewater Department and Rod Greek, Deputy Director, Administrative Services,
Water Department

A handwritten signature in black ink, appearing to be "Rod Greek".

A handwritten signature in black ink, appearing to be "Darlene Morrow-Truver".

SUBJECT: Bid to Goal Audit Services Contract Amendment No. 2

The Metropolitan Wastewater and Water Departments have engaged in operational optimization and cost savings programs. More specifically, both departments implemented "Bid to Goal" (B2G) and "Pay for Performance" (P4P) programs to create incentives for employees to participate in identifying and creating cost savings and ongoing operational improvements that benefit the rate payers. In part, these programs have benchmarks and goals that when met, or exceeded, will also result in incentive pay for employees.

The program requires independent verification that the goals, savings and targets were met to substantiate the incentive payments. In the early program years, the departments utilized City staff from the Audit Division of the Auditor & Comptroller's Department to verify the performance. The City Auditor is not able to provide the service at this time. In Fiscal Year 2006, the City entered into agreement with the accounting firm of Grice, Lund and Tarkington, LLP (now doing business as AKT Certified Public Accountants) to verify both B2G and P4P results for the Fiscal Year 2006 program year (C-14164). The original contract award to AKT Certified Public Accountants (AKT) was for one year with four option years. The City exercised option 1 via Amendment No. 1 (R-303279).

In addition, both Metropolitan Wastewater (MWWD) and Water Departments are currently combining services in order to streamline operations and remove redundancy. Bid to Goal and Pay for Performance are also being restructured in order to provide greater flexibility as the organization changes. At this time Water has both Pay for Performance and Bid to Goal programs and MWWD has consolidated their Pay for Performance and Bid to Goal into one Bid to Goal program. This Amendment No. 2 revises the contract from a firm fixed price to an "as-needed" agreement on a task order basis to allow for flexibility for modifications occurring within the Metropolitan Wastewater and Water Departments and the potential changes within the Bid to Goal and Pay for Performance programs. There is no cost increase associated with this

amendment. The amendment calls for authorization to expend an amount not to exceed \$515,000 over a three year period. The total contract value over the full five year term is \$792,500.

000028

CC: Jay Goldstone, Chief Operating Officer
Andrea Tevlin, Director/Independent Budget Analyst
Michael Aguirre, City Attorney
J.M. Barrett, Director of Public Utilities
Bob Ferrier, Assistant Director, MWWD
Alex Ruiz, Assistant Director, Water Department

PSL/psl

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Bid To Goal and Pay For Performance Audit Results

For Fiscal Years 2004 and 2007

AUDIT OCT 0 6 2008 15

Water Department Results

**Presenter: Rod Greek, Deputy
Director**

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- 2007 P4P Operations Division
- 2007 P4P Customer Service Division
- 2007 B2G Operations Division
- 2007 B2G Customer Service Division

Wastewater Department Results

**Presenter: Darlene Morrow-
Truver, Deputy Director**

000031

- 2007 P4P Department Wide
- 2007 B2G Wastewater Treatment Div.
- 2007 B2G Wastewater Collection Div.
- 2004 B2G Wastewater Collection Div.

**Audit Services for
FY 2008, 09 & 10
Bid to Goal and
Pay for Performance Programs**

Metro Wastewater and
Water Departments

Presenters: Darlene Morrow-Truver, MWWD, Deputy Director
Rod Greek, Water Department, Deputy Director

Bid to Goal & Pay for Performance Contract

- Second year extension of contract – 2 option years remain.
- This extension is to audit FY2008, 09 & 10 results.
- The consultant is AKT Certified Public Accountants.
- Audit Purpose: Independent verification of program results.

Cost

- Water - \$257,500
- MWWD – \$257,500
- Total contract value for 3 option years
= \$515,000
- Total overall value for 5 year contract
= \$792,500

Bid to Goal Scope

- Verify accuracy of budgeted savings
- Review budget objectives
- Review “In Scope” and “Out of Scope” activities
- Compare results to goals & determine % met
- Report results
- Recommend improvements as needed

Pay for Performance Scope

- Review goals
- Verify documentation
- Report % of goals met
- Test goals via sample process
- Report results
- Recommend improvements as needed

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THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: October 24, 2008

IBA Report Number: 08-113

City Council Docket Date: October 28, 2008

Item Number: 103

Amendment No. 2 to Agreement with AKT LLP for External Auditing Services

Item 103 on the City Council Docket for October 28th, 2008 is proposed Amendment No. 2 to the agreement with AKT Certified Public Accountants, LLP (AKT) to perform auditing services for the Bid to Goal (B2G) and Pay for Performance (P4P) programs of the Water Metropolitan Wastewater Departments (collectively the Utility Departments). The IBA provides the following analysis of the contract agreement from its inception to provide a clearer understanding of past contract costs and this amendment's current funding request. In addition, the report highlights some of the issues discussed at the October 6th, 2008 Audit Committee meeting.

