

MINUTES
Citizens' General Obligation Bond Oversight Committee
July 28, 2005
Room 416, City Hall
San Francisco, CA 94102

1) Call to Order and Roll Call.

Chair Jue called the meeting to order at 9:35 a.m. Roll call was taken and there was a quorum.

3)2) Discussion and Possible Action to Approve Minutes.

The minutes of the April 28, 2005 Committee meeting were approved.

4)3) Presentation from the San Francisco Public Library Regarding its General Obligation Bond Funded Projects Plan, and Possible Action by the Committee in Response to Such Presentation.

Mr. Luis Herrera, the City's new City Librarian introduced himself. He stated that they have completed their first project, the Excelsior Branch Library. A key challenge in the future will be getting the word out regarding the renovations, closures and interim services. Mr. Herrera introduced the bond program staff comprised of Marilyn Thompson, Bond Manager; Mindy Linetzky, Bond Program Administrator; and Paul Underwood, Deputy City Librarian.

Ms. Thompson presented the Committee with the summary of the budget and program schedule. She discussed the program summary status, noting that in October 2001 the Library Commission approved the baseline budget, which established individual project budgets. In November 2004, via the Prop 14 grants awards, \$8.9 million was awarded to San Francisco for construction and \$770,000 for furniture. To date, they have had 3 bond sales totaling \$75 million, with \$33 million of the bond proceeds being spent. They have purchased 6 properties: 5 for new branches and 1 for a centralized support facility. They have completed 1 renovation (Excelsior); 3 projects are in construction, 2 in bid, and 9 in design.

Ms. Thompson indicated there are 3 critical components of their bond program: Budget, Schedule and Scope. She also touched on their budget management process, which includes fixed budget limit, testing and investigation, values engineering, bidder outreach, community involvement estimates during design and contingencies.

Mr. Hentz inquired if the letters of credit, which were provided by the Friends of the San Francisco Public Library, were necessary. Ms. Thompson stated that they were created for the purposes of their applications to the State, who provides the 35 percent local match for furniture.

Chair Jue questioned the date of the Gantt chart and Ms. Thompson indicated that it was as of December 31, 2004, and does not match the latest monthly report. Mr. Yockey requested that the Library provide the Committee with a Gantt chart through June 30, 2005.

Mr. Morton asked Mr. Harrington to compare and contrast how other departments are using their bonds and processes for containing and controlling costs. He would like to see best practices that could be used Citywide. Mr. Harrington stated that the Library's project management is one of the best and that the Department of Public Works (DPW) model is the standard for the City. Mr. Morton asked if the Committee should recommend to the Board of Supervisors that an ordinance be drafted to ensure that projects begin to conform to a standard reporting approach.

Mr. Harrington noted that this format works very well for multiple, small projects, but is not sure it would be as effective on a larger rebuild, such as Laguna Honda Hospital. Mr. Harrington stated that his office will work on it and come back to the Committee at the next meeting to determine if there are possible standards and if so, ways to implement them. He also noted that there is a new Capital Planning Committee, who looks at long-term plans. Mr. Morton indicated that it would be a good idea if the Committee makes recommendations to the Capital Planning Committee to support the current DPW process.

Mr. Micheau discussed the Program Budget Report: Cash Flow Projections, and expressed his concerns regarding construction costs. He asked that the Library adjust the report to include projections through January 2010 to match the Gantt report and provide the Committee with the revised version.

Mr. Stern asked if rent revenue will be on going and if rent is received from mixed-use facilities. Ms. Thompson stated that in the mixed-use properties, the Library has a "condo" ownership of their space. Since they are not building the property, they do not rent space out. Other properties that are being rented out are negotiated on a property-by-property basis, with rent going back into the project.

Mr. Wong requested that for the next report on actual costs and expenditures, the Library provide an actual accounting of actuals versus encumbrances, for a total commitment. Mr. Harrington indicated that the system provides for that type of report and it will be provided.

Public Comment:

Peter Warfield: Noted concerns related to collections, closures, community involvement, priorities, mixed-use vs. promises of freestanding libraries, and reduction of library content. Ms. Jue clarified that the Committee's jurisdiction is budgeting and scheduling and use of General Obligation Bond Funds. Mr. Warfield read a resolution passed by the Library Citizen's Advisory Committee.

Mr. Herrera replied that he met with the Library Citizen's Advisory Committee and presented an overview of the priorities to reiterate the importance of the branch library improvement program. He indicated there were concerns over collections, but that each community is approached differently regarding content and structure needs and noted that some of the buildings have structural constraints. They are working with the community for an open and transparent process. He also addressed the collections issue and noted that the bond program doesn't emphasize expansion, but rather focuses on the priorities of ADA, seismic retrofitting and modernization.

