



City and County of San Francisco
Citizens' General Obligation Bond Oversight Committee
Pamela S. Jue, Chair
Terry Micheau, Vice Chair

December 15, 2006

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 2006 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 fourth report of the Committee describes our review of nine active bond issues and the audits, reports, and projects of the City Services Audits division during 2006.

We draw your attention to the fact that the terms of the current members of the committee are expiring soon, and six of the eight current members are not eligible for reappointment. Accordingly, the Mayor, Board of Supervisors, Controller, and Civil Grand Jury should promptly appoint new members to serve on the Committee before the first 2007 meeting of the Committee currently scheduled for January 25, 2007.

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

Sincerely yours,

Pamela S. Jue, Chair
Citizens' General Obligation Bond Oversight Committee

cc: Gloria L. Young, Clerk of the Board
Ed Harrington, Controller
Nadia Sesay, Director, Mayor's Office of Public Finance
Civil Grand Jury



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2006 ANNUAL REPORT CITIZENS' GENERAL OBLIGATION BOND OVERSIGHT COMMITTEE

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 began its work in 2003 and met four times during calendar year 2006. The Committee received basic information presentations on six major active bond issues and written updates on three additional active bond issues. 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.

This fourth annual report reviews the 2006 activities of the Committee and is organized into the following topics:

- Background
- Committee Membership
- Meetings
- Committee Focus Issues
- City Services Audits
- Findings and Recommendations
- Future Activities
- 2007 Meeting Schedule

Background

Proposition F, enacted by the electorate in March 2002, established the Citizens' General Obligation Bond Oversight Committee of nine members 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). The Committee provides oversight to ensure that: (1) general obligation bond revenues are expended only in accordance with the ballot measure; and (2) no general obligation bond funds are used for any administrative salaries or other general governmental operating expenses, unless specifically authorized in the ballot measure for such general obligation bonds.

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



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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, two by the Controller and one by the Civil Grand Jury. Each member serves for a term of two years. The Committee notes that the open seat has been vacant for two years and urges the Board of Supervisors to fill the vacancy soon. Current members were appointed as follows:

<u>MEMBER NAME</u>	<u>APPOINTED BY</u>	<u>APPOINTMENT DESCRIPTION</u>
Pamela S. Jue, Chair	Controller	Expertise in auditing governmental financial statements or with expertise in public finance law
Terry Micheau, Vice Chair	Controller	Expertise in construction management
Hunter Stern	Mayor	Active in a labor organization
John F. Hentz	Board of Supervisors	Active in a community organization
Arlene Singer	Civil Grand Jury	Designee of the Civil Grand Jury
Open seat	Board of Supervisors	Active in a business organization representing the business community located within the City
Bill Wong	Board of Supervisors	Active in a labor organization
Dick Morten	Mayor	Active in a community organization
Sam Yockey	Mayor	Active in a business organization representing the business community located within the City

Terms for the six seats appointed by the Board of Supervisors, Controller, and Civil Grand Jury expired in November 2006. Terms for the remaining three seats appointed by the Mayor will expire in February 2007. Only two of the current members, mayoral appointees Dick Morten and Hunter Stern, are eligible to serve an additional term. Accordingly, the Mayor, Board of Supervisors, Controller, and Civil Grand Jury should promptly appoint new members ready to serve on the Committee by the January meeting currently scheduled for January 25, 2007, for the seats of the members whose terms expired in November 2006, and upon the expiration of their current terms for the members whose terms expire in February 2007.



Meetings

The Committee held four quarterly meetings during 2006 to review the progress made by departments with six major general obligation bond funded projects and to receive written updates on three additional active bond issues. The Committee, meeting as the Citizens' Audit Review Board, also heard presentations from the Controller's Office City Services Audits division and the Whistleblower Complaints .

