

### **SAN FRANCISCO PUBLIC LIBRARY AND DEPARTMENT OF PUBLIC WORKS:**

**Strengthened Program Management Required for Branch Library Improvement Program to Avoid Further Budget Increases**



*September 17, 2007*

**CONTROLLER'S OFFICE  
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Deborah Gordon, Audit Manager  
Mark Tipton, Audit Manager  
Paige Alderete, Associate Auditor  
John Haskell, Associate Auditor  
Stephen Flaherty, Associate Auditor



# City and County of San Francisco

## Office of the Controller - City Services Auditor

**SAN FRANCISCO PUBLIC LIBRARY AND DEPARTMENT OF PUBLIC WORKS:  
Strengthened Program Management Required for Branch Library Improvement  
Program to Avoid Further Budget Increases**

**September 17, 2007**

### **Purpose of the Audit**

At the request of the San Francisco Public Library, we reviewed the Branch Library Improvement Program to assess whether escalation factors used to estimate project costs were reasonable, whether best practices for obtaining construction bids were followed, and whether recent changes to staffing and management procedures are adequate to complete the program within the most recent schedule and budget.

### **Highlights**

The Branch Library Improvement Program initially included 5 new libraries, 19 branch renovations, and a new library support services center. The program is primarily funded by general obligation bonds approved in 2000.

The program shows project delays averaging 20 months and budget increases of \$51.4 million, or nearly 39 percent. Our analysis shows that project delays raised costs an estimated \$16.7 million out of the \$51.4 million total budget increase. Of the five projects completed as of March 31, 2007, though, all were within budget, and the Library and Public Works are working within the priorities established by the bond proposal.

However, the Library and Public Works are already slightly behind their recently revised schedule for five projects scheduled to begin design in July 2007 and without increased efforts of the bond program management team, even the revised schedule may not be met.

A variety of factors contributed to delays and cost increases. It is not possible to attribute any single cause to a given project because many projects were affected by more than one factor. We identified the following factors which contributed to project delays:

- Applications for state bond funding for five projects took considerably longer than anticipated.
- Delays to five branches are due in part to the Library's decision to increase the size of those projects in order to meet increased service needs.
- Unclear responsibilities between the Library and Public Works and senior management staff vacancies at the Library contributed to some delays.

Other audit findings were:

- Escalation factors used in cost estimations are consistent with industry standards but are inconsistently applied and calculated.
- The Library and Public Works have improved bond program management, and further improvements in planning and reporting are recommended.
- The Library and Public Works have adequately reached out to potential bidders, but many factors affect contractors' decision to bid or not.

### **Recommendations**

The audit report includes six recommendations for the Library and Public Works to better manage the bond program to complete branch library improvements on schedule and within budget.

As a team, the Library and Public Works should:

- Replace the current MOU with one that describes in detail specific activities necessary for each agency to meet its obligation to efficiently and effectively manage the bond program.
- Ensure that all agreements for services are documented upon inception, and establish procedures for periodic review of subsequent changes and actual costs incurred.
- Ensure that all program reports are easy to read and contain all relevant information.
- Increase controls and oversight of project budgets.

Public Works should:

- Require its cost estimation contractors to follow standard cost escalation practices.

*Copies of the full report may be obtained at:*

*Controller's Office • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500  
or on the Internet at <http://www.sfgov.org/controller>*

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**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

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**Ed Harrington**  
**Controller**

**Monique Zmuda**  
Deputy Controller

September 17, 2007

Luis Herrera, City Librarian  
San Francisco Public Library  
100 Larkin Street  
San Francisco, CA 94102

Dr. Fred Abadi, Director  
San Francisco Department of Public Works  
City Hall, Room 348  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Mr. Herrera and Dr. Abadi,

The Controller's Office, City Services Auditor, presents its audit report of the Branch Library Improvement Program. The audit objectives were to assess whether escalation factors used to estimate project costs were reasonable, whether recent changes to staffing and management procedures were adequate to complete the program within the most recent schedule and budget, identify best practices for maximizing the number of construction bids received and determine key lessons learned from the current bond program.

We concluded that the Library and Public Works are already slightly behind their most recently revised timelines for beginning the design phase of five branch renovations, and without increased efforts of the bond management team the revised schedule may not be met. Cost escalation factors used in cost estimation were inconsistently applied and calculated.

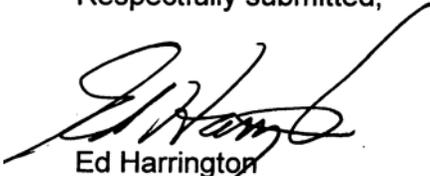
The Library and Public Works have improved bond program management, but we suggest further improvements. Finally, the Library and Public Works adequately reach out to potential bidders, but many factors affect contractors' decision to bid.

The audit includes five recommendations for the Branch Library Improvement Program Team to better document team members' roles and responsibilities and improve planning and reporting. Finally, we recommend that the Department of Public Works establish standard cost escalation practices for its cost estimating consultants.

The Library's response to the audit is attached as Appendix C. Public Works' response to the audit is attached as Appendix D. Appendix E is a recommendation table that contains the response of both departments to the specific recommendations.

We appreciate the assistance and cooperation that Library and Public Works staff provided to us during the audit.

Respectfully submitted,



Ed Harrington  
Controller

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
Budget Analyst  
Public Library

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# INTRODUCTION

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## **Audit Authority**

The City Charter provides the City Services Auditor with broad authority to conduct audits. We conducted this audit under that authority and in response to a request from the city librarian on behalf of the Library Commission and with the concurrence of the director of Public Works.

## **Background**

The Branch Library Improvement Program (bond program) is the result of voter approval of a bond issue in November 2000. Two city departments are responsible for the success of the program – the San Francisco Public Library (Library) and the Department of Public Works (Public Works). The bond program management plan states that Public Works will manage the bond program and provide technical design and engineering services as mutually agreed upon by the directors of Public Works and the Library. The Library is responsible for providing funding and reviewing financial reports that Public Works produces. The current bond program budget is \$140.9 million.

There were 26 projects in the original program scope consisting of five new libraries, 19 renovations, one support services center and renovations to one underground storage facility. Storage facility renovations were dropped early in the program because archive storage could be included with the new support services center. Acquisition and/or construction was anticipated to be completed by the first quarter of 2010 for the remaining 25 projects. In March 2007, the Library Commission approved, at the request of Public Works and the Library, the decision to take five renovation projects out of the bond program and look for other sources to fund them. See Appendix A for further information on each branch improvement project.

The new proposed final completion date for the 20 remaining projects is the end of 2010. Anticipated completion dates for the five branches to be funded by other means are still tentative due to uncertain funding. However, some funds from the 2000 bond fund have been set aside to pay the cost of designing two of those five branches so that work will not be further delayed. These two branches, Bayview and Ortega, were scheduled to begin design during July 2007, but that date was not met.

Golden Gate Valley, North Beach, and Merced are the other three branches that, with Bayview and Ortega, will require funding outside of the 2000 bond fund. The bond manager's March 31, 2007, reports show that Golden Gate Valley, North Beach, and Merced will begin design in January 2008.

