



County Of San Diego, California

Auditor and Controller

*Final
Report*

Grand Jury Audit of the City of San Diego Metropolitan Wastewater Department Service Level Agreements

Office of **A**udits & **A**dvisory **S**ervices

February 2006
Report No. A06-019

EXECUTIVE SUMMARY

At the request of the County of San Diego Grand Jury, the Office of Audits & Advisory Services (OAAS) has conducted a limited scope audit of the City of San Diego Metropolitan Wastewater Department's FY 2004-05 Service Level Agreements (SLAs). The Grand Jury initially selected five (5) specific SLAs for review, which, after further discussion, they subsequently reduced to three (3) SLAs.

The Metropolitan Wastewater Department utilizes SLAs to obtain services from a number of General Fund departments needed to carry out activities required for its mission. An SLA is an intergovernmental agreement that specifies services to be provided and the cost of these services. The objective of the audit was to determine whether the Metropolitan Wastewater Department is using SLAs to subsidize services for other city departments using restricted funds and to establish the appropriateness of charges for services rendered under these agreements.

While test work found no misuse of funds for the SLAs reviewed, we identified several internal control weaknesses summarized below:

Lack of Effective Internal Controls for Service Level Agreements – Audit work determined that the Metropolitan Wastewater Department does not have adequate internal control activities to administer the use of SLAs. Specifically, we found that some of the control activities essential for proper stewardship, accountability for government resources and for achieving effective and efficient program results are missing. For instance, OAAS found inadequate policies and procedures in place to administer the use of SLAs within the department. Also, audit work revealed that SLAs were not formally monitored for performance preventing management from assessing the necessity and cost effectiveness of these agreements.

INTRODUCTION AND BACKGROUND

The City of San Diego's Metropolitan Wastewater Department (MWWWD or 'the Department') is responsible for wastewater treatment and disposal services for the City of San Diego and 15 other cities and districts located throughout the County. An average of 180 million gallons of wastewater is treated every day of the year. The Department's primary objective is to provide the residents of San Diego with safe, efficient, and cost effective sewerage system and to manage urban runoff to protect the environment, supplement our limited water supply, and meet regulatory standards.

The Department is solely funded by Enterprise Funds. Enterprise Funds are self-supporting revenues generated by fees for specific services rendered not subsidized by General Funds.

MWWWD utilizes Service Level Agreements (SLAs) to obtain services from a number of General Fund departments needed to carry out activities required for its mission. An SLA is an intergovernmental agreement that specifies services to be provided and the cost of these services. In 1996, the City Manager implemented SLAs with the intent of providing enhanced documentation and accountability for both service provider and customer departments.

During FY 2004-05, MWWWD had a total of 1,047 positions with a budget of \$508.7 million. From this amount, approximately \$45.8 million (9%) was budgeted for services provided through 27 SLAs.

AUDIT SCOPE AND LIMITATIONS

At the request of the Grand Jury, the Office of Audits & Advisory Services (OAAS) has conducted a limited scope audit examining the City of San Diego Metropolitan Wastewater Department's FY 2004-05 SLAs. The Grand Jury initially selected five (5) SLAs for review. The objective of the audit was to determine whether MWWD was using SLAs to subsidize services for General Fund Departments using restricted funds and to establish the appropriateness of charges for services rendered to MWWD under these agreements.

The following SLAs were selected for audit review by the Grand Jury:

Service Level Agreements	FY	Amount
MWWD and Neighborhood Code Compliance Department (Memorandum of Understanding)	FY 2004-05	\$57,115
MWWD and Community Service Center Department	FY 2004-05	\$301,250
MWWD and Street Division	FY 2004-05	\$150,000
MWWD and Engineering & Capital Program Division	FY 2004-05	\$22,592,346
MWWD and Water Department	FY 2004-05	\$5,000

OAAS found that the SLAs related to the Engineering & Capital Projects Division and the Water Department are entirely funded by Enterprise Funds. Therefore, OAAS determined that the SLAs with these departments presented a minimal risk in terms of enterprise monies being used inappropriately. As a result, the Grand Jury eliminated these two SLAs from the scope of the audit.

OAAS' ability to completely execute this scope was limited by several factors, including: turnover of key city personnel, the lack of auditable records, and the unavailability of comparable benchmarking data from other governmental agencies that utilize SLAs.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

METHODOLOGY

OAAS implemented a multi-faceted methodology that included the following:

- Reviewed selected SLAs to obtain an understanding of terms outlined within each SLA;
- Conducted multiple interviews with City management, including Metropolitan Wastewater Department management involved with administering and supporting SLAs;
- Inquired about available management reviews, studies, or audits performed on SLAs;
- Requested existing policies and procedures governing the use of SLAs;
- Evaluated internal control procedures over existing SLAs;
- Conducted limited benchmarking regarding the use of SLAs and related policies and procedures;
- Verified the validity of the established cost for services under each SLA by reviewing existing documentation that supported the rationale used to determine the cost;
- Validated actual costs charged for each selected SLA during FY 2004-05 by reviewing financial reports and timesheets and reconciling charges;
- Reviewed the overhead application process to obtain an understanding of the methodology used;

- Reviewed existing performance report for each selected SLA to ascertain the degree of management oversight of SLA performance; and
- Determined how services provided under selected SLAs assist management in meeting the Department's objectives.