On April 4th, 2007 the City entered into an agreement with Grice, Lund and Tarkington, LLP (now AKT Certified Public Accountants) to provide audit services related to the Bid to Goal and Pay for Performance programs for the FY 2006 program year. The original contract was for one year, in the amount of \$112,500, with four one-year options to extend (encompassing FY 2007 through FY 2010).

On October 29th, 2007 the Utility Departments requested Amendment No. 1 to exercise the first option year of the contract in an amount not to exceed \$165,000, as well as to extend the contract for an additional three years with specified not-to-exceed costs for each subsequent year. The Council approved the one year extension, bringing the total contract value to \$277,500, but required City Council approval of subsequent contract extensions.

On October 6th, 2008, the Utility Departments presented Amendment No. 2 to the Audit Committee. As proposed, this Amendment requested authorization to expend an amount not to exceed \$515,000 over a *three year period*, which would bring the total five year



Office of Independent Budget Analyst

202 C Street, MS 3A • San Diego, CA 92101

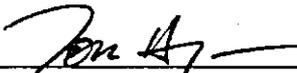
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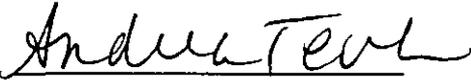
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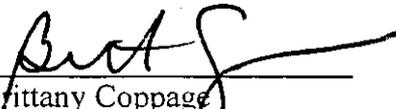
contract value to \$792,500. However, the committee recommended that it be forwarded to Council with the recommendation for only a one year extension, in an amount not to exceed \$170,000. If approved, this would bring the total not-to-exceed value of the contract to \$447,500. An overview of actions to the agreement with the authorized funding is illustrated in the table below.

Snapshot of City's Contract Agreement with AKT (with Start Date)	
Original Contract (4/4/2007)	\$112,500
Amendment No.1 (10/29/2007)	\$165,000
Amendment No.2 (10/28/2008)	\$170,000
Total	\$447,500

In addition, two requests for further information were made at the October 6th Audit Committee meeting. First, the Audit Committee requested a report by the Internal Auditor outlining the processes and procedures for the implementation of the B2G and P4P programs, to act as a guideline for the Utility Departments to follow to ensure consistency in implementing the programs and promote transparency. Secondly, upon conclusion of the audits performed by AKT, the Committee requested a report from Department management explaining whether or not the Departments agree with AKT's findings and if so, what is being done to achieve the recommendations.


Tom Haynes
Fiscal & Policy Analyst


APPROVED: Andrea Tevlin
Independent Budget Analyst


Brittany Coppage
Research Analyst

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DOCKET SUPPORTING INFORMATION
CITY OF SAN DIEGO

DATE: October 28, 2008

EQUAL OPPORTUNITY CONTRACTING PROGRAM EVALUATION

SUBJECT: AKT LLP Amendment No. 2 to Bid No. 8584-07-V -- External Auditor for Bid to Goal and Pay for Performance Programs

GENERAL CONTRACT INFORMATION

Recommended Contractor: AKT Certified Public Accountants, LLP (formerly Grice, Lund & Tarkington)
Amount of this Action: \$ 170,000
Cumulative: \$ 447,500
Funding Source: City of San Diego

SUBCONTRACTOR PARTICIPATION

There is no subcontractor activity associated with this action.

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

AKT, LLT submitted a Work Force Report for their San Diego employees dated, August 20, 2008 indicating 182 employees in their Administrative Work Force.

The Administrative Work Force indicates under representation in the following categories:

- Black and Hispanic in Management & Financial, Professional and Administrative Support
- Asian in Professional and Administrative Support
- Filipino in Management & Financial, Professional and Administrative Support

EOC Staff is concerned about the under representations in the contractor's workforce and non-participation of certified firms and therefore, has requested an Equal Employment Opportunity Plan and will continue to monitor the firm's effort to implement their plans.

This agreement is subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2702) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517)

ADDITIONAL COMMENTS

This action requests approval for Amendment No. 2 to the agreement for a change in contract from a firm fixed price to an "as-needed" external auditing services.



