

**MINUTES**  
**Citizens' General Obligation Bond Oversight Committee**  
**January 27, 2005**  
**Room 416, City Hall**  
**San Francisco, CA 94102**

**1) Call to Order and Roll Call.**

Chair Jue called the meeting to order at 9:40 am. Roll call was taken and there was a quorum. Arlene Singer was absent.

**2) Oath of Office to the Members of the Committee who are not Mayoral Appointees.**

Ms. Gloria Young, Clerk of the Board of Supervisors, administered the Oath of Office to Pam Jue and Terry Micheau (who were reappointed by the Controller), and Bill Wong and John Hentz (who were reappointed by the Board of Supervisors).

**3) Discussion and Possible Action Relating to the Selection of a Chair and Vice-Chair.**

Mr. Yockey moved to reappoint Pam Jue as Chair and Terry Micheau as Vice Chair. The motion was unanimously approved.

**4) Discussion and Possible Action to Approve Minutes.**

The minutes of the November 17, 2004 Committee meeting were approved.

**5) Presentation from the Recreation & Park Department and Possible Action Regarding its General Obligation Bond Funded Projects Specifically the 1997 Zoo Facilities Bond.**

Mary Hobson, Project Director from the Recreation and Park Department, stated that they are planning to go forward with the fourth and final bond sale of the 1997 Zoo Facilities Bonds in the amount of \$7,505,000. John Aiken, Director of Construction and Design from the San Francisco Zoo, gave a presentation on the bond program. The first two bond funds have been fully expended. The third bond is 99.48% expended and the projects are completed. There are only two projects remaining in closeout. The bond program is forecast to be completed on time and within the authorized bond amount per the current schedules. The fourth bond sale may take place this summer. Mr. Yockey noted that there is a timeline but there are no dollars attached to the handout for the new planned phase. Mr. Aiken stated that the budget is inferred between what has been spent and the baseline budget that includes the fourth bond sale. The Recreation & Park Department is in the process of reorganizing their cost estimates. They want to remain flexible within the categories to make certain their budgets are going to be accurate. When they take the actual budget line items to the Recreation and Park Department they are confident that the \$7,505,000 will cover the cost of all of the projects.

Mr. Micheau asked staff if there would be another report or a formal request that will contain the detailed budget for all of the projects before the bond sale in July. Mr. Aikin responded that they take their budgets to the Recreation and Park Department Commission where the budgets are set for each of the projects. Mr. Micheau questioned if that will be done before the bond sale and if so, he requested the Committee review it at the meeting in April or outside of the meeting. Mr. Aikin replied that they would be happy to give an updated report in April. Monique Zmuda, Deputy Controller, added that prior to the time that the Recreation and Park Department goes forward with the bond sale there does have to be an appropriation that goes before the Board of Supervisors. The Budget Analyst of the Board of Supervisors will do an in-depth line item analysis that can be made available to the Committee. Mr. Micheau requested that they receive the missing budget information. Chair Jue suggested that it be distributed to the Committee outside of the meeting and if the Committee deems it necessary the Committee will put the item on the agenda again.

There was no public comment.

**6) Presentation from the Controller's Office on its Audit of the San Francisco Unified School District.**

Nori Hirasuna, Director of Financial Audits for the Controller and City Services Auditor, presented the report: *The San Francisco Unified School District Cannot Accurately Account for the Revenues and Expenditures of Its \$90 Million 1997 Bond Issue*. The Committee requested this review to provide assurance that the School District has sufficient internal controls and systems in place to account for the bond proceeds. The review concluded that the School District cannot accurately account for and report on its 1997 bond proceeds because of errors in its accounting records and because it cannot produce reports on specific construction and improvement projects funded by the bonds. Further, the School District has incomplete policies and procedures for accounting for its project expenditures and has experienced high turnover of critical staff positions.

The School District was invited to address any specific items and the adequacy of the response. Joe Grazioli, the new Chief Financial Officer, and David Goldin, the new Chief Facility Officer, addressed the Committee. Mr. Grazioli replied that he spent 6 hours with the two auditors assigned to the project and reviewed the audit with them. During the 6-year timeframe there were three systems in place and numerous senior staff who were part of that assignment. His response is part of the audit report and he feels his responses are adequate to start cleaning up the School District's systems. He is not in disagreement with any of the recommendations. He reviewed important parts of the responses:

1. A financial person will be hired to work on the project even though there is only approximately \$21 million of the bond remaining in one major fund (the Feinstein/Parkside school).
2. He suggested that the two Controller's Office auditors who worked on the audit continue working with the School District.
3. He submitted draft financial procedures for the 2003 Prop A Bond Program. There is a project manager with bond experience on the 2003 Prop A Bond Program, Leonard Tom. The School District is hiring many project managers and financial people to work on that bond specifically, which was not the case with the 1997 bond.