The Library and Public Works initially budgeted \$128.6 million of general obligation bond funding to pay for the library improvement program. However, slightly less than \$106 million was recommended by the City's Capital Improvements Advisory Committee, and therefore the amount asked for in the ballot initiative was only \$106 million. At that time, the Library anticipated alternative funding for the support services center and the Mission Bay branch, which did not develop. Plans to close the nearly \$23 million gap included receipt of state bond funds of at least \$10 million and local seismic safety bond funds of \$2.4 million. In response to the remaining shortfall of over \$10 million, the Library and Public Works made five percent budget reductions to each of the projects. The Board of Supervisors in later years approved funding from the general fund portion of the Library Preservation Fund totaling \$5.15 million to help offset some of this shortfall. Exhibit 1 shows the proposed sources of revenue and expected costs for the library projects:

<b>EXHIBIT 1   Bond Program Budget History</b>		<b>Original Bond Proposal</b>	<b>Baseline Budget, October 2001</b>	<b>Current Budget, March 2007</b>
<b>Sources and Uses of Funds</b>				
<b>Revenue:</b>	2000 General Obligation Bonds	\$128,550,000	\$105,865,000	\$105,865,000
	1989 Earthquake Safety Bonds		2,400,000	2,400,000
	State of California Bonds		10,000,000	9,710,784
	Friends of the San Francisco Public Library		15,000,000	16,000,000
	Library Preservation Funds			5,150,000
	Bond Interest and Rents appropriated			1,801,823
	<b>Total Revenue</b>	<b>\$128,550,000</b>	<b>\$133,265,000</b>	<b>\$140,927,607</b>
<b>Costs:</b>	Direct Project Costs	\$128,550,000	\$105,460,000	\$150,198,008
	Program-wide Services and Costs	Not discussed	27,805,000	34,504,599
	<b>Total Costs</b>	<b>\$128,550,000</b>	<b>\$133,265,000</b>	<b>\$184,702,607</b>
	<b>Additional Funding Required <sup>a</sup>:</b>	<b>\$0</b>	<b>\$0</b>	<b>\$43,775,000</b>

<sup>a</sup> Amount is less than the total \$51.4 million of budget increases because additional revenues of \$7.6 million have been added to the bond program since 2002.

Source: The Branch Library Improvement Program's December 31, 2002, and March 31, 2007, quarterly reports and its May 31, 2007, presentation to the Citizens' General Obligation Bond Oversight Committee.

The original program schedule anticipated that 18 projects, or 72 percent, would be complete by the end of 2007. However, only nine, or 36 percent of the projects are on track for completion by that date. The Board of Supervisors has approved a ballot proposal for the November 2007 election that will renew funding for the Library from the City's property tax and general fund monies. This will also permit some of these funds to be used to secure and repay debt to be used to acquire real property and build and renovate libraries with approval from the Mayor and the Board of Supervisors.

## **Objectives**

The audit addressed four main objectives:

- Were the escalation factors<sup>1</sup> used to determine construction cost estimates over the years reasonable?
- What best practices exist for maximizing the number of bidders for construction projects such as the branch library projects?
- What key lessons or best practices exist for managing project costs and schedules?
- Will the Library's planned changes to processes and staffing for the bond program be adequate to complete the program as revised by the Library Commission in March 2007?

## **Scope and Methodology**

The scope of this audit is the bond program from November 7, 2000, to March 31, 2007. Our scope did not include a financial audit of bond program expenditures or a performance or financial audit of other functions or operating expenditures of either the Library or Public Works.

To conduct the audit, we reviewed financial and program information obtained from a variety of sources, including:

- City accounting records
- Minutes of meetings and reports submitted to the Library Commission and the Citizens' General Obligation Bond Oversight Committee

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<sup>1</sup> Escalation factors are the expected percentage that estimated costs will increase between the time that a cost estimate is prepared and the midpoint of scheduled construction. The state required a set percentage that could not be adjusted to reflect changes in the economy.

- Project management information and data provided by the Library's bond program manager and the Library's staff
- Construction project management and scheduling best practices from various sources outside the City

In addition, we interviewed:

- Library senior management staff, including the city librarian, deputy city librarian, and chief of branches
- Public Works' bond program manager and the manager of the project management division
- Other individuals responsible for day-to-day management of the bond program
- The chair of the Library Commission
- The chair and vice-chair of the Library Citizens' Advisory Committee and attended a meeting of the committee

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# AUDIT RESULTS

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## Summary

On the whole, the bond program has experienced extensive delays and is expected to be \$51.4 million, or nearly 39 percent, over baseline budgets according to the March 2007 estimates by the Library and Public Works. Our analysis shows that project delays make up an estimated \$16.7 million of the \$51.4 million total increase.

To date, though, completed projects are within budget, and the Library and Public Works are complying in most respects with the program's stated scheduling criteria. However, the Library and Public Works are already behind their most recently approved schedule for the remaining branch improvement projects, which will require an estimated additional \$43.8 million to be completed. This amount is less than the total \$51.4 million of budget increases because additional revenues of \$7.6 million have been added to the bond program since 2002.

## Finding 1

**Due to a variety of factors, recent bond program projections show average project delays of 20 months and total budget increases of \$51.4 million, or nearly 39 percent over baseline budgets**

A variety of factors contributed to delays and cost increases. It is not possible to attribute any single cause to a given project because many projects were affected by more than one factor and there may be factors that we did not consider. However, our analysis of project delays and cost increases showed the following:

**EXHIBIT 2 Project Delays by Project Type**

Type of Project	Number of Projects	Average Delay (in Months)	Average Increase Since Baseline Budget	Total Budget Increase Since Baseline Budget
State Bond Fund Applications	3	21	\$3,252,333	\$ 9,757,000
Scope of Project Increased	3	48	4,129,000	12,387,000
Projects With Both Scope Increases and State Bond Fund Applications	2	37	5,212,500	10,425,000
Completed Projects <sup>a</sup>	5	9	160,698	803,490
Other Projects	12	15	947,127	11,365,518
All Projects <sup>b</sup>	25	21	1,789,520	44,738,008

<sup>a</sup> Completed projects received budget increases for moving costs of \$396,990. If moving costs were not included, the average increase for the five completed branches would be \$81,300.

<sup>b</sup> For the purpose of meaningful comparison, shared costs that are not associated with individual project budgets are not included in this table. The bond program has also had additional budget increases to shared costs of \$6,699,599 which, when added to total increases to budget for all projects of \$44,738,008 equals \$51,437,607.

Source: Auditor analysis of quarterly bond program reports and the May 3, 2000, General Obligation Bond Proposal.

**The state bond fund application process took considerably longer than anticipated**

Three of the five projects submitted for state bond funding did not include scope increases and experienced delays because the application process took considerably longer than anticipated. These three projects had delays averaging 21 months and budget increases averaging \$3.3 million. State bond funds are not being pursued for any other projects in the program. Only two of the five projects, Ingleside and Richmond, received state funds.

Some reasons that contributed to the lengthy application process were:

- The state did not issue regulations governing the award of the grants until January 4, 2002.
- Applications were lengthy, laborious and time-consuming.
- The state's application point structure awarded points for new branch projects, but these applications could not be submitted until land was acquired, which further slowed the process. Three of the five applications were for new libraries.