RLL

Goals reflect statistical labor force availability for the following: 2000 CLFA San Diego, CA

City of San Diego/Equal Opportunity Contracting
WORK FORCE ANALYSIS REPORT

FOR

Company: AKT LLP

000541

I. TOTAL WORK FORCE:

	Black			Hispanic			Asian			American Indian			Filipino			White		Other	
	Goals	M	F	Goals	M	F	Goals	M	F	Goals	M	F	Goals	M	F	M	F	M	F
Mgmt & Financial	3.3%	0	0	11.9%	1	1	6.2%	1	2	0.4%	0	0	6.2%	0	0	16	25	0	1
Professional	4.0%	1	1	12.6%	2	1	6.5%	1	2	0.5%	0	0	6.5%	0	0	29	56	1	2
A&E, Science, Computer	2.8%	0	0	7.3%	0	0	16.2%	0	0	0.3%	0	0	16.2%	0	0	0	0	0	0
Technical	6.6%	0	0	14.8%	0	0	17.2%	0	0	0.4%	0	0	17.2%	0	0	0	0	0	0
Sales	3.9%	0	0	19.5%	0	0	6.6%	0	0	0.6%	0	0	6.8%	0	0	0	0	0	0
Administrative Support	7.0%	0	1	20.8%	0	3	8.8%	0	2	0.6%	0	0	8.8%	0	0	3	29	0	1
Services	5.5%	0	0	36.9%	0	0	9.7%	0	0	0.6%	0	0	9.7%	0	0	0	0	0	0
Crafts	4.5%	0	0	25.8%	0	0	9.1%	0	0	0.7%	0	0	9.1%	0	0	0	0	0	0
Operative Workers	4.3%	0	0	38.8%	0	0	20.8%	0	0	0.3%	0	0	20.8%	0	0	0	0	0	0
Transportation	8.1%	0	0	32.1%	0	0	4.5%	0	0	0.5%	0	0	4.5%	0	0	0	0	0	0
Laborers	4.4%	0	0	54.0%	0	0	4.1%	0	0	0.5%	0	0	4.1%	0	0	0	0	0	0
TOTAL		1	2		3	5		2	6		0	0		0	0	48	110	1	4

HOW TO READ TOTAL WORK FORCE SECTION:

The information blocks in Section 1 (Total Work Force) identify the absolute number of the firm's employees. Each employee is listed in their respective ethnic/gender and employment category. The percentages listed under the heading of "CLFA Goals" are the County Labor Force Availability goals for each employment and ethnic/gender category.

	M	F
Mgmt & Financial	18	29
Professional	34	62
A&E, Science, Computer	0	0
Technical	0	0
Sales	0	0
Administrative Support	39	36
Services	0	0
Crafts	0	0
Operative Workers	0	0
Transportation	0	0
Laborers	0	0

	TOTAL EMPLOYEES			Female Goals
	ALL	M	F	
	47	18	29	39.6%
	96	34	62	59.5%
	0	0	0	22.3%
	0	0	0	49.0%
	0	0	0	49.4%
	39	3	36	73.2%
	0	0	0	62.3%
	0	0	0	8.6%
	0	0	0	36.7%
	0	0	0	15.2%
	0	0	0	11.1%
TOTAL	182	55	127	

HOW TO READ EMPLOYMENT ANALYSIS SECTION:

The percentages listed in the goals column are calculated by multiplying the CLFA goals by the number of employees in that job category. The number in that column represents the percentage of each protected group that should be employed by the firm to meet the CLFA goal. A negative number will be shown in the discrepancy column for each underrepresented goal of at least 1.00 position.

II. EMPLOYMENT ANALYSIS

	Black			Hispanic			Asian			American Indian			Filipino			Female		
	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy
Mgmt & Financial	1.55	0	(1.55)	5.59	2	(3.59)	2.91	3	N/A	0.19	0	N/A	2.91	0	(2.91)	18.71	29	10.29
Professional	3.84	2	(1.84)	12.10	3	(9.10)	6.24	3	(3.24)	0.48	0	N/A	6.24	0	(6.24)	57.12	62	4.88
A&E, Science, Computer	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Technical	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Sales	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Administrative Support	2.73	1	(1.73)	8.11	3	(5.11)	3.43	2	(1.43)	0.23	0	N/A	3.43	0	(3.43)	28.55	36	7.45
Services	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Crafts	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Operative Workers	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Transportation	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Laborers	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00

Goals are set by job categories for each protected group. An underrepresentation is indicated by a negative number, but if the DISCREPANCY is less than -1.00 position, a N/A will be displayed to show there is no underrepresentation.

