



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Hunter Stern, Chair
Dick Morten, Vice Chair

January 23, 2008

Honorable Gavin Newsom, Mayor
City and County of San Francisco
City Hall, Room 200
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Honorable Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Mayor Newsom and Members of the Board of Supervisors:

On behalf of my fellow committee members, I am pleased to present you with the 2007 Annual Report of the Citizens' General Obligation Bond Oversight Committee.

The Citizens' General Obligation Bond Oversight Committee was established in 2002 pursuant to Proposition F, which was approved by the San Francisco voters at the March 2002 election. This fifth report of the Committee describes our review of six active bond issues and the audits, reports and projects of the City Services Auditor during 2007.

The Committee began 2007 with seven of its nine seats vacant due to expired terms, resulting in the cancellation of the regularly scheduled January meeting. Further, because of emergency absences, the regularly scheduled meeting of October was postponed until December. The Committee needs its full complement of nine members to function as the voters intended. Therefore, the Committee respectfully urges the Mayor and Board of Supervisors to promptly appoint new members to the open seats before its April 24, 2008 meeting.

The Committee would be happy to provide additional information if requested.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Hunter Stern", written over a horizontal line.

Hunter Stern
Chair
Citizens' General Obligation Bond Oversight Committee

c: Angela Calvillo, Clerk of the Board
Ed Harrington, Controller
Nadia Sesay, Director, Mayor's Office of Public Finance
Civil Grand Jury

Executive Summary

The Citizens' General Obligation Bond Oversight Committee (the "Committee") was formed subsequent to the passage of Proposition F (March 2002) to inform the public, through review and report, on the expenditure of general obligation bond proceeds in accordance with voter authorization. The Committee met three times during calendar year 2007, heard presentations on five major active bonds, and received written updates on one additional active bond. While the Committee's review of bond funded projects does not constitute an audit, nothing has come to the Committee's attention in the course of its review that has caused it to believe that bond proceeds were spent on purposes not authorized by the respective ballot measures.

In 2008, the Committee will continue to maintain close communications with all bond departments, but particularly with the San Francisco Public Library, Recreation and Park Department and the Laguna Honda Hospital Replacement Program to monitor their bond spending.

This fifth annual report reviews the 2007 activities of the Committee and is organized into the following topics:

- Background
- Committee Membership
- Meetings
- Committee Focus Issues
- City Services Auditor
- Findings and Recommendations
- Future Activities
- 2008 Meeting Schedule

Background

Proposition F, enacted by the electorate in March 2002, established the Citizens' General Obligation Bond Oversight Committee, comprised of nine members charged to inform the public about the expenditure of general obligation bond proceeds through active review and the publishing of regular reports. San Francisco Administrative Code 5.30-5.35 states:...(a) *The purpose of the committee shall be to inform the public concerning the expenditure of general obligation bond proceeds. The committee shall actively review and report on the expenditure of taxpayers' money in accordance with the voter authorization. The committee shall convene to provide oversight for: ensuring that bond revenues are expended only in accordance with the ballot measure, and (2) ensuring that no funds are used for any administrative salaries or other general governmental operating expenses unless specifically authorized in the ballot measure for such bonds. The committee has no power to review bond proposals prior to voter approval. Further, the committee shall not participate or interfere in the selection process*

of any vendor hired to execute bond funded projects. (b) In furtherance of its purpose, the committee may engage in any of the following activities: (1) Inquiring into the disbursement and expenditure of the proceeds of bonds approved by voters by receiving any reports, financial statements, correspondence or other documents and materials related to the expenditure of bond funds from agencies that receive proceeds from these bonds; (2) Holding public hearings to review the disbursement and expenditure of the proceeds of bonds approved by voters; (3) Inspecting facilities financed with the proceeds of bonds approved by voters; (4) Receiving and reviewing copies of any capital improvement project proposals or plans developed by the City; (5) Reviewing efforts by the City to maximize bond proceeds by implementing cost-savings measures, including, but not limited to, all of the following: (i) mechanisms designed to reduce the cost of professional fees and site preparation and design; and (ii) recommendations regarding the joint use of core facilities and use of cost-effective and efficient reusable facility plans; (6) Commissioning independent review of the disbursement and expenditure of the proceeds of bonds approved by voters by accessing any funds set aside for this purpose under subsection (c) of this section to retain outside auditors, inspectors and necessary experts to conduct such independent review; (c) To the extent permitted by law, each ballot measure shall provide that one-tenth of one percent of the gross proceeds from the proposed bonds be deposited in a fund established by the Controller's Office and appropriated by the Board at the direction of the committee to cover the costs of said committee".

