



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 14, 2017

The Honorable City Council  
Palo Alto, California

### **Policy and Services Recommendation to Accept the Utilities Department: Cross Bore Inspection Contract Audit**

The Office of the City Auditor recommends acceptance of the Utilities Department: Cross Bore Inspection Contract Audit. At its meeting on June 13, 2017, the Policy and Services Committee approved and unanimously recommended that the City Council accept the report. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

*Harriet Richardson*  
Harriet Richardson  
City Auditor

#### **ATTACHMENTS:**

- Attachment A: Utilities Department: Cross Bore Inspection Contract Audit (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (June 13, 2017) (PDF)

Department Head: Harriet Richardson, City Auditor





## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

June 13, 2017

The Honorable City Council  
Palo Alto, California

### Utilities Department: Cross Bore Inspection Contract Audit

In accordance with the Fiscal Year 2017 Annual Audit Work Plan, the Office of the City Auditor has completed the Utilities Department: Cross Bore Inspection Contract Audit. The audit report presents two findings with four recommendations. The Office of the City Auditor recommends that the Policy and Services Committee review and recommend to the City Council acceptance of the Utilities Department: Cross Bore Inspection Contract Audit.

Respectfully submitted,

*Harriet Richardson*  
Harriet Richardson  
City Auditor

#### ATTACHMENTS:

- Attachment A: Utilities Department: Cross Bore Inspection Contract Audit (PDF)

Department Head: Harriet Richardson, City Auditor





CITY OF  
**PALO  
ALTO**

# Utilities Department: Cross Bore Inspection Contract Audit

June 1, 2017



Normal Sewer and Gas Pipeline Alignment



Gas Line Crossbored Through Sewer Pipeline

## Office of the City Auditor

**Harriet Richardson**, City Auditor

**Steve Hendrickson**, Management Specialist

**Houman Boussina**, Senior Performance Auditor

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## OFFICE OF THE CITY AUDITOR EXECUTIVE SUMMARY

### Utilities Department: Cross Bore Inspection Contract Audit June 1, 2017

#### PURPOSE OF THE AUDIT

To determine if Hydromax USA, LLC, (Hydromax) met its contract requirements for inspecting City sewer pipelines to rule out cross bores and whether the City exercised appropriate contract oversight.

**Finding 1: Hydromax inspected 10,791 (60 percent) of 18,028 laterals and could not complete nearly half of its attempted inspections because of adverse conditions in sewer lines (Page 6)**

Hydromax invoiced 13,725 lateral inspections under its contract with the City to inspect 18,028 laterals. Although the contract required Hydromax to inspect all mains and laterals for cross bores and to document lateral conditions, Hydromax invoices show that it could not complete 6,625 (48 percent) of 13,725 lateral inspections due to unanticipated field conditions. Furthermore, Hydromax inspection records contain inaccurate, incomplete, and potentially duplicative information. The City paid \$2.95 million for the work Hydromax performed under the \$3.5 million contract.

#### **Recommendation to the Utilities Department:**

Identify and prioritize sewer pipelines that Hydromax did not fully inspect or attempt to inspect for inspection under a future contract(s).

**Finding 2: City oversight and NASSCO contracting guidelines can help ensure accurate, complete, and cost effective future inspections (Page 9)**

The City's management of its cross bore inspection contract did not ensure that the City obtained accurate and complete inspection data in accordance with NASSCO standards and anticipated contract costs. The City can ensure it obtains accurate, complete, and cost effective sewer pipeline inspection data by incorporating NASSCO contracting guidelines, ensuring consistency of its contract documents, and providing sufficient oversight of contracted work and key deliverables.

#### **Key Recommendations to the Utilities Department:**

- Identify missing data in the City's laterals database.
- Incorporate relevant and useful provisions from NASSCO's contract template in future sewer inspection contracts.
- Identify gaps in staff expertise needed to monitor and facilitate field inspections and to review and track inspection data.

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### ABBREVIATIONS

ASD	Administrative Services Department
NASSCO	National Association of Sewer Service Companies
U.S.C.	United States Code