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REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO

1. CERTIFICATE NUMBER (FOR AUDITOR'S USE) 107
11/18

AC 290025
3. DATE: 8/27/2008 (290026)

TO: CITY ATTORNEY

2. FROM (ORIGINATING DEPARTMENT): METROPOLITAN WASTEWATER AND WATER DEPTS

4. SUBJECT: AKT LLP Amd. No. 2 to Bid No. 8584-07-V - External Auditor for Bid to Goal and Pay for Performance Programs

5. PRIMARY CONTACT (NAME, PHONE, & MAIL STA.)
Ernie Linares, (858) 292-6309, MS:901A

6. SECONDARY CONTACT (NAME, PHONE, & MAIL STA.)
Darlene Morrow-Truver, (858) 292-6384

7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND	41509	41500			9. ADDITIONAL INFORMATION / ESTIMATED COST:
DEPT.					C-14164 \$112,500 ✓
ORGANIZATION					Amd. No. 1 R-303279 \$165,000
OBJECT ACCOUNT	9544	9544			This request: Amd. No. 2 \$170,000
JOB ORDER					
AMOUNT					Total \$447,500
AMOUNT	\$70,000	\$100,000			

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	MWWD	[Signature]	9/10/08	7	DIR. OF PUBL. UTIL.	[Signature]	9/10/08
2	WATER	[Signature]	9/11/08	8	CITY ATTORNEY	[Signature]	10/2/08
3	E.O.C.	[Signature]	10/28/08	9	ORIG. DEPT.	[Signature]	10/6/08
4	E.A.S.	[Signature]	9/17/08				
5	F.M.	[Signature]	9/24/08		DOCKET COORD:	COUNCIL LIAISON	8/14/08
6	AUDITOR	[Signature]	09/30/08 ✓		COUNCIL PRESIDENT	<input type="checkbox"/> SPOB <input checked="" type="checkbox"/> CONSENT <input checked="" type="checkbox"/> ADOPTION	11/18/08
					<input type="checkbox"/> REFER TO:	COUNCIL DATE:	9/10/08

11. PREPARATION OF: RESOLUTIONS ORDINANCE(S) AGREEMENT(S) DEED(S)

NOTE: See Continuation Page

OFFICE OF THE CITY CLERK
2008 OCT 13 AM 11:09

11A. STAFF RECOMMENDATIONS:
Adopt the Resolution.

12. SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION.)

COUNCIL DISTRICT(S): Citywide

COMMUNITY AREA(S): Citywide

ENVIRONMENTAL IMPACT: This activity is not a "project" and therefore not subject to CEQA Guidelines Section 15060(c)(3).

ATTACHMENTS: Amendment No. 2 to the AKT LLP Agreement, C-14164, R-303279

CITY CLERK INSTRUCTIONS: Please forward two copies of the Resolution to MWWD, MS 901A, Attn: Rose Salarda.

SECTION 11- PREPARATION OF: RESOLUTIONS, ORDINANCES, ETC. (CONTINUED):

- 1) Authorizing the Mayor or his designee to execute Amendment No. 2 to the agreement with AKT Certified Public Accountants, exercising an option year and adding funds in an amount not to exceed \$170,000, for a total not to exceed contract amount of \$447,500, provided the City Auditor and Comptroller furnishes one or more certificates demonstrating that the funds necessary for expenditure are, or will be, on deposit with the City Treasurer.
- 2) Authorizing the expenditure in the amount not to exceed \$170,000, of which \$70,000 is from the Sewer Operating Fund and \$100,000 is from the Water Operating Fund.

EXECUTIVE SUMMARY SHEET

DATE REPORT ISSUED: August 27, 2008
ATTENTION: Council President and City Council
ORIGINATING DEPARTMENT: Metropolitan Wastewater and Water Departments
SUBJECT: AKT LLP Amendment No. 2 to Bid No. 8584-07-V – External Auditor for Bid to Goal and Pay for Performance Programs
COUNCIL DISTRICT(S): Citywide
STAFF CONTACT: Patrick Lane (858) 654-4247

REQUESTED ACTION:Adopt the Resolution.**STAFF RECOMMENDATION:**

Adopt the Resolution

EXECUTIVE SUMMARY:

The Metropolitan Wastewater (MWWD) and Water (WD) Departments engage in operational optimization and cost savings programs. More specifically, both departments implement “Bid to Goal” (B2G) and “Pay for Performance” (P4P) Programs to create incentives for employees to participate in identifying and creating cost savings and ongoing operational improvements that benefit the rate payers. In part, these programs have benchmarks and goals that when met or exceeded will also result in incentive pay for employees.

