



CONSULTING ENGAGEMENT

SCPPA Financial Transactions Review for Fiscal Years 2014, 2015 and 2016

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Office of Organizational Performance
and Accountability
Cheryl Johannes, Manager

OBJECTIVES, SCOPE and METHODOLOGY

At the request of the Governmental Affairs Committee, the Office of Organizational Performance and Accountability (OOPA) performed an assessment of Riverside Public Utilities (RPU) financial transactions related to the Southern California Public Power Authority (SCPPA). Our objectives were to determine the following:

- SCPPA transactions conformed to SCPPA contract guidelines;
- How RPU procures services through SCPPA; and
- RPU's procurement of SCPPA services during the review period was consistent with City policies during the same period.

We reviewed transactions and supporting documentation from July 1, 2013 through June 30, 2016 to address the audit objectives. Additional review elements to address the objectives included the following:

- SCPPA Joint Powers Agreement dated November 1, 1980;
- City Council Resolution 14183 dated September 16, 1980;
- City Council Memorandum Reports (8-26-1980, 8-14-2007 and 2-21-2017);
- Riverside City Charter sections 406, 419 and 1202;
- Purchasing Resolution number 22576;
- California Government Code 6500-6539, Joint Powers Agreements;
- Senate Bill (SB) 1037, Energy Efficiency;
- SCPPA Board resolutions;
- SCPPA resolution billing invoices;
- Interviews/discussions with RPU staff;
- Interviews/discussions with Office of the City Attorney representatives; and
- IFAS account detail data.

BACKGROUND

“Southern California Public Power Authority (SCPPA), with headquarters in Glendora, California, is a joint powers agency comprised of eleven municipal utilities and one irrigation district. SCPPA's members consist of the municipal utilities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon and the Imperial Irrigation District. Together they deliver electricity to over 2 million customers in the Southern California basin, spanning an area of 7,000 square miles, and with a total population that exceeds 5 million.

Formed in 1980, SCPPA was created for the purpose of providing joint financing, construction and operation of transmission and generation projects. Today, SCPPA fulfills a broad range of services for its members by providing effective forums of collaboration through committees such as: Customer Service, Finance, Public Benefits, Resource Planning, Transmission and Distribution, Engineering and Operations, Natural Gas, and Renewable Energy Resources.” – [SCPPA website](#)

OBSERVATIONS

PURCHASES THROUGH SCPPA

For fiscal years 2014 through 2016, the total amount of resolution billings¹ for energy efficiency programs and other SCPPA member services for RPU was **\$7.3 million**. Refer to *Appendix A* for a breakdown of the charges for each fiscal year, recorded in the City's financial system (IFAS) by GL account description.

The SCPPA billing invoices to RPU followed the City's standard payment process. Our review of 36 invoices confirmed that RPU Finance verified the charges listed on the invoices prior to forwarding to the City Finance Department for processing.

Prior to fiscal year 2015/16, documentation of RPU approvals of purchases through SCPPA was accomplished via letters and emails, as noted in the Riverside Public Utilities performance audit dated May 20, 2016. While this was informal, our review of the resolution billings, SCPPA Agreement, City Charter, and Purchasing Resolution 22576 did not reflect a violation of the City Charter or the purchasing resolution for the purchase of SCPPA services, as evidenced in the applicable sections below. Further, RPU has since formalized its approval process for SCPPA purchases.

SCPPA COMPLIANCE WITH CITY CHARTER

Our review of SCPPA transactions also included compliance with the City Charter, specifically to determine whether the RPU General Manager has been delegated the authority to order services through SCPPA.

The City Charter provides the following guidance related to delegation of authority:

- **Section 406 – City powers vested in Council; exceptions.**
All powers of the City shall be vested in the City Council except as otherwise provided in this Charter.

Additionally, Section 9 of the 1980 SCPPA agreement (Board of Directors) states that the Authority's governing board "...shall consist of one Director representing each Member. The Director representing each Member shall be the chief executive officer of the electric utility of such Member or the designee of such chief executive officer. Each Director will serve in his individual capacity as a member of the Board of Directors."