**Delays to five branches are due in part to the Library's decision to increase the scope of those projects**

The Library increased the scope of five of the 25 projects due to increased service needs. Three of the five projects had only scope increases and two were among the state bond fund applications discussed below:

- Bayview, North Beach, and Parkside – the three branches with only scope increases – experienced average delays of 48 months and average budget increases of \$4.1 million as a result of increases to scope and schedule delays.
- Two branches – Ortega and Visitacion Valley – were state bond fund applicants that also had scope increases. These two branches had average budget increases of \$5.2 million, the largest average budget increases, and are scheduled for average delays of 37 months.

**Unclear responsibilities between the Library and Public Works and senior management staff vacancies at the Library contributed to some delays**

The June 2002 Memorandum of Understanding (MOU) between the Library and Public Works only describes in very general terms the responsibilities of Public Works and the Library for the bond program. The MOU established an approval process for all revisions to project budgets, revenues, and schedules, but not all of the terms of the MOU have been followed, and senior managers at the Library were not aware that the MOU existed until recently.

The MOU provides that each change to a bond project be documented by a comprehensive revision authorization form. The form requires that significant details, such as the reason for the revision and cost and schedule impacts, be documented and authorized. This form has never been used, although having a file of such forms for each project would have allowed new senior managers at the Library to be better informed about each project.

The MOU also states that the Library shall review the quarterly financial reports prepared by Public Works. However, there is currently no process followed by the Library to review and approve the reports. According to the new deputy city librarian, the MOU is under revision and will include more detailed information about the roles and responsibilities of each agency.

Senior management staff vacancies at the Library during 2004 and 2005 slowed decision-making at a time when decisions were critical due to rapidly escalating construction costs. Senior staff vacancies at the Library included a nine-month period between the resignation of the previous city librarian and the hiring of the current city librarian. The chief of branches position was vacant for over 24 months beginning August 2004, and the chief financial officer position was vacant for five months.

Although we could not determine precisely how the vacancies may have adversely affected the bond program project schedules, the bond program project manager and Library staff told us that decision-making by senior staff at the Library slowed as a result of the vacancies and contributed to some project delays.

**Project delays caused an estimated \$16.7 million in budget increases**

It is not possible to calculate exactly what portion of the bond program's budget increase is due to project delays because we did not perform an audit of either the original or revised project budgets. However, the following table provides a reasonable estimate of how much of the total budget increase is due to project delays:

<b>EXHIBIT 3 Estimated Budget Increases Resulting From Project Delays</b>	
Total Increases to Budgets	\$51,437,607
Less:	
Projected increases in construction contracts, <sup>a</sup> less percentage of increase due to cost escalation during delay period <sup>b</sup>	-21,270,765
Increase in site acquisition budgets	-2,780,117
Increase to soft costs <sup>c</sup> attributable to construction increases without escalation <sup>d</sup>	-9,359,136
Net increases to program-wide costs not including program management	<u>-1,326,589</u>
Remaining Budget Increase	<u>\$16,701,000</u>
<hr/>	
Estimated budget increase due to construction cost escalation during delays	\$6,666,451
Program management cost increases	2,400,000
Additional program costs for projects for the five branches not fully funded:	3,450,000
Soft cost increases in excess of amount attributable to increase contract amounts <sup>e</sup>	<u>4,184,549</u>
Total Estimated Budget Increase from Delays	<u>\$16,701,000</u>

<sup>a</sup> Increases to construction budgets were \$27,937,216. We calculated the amount of increase due to cost escalations at \$6,666,451.

<sup>b</sup> Construction cost escalations calculated using actual rates as reported by the Engineering News Record using Building Cost Index (BCI) cost indices for San Francisco and Los Angeles. Rates were applied for the actual delays in bid due dates for each project.

<sup>c</sup> Soft costs are an industry term for costs associated with projects that are distinct from construction costs and property acquisition costs.

<sup>d</sup> Original budget for soft costs was 37.13 percent of construction costs. We calculated soft costs attributable to contract increases at 44 percent of construction costs, which the bond program manager states is the average based on actual contracts and experience on similar size projects and completed projects.

<sup>e</sup> Total increase to soft costs of \$13,543,685, less amount attributable to construction increases without escalation of \$9,359,136 = \$4,184,549.

Source: Auditor analysis of quarterly bond program reports.

**Extensive design involvement by community groups has contributed to delays**

Delays and increased costs for some projects were sometimes caused by unanticipated additional community meetings held for some neighborhood branches during the design phases of projects. While a certain number of community meetings were planned for each branch, some branches required additional meetings to address concerns and preferences meeting participants had for their particular branch.

- According to the bond program outreach coordinator responsible for conducting community outreach and coordinating neighborhood meetings for each branch, factors out of the control of the Library contributed to delays and increased costs. For example, new branches involving site acquisition involved many additional meetings to allow for public input throughout the process.
- Two branches (Ingleside and Portola) had design competitions to select a private architect. This process required additional meetings to allow people to view the designs and vote for their preferences.
- For the Visitacion Valley branch, the community retained an outside architect and the Bureau of Architecture held a design competition, but even after a plan was selected, there were additional meetings because the community wanted some components of other designs that were submitted through the competition to be integrated with the selected design.
- For the Anza branch, the community wanted the building's unfinished basement, which was used for some activities, to be upgraded. The budget did not include this work and more meetings were held to discuss this issue.
- For the Merced branch, the community did not want the courtyard space in the middle of the building altered, although to achieve the square footage required by the new design, the courtyard had to be enclosed. This created delays and further meetings were held to identify with other options.

**Projected design start dates for five out of seven upcoming projects were not met**

The March 2007 quarterly bond program report to the Citizens' General Obligation Bond Oversight Committee shows seven projects scheduled to begin design in July, 2007. However, only two of the seven showed work scheduled by Public Works' Bureau of Architecture or that a contract with an outside design firm is in place as of July 31, 2007.

The following branches were reported to begin design work in July 2007: Anza, Bayview, Ortega, Park, Parkside, Presidio, and Visitacion Valley. The Library has an MOU with Public Works' Bureau of Architecture for design of the Anza branch, which has been identified as an upcoming project on the bureau's revised organization chart. Parkside branch will be designed by an outside design firm that was identified in the March 2007 quarterly bond report.

However, target dates reported for design commencement for the remaining five branches have passed without design commencing. According to the bond program manager, two branches, Park and Presidio, will be designed by outside firms that have not yet been selected. These two branches have already received seismic upgrades and have shorter schedules and smaller budgets than most of the other branches, which may mitigate the impact of delays.

The Bayview and Visitacion Valley branches are also expected to have further delays. Plans for the Bayview branch now include both acquisition of additional property and a larger branch. Actual size and location on the property of the Visitacion Valley branch were still being decided as of July 31, 2007. Ortega branch design is shown on the Bureau of Architecture's new organization chart to begin design in January 2008 rather than July 2007 as reported in the quarterly report.

Clear, reliable communication from the Library and Public Works is especially important as the Library is going forward to the voters with a request for a charter amendment that will make possible additional funding for the remaining projects. It is equally important that the public be confident that all aspects of the program are correctly and fully conveyed, and that the authorizing and oversight bodies that have responsibility for the program are well informed. In order to build and maintain public trust, the Library and Public Works should ensure that project schedules are reported based on realistic assumptions.