The program requires independent verification that the goals, savings and targets were met to substantiate the incentive payments. In the early program years, the departments utilized City staff from the Audit Division of the Auditor & Comptroller's Department to verify the performance. The City Auditor is not able to provide the service at this time. In Fiscal Year 2007, the City entered into agreement with the accounting firm of Grice, Lund and Tarkington, LLP (now doing business as AKT Certified Public Accountants) to verify both B2G and P4P results for the Fiscal Year 2006 program year (C-14164). The original contract award to AKT Certified Public Accountants (AKT) was for one year with four option years. The City exercised option 1 via Amendment No. 1 (R-303279).

In addition, both MWWD and WD Departments are currently combining services in order to streamline operations and remove redundancy. B2G and P4P are also being restructured in order to provide greater flexibility as the organization changes. At this time, WD has both B2G and P4P Programs and MWWD has consolidated their B2G and P4P into a B2G Program. This Amendment No. 2 revises the contract from a firm fixed price to an “as-needed” contract on a task order basis to allow for flexibility for modifications occurring within MWWD and WD Departments and the potential changes within the B2G and P4P Programs. This amendment also increases the current value by \$170,000, for a new total not to exceed contract amount of

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\$447,500, and extends the contract duration by one additional year.

FISCAL CONSIDERATIONS:

This action includes potentially five (5) audit components. In accordance with the proposal, the five audit components are to be completed on an "as-needed" task order basis for a total not-to-exceed amount of \$170,000. Funding is available in the amount of \$70,000 from the Sewer Operating Fund and in the amount of \$100,000 from the Water Operating Fund. This action is funded from sewer and water revenue rates only.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

R-303279

This action was discussed at the City Council Audit Committee on October 6, 2008. MWWD and WD Staff requested a contract extension for the three remaining years. The Audit Committee elected to recommend to the full Council a one year extension.

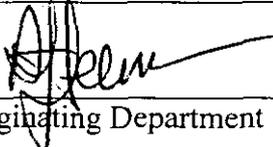
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

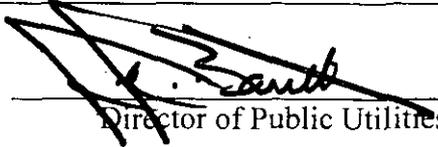
None

KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):

Participating Employees and their respective employee groups, to include: San Diego Municipal Employees Association and AFSCME Local 127.

AKT, LLP


Originating Department


Director of Public Utilities

000047

The City of San Diego
CERTIFICATE OF CITY AUDITOR AND COMPTROLLER

CERTIFICATE OF UNALLOTTED BALANCE
ORIGINATING

AC 2900257
DEPT. _____
NO. _____

I HEREBY CERTIFY that the money required for the allotment of funds for the purpose set forth in the foregoing resolution is available in the Treasury, or is anticipated to come into the Treasury, and is otherwise unallotted.

Amount: _____ Fund: _____

Purpose: _____

Date: _____ By: _____
AUDITOR AND COMPTROLLER'S DEPARTMENT

ACCOUNTING DATA											
ACCTG. LINE	CY PY	FUND	DEPT	ORG.	ACCOUNT	JOB ORDER	OPERATION ACCOUNT	BENF/ EQUIP	FACILITY	AMOUNT	
TOTAL AMOUNT											

FUND OVERRIDE

CERTIFICATION OF UNENCUMBERED BALANCE

I HEREBY CERTIFY that the indebtedness and obligation to be incurred by the contract or agreement authorized by the hereto attached resolution, can be incurred without the violation of any of the provisions of the Charter of the City of San Diego; and I do hereby further certify, in conformity with the requirements of the Charter of the City of San Diego, that sufficient moneys have been appropriated for the purpose of said contract, that sufficient moneys to meet the obligations of said contract are actually in the Treasury, or are anticipated to come into the Treasury, to the credit of the appropriation from which the same are to be drawn, and that the said money now actually in the Treasury, together with the moneys anticipated to come into the Treasury, to the credit of said appropriation, are otherwise unencumbered.

Not to Exceed: \$70,000.00

Vendor: AKT Certified Public Accountants

Purpose: Authorizing the expenditure of funds for the as needed task orders for the bid to goal and pay for performance programs (AKT Audit Services).