In November 2003, the voters of the City and County of San Francisco approved Proposition C, which authorized the Committee to serve as the Citizens' Audit Review Board. Proposition C took effect on July 1, 2004 (San Francisco Charter Appendix F). In this role, the Committee provides advisory input to the Controller on matters set forth in the Charter, including requiring that the Committee: (1) review the Controller's service standards and benchmarks to ensure their accuracy and usefulness; (2) review all audits to assure they meet requirements set forth in Appendix F of the San Francisco Charter; (3) review complaints received through the Controller's Whistleblower hotline and their disposition; and (4) when appropriate, hold public hearings regarding the results of benchmark studies and audits.

Committee Membership

The Ordinance required that the nine committee members meet certain minimum qualifications and be appointed as follows: three by the Mayor, three by the Board of Supervisors, two by the Controller and one by the Civil Grand Jury. Each member serves for a term of two years. The Committee notes that there are two open seats on the Committee and urges the Mayor and Board of Supervisors to fill the vacancies soon. Current members were appointed as follows:

Committee Membership

MEMBER NAME	APPOINTED BY	APPOINTMENT DESCRIPTION
Hunter Stern, Chair	Mayor	Active in a labor organization
Dick Morten, Vice Chair	Mayor	Active in a community organization
Open seat	Mayor	Active in a business organization representing the business community located within the City
Shawn Leonard	Board of Supervisors	Active in a labor organization
Kristin Chu	Board of Supervisors	Active in a community organization
Open seat	Board of Supervisors	Active in a business organization representing the business community located within the City
Miriam Rike	Controller	Expertise in auditing governmental financial statements or with expertise in public finance law
Sanford Garfinkel	Controller	Expertise in construction management
Julia Hansen	Civil Grand Jury	Designee of the Civil Grand Jury

Meetings

The Committee met three times during 2007 to review the progress made by departments with five major general obligation bond funded projects, and to receive written updates on one additional active bond issue^a. The Committee heard a presentation from the City Administrator's Office about San Francisco's FY 2008-2017 Capital Plan. The Committee, meeting as the Citizens' Audit Review Board, also heard presentations from the Controller's Office City Services Auditor and the Whistleblower Complaints Unit. In August, committee members took a tour of the Steinhart Aquarium construction project and were able to see how the bond proceeds were being spent.

^a The Committee began 2007 with seven of its nine seats vacant due to expired terms and a delay in appointments to fill those seats. The lack of a quorum led to the cancellation of the regularly scheduled January 25, 2007 meeting.

May 31, 2007

- *2000 Branch Libraries Facilities Improvements (San Francisco Public Library)*
- *City and County of San Francisco Capital Plan FY2008-2017*
- *City Services Auditor Report/Risk Analysis Assessment for Audit Programs*

The following department provided a written report:

- *1999 Laguna Honda Hospital Bonds (Laguna Honda Hospital)*

July 26, 2007

- *1997 Zoo Bonds (Recreation and Park Department)*
- *1995 Steinhart Aquarium Improvements (Recreation and Park Department)*
- *2000 California Academy of Sciences (Recreation and Park Department)*
- *2000 Neighborhood Recreation and Parks (Recreation and Park Department)*
- *City Services Auditor Report*

The following department provided a written report:

- *1999 Laguna Honda Hospital Bonds (Laguna Honda Hospital)*

October 25, 2007

- *San Francisco Public Library Audit*
- *1999 Laguna Honda Hospital Bonds*
- *City Services Auditor Report*
- *Whistleblower Program Report*

The following departments presented written updates:

- *1996 Affordable Housing Bond Program*
- *1997 San Francisco Unified School District Bond Program*
- *1997 City College Bond Program*
- *1987 Mental Health Facilities Bond Program*

Committee Focus Issues

The Committee has been formed to provide oversight to: (1) ensure that bond revenues are expended only in accordance with the ballot measure, and (2) ensure that no funds are used for any administrative salaries or other general governmental operating expenses unless specifically authorized in the ballot measure for the bonds. To that end, the following questions were asked of the bond-issuing departments.

- Are individual projects proceeding on schedule? If not, why? What action is being taken to ensure that projects stay on schedule?
- Are individual projects currently within budget? If not, why? What action is being taken to ensure that projects stay within budget?