**Higher construction costs required budget increases, but budgets increased at an even higher rate for other types of costs**

Industry experts have cited a number of factors influencing construction costs worldwide that occurred in 2004. For example, the cost of materials such as structural steel increased 25 percent between 2003 and 2004. In addition, construction labor costs increased over three times what they were from 2001 to 2003. These unanticipated cost increases contributed to the additional costs of some bond program project budgets during this period.

Although the industry adopted higher cost escalation factors beginning in 2004, cost increases for most branches are due more to reasons other than higher construction costs. Library project nonconstruction costs have increased more than construction costs between the baseline and March 2007 budgets. Later in this section is a discussion of what types of costs are included in nonconstruction costs.

**EXHIBIT 4 Budget Cost Categories Changes**

	<b>Baseline Budget, October 2001</b>	<b>Current Budget, March 2007</b>	<b>Budget Increase</b>	<b>Budget Increase as a Percent of Baseline Budget</b>
<b>Nonconstruction Costs:</b>				
Site Acquisition	\$19,830,000	\$22,610,117	\$2,780,117	14.02%
Soft Costs	23,183,350	36,727,035	13,543,685	58.42%
Moving Costs	0	476,990	476,990	n/a
Program-Wide Services & Costs	27,805,000	34,504,599	6,699,599	24.09%
<b>Subtotal</b>	<b>\$70,818,350</b>	<b>\$94,318,741</b>	<b>\$23,500,391</b>	
<b>Construction:</b>	62,446,650	90,383,866	27,937,216	44.74%
<b>Total</b>	<b>\$133,265,000</b>	<b>\$184,702,607</b>	<b>\$51,437,607</b>	<b>38.60%</b>

Source: The bond program's March 31, 2007, quarterly report and its May 31, 2007, presentation to the Citizens' General Obligation Bond Oversight Committee.

Increases to program-wide services and costs include an additional \$3,450,000 of program costs and additional program reserves of \$2,600,000. Soft costs are an industry term for costs associated with projects that are distinct from construction costs and property acquisition costs. For the bond program projects, these costs include such items as design costs, engineering costs, outside project management, inspections, permits, and design contingencies.

Services from Public Works' Bureau of Architecture and Bureau of Engineering are soft costs that represent a large

part of some project budgets. However, the Library does not receive a copy of any project agreements that are generated by Public Works prior to the provision of these services, nor does the Library monitor how much is charged by the bureaus for each project. Effective project oversight by the Library should include an understanding of all cost components in each project budget so that Library staff can monitor project costs at a detail level in order to make sound decisions about any proposed changes to those budgets.

**Recommendations:**

1. Replace the current MOU between the Library and Public Works with one that describes in detail both the general and specific activities necessary for each agency to meet its obligation to efficiently and effectively manage the bond program.
2. Ensure that all agreements for professional services provided by Public Works and private sector consultants are documented upon inception, and establish procedures for periodic review of subsequent changes and actual costs incurred for each agreement.

**Finding 2**

**The Library and Public Works have completed five branches within budget and in many respects have followed project priorities established by the bond proposal**

Although bond projects have been delayed, the Library and Public Works completed early projects within budget. The priorities of the program, as outlined in the original bond proposal, have also been complied with.

**Five projects have been completed and, although delayed, came in close to budget**

The support services center and the Excelsior, Mission Bay, Sunset, and West Portal Branches were delayed an average of nine months. However, in the aggregate, the projects came close to meeting their baseline budgets. Actual expenditures for Mission Bay were over its baseline budget by \$440,167 and West Portal was over by \$343,157, but the remaining three projects nearly offset those baseline budget deficits. The net deficit for the five projects was \$274,655, or about one percent.

A sixth project, the Marina branch, was delayed 22 months. The Marina branch was completed in April 2007, which was outside of our audit scope. However, as of June 30, 2007, the Marina branch was showing costs, including encumbrances, of approximately \$275,000 less than its baseline budget.

**Work on the most vulnerable branches is either finished or in process; some branches with significant seismic safety concerns still await renovation**

The Library established schedule criteria at the start of the program that have been mostly complied with. The General Obligation Bond Proposal (bond proposal), issued on May 3, 2000, stated:

- All buildings with a seismic hazard rating (SHR) of 4 (damage estimate of partial/total collapse) will be renovated first.
- Buildings rated 3 (major damage) will be renovated during subsequent phases.

Marina, Noe Valley, and Richmond branches were rated SHR 4 at the beginning of the program. The Marina branch was completed in April 2007, Noe Valley is now scheduled for late 2007 completion, and Richmond is under construction. Of the 12 SHR 3 branches, 2 are complete and 1 is under construction. Bayview, the only SHR 2 branch in the program, is included among the five branches for which other funding is being sought.

**Branches operating in leased sites were deferred to the latter part of the program schedule due to the need to acquire property first**

The bond proposal required that the four branches then operating in leased facilities be located into city-owned buildings. Property acquisition is complete for all four branches: Glen Park, Ingleside, Portola, and Visitacion Valley. Glen Park was completed in July 2007 and Portola is scheduled to begin construction soon. Design for Ingleside is complete and requests for bids have been posted. Visitacion Valley was scheduled to begin formal design July 2007, but did not because further design decisions were yet to be made.

Two other projects, which were scheduled as early projects in the bond proposal and for which property acquisition was planned, are the support services center and the Mission Bay branch. The new branch for Mission Bay was acquired by purchase from an outside developer and opened in July 2006. The support services center was also purchased outright in November 2002 instead of being constructed.

The bond proposal also recommended that no more than four branch libraries or one large resource branch be closed at one time. In addition, it requires that branch closures be spread geographically throughout the City so that no neighborhood would be unduly burdened. Our analysis did not address these issues.

### Finding 3

#### **Cost escalation factors used are consistent with industry standards but are inconsistently applied and calculated**

Project budgets prepared by the bond program manager escalate construction costs from five to eight percent, which is consistent with current city practices and industry standards. Navigant Consulting, Inc., a well-known and respected consulting firm, found a five percent escalation rate to be appropriate for the San Francisco region and recommends that rates be reevaluated semiannually. Public Works reevaluates escalation rates at 50 percent completion, 95 percent completion, and 100 percent completion for each phase in the design process. Using these review intervals means that reevaluation occurs more frequently than the recommended semiannual basis and that cost overruns are less likely to occur as a result of changing market prices.

During the last three years, prices for materials have skyrocketed, especially copper, steel, wood, and asphalt. As a result, project managers need to budget for inflation by sufficiently escalating projected construction costs. Industry inflation rates are set by the overall changing prices of materials and labor; there are several firms that index changes in construction costs. The bond program manager bases escalation rates on two respected cost indices: McGraw Hill's Engineering News Record and Reed's Construction Cost Index.

To determine whether the escalation rates used were consistent with industry standards, we reviewed the budgets and cost estimates for 3 of the 11 library branch projects in the design phase – the Anza, Eureka Valley, and Portola branches. These projects used different professional cost estimators and are in different stages of design development. Anza was scheduled to begin design in July 2007, Eureka Valley is in mid-design, and Portola's design is complete and bids have already been received.