Date: October 14, 2008 By: _____
AUDITOR AND COMPTROLLER'S DEPARTMENT

ACCOUNTING DATA											
ACCTG. LINE	CY PY	FUND	DEPT	ORG.	ACCOUNT	JOB ORDER	OPERATION ACCOUNT	BENF/ EQUIP	FACILITY	AMOUNT	
001	0	41509			9544						\$70,000.00
TOTAL AMOUNT											\$70,000.00

FUND OVERRIDE

000949

The City of San Diego
CERTIFICATE OF CITY AUDITOR AND COMPTROLLER

CERTIFICATE OF UNALLOTTED BALANCE
ORIGINATING

AC 2900260
DEPT. _____
NO. _____

I HEREBY CERTIFY that the money required for the allotment of funds for the purpose set forth in the foregoing resolution is available in the Treasury, or is anticipated to come into the Treasury, and is otherwise unallotted.

Amount: _____ Fund: _____

Purpose: _____

Date: _____ By: _____
AUDITOR AND COMPTROLLER'S DEPARTMENT

ACCOUNTING DATA											
ACCTG. LINE	CY PY	FUND	DEPT	ORG.	ACCOUNT	JOB ORDER	OPERATION ACCOUNT	BENF/	EQUIP	FACILITY	AMOUNT
TOTAL AMOUNT											

FUND OVERRIDE

CERTIFICATION OF UNENCUMBERED BALANCE

I HEREBY CERTIFY that the indebtedness and obligation to be incurred by the contract or agreement authorized by the hereto attached resolution, can be incurred without the violation of any of the provisions of the Charter of the City of San Diego; and I do hereby further certify, in conformity with the requirements of the Charter of the City of San Diego, that sufficient moneys have been appropriated for the purpose of said contract, that sufficient moneys to meet the obligations of said contract are actually in the Treasury, or are anticipated to come into the Treasury, to the credit of the appropriation from which the same are to be drawn, and that the said money now actually in the Treasury, together with the moneys anticipated to come into the Treasury, to the credit of said appropriation, are otherwise unencumbered.

Not to Exceed: \$100,000.00

Vendor: AKT Certified Public Accountants

Purpose: Authorizing the expenditure of funds for the as needed task orders for the bid to goal and pay for performance programs (AKT Audit Services).

Date: October 14, 2008 By: _____
AUDITOR AND COMPTROLLER'S DEPARTMENT

ACCOUNTING DATA											
ACCTG. LINE	CY PY	FUND	DEPT	ORG.	ACCOUNT	JOB ORDER	OPERATION ACCOUNT	BENF/	EQUIP	FACILITY	AMOUNT
001	0	41500			9544						\$100,000.00
TOTAL AMOUNT											\$100,000.00

FUND OVERRIDE

RESOLUTION NUMBER R-_____

DATE OF FINAL PASSAGE _____

A RESOLUTION OF THE CITY COUNCIL AUTHORIZING
 A SECOND AMENDMENT WITH AKT CERTIFIED PUBLIC
 ACCOUNTANTS FOR AS-NEEDED AUDITING SERVICES
 IN CONNECTION WITH THE CITY'S BID TO GOAL AND
 PAY FOR PERFORMANCE PROGRAMS.

WHEREAS, the Water Department and Metropolitan Wastewater Department instituted cost savings measures known as bid-to-goal and pay-for-performance programs, which require independent audit; and

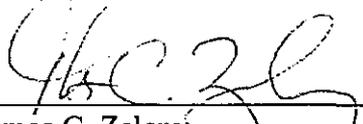
WHEREAS, AKT Certified Public Accountants (formerly Grice, Lund & Tarkington) have provided such independent audit services and the City wishes to continue the services on an as-needed basis for three years; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that the Mayor or his designee is authorized to execute, for and on behalf of the City, a second amendment to the agreement with AKT Certified Public Accountants, LLP for as-needed external auditing services regarding the bid-to-goal and pay-for-performance programs of the Water Department and the Metropolitan Wastewater Department, under terms and conditions set forth in Amendment No. 2, on file in the office of the City Clerk as Document No. RR-_____.

BE IT FURTHER RESOLVED, that the expenditure of an amount not to exceed \$170,000 is authorized, solely and exclusively to provide funds for the above Amendment No. 2, to be expended as follows: \$100,000 from Water Operating Fund No. 41500 and \$70,000 from Sewer Operating Fund No. 41509.