Ed Jue (no relation to Chair Jue) applauded the Committee for their work and for asking the tough questions to ensure that the tax dollars and bond money is being spent appropriately.

Sue Cauthen: stated she is convinced the Library intends to fulfill its promises, but has concerns that the plan expansions to offset the structural upgrades will not happen in all libraries and there will not be as much space for collections. She wants to maintain, if not increase, collections.

Mr. Morten noted that public comment has focused on the difference between promises and reality. He requested that the Committee look back at exactly what was "promised" to the voters when they voted for the Bond measure. Mr. Harrington will follow-up and provide the Committee with that information at the next meeting.

Mr. Morton inquired as to the possibility of the Committee providing guidance to the Board of Supervisors and decision-makers as to future bonds related to their scope, cost estimating, etc. Ms. Jue indicated that the Committee is denied the power to review bond proposals prior to voter approval. Deputy City Attorney Michael Martin concurred that the Committee does not have the power to review specific proposals, but may have the ability to review general statements based on the Committee's review of other bond programs, and make commentary on issues such as best practices. Mr. Harrington indicated that the new Capital Planning Program would keep the Committee informed of the types of activities in which the City is involved.

5)4) Presentation from the San Francisco Unified School District Regarding its General Obligation Bond Funded Projects, and Possible Action by the Committee in Response to Such Presentation.

Mr. Joe Grazioli, CFO of the School District distributed a reconciliation document and reports on all active and closed projects. Mr. Grazioli indicated they have made significant progress in reconciliation over the past 5 months. He summarized that the School District has \$93,912,019 in total receipts (including interest), and expenditures of \$72,368,758. As of March 31, 2005, they have \$21,525,621 million to be spent. He noted the majority of the money spent was from 1997-2000. He also pointed out the "unallocated" section of the 1997 Bond expenditure by project, noting that these were expenditures items for the 1997 Bonds, but were not tied to a specific project and could have been for multiple projects. Mr. Grazioli noted that many of the projects have multiple funding sources, which need to be tracked.

When questioned by Mr. Morten, Mr. Harrington indicated that the School District is working on the necessary controls and systems to properly track projects and funds. Mr. Grazioli indicated they have hired an outside consulting group who is working with the facility group to work on new procedures, which will be used with the 2003 bond fund and all facility projects.

David Goldin, Chief Facilities Officer for the School District, made a presentation to follow-up on a prior request to review the projects and provide status updates. He noted that the active projects have no additional expenditures to be made out of the 1997 Bond fund, and there are sufficient funds left from other State funds that will take up the balance of the projects. The remaining 1997 Bond budgeted projects are: Dianne Feinstein, closeout of Lowell H.S., John

O'Connell H.S. Phase II Completion, Computer-Data wiring/technology projects, and bond accounting and accounting procedures.

Mr. Goldin briefly reviewed some of the completed projects, which received 1997 Bond funding and the active bond projects. He noted they are active because more money will be spent. However, unless otherwise noted, no more 1997 Bond funds will be spent as the funds are coming from other sources.

Mr. Goldin indicated that they would like to revise the budget on John O'Connell H.S. and create a Phase II Project in order to complete the school. Their proposed timeline is to update design to current code requirements September-December 2005, bid Winter 2006, begin construction Spring 2006, and complete the locker rooms and multi-purpose in September and November 2006 respectively. In conclusion, Mr. Goldin stated that in discussion with Mr. Grazioli they have determined they need to budget money to ensure that the proper procedures are put in place and implemented and have dedicated funds to do that.

Mr. Morten asked legal counsel and Mr. Harrington if problematic contractors could be "red flagged" and asked if something could be put in place to ensure that they do not get contracts they are not qualified to work on. Mr. Harrington indicated that truly poor contractors can be debarred, and that there is a list of such contractors on the Controller's website. He also noted, that debarment is only for egregious behavior, rather than problematic behavior. Mr. Martin concurred with Mr. Harrington. Mr. Harrington noted that as part of Proposition C, the Controller's office is stepping-up their ability to audit contractors while they are working on City projects. Mr. Goldin indicated that the School District can pre-qualify contractors, but they are not currently doing so.

Mr. Hentz questioned how sure the School District was that they would get the additional \$3.6 million from other sources for Dianne Feinstein Elementary. He wanted assurance that they were not going to come back for additional bond issue. Mr. Goldin stated that the additional funding is coming from developer fees and State funds and the money was in the bank.

Mr. Wong thanked the School District for their extraordinary work in getting the projects and funding accountability in order.