FINDINGS

The following discusses the results of the OAAS audit on behalf of the Grand Jury examining the adequacy of internal controls over SLAs and the appropriateness of MWWWD funds expended for these SLAs.

I. Lack of Effective Internal Controls for Service Level Agreements

OAAS found that MWWWD does not have adequate internal control activities to administer the use of SLAs. In particular, our audit found that control activities, which are essential for proper stewardship and accountability for government resources and for achieving effective and efficient program results, are missing. More specifically, our audit identified the following:

Inadequate Policies and Procedures to Administer SLAs – Audit work identified the lack of adequate policies, procedures, and related documented roles and responsibilities governing the use of SLAs within the Department. The only guidance available is a memorandum from the former City Manager which instructed City departments to utilize SLAs and provided general guidelines for the negotiation of SLAs.

SLAs Not Formally Monitored For Performance - Audit work discovered that during FY 2004-05, there were no performance metrics identified within the SLAs required to determine the effectiveness and efficiency of services provided. Additionally, formal performance status reports on SLA activities were not made available to MWWWD for their review. As a result, there were no records available that demonstrated formal oversight and assessment of services provided under these SLAs. Moreover, the lack of performance monitoring indicates that there was no formal evaluation of SLA performance from the standpoint of determining the necessity and cost effectiveness of these agreements. More specifically, OAAS found the following:

- ***Lack of Performance Reports Related to Activities Performed Under the Streets Division SLA*** – OAAS found that there are no performance reports available that identified and quantified activities completed by Street Division staff for MWWWD.¹ Therefore, MWWWD management was unable to validate that SLA charges were directly related to street work completed for MWWWD.
- ***Unavailability of Detailed Activity Reports Related to the Community Service Centers SLA*** – The SLA between MWWWD and the Community Service Centers Division (CSC) does not require the service provider department to provide detailed activity reports related to the services performed under the SLA.² During our audit work, it was revealed that CSC maintains reports that detail the number of water and sewer transactions processed at each service center. However, these reports are not provided to MWWWD for their review. The only report available to MWWWD is a summary report with sewer and water revenue collected at each community center. This report does not

¹ The service provider is to perform various tasks and projects on behalf of the MWWWD's Wastewater Collection Division. This program encompasses the various tasks, such as but not limited to, emergency repair services, customer services, and scheduled and unscheduled manhole-raising for street resurfacing.

² CSC is to provide MWWWD related services for City of San Diego residents, especially with regard to information outreach and retail bill collection. In addition, service providers are to provide support to the adopt-a-canyon program and two additional MWWWD public outreach events, as well as organize and chair bi-annual customer service meetings with MWWWD staff.

provide detailed data to allow MWWWD management to quantify and assess actual services received from CSC.

- ***Lack of Performance Reports Related to Activities Performed by Neighborhood Code Compliance*** – Audit work revealed that there were no performance reports that provided a summary of work completed under the Memorandum of Understanding (MOU) with the Neighborhood Code Compliance Department (NCC).³ The MOU did not clearly define the responsibilities of the service provider department. The lack of activity reports prevents MWWWD management from ensuring that hours charged by NCC staff to MWWWD were directly related to projects completed for MWWWD. In addition, management was unable to formally evaluate the level of service received.

MWWWD management indicated that during FY 2004-05 such performance reports were not required for most SLA activities because they were not discussed during SLA negotiations. Additionally, management did not deem it necessary to formally review and assess actual performance since this information was obtained through other means (verbal communication, phone conversations, direct observations, etc.). Management indicated that performance measurement will be conducted going forward to ensure satisfactory delivery of SLA services.

II. Expenses Related to Service Level Agreements Appeared to be Appropriate

Notwithstanding the identified internal controls weaknesses, OAAS' audit work determined that expenditures associated with the SLAs under review appeared to be appropriate and reasonable. More specifically, OAAS' review and reconciliation of SLA actual charges for labor and non-labor costs determined that the amounts billed for services performed under the SLAs with CSC, Street Division, and the MOU with NCC during FY 2004-05 appeared to be appropriate and within budgeted levels.

REPORT DISTRIBUTION

This report is intended solely for the information of the San Diego County Grand Jury. Further distribution of this report is at the discretion of the Grand Jury.

COMMENDATION

We would like to thank the City of San Diego Metropolitan Wastewater Department, the City of San Diego Auditor and Comptroller Department, the City of San Diego Office of Financial Management, and management and staff of service provider departments for the cooperation and courtesies extended to us while performing the audit.

AUDIT TEAM

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³ Prior to creation of the SLA between NCC and MWWWD on FY 2005-06, the City had an MOU in place regarding the removal of spray painted utility marking and public right of way. The MOU indicated the Graffiti Control Program (now the NCC Department) would be responsible for removing markings/graffiti in the public right of way. The MOU recommended that the cost of a Utility Worker II position should be allocated 35% to MWWWD, 35% to the Water Department, and 30% to Streets Division. However, management indicated that this agreement did not preclude charges for this service to exceed the recommended cost distribution of 35% as long as MWWWD considered reasonable.