BE IT FURTHER RESOLVED, that the above activity is not a project and therefore is not subject to the California Environmental Quality Act pursuant to CEQA Guidelines section 15060(c)(3).

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By 
Thomas C. Zeleny
Deputy City Attorney

TCZ:mb
09/30/08
10/15/08 Corrected
Cert.No:2900260-Water
and 2900257-MWWD
Or.Dept:Water/MWWD
MWD-9015
R-2009-423

I hereby certify that the foregoing Resolution was passed by the Council of the City of Diego, at its meeting of _____.

ELIZABETH S. MALAND, City Clerk

By _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor

AMENDMENT NO. 2
TO THE
AGREEMENT
BETWEEN
AKT LLP
AND THE
CITY OF SAN DIEGO
FOR THE EXTERNAL AUDIT OF
BID TO GOAL AND PAY FOR PERFORMANCE PROGRAMS

This Second Amendment for the external audit of the Bid to Goal and Pay for Performance Programs of the Water and Wastewater Departments is made by the City of San Diego, a municipal corporation ("City") and AKT LLP (formerly Grice, Lund & Tarkington), with offices located at 5946 Priestly Drive, Suite 200 Carlsbad, California, 92008, individually referred to as "Party" or collectively as "Parties."

RECITALS

- A. WHEREAS, on April 4, 2007, the City entered into a Lump Sum Agreement (the original of which is on file in the Office of the City Clerk as Document No. C-14164 and which was solicited by means of Request for Bid No. 8584-07-V External Auditor for Bid to Goal and Pay for Performance Programs) with AKT LLP ("Consultant") for the 2006 audit of the Bid to Goal and Pay for Performance Program of the City's Water and Wastewater Departments; and
- B. WHEREAS, on December 5, 2007, the City and the Consultant mutually agreed to amend the Agreement and entered into Amendment No. 1 (the original of which is on file in the Office of the City Clerk as Document No. RR-303279), to revise the corporate name and to exercise an option year; and
- C. WHEREAS, the Water Department and the Metropolitan Wastewater Department (MWWD) are in the process of restructuring their respective organizations to combine and streamline services and are re-evaluating their Bid to Goal and Pay for Performance programs in conjunction with the restructuring; and
- D. WHEREAS, the parties have mutually agreed to restructure the remaining options years from a Lump Sum Agreement to an As Needed Agreement on a Task Order basis to allow for flexibility for modifications occurring within MWWD and the Water Department and the potential changes within Bid to Goal and Pay for Performance; and

NOW, THEREFORE, in consideration of the recitals and mutual obligations of the Parties as herein expressed, the City and the Consultant agree as follows:

SECOND AMENDMENT

1.0 Add new Section 1.1 as follows:

1.1 Fiscal Year 2008. For Fiscal Year (FY) 2008, the Consultant under the general supervision of the Mayor or designee, shall provide auditing services for the Bid to Goal and Pay for Performance Programs of the Water Department and MWWD on a Task Order basis. "Task Order" means the written authorization issued by the City and signed by the Mayor or designee, directing the Consultant to perform a specific Scope of Work. The Consultant shall provide all management, supervision, labor, services, facilities, material, equipment, tools, utilities, and supplies necessary to complete the Task Order. The Consultant shall immediately notify the City in writing if it believes the Scope of Work needs to be changed to accomplish the purpose of a Task Order. The notification shall include the facts, events or circumstances necessitating such change and its impact on the Project's cost and schedule.

2.0 Add new Section 2.1 as follows:

2.1 Fiscal Year 2008. For FY2008 audits, the City will pay the Consultant an amount not to exceed \$170,000 on the basis of Task Orders issued by the City. Consultant shall be compensated on an hourly basis at a rate not to exceed those set forth in the Billing Schedule attached to this Amendment as "Attachment A." Total compensation for any Task Order shall not exceed the amount set forth therein.

3.0 Add new Section 3.1 as follows:

3.1 Task Orders. The Consultant shall complete each Task Order according to the schedule set forth therein. The Consultant shall immediately notify the City in writing, upon learning about any potential cause which may impact the schedule for any Task Order. The Consultant shall provide a detailed description of the potential cause and an estimate of its impact on the Task Order's cost and schedule in the written notice.

4.0 Through this Amendment No. 2, the City is exercising an option year pursuant to Section II.D of Exhibit A of the Agreement. For FY 2008 audits, this Amendment No. 2 shall be effective for issuing new Task Orders for no more than an additional twelve months from the date of its execution by the CITY. "Active" Task Orders, which are not complete by the end of this twelve month period, shall continue as required to complete the Task Order.