4. The School District is planning to keep track of the 2003 bond expenditures and money received from the state. A report will be sent to the Committee regarding the 31 bond projects. The School District has an audit committee overseeing the bond, monthly bond meetings, and an annual audit as required by Proposition 39.
5. The School District requested that they submit reports to the Committee by each bond project, while keeping track of the current situation. They will address each of the recommendations with the help of the two auditors. It will take some time and they hope they can give the Committee another report at the next meeting to show their progress.

Mr. Hentz referred to the last meeting when the Committee discussed the possibility of stopping the 1997 bond program projects until the Committee knew that the proper systems and controls were in place. Any leftover funds under the 1997 bond would be properly tracked and the Committee could review previous encumbrances and payments. The Committee was told the system would be in place in mid-January. Mr. Grazioli stated that a portion of the remaining funds is to be spent on technology in some of the schools and the other main portion will be spent on the Feinstein School. He requested that the Facility Department not spend any money on technology until he feels comfortable that they are keeping track of expenditures for the Feinstein School.

Chair Jue asked if the School District is currently holding expenditures in abeyance pending implementation of the procedures. Mr. Grazioli replied that he would like to hold the Feinstein School back, but cannot. He gave assurances that he would watch that project carefully and make certain it is recorded properly. He can hold back the technology projects. Chair Jue asked if they are using procedures similar to those used in the draft plan for their other bonds issued. Mr. Grazioli replied that they would use those procedures and use that report if it is approved.

There was discussion about the School District's bond oversight committee. Mr. Grazioli stated that it met the previous night and there was discussion about the Controller's Office audit. This audit committee is only for the 2003 bond. The School District would like to have one of the committee members come to a CGOBOC meeting to give a report on the 2003 project.

Mr. Wong brought up the Feinstein project and wanted to know if there would be a spreadsheet showing budget, schedule and change orders etc. because the draft reports did not give the information.

There was discussion of how much funding was left in the 1997 bond and how it broke down between the Feinstein project and the technology portion. Chair Jue wanted clarification of the lump sums so the Committee could come to a consensus on whether or not the commitment the Superintendent made to the Committee in the last meeting was met and if not, what the Committee would recommend. Chair Jue stated that it looks like most of the money will be spent before the Committee receives the information, which means that unless the School District accelerates its implementation of the procedures or delays the project, the Committee could not be sure the new procedures were benefiting the 1997 bond program. Mr. Wong added that the Committee is not blaming Mr. Grazioli or Mr. Goldin, but they have been trying to obtain the information for two years from the School District. It is hard for the Committee to decide whether it is prudent for the School District to spend the money when the Committee has not seen how it will be tracked.

Mr. Yockey requested an accounting of the 1997 bond act expenditures. He would like it to show expenditures by project and an accounting and status of the projects in process including budgets and timelines. Earlier presentations from the School District never provided this information. The Committee needs the Controller's staff to sign off on this accounting. He asked how long that would take or if it is possible. Mr. Grazioli said there were items lumped together and the question is whether they can be broken down by project or whether they would stay in a lump sum. Mr. Yockey said he would like to see it broken down by both project and lump sums, so the Committee will know whether the monies have been identified by project or will remain as a lump sum. Mr. Grazioli would like to give an update in three months and asked for a commitment to get some assistance from the City auditors.

There was discussion on what role the Controller's auditors are able to take in assisting the School District.

Mr. Hentz requested an accounting for both the Feinstein School and the technology for the school's projects. He would like to make certain they are on time and on budget and that there is enough in the budget to complete the Feinstein project. He suggested it might be better to defer rectifying the past and the lump sums to a later time, and to now spend time working on the Feinstein school project. Mr. Yockey stated his opinion that the Commission had an obligation to see an accounting for all of those funds before they wrap up the issue. Mr. Morten supported ensuring the controls are in place for the balance of the 1997 monies and especially for the 2003 bond program now. He stated that in the future the School District would want to issue additional bonds and if the public does not have the confidence that the controls are in place and expenditures are being done accurately and adequately they are not likely to get a positive vote.