Mr. Yockey asked Mr. Harrington if the Controller's Office has looked at the work of the consultants. He deferred to Debbie Gordon who indicated that she has looked at the new procedures and that they are very good and can be used in a number of areas where none previously existed. She also indicated that the procedures will be in place to account for the remaining \$21 million. He asked that the School District be provided with a copy of the Gantt chart the Library provided, for use and tracking of the remaining projects.

Mr. Morten stated that in order for the new policies, procedures and oversight to work, the Board of Education and subsequent sub-committees must be involved. He questioned if the information was being forwarded to these policy people so they understand what is out there in order to make policy decisions. Mr. Grazioli indicated that the responsibility is his to make sure that the information is disseminated and the budget and project schedules are adhered to.

After brief discussion, the Committee determined that a letter should be sent to the School Board indicating that the School District has taken appropriate steps to correct concerns and problems.

The Committee unanimously passed a motion that staff prepares a letter to the School Board and Superintendent, which addresses the previous letter, indicating that School District staff have done a good job of developing policies and procedures. Also noting that the Controller's Office has reviewed and approved those policies and procedures, and that the CGOGOC does not have concerns about controlling future bond issues at this point in time. Staff will work on a letter to be approved and signed by Chair Jue.

Due to time constraints, Chair Jue called items #5 and #6 together.

5) Presentation from the Controller's Office on the City Service Audits, and possible Action by the Committee in Response to Such Presentation.

Peg Stevenson, Controller's Office, City Services Auditor (CSA), briefed the Committee on several projects and audit reports that have been issued. She introduced Harriet Richardson, Director of Performance Audits, who gave a presentation on the process of risk analysis and how the Controller's Office chooses to do their performance audits.

Ms. Richardson provided the Committee with a definition of a performance audit as defined by the Comptroller General of the United States:

- "An objective and systematic examination of evidence and management of a program against objective criteria"; or
- Assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues."

Ms. Richardson's presentation covered:

- Purpose of Performance Audits: promote accountability; identify opportunities for better management; facilitate decision-making; and safeguard assets.
- Types of Performance Audits: economy, efficiency and effectiveness; internal controls, including risk assessment; compliance; and prospective focus.
- Phases of a Performance Audit: planning; fieldwork; reporting.
- Elements of an Audit Finding: criteria; condition; cause; effect; recommendation.
- Quality of Audit Work: generally accepted government, international and professional practice standards as well as key standards. Also includes independence, competent staff, adequate planning and supervision, sufficient competent and relevant evidence, reporting results, documentation and quality control, both internal and external.
- How Do We Decide What to Audit: Determined via risk assessments; requests from others; requirements (City Charter, Admin. Code, Prop. C).

Mr. Hentz thanked Ms. Richardson for her exceptional presentation. He requested that the Committee receive copies of risk assessments from the various departments as well as the final reports. He noted that the reports did not indicate a timeline for implementation of changes and who is responsible for changes, and would like to see that included. Ms. Stevenson clarified that in previous conversations with the Committee, it was agreed that at the point where there is an

audit program, there would be a couple of Committee members designated as contacts. She does not feel comfortable widely circulating an audit program.

Ms. Stevenson briefly reported on the 5 major items that have been accomplished since the Committee last met:

- *May 2 – Performance Audit of Department of Aging and Adult Services.* Audit of the agency as a grant maker. Major audit findings conclude:
 - Improvements need to be made in how they do their needs assessment.
 - Overmatch – City funding follows State and Federal requirements.
 - Monitoring process is weak.
 - Contracted awards violated their own RFP standards.
 - Weakness in on-line reporting system.
- *June 29 – Performance Audit of the Health Service System,* which purchases health and life insurance and related benefits for City employees. Audit was of the effectiveness of their rate-setting process, management of funds and fund balance and the best practices that govern this type of organization. Major audit findings conclude:
 - Health Services Board has weaknesses in rate setting.
 - HSS does not emphasize cost-containment strategies. Focuses on operational detail.
 - Roles and responsibilities and long term strategic plan are weak.
 - Need assistance to help define the reports that are required before they can act, determine where conflicts of interest exist, roles and responsibilities.
- *July 21 – Controller's office released a report done by a consultant, Health Management Associates (HMA), on the effectiveness of the continuum of care between acute and long-term health care services provided by the City's Department of Public Health.* Among the report's findings:
 - San Francisco spends \$400 per person per year on public health, while the national average is \$64 per person per year.
 - Points out weakness in integration between facilities.
 - Scale and delivery of long-term care programs is larger and has a different approach when compared to other public health service systems. It was recommended that the 780 beds at Laguna Honda Hospital be broken down into smaller, more manageable units.
- CSA will soon be issuing a report on the Streets, Parks and Sidewalks Standards.
- There is a three-tiered project on non-profit organizations – Tier 1 is on auditing; Tier 2 on improving monitoring processes, and Tier 3 is on technical assistance to non-profits.