Of the three library branches reviewed, Portola was the only project that did not apply an escalation rate that met the industry standard of five percent. The cost estimator for the Portola branch used an escalation rate slightly under five percent and did not escalate to the standard midpoint of construction. Though the estimator did not use a rate consistent with industry standards in this particular case, the end result was not material to the construction cost of the project since the bidding process has already closed and one bid was under the estimated amount.

**Public Works does not require uniform cost escalation practices of its professional cost estimators**

Public Works does not have a standard set of guidelines for cost estimators to follow when projecting construction costs. Although unique circumstances affect how each project is estimated, a general set of estimating practices, such as requiring all assumptions and the basis for their use be stated, would help the bond program manager to ensure that all cost escalation amounts estimated are reasonable. We identified the following inconsistencies in escalating costs among the three cost estimates:

- Calculation assumptions, necessary for checking escalation costs, are not consistently documented.
- Escalation rates vary between projects without explanation.
- Rounding conventions for escalation rates and number of months in the escalation period are inconsistent among the projects.
- The components of total cost escalated differ between cost estimates.

**Recommendation:**

3. Public Works should create a standard set of escalation estimation practices, communicate those standards to cost estimators, and monitor each cost estimate for compliance.

#### **Finding 4**

#### **The Library and Public Works have improved bond program management, and further improvements in planning, communication, and reporting are recommended**

The Library and Public Works have implemented changes to staffing and procedures that should increase the likelihood that the revised program schedule and budgets will be met.

#### **Management staff positions at the Library are now filled and Public Works has added positions to enhance productivity in project design and program management**

The Library has fully staffed its senior management team and restructured the branch administration staff to clearly assign bond program responsibilities among the administrators. The reassignment process included filling two previously vacant positions at the district branch manager level and assigning full time bond program responsibilities to those positions. The Library's new chief of branches is working with staff to coordinate and inform their efforts to meet the challenge that redoubled efforts for branch improvements will require.

Public Works has increased the number of Bureau of Architecture staff assigned to the bond program and has restructured its design team assignments so that there are more designers at different levels to complete branch design work efficiently. Although there are still some vacancies in the planned organization chart, the design team has doubled its 8 staff to 16, and is currently recruiting an additional architect. The design team is also planning to use three as-needed student trainees for landscape design.

Public Works is also planning to implement a strategy for ensuring efficiency that it refers to as a "library studio," which entails locating all bond program designers in proximity to one another for more efficient operations. The manager of Public Works' project management division states that a dedicated team of structural, mechanical, and electrical engineers has been assigned to work on each of the branch libraries.

Finally, Public Works is currently recruiting an additional full-time project manager to assist in coordination and quality and design control.

**The Library and Public Works have each implemented new procedures for better managing the bond program**

The bond program team, which includes employees of both the Library and Public Works, has implemented new procedures for planning and monitoring the design and the furniture and equipment phases of the projects. The team has created standing weekly meetings for discussion and updating of design review documents that contain milestones and timelines for each active project. Specifics of this process include:

- Spreadsheet templates for tracking milestones for each key step of the design process and for each step of the process for timely installation of furniture, fixtures, and equipment for the completed branches.
- A review template that captures input from the bond program team and selected consultants in response to design documents at successive intervals of design development and design document completion so that there is a cohesive record through time of team requests to designers and the responses to those requests.
- Standing weekly bond program meetings effectively structured with agendas set in previous meetings, notes available to all participants, action items highlighted, and an ongoing chronology of action items.
- Weekly construction meetings with contractors, senior bond program personnel, and Library information technology and facilities staff.

In addition to adding staff and optimizing work environments, the director of Public Works began holding monthly special projects meetings with Public Works bureau managers and project managers in September 2006 to discuss updates and challenges of active projects. Public Works bureau managers and the director offer solutions and commit resources to help project managers solve problems early in order to prevent project delays.

**The bond program team follows many best practices for project management**

Consistent with best practices, the library bond program has at least one person, the library bond program manager, who makes major decisions, serves as the key project contact, and, in general, oversees the entire program. The bond program manager engages in many good project management practices, such as:

- Tracking and regularly reporting project progress
- Accurate and timely reporting of project expenditures
- Comparing project progress to initial project budgets
- Basing management decisions on experience gained from completed library branches
- Defining timelines
- Obtaining approval for budget increases from the Library Commission
- Estimating project costs to include significant cost-related risk

**The Library and Public Works should improve bond program reporting**

*Quarterly reports should provide clearer information on program schedules and budgets*

Despite recent improvements to bond program management, the Library and Public Works can further improve their procedures and reporting to promote better planning and minimize delays.

The bond program manager provides reports to the Library Commission each month and to the Citizens' General Obligation Bond Oversight Committee every quarter. We compared the March 31, 2007, quarterly expenditure report with city accounting records and found that the quarterly report accurately reflected project expenditures. The expenditures are also reported timely, generally within a month of the report period.

However, some features of the reports could be improved to be more understandable to readers:

*Program Schedule:*

- The program schedule is not easy to read because distinctions between project phases are difficult to discern, especially when it has been photocopied.
- The program schedule reports schedule history differently for different projects. For some, but not all projects, the original schedule is displayed. Similarly, other project timeline elements are displayed differently from project to project.

*Program Budget:*

- Revenue Plan: The program budget is updated to reflect actual expenditures through the end of the reporting period. However, income is not updated in the report, which may mean that decision makers are not

fully informed about program resources. For instance, interest income recorded in the City's accounting records is considerably higher than was originally budgeted. Although the Board of Supervisors must formally appropriate and approve spending plans for all revenues, decision makers should be aware of this additional \$3,420,137 in potential revenue so that decisions to modify project scope or schedules are made with a full understanding of potentially available resources. The existence of this potential revenue could be reported as a footnote to the revenue sources table so that readers of the reports are fully informed.

- Expenditures: The expenditure schedules do not show the net changes by project between the most recent approved budget and the baseline budget. Also, the report does not show total program costs for acquisition, soft costs, construction, and moving costs. Additional information of this type would help Library Commissioners, the Citizens' General Obligation Bond Oversight Committee and others to more easily understand the impact of budget changes to projects.

**Improved procedures needed for preparing, updating, and overseeing project budgets**

*Changes to project budgets are not easy to follow*

The Library and Public Works should strengthen project management by increasing project budget oversight and better documenting budget assumptions in order to provide necessary internal controls over the budget process.

Project budgets should be annotated so that changes can be easily traced back to the original approved project proposal. Although the library bond manager could research and provide the reasons for changes to the budgets we reviewed, the budget document itself should contain a history of all changes so that this information is accessible to all parties who should be relying on it, such as library staff who work with the bond program.

While the library bond program manager does maintain a notes column on budget spreadsheets with comments for most cost line items, not all assumptions are verifiable to reviewers. For example, in some cases the amounts are linked to other spreadsheets without a description of what the source spreadsheet is.

*Budget spreadsheets do not contain safeguards against miscalculations or accidental changes*

For example, on the day of one audit site visit to the bond program manager, the Portola budget was still showing a bid contingency in the forecast budget column even after the budget had been updated to reflect the actual bid. This error could have been detected either by having the sum of the construction costs checked to the total of the accepted bid, or by having all updates to budgets reviewed and approved. This one error made a difference of almost three hundred thousand dollars until the bond program manager detected it.

