



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 21, 2022

FROM: CITY MANAGER'S OFFICE WARDS: ALL

SUBJECT: FORENSIC REVIEW OF THE CITY OF RIVERSIDE PARTICIPATION IN THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

ISSUE:

Receive a report from Eide Bailly, LLP on the Forensic Review of the City of Riverside's Participation in the Southern California Public Power Authority.

RECOMMENDATIONS:

That the City Council:

1. Receive and file a report from Eide Bailly, LLP on the Forensic Review of the City of Riverside's Participation in the Southern California Public Power Authority;
2. Determine whether to retain forensic accounting services to investigate Respondent's assertions at an estimated cost of \$145,000; and
3. Determine whether to obtain outside counsel to investigate Respondent's assertions found outside of the Forensic Review scope of work at an estimated cost to be determined.

BACKGROUND:

On March 13, 2019, a request was made by Councilmember Conder during the City's Finance Committee meeting for the City of Riverside to conduct a complete and independent outside audit of the Southern California Public Power Authority (SCPPA), including the formation of SCPPA and its original charter, past audits conducted by the Internal Audit Department, a thorough determination as to signature authority and approval for SCPPA contracts, and transactions between RPU and SCPPA as far back as can be reasonably accomplished.

On August 21, 2019, RFP No. 1963 was issued for a forensic review of the City of Riverside's participation in the Southern California Public Power Authority. The intent of the RFP was to find a qualified entity or individual to provide forensic review services of the City of Riverside's participation with SCPPA for a 10-year period ending December 31, 2018. Five proposals were received in response to RFP No. 1963 and, after an extensive evaluation process, Eide Bailly,

LLP (Eide Bailly), was selected as the most responsive proposer based on qualifications, pricing, and industry experience.

On June 30, 2020, the City Council approved a Professional Consultant Services Agreement with Eide Bailly in response to RFP 1963 for Forensic Review of the City of Riverside's Participation in the Southern California Public Power Authority, in an amount not-to-exceed \$115,500, and requested the contract be fully funded from Public Utilities Administration Professional Services Account.

On August 24, 2020, the Board of Public Utilities voted to approve the full cost associated with the Professional Consultant Services Agreement with Eide Bailly for a forensic review of the City of Riverside's participation in the Southern California Public Power Authority in an amount not to exceed \$115,500.

On March 23, 2021, the City Council approved a First Amendment to a Professional Consultant Services Agreement with Eide Bailly to extend the term through June 30, 2021, increase compensation by \$12,500 for a total contract cost not-to-exceed \$128,000; and authorized the City Manager, or designee, to execute the First Amendment to Professional Consultant Service Agreement with Eide Bailly, including making minor and non-substantive changes.

On December 1, 2021, the Inclusiveness, Community Engagement and Governmental Processes Committee received and filed a draft Forensic Review report from Eide Bailly, on the Forensic Review of the City of Riverside's participation in the Southern California Public Power Authority, requested Eide Bailly, complete a final report with the edits recommended by staff and present the final report to City Council for their review and consideration, and directed staff to return to the Committee for review in 90 days.

At the conclusion of the December 7, 2021, City Council meeting, considering the recent developments involving retired RPU General Manager David Wright and the City's involvement with SCPPA, Councilmembers Conder and Perry requested discussion on Southern California Public Power Authority audit, Riverside Public Utilities independent audit, and Measure MM be placed on a City Council agenda in January 2022.

DISCUSSION:

Eide Bailly, LLP, is a CPA and business advisory firm with forensic professionals that have extensive experience in reviewing agreements, policies, and past financial transactions for specific purposes. Their initial scope of services for the Forensic Review included the following tasks:

- 1) Interviews with City Council members, the City Manager, Public Utilities Board Members, the Public Utilities General Manager, and the Chief Financial Officer to discuss concerns.
- 2) Review, summarize, analyze, and categorize expenditures by the City for contracts authorized under SCPPA.
- 3) Compare expenditures to industry standard costs to determine the amount of savings, if any, the City's ratepayers experienced through the SCPPA Agreements.