After review of the aforementioned, it is our determination that RPU has complied with Section 406 of the City Charter for fiscal years 2014 through 2016:

- The City Council approved the terms and conditions of the SCPPA Joint Powers Agreement along with the City of Riverside's membership by Resolution number 14183 on September 16, 1980. By joining SCPPA and approving the terms of the Agreement, the City Council effectively delegated authority to the RPU General Manager, as the voting member for Riverside on the SCPPA Board of Directors, to act on behalf of the City at SCPPA.
- This delegation of authority includes ordering services through SCPPA as well as authorizing SCPPA to enter into third-party contracts, consistent with the provision noted in the SCPPA Agreement, on behalf of RPU and the City.

SCPPA COMPLIANCE WITH PURCHASING RESOLUTION NO. 22576

Our review of SCPPA transactions also included compliance with Purchasing Resolution 22576, the resolution in place during fiscal years 2014 through 2016.

¹ Does not include SCPPA power purchases.

Purchasing Resolution 22576 provides the following guidance for exceptions to the resolution:

- **Article Two: Competitive Procurement, Section 201 –Exceptions.**

Competitive Procurement shall not be required in any of the following circumstances:

(f) When Cooperative Purchasing is available and undertaken.

(h) When the Goods or Services can be obtained through Federal, State and/or other public entity pricing contracts or price agreements.

One of the powers of SCPPA is contracting; the SCPPA Agreement states the following, in part:

- **Section 5. Powers.**

The Authority shall have power to finance, acquire, construct, maintain and operate one or more Projects. The Authority is hereby authorized and empowered, in its own name, to do or cause to be done all acts necessary for the exercise of said power, including but not limited to any or all of the following:

(e) To make and enter into contracts of every kind with the Members, the United States, any state or political subdivision thereof, and any individual, firm, association, partnership, corporation or any other organization of any kind.

(i) To exercise any other power permitted by the Joint Powers Act.

Such powers shall be exercised in the manner provided in Section 6509 of the Government Code of the State of California.

Some SCPPA services paid by RPU such as training, membership fees or conferences are authorized through execution of a SCPPA resolution, but without a contract. These services are classified as “contributions” in the applicable resolution; the resolutions are approved by the SCPPA Board of Directors. These types of payments are addressed in the SCPPA Agreement as follows, in part:

- **Section 12. Contributions; Payments; Advances; etc.**

In accordance with Section 6504 of the Government Code of the State of California, as amended, the Members shall make such contributions, payments and advances to the Authority as are approved from time to time by the Board of Directors.

After review of the aforementioned, it is our determination that RPU contracts and services acquired through SCPPA for fiscal years 2014 through 2016 were either exempt from Purchasing Resolution 22576 or otherwise not applicable:

- Cooperative Purchasing as defined in the Resolution is “a purchasing method whereby the Procurement requirements of two or more governmental entities are combined in order to obtain the benefit of volume procurement or reduction in administrative expenses.”

The relationship between the City of Riverside and SCPPA meets this standard, as Riverside achieves economies-of-scale pricing from the collective buying power of SCPPA members, resulting in ratepayer benefits; therefore, services acquired through SCPPA would be a valid exception from Section 201 of the purchasing resolution. Additionally, services procured without a contract were documented as contributions in each applicable SCPPA resolution, and Section 12 of the SCPPA Agreement authorizes such contributions.

- For third-party contracts, the purchasing resolution delegates authority to the City Manager to execute contracts of \$50,000 or less. This applies to agreements between the City and a third party. Contracts that SCPPA enters into on behalf of its Members are between SCPPA and another party; therefore, in this situation the purchasing resolution would not be applicable.

SUMMARY

The SCPPA purchases by RPU from fiscal years 2014 through 2016 were consistent with the types of purchases allowed under the SCPPA Agreement. SCPPA's authority to enter into contracts on behalf of RPU was authorized by the City of Riverside's approval of the 1980 SCPPA Agreement, which established Riverside's membership into SCPPA, as well as the appointment of the RPU General Manager as the voting member for Riverside on SCPPA's Board of Directors. Section 406 of the City Charter supports this authorization.

Purchases made through SCPPA that did not require a contract were documented as contributions; the authorizations for such contributions are outlined in the SCPPA Agreement, and were authorized in the billing resolutions for the applicable purchases. Services for energy efficiency, training, and other programs are within the powers of SCPPA as permitted by the Joint Powers Act. Additionally, Section 201 of Purchasing Resolution 22576 identifies exceptions to competitive procurement, and the relationship between the City and SCPPA falls within the guidelines as defined.