- Is the bond program forecast to be completed on time and within the authorized bond amount?
- To what extent is the capital program predicated on the receipt of funds other than general obligation bond proceeds, and what contingency plans exist to deal with non-receipt of those funds?
- Are competitive bid requirements followed for all projects?
- Does the department maintain internal controls adequate to assure that charges to bond funds are appropriate?
- Are departmental employees' salaries, if any, charged to bond funds appropriate?
- What are the opportunities in the program for the joint use of core facilities and use of cost-effective and efficient reusable facility plans?
- What other mechanisms have been designed to reduce the costs of professional fees, site preparation and design?

The Committee has concerns with several bond programs, particularly with the San Francisco Public Library and the Recreation and Park Department, and will continue to closely monitor these programs. In response to these concerns, the Committee asked the Controller to conduct an audit of the San Francisco Public Library, which was completed on September 17, 2007, and was presented to the Committee at the December 6, 2007 meeting. In addition, the Committee requested that the Controller work with the Recreation and Park Department on their program and capital management reporting systems and report back to the Committee at their January 2008 meeting.

City Services Auditor

In addition to general discussion of concession and financial audits, the Committee heard from the City Services Auditor on the following performance audits, reports, and projects:

1. Transit Effectiveness Project
2. Municipal Healthcare Assessment Project
3. City Survey 2007
4. Cable car fare collection practices
5. Parking meter revenues
6. Mayor's Office of Housing compliance audit
7. Port of San Francisco inventory practices
8. Payroll audit program
9. CSA FY07-08 Work Plan
10. Whistleblower Complaints Program

Findings and Recommendations

The primary work of the Committee in this year's meetings was to evaluate the progress made by a select group of departments with major general obligation bond funded projects and to review the activities of the Controller's Office City Services Auditor (CSA) division. The Committee notes the promising development reported by CSA of implementation of a standard reporting methodology for all departments and the use of a Memorandum of Understanding to establish these reporting requirements. These new steps create a clear and uniform standard for each department. Executed MOU's by Recreation and Park Department and by the Public Library should improve bond oversight and management.

While the Committee's review of bond funded projects does not constitute an audit, nothing has come to the Committee's attention in the course of its review that has caused it to believe that bond proceeds were spent on purposes not authorized by the respective ballot measures. The Committee is pleased to note that most departments now include with their report information in a standard Gant chart, presenting the original budget, the current budget if revised and actual expenditures to date for each major segment of the program. The Committee will continue to require that all departments with general obligation bond funded capital programs use a standard Gantt chart format for reporting.

During the past year, the Committee has increased its scrutiny of the departments' calculation of projected cost escalation and the impact on project scope. Given the dramatic increases in construction costs, the Committee is very concerned that inadequate or inaccurate estimates of cost escalation rates reduce the intended scope of voter-approved projects. These shortcomings were identified particularly in the Branch Library Improvement Program and the Laguna Honda Hospital Replacement Program. The Committee will continue to closely monitor budgeted escalation costs and project contingencies to determine whether projects are completed according to the original scope, on time and within budget.

The Committee reports the Whistleblower Program has been successfully transitioned into San Francisco's new 3-1-1 Call Center. Other methods of identifying complaints, such as regular mail or the web remain available.

Project Reporting

The Committee has requested that the Department of Public Works work closely with the Controller's office to prepare a standardized reporting format that the Committee will require for future bond program reports. Such a reporting format will become critical as voters have recently approved general obligation bond funding for the Recreation and Parks Department.

Future Activities

The Committee will continue to monitor the general obligation bond programs of the City and County of San Francisco with particular emphasis on those programs that have recently issued or will shortly issue bond funds. The Committee will also continue to receive updates regarding the City's 10-Year Capital Plan and future general obligation bond proposals.

In keeping with its responsibilities as the Citizens' Audit Review Board, the Committee will continue receiving audits from the City Services Audits division and providing general oversight on the implementation of the other aspects of CSA projects during the next year. One member of the Committee will continue to monitor the Whistleblower Complaints Program on an ongoing basis and report back to the Committee.

2008 Meeting Schedule:

Regularly scheduled meetings of the CGOBOC will occur on the fourth Thursday of the first month of each quarter on the following dates at 9:30 A.M. in Room 416, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102, unless otherwise noticed:

Thursday, January 24, 2008
Thursday, April 24, 2008
Thursday, July 24, 2008
Thursday, October 23, 2008

The Committee would be happy to provide additional information as requested.