- 4) Determine the level of participation in projects additional to the provisions for financing generation and transmission of electric power to determine if the SCPA participation has been effective at providing services in an economical, efficient, and effective manner, whether its goals and objectives were/are being achieved, and whether it was/is complying with applicable City and Utility Department procedures in areas of contract signature authority.
- 5) Analyze previously performed audits from the City's Internal Audit Division and other external contractors specifically related to the SCPA participation.

Following the execution of the original Agreement with Eide Bailly, a request was made by a member of the public to include an additional task in the forensic review to receive public input related to the City's participation in SCPA. To accommodate this request, a First Amendment to the Agreement with Eide Bailly was drafted and approved by City Council on March 23, 2021 in the amount of \$12,500 to expand the scope of services and allow Eide Bailly to distribute through the City's social media and website a "Call for Public Input related to the Forensic Review of the City of Riverside's Participation in the Southern California Public Power Authority" and receive ideas, information, and concerns from the public related to the City's participation in SCPA. Concerns were mailed directly to Eide Bailly via typed/word processed letter and were investigated by Eide Bailly as part of the forensic review process. The outcome of the public input process is included in Eide Bailly's final report.

On January 11, 2022, City Council received and filed an update on the Public Utilities Department participation in the Southern California Public Power Authority. Following discussion, Councilmember Conder requested Eide Bailly interview the sole public respondent to the "Call for Public Input", research the information provided and complete the audit of the Southern California Public Power Authority. Two interviews were conducted with the public respondent in March 2022. Concerns and assertions provided in the Respondent interview that were determined to be within the scope of the analysis are addressed on pages 29 – 33 of the report. A list of remaining Respondent concerns and assertions outside of the analysis scope or forensic accounting services purview is included in Workpaper 4 of the report. A corresponding estimate of hours and fees that would be required to conduct an investigation into the concerns is also provided in Workpaper 4.

Draft Report

For purposes of maintaining the integrity of the forensic review, staff remained objective throughout the review process and allowed Eide Bailly to perform their analysis independently with minimal involvement from the City, other than to provide supporting documents and assist with questions as needed. As a result, staff did not receive updates from Eide Bailly on their findings throughout the review process nor did the City receive a copy of the draft forensic report until November 17, 2021, two days prior to the publication of the Inclusiveness, Community Engagement, and Governmental Processes Committee December 1, 2021, agenda. This level of independence provided to Eide Bailly helped to ensure that the Committee and members of the public received the draft report concurrently with city staff.

Staff reviewed the draft forensic report on November 18, 2021 and identified several points of clarification and edits that need to be made to the report. Typically, this initial editing process is done prior to the publication of the report. However, in order to ensure the integrity and

transparency of the forensic review, staff conducted the editing process in a public forum with the engagement of the Committee so all stakeholders could receive the initial findings of the forensic review at the same time as the City. Edits and points of clarification requested in the December 1, 2021, Inclusiveness, Community Engagement, and Governmental Processes Committee staff report have been included in the final report.

STRATEGIC PLAN ALIGNMENT:

This item aligns with Strategic Priority No. 5 – *High Performing Government* and Goal No. 5.3 – Enhance communication and collaboration with community members to improve transparency, build public trust and encourage shared decision-making.

The item also aligns with each of the Cross Cutting Threads as follows:

- Community Trust – A forensic review of our processes by qualified professionals, along with the public presentation of these findings, helps to ensure the City is acting in a transparent manner and builds community trust.
- Equity – This forensic review provided equitable opportunities for all members of the public to provide ideas, information and concerns related to the City’s participation in SCPPA.
- Fiscal Responsibility – This project was competitively bid through the City’s Request for Proposal process to ensure services were provided at the best value for the City.
- Innovation – Forensic reviews and assessments of our practices allows the City identify and respond to any challenges within our operations and ensures our ability to adapt to the changing environment.
- Sustainability and Resiliency – Assessments of our City’s activities and operations helps ensure that the City is able to evolve to meet the needs of our residents and is resilient to future changes and challenges.

FISCAL IMPACT:

There is no fiscal impact associated with the receipt of this informational report.

Prepared by: Megan Stoye, Senior Management Analyst
Certified as to
Availability of Funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Kris Martinez, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Forensic Review of the City of Riverside’s Participation in SCPPA
2. Presentation
3. ICGC Report - December 1, 2021