



PERFORMANCE ASSESSMENT



Financial Transactions Review for Fiscal Years 2014, 2015 and 2016

June 2018

Office of Organizational Performance
and Audit
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OBJECTIVES, SCOPE and METHODOLOGY

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

- Compliance of SCPPA transactions with Riverside’s Charter, Riverside’s procurement resolution and City policies during the period of fiscal years 2014, 2015 and 2016 (July 1, 2013 through June 30, 2016).

We reviewed financial transactions and supporting documentation for the review period from July 1, 2013 through June 30, 2016. 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;
- City’s purchasing Resolution 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

What is Southern California Public Power Authority (SCPPA)

Joint powers agency comprised of eleven municipal utilities and one irrigation district:

1. Formed in 1980, provides joint financing, construction, and operation of transmission and generation projects
2. *SCPPA members enjoy economies of scale pricing*



“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,

OBSERVATIONS and FINDINGS

RPU Procurement Process through SCPPA Energy Efficiency Programs

1. SCPPA posts a competitive Request for Proposal (RFP)
 - a) All RFPs are evaluated by subject matter experts from member agencies;
2. SCPPA enters into a Master Professional Services Agreement (MPSA) with awarded contractor(s); and
3. Member agencies participate in these energy efficiency programs through a Task Order (a detailed program agreement between a member agency and the selected contractor).



CITY PURCHASES THROUGH SCPPA

For fiscal years 2014 through 2016, we reviewed 36 SCPPA invoices/resolution billings¹ for energy efficiency programs and other SCPPA member services, totaling \$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.

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

Prior to fiscal year 2015/16, documentation of RPU approvals of purchases through SCPPA was accomplished via letters and emails. This process was also noted in the Riverside Public Utilities performance audit dated May 20, 2016. While this was an informal process, our review found no violation of the SCPPA Agreement, City Charter, and Purchasing Resolution 22576. More detail follows:

- SCPPA COMPLIANCE WITH CITY CHARTER

The Riverside 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.”

In our opinion, RPU has complied with Section 406 of the City Charter for fiscal years 2014 through 2016:

¹ Does not include SCPPA power purchases.

- 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**

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.

We noted in our review that 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, we determined 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:

1. 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."
2. 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.

ADDITIONAL OBSERVATIONS

At the request of the City Council in February 2017, RPU management has implemented the following procedures and internal controls to ensure transparency and accountability:

- An RPU SCPPA Procurement form is submitted to the RPU Chief Financial Officer to ensure budget availability;
- A SCPPA task order to accept services is approved by the RPU General Manager (or designee);
- RPU Board of Utilities and City Council approval is now required for SCPPA purchases over \$50K (purchases between \$25K and \$50K are approved by the City Manager; purchases up to \$25K are approved by the RPU General Manager); the FY2018/2019 programs and task orders over \$50,000 were presented to the City Council for approval on June 12, 2018 .

| Program | SCPPA Contractor | SCPPA Resolution Number | Fiscal Year 2018-19 Budget | Account Number | Sufficient Funds Available |
|---|----------------------------|-------------------------|----------------------------|----------------|----------------------------|
| Business Outdoor Lighting Direct Installation Program | Richard Heath & Associates | 2017-113 | \$ 965,000.00 | 6020100-456006 | Yes |
| Upstream HVAC Program | Energy Solutions | 2013-019 | \$ 250,000.00 | 6020100-456091 | Yes |
| Multifamily Direct Installation Program | Synergy Companies | 2014-082 | \$ 150,000.00 | 6020100-456092 | Yes |
| LED Buydown Program | GreenLite | 2014-119 | \$ 300,000.00 | 6020100-456096 | Yes |
| Small Business Direct Installation Program | Lime Energy | 2016-008 | \$ 965,000.00 | 6020100-456080 | Yes |
| Keep Your Cool | Efficiency Services Group | 2015-023 | \$ 100,000.00 | 6020100-456080 | Yes |
| Key Account Energy Efficiency Program | Muni-Fed Partner Energy | 2017-070 | \$ 150,000.00 | 6020100-456094 | Yes |
| Customer Engagement Program | Oracle America Inc. | 2017-059 | \$ 275,000.00 | 6020100-456097 | Yes |
| Total | | | \$ 3,155,000.00 | | |

- [A bi-annual report](#) is provided to the Board of Public Utilities and the City Council of all SCPPA financial transactions for the most recent period. The latest report of approved SCPPA expenditures is for the six month period of July through December 2017; submitted to the RPU Board and the City Council in February, 2018.

More detailed information about RPU's partnership with SCPPA can be found at:

<https://www.riversideca.gov/utilities/about-rpu/partnerships-scppa.asp>

SUMMARY

In summary, we found that RPU was in compliance with Riverside's Charter, Riverside's procurement resolution and City policies during the period of fiscal years 2014, 2015 and 2016 (July 1, 2013 through June 30, 2016) as noted below:

- SCPPA purchases by RPU from fiscal years 2014 through 2016 were consistent with the types of

purchases allowed under the SCPPA Agreement; payment of invoices followed the standard City payment process.

2. RPU purchases for energy efficiency, training, and other services are within the powers of SCPPA as permitted by Article One of the California Government Code (Joint Powers Agreements).
3. 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.
4. During the review period, Resolution number 22576 regulated contracts between the City and a third party. Section 201 of the resolution identifies Cooperative Purchasing as an exception to competitive procurement; the relationship between the City and SCPPA falls within the guidelines of such a relationship as defined.
5. Resolution 22576 delegates authority to the City Manager to execute contracts of \$50,000 or less for goods, services and construction; this applies to agreements between the City and a third party. Services procured on behalf of RPU through SCPPA contracts are between SCPPA and their third party; therefore, Resolution 22576 is not applicable.

In addition, the processes/procedures implemented by RPU in February 2017 have greatly enhanced the accountability and transparency of the transactions between RPU and SCPPA.

We sincerely appreciate the cooperation extended by the RPU management and staff during our assessment. Should you have any questions regarding this assessment, please contact the Office of Organizational Performance & Audit.

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 |