January 26, 2006

1999 Laguna Honda Hospital Bonds

\$299,000,000

Laguna Honda Hospital

1995 Steinhart Aquarium Improvements

\$29,245,000

Recreation and Park Department

2000 California Academy of Sciences

\$87,445,000

Recreation and Park Department

City Services Audits Report

April 27, 2006

2000 Branch Libraries Facilities Improvements

\$105,865,000

San Francisco Public Library

2000 Neighborhood Recreation and Parks

\$110,000,000

Recreation and Park Department

City Services Audits Report/ Risk Analysis for Future Audits

The following departments provided written reports:

- **1996 Affordable Housing Bonds**

\$100,000,000

Mayor's Office of Housing



- **1997 Zoo Bonds**
\$48,000,000
Recreation & Park Department
- **1997 SF Unified School District**
\$140,000,000
San Francisco Unified School District
- **1992 Seismic Safety Loan Program**
\$350,000,000
Mayor's Office of Housing

July 27, 2006

1992 Seismic Safety Loan Program
\$350,000,000
Mayor's Office of Housing

2000 Neighborhood Recreation and Parks
\$110,000,000
Recreation and Park Department

City Services Audits Report

October 26, 2006

1999 Laguna Honda Hospital Bonds
\$299,000,000
Laguna Honda Hospital

City Services Audits Report

Whistleblower presentation/annual report – 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 either in writing or during meetings with 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?

City Services Audits

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

1. Treasure Island Development Authority
2. Mission Housing
3. Family and Children Services
4. Staffing Analyses at Airport Police Division and Elections Department
5. Department of Telecommunication & Information vices
6. Department of the Environment
7. Office of Citizen Complaints
8. CSA FY06-07 Work Plan
9. Whistleblower Program

Findings and Recommendations

The primary work of the Committee in this year's meetings was to review the progress made by a select group of departments with major general obligation bond funded projects and to increase its familiarity with the responsibilities of the Controller's Office City Services Audits division. While the



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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. However, the Committee continues to find variations in how departments track and report on bond funded projects, resulting in an inability to determine whether projects have proceeded on schedule and the overall impact on expenditures of actions taken.

The Committee requested that two departments make second presentations in 2006 because of inadequate reporting. After the January 26 meeting, the Committee scheduled Laguna Honda Hospital to return before the Committee in October with a comprehensible Gantt chart with original, current, and actual expenditures and timelines. Based on questions raised during the April 27 meeting, the Committee requested that the Recreation and Park Department return in July after revising its report to reconcile the numbers provided, clarify the terminology used, label items consistently, provide original or baseline budgets for projects in close-out, provide a greater level of detail in distinguishing general obligation bond-funded projects, and break out the reserve fund from the program management budgets. The Committee will continue to work with both departments to improve the quality of their reports.

The Committee is concerned about the difficulty the Seismic Safety Program has had in utilizing its bond proceeds to accomplish its purposes and by the proportionately high costs of administering the program.

The Committee will continue to see that all departments with general obligation bond funded capital programs use a standard Gantt chart format for reporting requirements, presenting the original budget, the current budget if revised, and actual expenditures to date for each major segment of the program.

The Committee continued its efforts to make sure that general obligation bond projects are closed promptly upon completion. Two projects have already been closed this year, and an additional project should be closed in the near future.

During the past year, the Committee has increased its understanding of the role of the City Services Auditor and its audits. The Committee has concluded that when the Committee only meets quarterly, it is difficult to review the Controller's service standards and benchmarks to ensure their accuracy and usefulness and to review all audits to ensure that these requirements are met without impeding the work process of the Controller's office. The Committee will continue to work to develop an efficient method of providing meaningful input to the City Services Auditor within the framework of legal requirements and auditing standards.



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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 bonds.

The Committee intends to pay particular attention to the Laguna Honda project because of the size and complexity of the project and the contingencies involved in the remodeling phase of the project.

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. Two members of the Committee will continue to monitor the Whistleblower Complaints Program on an ongoing basis and report back to the Committee.

2007 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 25, 2007
Thursday, April 26, 2007
Thursday, July 26, 2007
Thursday, October 25, 2007

The members of the Committee would like to thank Controller Ed Harrington with special thanks to Controller's staff members Donna Hood and Marti Paschal, Deputy City Attorney Michael Martin, and Nadia Sesay of the Mayor's Office of Public Finance for providing excellent support services.

The Committee is pleased to provide this fourth annual report and would be happy to provide additional information as requested.

Sincerely yours,

Pamela S. Jue, Chair
Citizens' General Obligation Bond Oversight Committee