

MINUTES
Citizen's General Obligation Bond Oversight Committee
November 17, 2004
Room 408, 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.

2) Discussion and Possible Action to Approve Minutes

The minutes of October 28, 2004 were adopted.

3) Presentation from the Controller's Office on the Whistleblower Complaints Program.

Jodi Darby, Manager of the Controller's Office Whistleblower Complaints Program, reported that the hotline was activated in August 2004. She described the various ways a complainant can file and track a complaint. As of November 15, 2004 the program had received 86 complaints, of those, 32 contacts were Whistleblower complaints alleging waste, fraud or abuse of City resources. The remainder of the contacts were general complaints about City services, requests for information or complaints outside of the City's jurisdiction. Members requested Ms. Darby return for the January 27th meeting to discuss how the Committee might best accomplish its duties as regards the Whistleblower Program.

There was no public comment.

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

Ed Harrington, the City Controller, presented the preliminary findings of the audit of the San Francisco Unified School District's City-issued general obligation bond program. Controller staff who worked on the audit were present. The final audit report was not yet complete. The quarterly bond reports provided by the School District were described as being unreliable. These are not new findings. Included in the preliminary report is a report and management letter from the outside auditors for the School District. They found that the School District has a weakness in its internal controls and the findings demonstrate that the School District has an inability to appropriately account for and report on its financial activities. Reports had computational errors and were inconsistent and incomplete. The Controller's Office also suggested that the Committee may want to send the School District a letter that they either refrain from issuing bonds or stop spending new bond money without a better set of internal controls and a better set of accounting and financial reporting processes.

Mr. Hentz also recommended that nothing further be spent until financial controls are in place. The recommendation should be that they have adequate financial controls in place and reporting policies in place before any new money is put out for any project.

There was no public comment.

Superintendent Ackerman was invited to respond and read the following:

**“San Francisco Unified School District
Plans Regarding Facilities and Bond Accounting**

For the past four years, the District has focused on identifying and rooting out fraud and abuse corruption in its facilities departments. These efforts have led to tens of millions of dollars of funds recovered from corporations who had attempted to defraud the District and to the dismissal and prosecution of problem employees.

We appreciate the Controller's assistance in identifying specific issues in the District's reporting of the 1997 general obligation bonds. We recognize that we need to improve the quality and accuracy of the quarterly reports submitted to the City's Citizen's Bond Oversight Committee and address other issues identified by the Controller's staff.

We have also recruited and selected key staff members to supervise these functions, including a Chief Operating Officer and Chief of Facilities. David Goldin, our new Chief of Facilities, has over twenty years of experience in design and construction management of school facilities projects and has directed facilities bond programs of over \$100 million. Scott Bianchi, our new Chief Operating Officer, also has more than twenty years of experience in facilities construction, as well as financial and resource management. Among their top priorities will be to put in place the appropriate staff, training, and written procedures to remedy the issues that the Controller's staff have identified. We will place additional work on projects funded by 1997 city bonds on hold until appropriate staff members and procedures are in place.

In addition we intend to name a Chief Business Officer and Budget Director within the next several weeks.

We thank the Controller and his staff as well as the Citizen's Bond Oversight Committee and have every intention to respond appropriately to each of the issues raised in the Controller's preliminary report.”

Mr. Yockey recommended that the Committee as a whole take action to stop any new construction until the situation is rectified. The Superintendent indicated that that is what she would like to do. Mr. Yockey felt an obligation to recommend to the Committee that they recommend to the Board of Education that the same kind of action occur on the bond program there. He was not recommending stopping on-going programs where there are contracts out but rather not to start any new projects until such time as the School District and the Board of

Education could be assured that the School District has proper accounting controls in place to assure that these kinds of actions do not occur. He asked for Supervisor Ackerman's reaction before making the recommendation. Supervisor Ackerman is willing to come back to the Committee in January to describe the new procedures that will be in place and to introduce new staff.

After discussion by the Committee regarding concern that new bonds might be issued or projects started when the books and financial reporting systems were inaccurate, Mr. Yockey moved that the Committee forward a letter to the Board of Education acknowledging the audit report (which will also be transmitted to them). The letter would recommend that no new obligations be entered into until such time as the School District and the Controller have been able to meet, which the Committee understands will be in January, and provide assurances that the funds are being properly accounted for and that proper controls exist. The letter would acknowledge that the Superintendent has overcome many obstacles and is taking steps to correct the situation based on her presentation but that the Committee feels compelled to provide this letter and suggestion to the Board. Chair Jue said the School District's Prop 39 Bond Oversight Committee should be an addressee or "cc." Mr. Yockey added that the Board ought to be concerned about all of the bond issues until such time as the accounting controls are adequate. Similar problems may exist in other bond programs, not just the City-issued bonds, and the Committee has an obligation to a sister agency to make that recommendation. The Committee is not asking the School District to stop work on anything on-going or any existing contract that is left, but is recommending that they hold off for 2 to 3 months on letting a new contract under any of the bonds.

Mr. Yockey's motion was seconded by Mr. Morton. The motion was passed unanimously. Staff is to prepare the letter for Chair Jue's signature.

There was no public comment.

5) Discussion and Possible Action Regarding the Committee's Annual Report to the Board of Supervisors

Chair Jue reviewed the draft annual report with the Committee and staff. There was a lengthy discussion by the Committee that they are not receiving information in the format they ask for from the departments which makes it difficult for the Committee to review the information (with the exception of the Department of Public Works). The staff and Committee feel they give ample examples and explanations to the departments on their reporting requirements and the departments are not complying. The Committee has no way of knowing if the bond programs are on time or on budget. The Committee may consider sanctioning departments that do not provide the reports in the proper format.

It was decided that Chair Jue would redraft the recommendations that were made today and the Controller's staff would compile individual comments from Committee members.

There was no public comment

6) Staff Report Regarding Prior Inquiries from the Committee

Marti Paschal of the Controller's staff reported that letters were sent to the Recreation and Parks Department and the San Francisco Fire Department regarding requests that were made for further information on the Golden Gate Park Bond Fund and the 1992 Fire Safety Bonds. She also received a schedule from the Curry Senior Center from the San Francisco General Hospital and she will distribute it to the Committee. She discussed the reappointment of the Committee members whose seats are going to expire. Committee members appointed by the Board of Supervisors wanting to serve again have to reapply to the Board of Supervisors.

There was no public comment.

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

The dates of the quarterly meetings to be held in 2005 will be:

January 27

April 28

July 28

October 27

The following items are proposed for the January meeting:

(i) School District to present their new procedures and new staff; (ii) the Laguna Honda Hospital bond program and a review of the \$25 million of tobacco funds not spent on the project; (iii) further information provided by the Fire Department; (iv) review of the Controller's activities related to the Citizens' Services Auditor; and (v) the Committee work plan.

There was no public comment.

8) General Public Comment

There was no public comment on these discussions.

9) Adjournment

The meeting was adjourned at 12:10 pm.