**Recommendations:**

4. Ensure that all program reports are easy to read and contain all relevant information.
5. Increase program controls and promote more effective project oversight by developing and implementing detailed procedures for design, update, and review of all budget spreadsheets.

**Finding 5**

**The Library and Public Works have adequately reached out to potential bidders, but many factors affect contractors' decision to bid or not**

Despite efforts by the Library and Public Works to inform construction firms of upcoming bond program projects and to encourage firms to bid, some projects have received only one or two bids. Several factors affect contractors' decision to bid or not, including the local economy and the City's extensive contracting regulations and bidder requirements. Although the City has little control over economical factors that affect the bid climate,<sup>2</sup> it could potentially increase the number of bids received and reduce the cost for each project by implementing best practices recommended by industry experts for increasing competition and creating a good reputation on public sector construction projects.

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<sup>2</sup> Bid climate refers to the law of supply and demand for services being solicited and bid on. The demand for services increases when the economy is strong and private companies and public agencies are competing with one another to obtain the services of construction firms to build their projects. The supply of services grows scarce when many projects are occupying qualified firms at once. Consequently, competition for any given project dwindles, projects considered less desirable receive fewer bids, and bid prices may rise. Conversely, when the supply of projects is low due to a slow economy, competition increases among bidders and bid amounts may drop, as the supply of services exceeds demand.

**Efforts to publicize Library projects and encourage bids not always successful**

The bond program manager has implemented efforts consistent with recommended practices in industry literature to attract more bidders to branch library projects. However, these efforts have not been sufficient to attract enough bids on some projects to make the process competitive. Some projects have received only one or two bids, and the bids on all but one of nine projects we reviewed exceeded the architects' estimates.

The bond program manager has tried to attract more bidders to branch library projects by:

- Distributing color bid advertisement fliers for each branch project that include the project cost, name of architect, a picture of the design, dates of the pre-bid conference and bid deadline, a "Why Bid on Our Projects" section, and a website address that gives specifics of the project.
- Asking architects to call contractors and remind them of pre-bid conferences.
- E-mailing known contractors.
- Making construction plans available for review so contractors do not have to buy them.
- Distributing information about the bond program at a recent general contractor's convention.

We reviewed nine library projects that have been bid to date and observed that despite the outreach efforts of the bond program administrator, the projects received an average of only three bids each that averaged 127 percent of the architects' estimates. The number of bids received ranged from one to five and were 96 to 163 percent of the architects' estimates. Although 33 contractors, including subcontractors, bought plans for the Richmond branch project, it received only one bid, which was 145 percent of the architect's estimate. On the other end of the spectrum, the Excelsior branch project received five bids that averaged 96 percent of the architect's estimate.

**Multiple factors affect contractors' decision to bid on city projects**

Reasons for not bidding may vary. The bond program manager called contractors who did not bid on the Richmond branch project and found that large contractors chose not to bid because they had enough other work with less burdensome approval procedures than the City

requires. We contacted six of the nine firms that bought plans for the Portola branch project in 2007 but did not bid on it. The prime contractors and subcontractors offered various reasons for not bidding including:

*Prime Contractors:*

- Could not find subcontractors to bid with us.
- Too many requirements; we are not a disadvantaged business enterprise (DBE), a DBE will get it; we will lose time bidding.
- We bid on other branch projects; generally not a problem.
- We bid selectively on San Francisco City jobs after getting burned on one when a subcontractor allegedly did not pay prevailing wage. The subcontractor folded, and we got sued by its former employees and had to pay a huge settlement.

*Subcontractors:*

- We are too busy with other work; not our type of job.
- As a union shop, we would lose money on this small (electrical) job due to prevailing wage requirement; cannot compete with nonunion firms; we are not a DBE and would lose money if we used one.

**Outreach alone cannot overcome reasons contractors do not bid on City projects**

Outreach is just one action recommended in literature on how to improve the bid climate, and it is not the key one being requested by the local construction industry. The low number of bids received and the responses received regarding why contractors did not bid on the library projects is an indicator that some firms do not believe the City is doing what it should to make bidding on its construction projects attractive. This is supported by the 2006 report by the Engineering and Utilities Contractors Association entitled, *Why Contractors Don't Want to Bid to the City and County of San Francisco*. The study was based on a confidential survey of its members; more than 400 contractors, vendors, and engineering and design firms; and public agencies and identified the top reasons why firms have stopped or reduced their bidding on City construction projects:

- Overly zealous prevailing wage enforcement.
- Tedious and difficult requirements, including those related to local hiring, set-asides and preferences for local and disadvantaged business enterprises.

- Unusually high liability requirements, including those for liquidated damages, insurance, and bonding.
- Delays in closing out projects and making final payments.
- Poor project designs and plans by the City that lead to change orders.
- Poor change order and payment practices.

These factors, which apply citywide and are thus largely beyond the control of any one City department, were bolstered by the Planning and Bidding Committee of the City's Task Force on Construction Contracting. The committee, consisting of five city officials from five construction-related departments and three representatives of the local construction industry, reached similar conclusions in 2006 regarding City construction projects. Although some of these factors are not problems from the City's perspective because they reflect a policy priority (e.g., DBE bid preferences), they are all clearly within the City's control.

**Implementing industry best practices can improve the bid climate to encourage bids**

Predictably, the reports cited above recommend that the City reverse the conditions and/or perceptions they describe as driving away prospective bidders on City construction projects. These San Francisco-specific recommendations are consistent with recent industry literature on bid climate in the field of construction, which recommend a number of best practices that can increase the number of bids received on construction projects. Besides outreach, best practices cited by contractors in the reports mentioned above include:

- Realistic budgets and construction schedules
- Clear construction documents
- Adequate time to prepare bids
- Flexible project administration

In addition, two construction industry experts have identified factors that specifically affect the bid climate on public sector projects. In 2006, architect Christopher Carlson wrote in the *Seattle Daily Journal of Commerce* that contractors avoid public sector work because public projects typically have "restrictive front-end documents, are over administrated, over regulated, over documented, slow to pay, have unrealistic schedules and higher risk." Kris Meyer, principal of a construction firm that works with

California public school districts, recently made a presentation on bid climate that focuses on ways that agencies can enhance the chances of their projects staying within budget in today's bid climate. Carlson's article and Meyer's presentation both present ways to increase competition and create a good reputation in the public sectors. Examples of their recommendations are included in Appendix B.

We did not review the extent to which the bond program applies these practices, as it was beyond the scope of this audit. In addition, some of these practices cannot be implemented department by department, but only by the City as a whole. However, based on the comments provided by potential bidders on bond program projects and the recent studies by the Engineering and Utilities Contractors Association and the Planning and Bidding Committee of the City's Task Force on Construction Contracting, implementing many of these best practices on a citywide basis would likely increase the number of bids received on the branch library projects.

**Recommendation:**

6. As a team, the Library and Public Works should adopt any best practices for increasing the number of bids received on projects that it deems are practicable.