Chair Jue asked the Controller's staff their view of the responses by the School District. Ms. Zmuda said they are looking for the School District to institute the internal controls that have been lacking over the past several years. Ms. Zmuda went on to say that as the Controller's office works with the School District over the next several months to do a full accounting of the 1997 bonds they will be better able to determine if the controls have been put in place and whether they are working. Mr. Hirasuna stated that the procedures of the School District are acceptable, but they need to assess them. Chair Jue wanted to know more about the School District's responses to the report. Mr. Hirasuna replied that the responses were not specific to their recommendations so they need to study the responses more closely to see if all of the recommendations have been responded to. They need time to assess it.

The Committee will place the School District on the agenda for the April meeting.

#### **Public Comment:**

Dennis Kelly, President of the United Educators of San Francisco, voiced the concerns the teachers' union has with the report and the recommendation that the district should not issue additional bonds. They are also not in favor of SPUR being overseer of 1/3 of the Proposition H money when teachers were promised that some of that bond money was for salaries. They are appalled at the findings of the audit. They do not blame Mr. Grazioli or Mr. Goldin but see a revolving door of people in the financial office. The citizens of San Francisco have a great deal of support for the teachers and the school districts, but when there is this kind of ineffectiveness, the oversight committee comes into play. He expressed how critical the work of the Committee

is to the teachers and those in support of the teachers and the School District. There was no action taken to hire better people or to have assistance in doing their job until the Committee became involved. He is hoping that this will be cleaned up to get on the right track. He thanked the Committee for the work they are doing.

David Pilpel stated Leonard Tom has a positive record. He felt there was effort missing in terms of the past work. He agreed with the comments that there is a need to go back and account for the funds. He felt it was good that the Committee is looking at it and trying to clean it up and that the district responds point by point to the recommendations. He requested that if the Controller's office has some sort of follow-up that it is provided at the next Committee meeting.

Emeric Kaulman asked the Committee and Controller to follow the expenditure of the money and have an inventory of what was built and then fix the paper work. He made suggestions on how they can do that. He thought that they should go to the engineers and look into the quality and the quantity of the work in case there was fraud.

Mr. Goldin explained that laws and regulations of the division of the state architect govern public school projects and there is a prescribed process that has to be done at every step of the way including an inspector of record. The process is very strictly regulated.

## **7) Reports from the Controller's Office.**

### **a. Presentation from the Controller's Office on the Citizens Audit Review Board (CARB).**

Peg Stevenson, Director of City Services Audits (CSA), replied to the Committee's request for a report from the Controller's Office on how the City Services Auditor carries out its responsibilities under the mandate. Ms. Stevenson recommended that the CSA be itemized on the agenda for each meeting for a summary report from the Controller on a number of different projects that are underway separate and apart from the Committee's obligations under the CGOBOC. As the Citizens Audit Review Board (CARB), the Committee is responsible to receive all of the CSA audits and also to do general oversight on the implementation of the other aspects of the CSA work. There will also be an update from the Whistleblower program. CARB may be invited to attend and participate in the Board of Supervisors meetings of the Government Audits & Oversight Committee where there will be more detailed presentation of their audits. At the next meeting they will bring their current plan, a list of audits that are underway, a list of the ones that may be completed by the end of the fiscal year, and a risk assessment. There was also discussion on the Controller's website and what would be posted there.

Mr. Morten asked to see the legislation detailing the members' responsibility. Deputy City Attorney Martin said he would provide the legislation to the Committee members.

### **b. Presentation of the Controller's Office on the Whistleblower Complaints Program.**

Ms. Jodi Darby, Project Manager for the Whistleblower hotline, discussed how the Whistleblower program might benefit from interaction with the review board. She gave a brief

review of a memo provided to the Committee that detailed several items along with recommendations. It was decided that a formal annual report would be given to the Committee at the October meeting so the information could be included in the Committee's annual report. She reported on the advertising of the hotline. Mr. Morten gave suggestions on ways to advertise.

The Committee noted that Mr. Yockey and Ms. Singer had volunteered to be liaisons with the Whistleblower program.

**c. Presentation from the Controller's Office on its Performance Audit of the Health Service System.**

Ms. Stevenson presented on both audits. Brenda Roberts is managing the audit of the Health Service System and Pablo Federico is managing the audit of Aging and Adult Services. Each of the audits is underway. She discussed the three issues in the Health Service System audit, which are fund balance and reserve policies, rate setting process and governance.