5.0 In accordance with Exhibit A, Section III.E of the Agreement, the City may add, remove, or re-define Work Groups in each Task Order.

6.0 This Amendment No. 2 to the Agreement shall affect only the page(s) and paragraph(s) and/or terms and conditions referred to herein. All other terms and conditions of the Agreement and prior amendments shall remain in full force and effect.

000955

IN WITNESS WHEREOF, this Amendment is executed by the City of San Diego, acting by and through its Mayor or his designee, pursuant to Resolution No. R-_____ authorizing such execution, and by the Consultant through its authorized officer.

AKT LLP

CITY OF SAN DIEGO

By: John C. Lechleiter

By: _____
Tammy Rimes
Assistant Director

Name: JOHN C. LECHLEITER

Date: _____

Date: 10/13/08

I HEREBY APPROVE the form and legality of the foregoing Agreement this _____ day of _____, 2008.

MICHAEL J. AGUIRRE, City Attorney

By: _____
Deputy City Attorney

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ATTACHMENT A
Amendment No. 2
August 11, 2008Billing Schedule
For
AKT LLPPricing for MWWD's 6/30/08 Program

	2008			2009			2010		
	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total
Staff	\$ 125	154	\$ 19,250	\$ 131	154	\$ 20,213	\$ 138	154	\$ 21,223
Senior	\$ 175	78	\$ 13,650	\$ 184	78	\$ 14,333	\$ 193	78	\$ 15,049
Manager	\$ 215	104	\$ 22,360	\$ 226	104	\$ 23,478	\$ 237	104	\$ 24,652
Partner	\$ 375	14	\$ 5,250	\$ 394	14	\$ 5,513	\$ 413	14	\$ 5,788
		350	\$ 60,510		350	\$ 63,536		350	\$ 66,712

Pricing for additional consulting services

	Hourly Rate		
	2008	2009*	2010*
Staff	\$ 125	\$ 131	\$ 138
Senior	\$ 175	\$ 184	\$ 193
Manager	\$ 215	\$ 226	\$ 237
Partner	\$ 375	\$ 394	\$ 413

* Estimated based on annual cost of living increases.

Pricing for Water Department Operations Division Bid-to-Goal

	2008			2009			2010		
	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total
Staff	\$ 125	-	-	\$ 131	-	-	\$ 138	-	-
Senior	\$ 175	47	8,225	\$ 184	47	8,636	\$ 193	47	9,068
Manager	\$ 215	60	12,900	\$ 226	60	13,545	\$ 237	60	14,222
Partner	\$ 375	5	1,875	\$ 394	5	1,969	\$ 413	5	2,067
		112	23,000		112	24,150		112	25,358

Pricing for Water Department Operations Division Pay-for-Performance

	2008			2009			2010		
	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total
Staff	\$ 125	70	8,750	\$ 131	70	9,188	\$ 138	70	9,647
Senior	\$ 175	40	7,000	\$ 184	40	7,350	\$ 193	40	7,718
Manager	\$ 215	25	5,375	\$ 226	25	5,644	\$ 237	25	5,926
Partner	\$ 375	5	1,875	\$ 394	5	1,969	\$ 413	5	2,067
		140	23,000		140	24,150		140	25,358

Pricing for Water Department Customer Support Division Bid-to-Goal

	2008			2009			2010		
	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total
Staff	\$ 125	4	500	\$ 131	4	525	\$ 138	4	551
Senior	\$ 175	31	5,425	\$ 184	31	5,696	\$ 193	31	5,981
Manager	\$ 215	80	17,200	\$ 226	80	18,060	\$ 237	80	18,963
Partner	\$ 375	5	1,875	\$ 394	5	1,969	\$ 413	5	2,067
		120	25,000		120	26,250		120	27,563

Pricing for Water Department Customer Support Division Pay-for-Performance

	2008			2009			2010		
	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total	Hourly Rate	Hours	Total
Staff	\$ 125	30	3,750	\$ 131	30	3,938	\$ 138	30	4,134
Senior	\$ 175	80	14,000	\$ 184	80	14,700	\$ 193	80	15,435
Manager	\$ 215	25	5,375	\$ 226	25	5,644	\$ 237	25	5,926
Partner	\$ 375	5	1,875	\$ 394	5	1,969	\$ 413	5	2,067
		140	25,000		140	26,250		140	27,563