## APPENDIX A: Branch Improvement Program Project Details

Branch	Seismic Rank <sup>a</sup>	Year Built	Original Projected Completion Date	March 31, 2007 Projected Completion Date	Months Delayed	Reason Mentioned in the Report	Baseline Budget	Increase to Baseline Budget
Anza	3	1932	October 2008	September 2010	23		\$4,740,000	\$1,585,000
Bayview	2	1969	December 2006	July 2010	43	Scope, New funds	3,820,000	6,070,000
Bernal Heights	3	1940	October 2008	June 2009	8		5,350,000	345,000
Eureka Valley	3	1961	March 2007	June 2009	27		4,580,000	790,000
Excelsior	3	1967	October 2004	July 2005	9	Complete	3,820,000	-164,352
Glen Park	New	New	January 2005	July 2007	30	Scope <sup>b</sup>	4,570,000	908,200
Golden Gate Valley	3	1917	October 2008	January 2011	27	New funds	5,340,000	4,245,000
Ingleside	New	New	October 2007	February 2009	16	State funds	4,570,000	2,185,000
Marina	4	1953	June 2005	April 2007	22		4,110,000	-185,500
Merced	3	1958	January 2010	July 2010	6	New funds	4,200,000	195,000
Mission Bay	New	New	August 2004	April 2006	20	Complete	3,350,000	617,000
Noe Valley	4	1916	January 2005	July 2007	18		4,410,000	1,297,318
North Beach	3	1959	April 2007	November 2010	43	Scope, New Funds	3,460,000	4,290,000
Ortega	3	1956	November 2007	June 2010	31	Scope, New funds, State funds	3,560,000	4,345,000
Park	Upgraded	1909	September 2009	September 2009	0		1,310,000	255,000
Parkside	3	1951	June 2005	May 2010	59	Scope	2,880,000	2,027,000
Portola	New	New	January 2007	August 2008	19	State funds	4,570,000	1,490,500
Potrero	3	1945	September 2008	March 2009	6		4,230,000	240,000
Presidio	Upgraded	1921	September 2009	September 2009	0		1,530,000	845,000
Richmond	4	1914	June 2006	November 2008	29	State funds	7,630,000	6,081,500
Sunset	Upgraded	1918	April 2006	October 2006	6	Complete	1,490,000	20,000
Visitation Valley	New	New	January 2007	July 2010	42	Scope, State funds	5,320,000	6,080,000
West Portal	3	1939	May 2005	October 2006	17	Complete	4,110,000	464,500
Western Addition	3	1966	March 2007	December 2007	9		3,430,000	845,500
Support Center	New	New	August 2003	November 2002	-9	Complete	9,080,000	-133,658
<b>Total <sup>c</sup></b>					<b>501</b>		<b>\$105,460,000</b>	<b>\$44,738,008</b>

<sup>a</sup> City Seismic Hazard Ratings are as follows: 1) minor damage 2) moderate damage 3) major damage, 4) partial/total collapse

<sup>b</sup> Glen Park branch was ultimately designed as part of a larger development, which decreased the original construction budget but increased the costs of property acquisition. We did not include it in our analysis of other scope increases because it was not comparable.

<sup>c</sup> For the purpose of meaningful comparison, shared costs that are not associated with individual project budgets are not included in this table. The bond program has also has additional budget increases to shared costs of \$6,699,599 which, when added to total increases to budget for all projects of \$44,738,008 equals \$51,437,607.

Sources: Auditor analysis of quarterly Branch Library Improvement Program reports and the May, 3, 2000, General Obligation Bond Proposal

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## **APPENDIX B: Best Practices for Maximizing the Number of Bids Received on Construction Projects**

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Experts in the construction industry have identified the following best practices to maximize the number of bids received on construction projects in the public sector:

- Do not be known as an agency that is difficult to deal with.
- Have a winning attitude; think (or give the impression you think) of contractors as your assets, not adversaries, and treat them as you would want to be treated.
- Create realistic budgets and schedules; use experts to prepare them.
- Contact contractors you would like to work with early – well before you put the project out to bid.
- Phase or sequence the project, if possible, to produce a smoother schedule and make the work more attractive to bidders
- Issue high quality bid documents that are complete and easy to interpret and estimate – ensure drawings and specifications have adequate details and no ambiguity or conflicts, are clear and concise, are applicable to the project, and avoid proprietary requirements.
- Avoid addenda and the temptation to make changes during construction.
- Make documents user-friendly – reams of front-end documents may cause prospective bidders to pass on your project.
- Do not require attendance at prebid meetings.
- Remove or reduce the damages clause if possible – it is often based on an unrealistically optimistic schedule.
- Timing is important – do not put projects out to bid close to holidays or when other local agencies are soliciting bids on large or similar projects.
- Allow an adequate bid period – four to six weeks is recommended for preparing bids.
- Do not over administer the project.
- Pay your contractors on time.
- Clearly communicate with contractors and make timely decisions.

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## APPENDIX C: San Francisco Public Library Response



*San Francisco Public Library*

September 17, 2007

Ed Harrington  
Controller  
Office of the Controller  
1 Carlton B. Goodlett Place, Room 476  
San Francisco, CA 94102

Dear Mr. Harrington:

The San Francisco Public Library is in receipt of your review of the Branch Library Improvement Program (BLIP), dated September 11, 2007. We wish to extend our appreciation and thanks to your staff, in particular Deborah Gordon and Peg Stevenson and the audit team for their cooperation and professionalism in the review process.

In March 2007, the City Librarian at the request of the Library Commission asked the City Controller to undertake an independent review of the BLIP. While five projects have been completed within budget, the Library nevertheless was concerned about future projects because of escalating construction costs, the inability to attract enough bidders for a competitive bid climate, and an ambitious community engagement process that impacted original project schedules. Despite our successes, these factors contributed to a shortfall to complete the remaining projects.

We welcome the report's recommendations as a way to address the concerns and issues that have impacted the costs and timelines for the projects. In the Library's response to the recommendations, you will find details on how the Library is already implementing some of the recommendations and how these changes are having a positive impact on the projects.

In the last two months, following the Mayor's announcement of the City's intentions to improve its bidding environment, we are seeing evidence of a more competitive bidding climate that is already showing results for the BLIP. Both the Portola and Ingleside bids for new construction projects attracted a significant number of contractors resulting in bids within the construction budgets.

The BLIP is the most ambitious capital improvement program to upgrade city library facilities in over forty years. With goals to renovate and build libraries to meet the library services needs of our diverse community, the priorities for the program have emphasized seismic safety upgrades, accessibility, and modernization to meet functional requirements for 21st century libraries.

A core principle and practice of the BLIP is to respond to community input and needs. The scope changes to the Bayview, North Beach, Ortega, Parkside and Visitacion Valley neighborhood projects are the direct result of input from residents who conveyed their vision for their neighborhood branches to the Library and Library Commission. These changes were made after careful deliberation to ensure that these libraries will serve these neighborhoods for the next 50 years.

The Library is committed to completing the entirety of the Branch Library Improvement Program. Working in collaboration with the Mayor's office, the Board of Supervisors, the Capital Planning Committee, and the Department of Public Works, a prudent plan to finance the anticipated shortfall has been recommended in the form of a ballot initiative in this November 6, 2007 election. The measure is a charter amendment to renew the Library's funding set aside and authorize the issuance of revenue bonds earmarked for construction and renovation needs. We are confident that this strategy — along with the implemented changes as recommended in the Controller's review and the Library's continued commitment to work closely with the Department of Public Works to assure transparency, accountability and the accurate and timely flow of information — will ensure the successful completion of seven new branch library buildings and seventeen branch renovations.