In regards to the Health Services System audit, Mr. Micheau asked them to look at the structure of the system and to compare it to the best practices in both other jurisdictions and the private sector. He also asked that they consider if this is the best structure to provide healthcare to 28,000 employees. Mr. Morten would like there to be recommendations on how they govern and prevent conflicts of interest.

**d. Presentation from the Controller's Office on its Performance Audit of the Department of Aging and Adult Services.**

This agency is being moved this year under the management of the Department of Human Services. Ms. Stevenson reported that weaknesses have been found in the areas of needs assessment of members, making allocation decisions based on strong needs assessment, granting according to the needs assessment, contract monitoring, RFP process and information and referral services.

**Public Comment:**

Emeric Kaulman expressed concern about how much time it takes to do an audit and that the citizens do not know about the audits. He recommended there be a follow-up to the findings to make certain there are improvements and actions taken, and that the department head is made responsible. Ms. Jue said that the Mayor and Board of Supervisors could enforce the recommendations in the audit.

**8) Discussion and Possible Action Regarding Staff Reports and Correspondence to and from Administering Departments Relating to the Status of Remaining Bond Proceeds.**

It was noted that the Committee did not receive a report from the Fire Department as requested. Ms. Zmuda mentioned that they had hired a new Chief Financial Officer and there would be more responsiveness in the future. The Controller's Office will work with the Fire Department to make sure they provide a report to the Committee.

**9) Discussion and Possible Action Regarding Committee Work Plan.**

Mr. Morten brought up that Supervisor Ma thinks it would be helpful if the Board of Supervisors could see a common report plan across the City from departments.

The Committee will ask the 2000 Academy of Sciences, 2000 Branch Libraries and 1992 Seismic Safety Loan Program to provide a report by the end of March. They will be tentatively taken off the agenda for April.

The work plan for April will be:

1. Controller's Risk Assessment and Audit Plan
2. 1999 Laguna Honda Hospital
3. 1997 San Francisco Unified School District

There was discussion about the Tobacco Funds as they relate to the Laguna Honda Hospital bond project and the jurisdiction of the Committee to that regard. Deputy City Attorney Martin replied that he will give introductory comments before the Laguna Honda Hospital presentation and explain the responsibilities of this Committee to that issue.

**10) Discussion and Possible Action Regarding Agenda Items for Future Meetings.**

This was discussed under item nine.

**11) General Public Comment**

David Pilpel suggested that the documents provided to the Committee in advance of the meeting and provided at the meeting be referenced at the end of the minutes. He asked that the staff include in their audit plan reference to audits Harvey Rose, the City Budget Analyst, has done that are significant audits. He would also like to see a list of general obligation bonds authorized but not issued. On the issue of the audits by Harvey Rose, Mr. Hentz felt it would be good to also crosscheck with any findings by the Civil Grand Jury. Ms. Stevenson said they do an update and check of Civil Grand Jury reports each year and that the Controller's Office also follows up with the departments to see if they are implementing the recommendations.

**12) Adjournment**

The meeting was adjourned at 12:30 pm.

**Documents distributed before the meeting:**

*1997 Zoo Facilities Bond – General Obligation Bond Accountability Report, 4<sup>th</sup> Bond Sale Request – Phase II Master Plan Program, January 2005.*

*Preliminary Findings by the Controller's Office: The San Francisco Unified School District Cannot Accurately Account for the Revenues and Expenditures of Its \$90 Million 1997 Bond Issue, November 17, 2004.*

*Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on An Audit of Financial Statements Performed in Accordance With Government Auditing Standards, January 30, 2004.*

*1992 Golden Gate Park Improvement Bonds Project Status Reports, January 6, 2005.*

*City and County of San Francisco, General Obligation Bonds Projects Summary – ACTIVE PROJECTS as of December 31, 2004.*

**Documents Distributed at the Meeting:**

*1997 Zoo Facilities Bond, General Obligation Bond Accountability Report, 4<sup>th</sup> Bond Sale Request – January 2005, Phase II Zoo Master Plan Program, January 24, 2005.*

*San Francisco Unified School District: The San Francisco Unified School District Cannot Accurately Account for the Revenues and Expenditures of Its \$90 Million 1997 Bond Issue, January 24, 2005*

Respectfully Submitted,

Rosanne Torre  
Executive Secretary