

Item No. 6

# Supplemental Material

For

**City of Sacramento**

Utilities Rate Advisory Commission

**Agenda Packet**

**Submitted:**

**For the Meeting of:**

Additional Material

Revised Material

**TITLE: Efficiency Audit Update**

**Contact Information:**

Marty Hanneman, Director of Utilities, 808-7508, Department of Utilities.

Please include this supplemental material in your agenda packet. This material will also be published to the City's Internet. For additional information, contact the City Clerk Department at Historic City Hall, 915 I Street, First Floor, Sacramento, CA 95814-2604, (916) 808-7200.

**Department of Utilities**  
**URAC Audit Update**  
**March 9, 2001**

**Background**

- On January 18, 2011 the Sacramento City Council directed the City Auditor to issue a Request for Proposals (RFP) to solicit firms to perform an operational efficiency and cost effectiveness audit of the Department of Utilities
- The abbreviated scope of the audit is “to conduct an examination of the Department of Utilities to evaluate whether the department is managing and/or utilizing resources in a responsive, economical and efficient manner”
- The Auditor issued a RFP on January 21, 2011 and reviewed seven qualified responses.
- On February 22, 2010 City Council approved a professional services contract with Public Financial Management, Inc (PFM) for a not to exceed cost of \$116,902 to be paid by DOU;
  - PFM structured its proposal and scope to include the technical expertise of two additional sub contractor firms to assist in the audit efforts:
    - GBB - a Solid Waste specialty firm, and
    - EMA - a Water and Wastewater consulting firm
- In terms of timeline, the current audit scope is scheduled for implementation in two phases:
  - **Phase 1** began on Feb 22 and is scheduled for completion by April 29
  - This phase is intended to provide:
    - At a high level, an identification and prioritization of the top 3-5 opportunities for efficiencies/cost savings to be considered for the F11/12 budget
    - A review of levels of service, administrative and operational policies and procedures, internal controls, staffing levels, organizational structure and best practices;
    - A Phase 1 Finding and Recommendation Report will be presented to the City Auditor’s Office by April 29, 2011
  - **Phase 2** would begin, at the discretion of the City Auditor
    - The consultant may be directed to proceed with a detailed review(s) and analysis of a secondary tier of potential cost savings/efficiency opportunities as identified in the Phase 1 review.

- This analysis, if authorized by the Auditor, would occur after the FY11/12 budget development process.
- Phase 1 is well underway
  - Utilities management staff participated in a series of entrance conferences and fact-finding meetings with the consultants between March 2 and March 4, 2011
- Terrance Davis, Program Manager from Field Services has been designated to serve as point of contact for this effort to ensure that DOU provides a coordinated and engaged response to the audit.
- For the next 4-6 weeks, staff will continue to provide data requested by the consulting team, which covers every aspect of the Utilities Department including: Rates and Cost of Service Analysis, Water Quality, our Asset Management strategy to replace and rehabilitate our failing infrastructure, and Solid Waste Services
- As indicated previously, we anticipate the receipt of the Phase 1 findings in early May and will be working with the Auditor, City Manager, URAC and Council to determine any feasible recommendations for future budget cycles or rate considerations

On Tuesday March 8<sup>th</sup> beginning at 12:15 PM, the City Audit Committee met (Chair – CM Cohn, members: CM Ashby, Schenirer and D. Fong) to provide a venue for the community to provide the Committee and Auditor with input into the on-going audit of DOU. Two members of the public spoke. Due to the lack of community attendance, the Committee is looking at having another meeting in the evening for late March/early April. Chair CM Cohn asked that a representative from the URAC attend this meeting.