Sincerely,



Luis Herrera  
City Librarian

Cc: Charles Higuera, President, Library Commission  
Stuart Sunshine, Deputy Chief of Staff

# APPENDIX D: Department of Public Works Response

City and County of San Francisco



Gavin Newsom, Mayor  
Fred V. Abadi, Ph.D., Director



Phone: (415) 554-6920  
Fax: (415) 554-6944  
TDD: (415) 554-6900  
Website: sfdpw.org

Department of Public Works  
Office of the Director  
City Hall, Room 348  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4645

September 12, 2007

Mr. Ed Harrington, Controller  
City and County of San Francisco  
1 Dr. Carlton B. Goodlett Place  
City Hall, Room 318  
San Francisco, CA 94102

Dear Mr. Harrington,

I would like to thank you and your staff for the audit report on the Branch Library Improvement Program. We concur with all six recommendations and are pleased to report that Public Works has already begun to work with Library staff to implement the recommendations. Our response to the recommendations is contained in the attached Appendix E.

In addition to the Controller's recommendations, we are optimistic that DPW's efforts in leading the City's Construction Contracting Task Force will have a positive impact in attracting more bidders to bid future library projects. We believe that increasing the number of bidders will be a key component in delivering the Branch Library Improvement Program within budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Fred V. Abadi".

Fred V. Abadi, Ph.D.  
Director of Public Works

Cc: Edwin Lee, City Administrator

*"IMPROVING THE QUALITY OF LIFE IN SAN FRANCISCO" We are dedicated individuals committed to teamwork, customer service and continuous improvement in partnership with the community.*

*Customer Service*

*Teamwork*

*Continuous Improvement*

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## APPENDIX E: Recommendation and Response Table

Recommendation	Responsible Agency	Response
<p>1. Replace current MOU between the Library and Public Works with one that describes in detail both the general and specific activities necessary for each agency to meet its obligation to efficiently and effectively manage the bond program.</p>	<p>Library and Public Works</p>	<p><b>The Library and Public Works Departments (DPW) concur with this recommendation.</b> The departments have initiated efforts to revise and update a Memorandum of Understanding (MOU) that was developed in 2002 to reflect current and required new practices related to the Branch Library Improvement Program (BLIP) schedule and budget management, decision-making, and internal communications. The Library and DPW will work collaboratively to finalize and implement this revised MOU to address each issue raised in the review. This MOU will supersede the 2002 MOU.</p> <p>This comprehensive MOU will clarify roles for the Library and DPW to assure continued transparency, accountability, and the accurate and timely flow of information. DPW is implementing changes to their internal program support structure, providing a greater level of staffing capacity in project management and related services that will deliver all remaining projects and provide timely detailed reporting. The new Library administration has likewise corrected issues caused by lengthy vacancies in key leadership positions. Both the Deputy City Librarian and Chief of Branches senior management positions were filled in 2006 and have responsibilities in oversight of the Branch Library Improvement Program. In addition to these key positions, the Branch Libraries Division has completed a reorganization of the division and designated two top level positions to work exclusively on BLIP support. Many projects are already benefiting from new detailed procedures, and with further development of existing systems that incorporate community input and timelines early in project planning, the Library and DPW will eliminate controllable delays and adapt readily to make up time caused by unforeseen circumstances.</p> <p>In addition, the Library and DPW finance divisions are in the process of finalizing new fiscal procedures, which will outline the funding sources, detail the agreed upon budgets and their funding sources, define departmental responsibilities, highlight reporting and communication requirements and set monthly meetings to evaluate the accounting processes and procedures. These procedures will be included in the revised MOU, which should be completed by January 2008.</p>

Recommendation	Responsible Agency	Response
<p>2. Ensure that all agreements for professional services provided by Public Works and private sector consultants are documented upon inception, and establish procedures for periodic review of subsequent changes and actual costs incurred for each agreement.</p>	<p>Library and Public Works</p>	<p><b>The Library and DPW concur with this recommendation.</b> As part of the updates to the MOU between the Library and DPW, the departments will develop specific procedures to ensure that the fee proposals for professional services are approved by the Library before they are approved by DPW and will develop reports to track expenditures to make sure the costs remain within budget. Changes to the budget will be discussed with the Library before approved by DPW.</p>
<p>3. Public Works should create a standard set of escalation estimation practices, communicate those standards to cost estimators, and monitor each cost estimate for compliance.</p>	<p>Public Works</p>	<p><b>DPW concurs with this recommendation.</b> DPW is already taking a proactive approach to this issue and is working to develop a standard cost escalation factor and will solicit feedback from the City’s Capital Planning Committee to ensure consistency with other capital projects. In addition, DPW has taken the following steps to ensure consistency in cost estimating. 1) Hired one consultant who will prepare all estimates for future library projects, 2) Use the same escalation rate for all projects, 3) apply escalation rate to the mid-point of construction, 4) use the latest local unit prices (not a national average), 5) apply a sliding scale design contingency based on the phase of design. In addition, DPW will provide the consultant with historical data on past library projects to compare estimates against actual bids.</p>
<p>4. Ensure that all program reports are easy to read and contain all relevant information.</p>	<p>Library and Public Works</p>	<p><b>The Library and DPW concur with this recommendation and will work in concert to fully implement.</b> In order to provide greater clarity and accessibility of project data, efforts are already underway to revise the format for regular reporting of detailed financial and schedule information. Additional financial reports will be provided as a result of changes to the MOU (see response to Recommendation # 5 below).</p>

Recommendation	Responsible Agency	Response
<p>5. Increase program controls and promote more effective project oversight by developing and implementing detailed procedures for design, update, and review of budgets for all budget spreadsheets.</p>	<p>Library and Public Works</p>	<p><b>The Library and DPW concur with this recommendation and will work in concert to fully implement.</b> As mentioned in previous responses, the Library and DPW finance divisions are in the process of finalizing new fiscal procedures which will delineate responsibilities and expectations related to financial reporting. These procedures will be integrated in the MOU, which will be completed by January 2008. Additional financial reports that will be available monthly or quarterly include: (a) BLIP expenditures summary by character and project; (b) BLIP expenditure summary by branch and funding source; (c) electronic copy of monthly Financial Plan reports submitted to the Library Commission showing variances between budgets, expenditures and allocation data. These improved efforts of both departments will enhance distribution of relevant information and allow Library Finance staff to provide additional funding oversight and analysis.</p>
<p>6. As a team, the Library and Public Works should adopt any best practices for increasing the number of bids received on projects that it deems are practicable.</p>	<p>Library and Public Works</p>	<p><b>The Library and DPW concur with this recommendation and have already begun to implement actions that have resulted in increased bidding participation from General Contractors.</b> The two most recent projects that have gone out to bid, Portola and Ingleside branch libraries, both received multiple bids and came in within budget. The actions that both departments have taken include: 1) distribution of bid advertisement fliers highlighting project scope, budget and key dates, 2) calling General Contractors to remind them of pre-bid conferences, 3) E-mailing bid advertisements General Contractors who have bid previous library projects, 4) making construction bid documents available for review so contractors do not have to buy them, 5) distributing information about the bond program at annual General Contractor's conventions. In addition, DPW will be sending a letter to prospective bidders announcing future projects.</p>

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