Personnel from the City of Riverside do not endorse SCPPA third-party contracts with other parties. Although RPU may be a member agency for a particular agreement, those services are procured through SCPPA, and as such that agreement is between SCPPA and their third party; therefore Purchasing Resolution 22576 is not applicable (this is also supported by Section 406 of the City Charter).

We sincerely appreciate the cooperation extended by the RPU staff during our assessment.

Respectfully,

Vincent Price, CGAP, CICA
Senior Internal Auditor
Office of Organizational Performance and Accountability

Appendix A

SCPPA Charges for Fiscal Years 2014 through 2016

GL Account Number	GL Account Description	FY2013-14	FY2014-15	FY2015-16	Total
151000	Prepaid Expenses (SCPPA advocacy and regulatory affairs)	59,909.00			59,909.00
151200	Prepaid Expense (SCPPA project stabilization fund)	500,000.00			500,000.00
421000	Professional Services (Various SCPPA vendor agreements)	131,809.42	198,334.63	144,445.14	474,589.19
421100	Outside Legal Services (SCPPA legal and administrative costs)	41,739.70	191.75		41,931.45
421200	Regulatory/Market Compliance (SCPPA member compliance related to the Dodd-Frank Act)	604.68			604.68
422915	Capacity Charge	55,099.21	36,530.56	42,611.14	134,240.91
424220	All Other Equip Maintenance/Repair			1,214.79	1,214.79
425200	Periodicals & Dues (Training, networking and educational services for SCPPA members)	109,977.57	2,150.00	65,699.55	177,827.12
425700	Software Purchase/Licensing (Credit/financial and analytical software subscription service)	42,066.64	38,488.84	70,140.26	150,695.74
425900	Contract Compliance (Costs related to negotiation meetings between SCPPA and Western Area Power Administration)			83.46	83.46
426800	Special Department Supplies (Energy and water conservation/efficiency)			31,514.48	31,514.48
427100	Travel & Meeting Expense (SCPPA transmission & distribution and engineering & operations conferences)	236.00	2,701.92	612.24	3,550.16
427200	Training (Various SCPPA related training or conferences)	20,143.81	24,113.83	19,066.87	63,324.51
440210	State Operating Grants (SCPPA internship program)			8,274.25	8,274.25
456012	Home Energy Analysis-Res		9,450.00	2,196.00	11,646.00
456028	Energy Mgmt Serv-Tech Asst-NR			2,196.00	2,196.00
456042	Refrigerator Recycling-R	26,200.00	23,475.00	21,712.50	71,387.50
456043	Indoor Electric Vehicle - NR			1,575.00	1,575.00
456056	Auto Meter Reading - NR	13,690.00	17,270.00	31,630.00	62,590.00
456080	Small Business Direct Install	1,446,582.91	1,202,838.81	1,560,902.70	4,210,324.42
457025					
456084	CFL Distribution	46,278.41			46,278.41
456091	Upstream HVAC Program		171,009.94	96,343.46	267,353.40
456092	Multi-Family Direct Install Program		152,684.71	192,286.81	344,971.52
456094	Key Acct Energy Efficiency		85,180.00	13,250.00	98,430.00

Appendix A – continued

GL Account Number	GL Account Description	FY2013-14	FY2014-15	FY2015-16	Total
456096	LED Buy Down Program			300,536.16	300,536.16
457022	HET Direct Install Program		70,730.00		70,730.00
457027	Res on-Line Water Audit Tool		696.00		696.00
470601	Distribution Line Extensions		10,390.18	9,747.84	20,138.02
470625	Substation Equipment Replacement			5,906.84	5,906.84
470632	Substation Transformer Add			4,344.86	4,344.86
470655	Distribution Automation/Reliability			5,106.19	5,106.19
470685	RTRP and STP Project			5,213.94	5,213.94
Various Accounts	SCPPA Internship Program	88,680.22	30,581.71		119,261.93
	Grand Total	2,583,017.57	2,076,817.88	2,636,610.48	7,296,445.93