6) Reports from the Controller's Office

Mr. Harrington pointed out that the Committee received the Public Education Fund Annual Report, which is required under Proposition H. This gives additional funds to the School District and, per Board of Supervisors, requires that the Controller's Office audit spending.

Mr. Hentz asked about the process for performance audits and questioned if there are standard ratings issued, response requirements, and action items required. Ms. Stevenson responded that a formal process of checking-in on compliance is conducted at six months and 1 and 2 years. She

also noted that Ms. Richardson is working on an official, standardized format with timelines. She is also working on a policies and procedures manual, which will outline how performance audits will be conducted. Ms. Stevenson noted that there is also a technical assistance group within the CSA, which has followed-up specifically on performance audit recommendations.

After brief discussion, Mr. Yockey asked that the Controller clarify what the Committee's role in the performance audit follow-up should be. Mr. Harrington indicated as a requirement of the audit, for the next two years the department must come back to the Board of Supervisors during the budget process to indicate if they are following the recommendations in the audit. Mr. Morten wants to ensure that they are not "stepping on toes" of other entities in their approach in follow-up. He questioned, what the Committee's mandate is under the charter. Mr. Harrington replied that everyone is new to the process and is learning and the roles will be clarified as time goes on. Mr. Morten also requested that both hard and email copies of the audit reports be sent.

Chair Jue suggested that staff get together with her to review parameters and come up with an outline for the next meeting. Also, she suggested that Committee members volunteer to follow a particular audit. Mr. Harrington suggested that at the next meeting staff bring a list of the major audits that are coming up, and the Committee can make a decision at that point.

Mr. Harrington provided an update on Laguna Honda Hospital. At the August 8th meeting of the Government Audits and Oversight Committee of the Board of Supervisors, the report, which was issued a few months ago, will be presented, along with a request to fund the first 780 beds.

Public Comment (Items #5 and #6, which were called together)

Mr. Emerick Kalman commended the Controller's office on their presentation. He expressed concern that he continues to hear that the problems are (1) professional administration is incompetent to perform their jobs; (2) no responsibility; and (3) Civil Grand Jury is neglected.

Mr. Peter Warfield enjoyed Ms. Richardson's presentation of the performance audit process. He agrees with the Committee comments regarding follow-up.

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

Mr. Harrington stated that the Controller's office is changing their procedures. Prior to the Committee receiving the next meeting's schedule of Bond proceeds, the report will be looked at one month ahead of time, because it is not closing out as anticipated.

Chair Jue asked for and received confirmation that no correspondence has been received from the Fire Department.

8. Discussion and Possible Action Regarding Agenda Items for Future Meetings.

Agenda for next meeting will be determined from the work plan. Possibilities may include follow-up on Laguna Honda Hospital, follow-up on correspondence, begin planning for annual report(s) and continue working on audit committee functions.

9. General Public Comment.

Mr. Emerick Kalman stated that he felt the meeting today, especially the presentation by the Controller's office, was fantastic. He also expressed fear of lodging a complaint with the Whistleblower program, as he feels there may be retaliation.

Chair Jue expressed assurance that the Whistleblower program is completely confidential and protected. She asked that staff from the Controller's office advise Mr. Kalman on how to file a complaint.

Mr. Peter Warfield thanked the Committee for their hard work. He expressed the value of public comment and appreciated the opportunity to speak.

10. Adjournment.

Meeting adjourned at 1:09 pm

Documents Provided:

Branch Library

- *2000 Branch Library Improvement Bond Quarterly Report (Second Quarter, April – June 2005)*
- *Current Budget Report, Gantt Chart and Summary Schedule*
- *Power Point Slide Handout*

San Francisco Unified School District

- *Reconciliation of 1997 Bond Funds Proceeds*
- *1997 Bond Expenditures – Active Projects and By Project*
- *Program Report – July 28, 2005*

Controller's Office Audits and Reports

- *Power Point Slide Handout*
- *Department of Aging and Adult Services Audit*
- *Health Service System Audit*
- *Health Management Associates Report on San Francisco Department of Public Health*
- *San Francisco Unified School District Audit*
- *Public Education Fund Annual Report*
- *Whistleblower 4th Quarter Summary Report*
- *General Obligation Bond Project Summary*