



City of Arts & Innovation

Inclusiveness, Community Engagement & Governmental Processes Committee

TO: INCLUSIVENESS, COMMUNITY ENGAGEMENT AND GOVERNMENTAL PROCESSES COMMITTEE MEMBERS **DATE: DECEMBER 1, 2021**

FROM: CITY MANAGER'S OFFICE **WARDS: ALL**

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

ISSUE:

Receive a draft 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 Inclusiveness, Community Engagement and Governmental Processes Committee:

1. Receive and provide feedback on a draft report from Eide Bailly, LLP on the Forensic Review of the City of Riverside's Participation in the Southern California Public Power Authority; and
2. Request 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.

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, 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, LLP 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, LLP for a forensic review of the City of Riverside's participation in the Southern California Public Power Authority in an amount not to exceed \$115,000.

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 includes:

- 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 SCPPA 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 SCPPA 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 SCPPA. 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 SCPPA. 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.

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 we receive this draft forensic report until November 17, 2021, two days prior to the publication of this document. 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 is conducting this editing process in a public forum with the engagement of the Committee so all stakeholders can receive the initial findings of the forensic review at the same time as the City. The only edits that have been made to the original report received by staff on November 17th is the addition of a DRAFT watermark stamp that was added to each page of the report upon the request of the City.

On November 19, 2021, staff met virtually with Eide Bailly through Microsoft Teams to discuss the forensic report and requested the following points of clarification and edits be included in a final report that will be presented to the City Council at a future meeting:

1. Section I. Introduction & Background and Section IX. Conclusion:
 - a. Staff identified a statement in the Introduction & Background (pg. 3) and the Conclusion (pg. 22) sections of the report stating that Eide Bailly's observations are based on the information provided to them, and their "analyses and observations could be materially different" if additional information is forthcoming. For clarification purposes, staff asked Eide Bailly in their meeting on November 19th if they received all the information they needed to conduct a thorough analysis of the City's participation in SCPPA. Eide Bailly confirmed that they received the information they needed to perform a thorough analysis and that the City provided all the information and documentation they requested during their review process. Based on this confirmation, staff is requesting that Eide Bailly include a clarifying statement in the Introduction and Conclusion sections of the report that speaks to this point.
2. Section III: Riverside Expenses Under SCPPA – SCPPA Resolutions (pg. 5):
 - a. Update the number and percentage of SCPPA Resolutions with Riverside Participation in the narrative to exact amounts vs. approximations so the numbers match the counts listed in Figure 2.
3. Section III: Riverside Expenses Under SCPPA – Power Generation and Transmission Expenses (pg. 7 & 8):
 - a. Provide an analysis of the *Mead-Phoenix* contract.
 - b. Provide an analysis of what type of contracts comprise the "Other" expenses identified in Figure 5.
4. Section III: Riverside Expenses Under SCPPA – Energy Efficiency Expenses (pg. 8 – 10):
 - a. Expand the summaries of the contracts to include an analysis of the projects.

- b. Provide an analysis of what type of contracts comprise the “Other” expenses identified in Figure 6.
5. Section III: Riverside Expenses Under SCPA – Professional Services Expenses (pg. 10 – 11):
 - a. Expand the summaries of the contracts to include an analysis of the projects.
 - b. Provide an analysis of the zGlobal contract. Provide an analysis of what type of contracts comprise the “Other” expenses identified in Figure 7.
6. Section III: Riverside Expenses Under SCPA – Legal and Regulatory Expenses (pg. 11 – 12):
 - a. Expand on the summaries of the contracts to include an analysis of the projects.
 - b. Provide an analysis of what type of contracts comprise the “Other” expenses identified in Figure 8.
7. Section III: Riverside Expenses Under SCPA:
 - a. Expand on the summaries of the contracts to include an analysis of the projects.
 - b. Provide an analysis of the expense categories for Training and Working Groups, Internship Programs and Other.
8. Section IV: Riverside Cost Savings Under SCPA:
 - a. The Scope of Services pertaining to this section required Eide Bailly to perform a comparison to industry standard costs for similar expenditures to determine the amount of savings Riverside ratepayers experienced through SCPA Agreements, if any. Staff’s interpretation of this section is that this comparison was not sufficiently performed by Eide Bailly and staff is requesting that further analysis be performed, including a sampling of each type of purchase compared to those made on the open market, as indicated in the Scope of Services.

Eide Bailly will provide a presentation of their draft report from the Forensic Review of the City’s Participation in the Southern California Public Power Authority to the Inclusiveness, Community Engagement and Governmental Processes Committee for review and consideration.

STRATEGIC PLAN ALIGNMENT:

This item aligns with *Strategic Priority 5 – High Performing Government* and *Goal 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 SCPA.
- 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: Donna Finch, Principal Management Analyst
Certified as to
Availability of Funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Al Zelinka, FAICP, 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