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## INTRODUCTION

### Objective

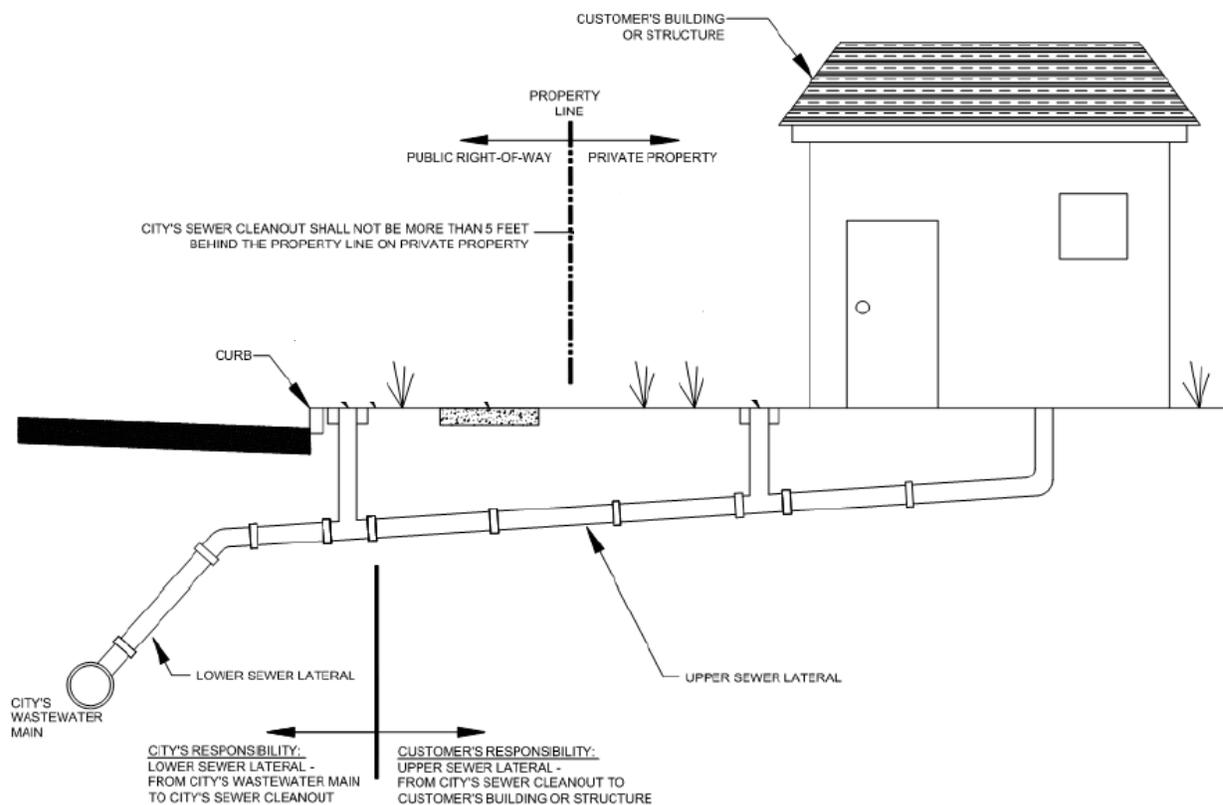
The purpose of this audit was to determine if Hydromax USA, LLC, (Hydromax) met its contract requirements for inspecting City sewer pipelines to rule out cross bores and whether the City exercised appropriate contract oversight.

### Background

#### *Sewer Pipelines: Laterals and Mains*

Exhibit 1 shows a typical layout of sewer pipelines that includes privately-owned upper and City-owned and maintained lower sewer laterals that carry indoor sewage (i.e., wastewater) to the City's wastewater mains in the street. This report uses the generic term, "sewer pipeline," when an inspection record did not specify the type of sewer pipeline or when the distinction is not relevant.

**EXHIBIT 1: Layout of Sewer Pipelines**



**Source:** City of Palo Alto Special Wastewater Utility Rule and Regulation 23

#### *Sewer pipelines in City records*

The City has a database of about 18,000 City-owned and maintained laterals. The resident- or business-owned, connected

laterals may branch out for various functional or design reasons and are not included in the City's database.

### *Federal gas pipeline safety requirements*

Federal law (47 U.S.C. § 192.1005 - 192.1007) requires gas distribution operators to develop and implement procedures to identify, monitor, and address gas pipeline risks such as damage, equipment failure, and leaks.

### *Cross bore safety risks*

Cross bores are intersections of one utility pipeline through another, such as when a gas pipeline is inadvertently installed through a sewer pipeline. Cross bores generally occur when a gas line is installed using a trenchless method that prevents visibility of the underground sewer pipeline. Residents or plumbers may accidentally cut through a crossbored utility pipeline (e.g., a gas pipeline) when opening (e.g., clearing roots) the sewer pipeline. If the cutting device damages a gas pipeline, gas may be introduced into the connected structure (e.g., a home), which could cause an explosion. The City has installed mechanical gas pipeline safety valves on about 7,500 (43 percent) of 17,500 gas service lines. These valves shut off gas if there is a sudden surge in flow, which mitigates safety risks, but not all gas pipelines have the valves and, in rare cases, they may malfunction.

### *NASSCO inspection standards*

The National Association of Sewer Service Companies (NASSCO) sets industry standards for assessing, maintaining, and rehabilitating underground infrastructure and to assure the continued acceptance and growth of trenchless technologies. NASSCO trains and certifies inspectors to objectively and consistently assess and document sewer pipeline conditions based on a standardized grading system. NASSCO also certifies software used to record condition codes that enable utility operators to identify, plan, prioritize, manage, and renovate their sewer pipelines.

### *Hydromax contract*

In July 2011, the City entered into an 18-month, \$3.5 million contract with Hydromax to use closed circuit television inspection methods to inspect mains and the 18,000 laterals to identify gas cross bores and document lateral conditions in accordance with NASSCO standards. The Utilities Department assumed that there would be one contiguous, privately-owned lateral for each of the 18,000 City-owned and maintained laterals in its records. The contract required Hydromax to fully inspect and document lateral

conditions according to NASSCO standards but only to document basic observations and major defects for mains (e.g., start, stop, footage, major defect). The contract did not include separate compensation for inspecting mains. The City later amended the contract to increase the maximum compensation to \$4.3 million and extend the expiration date to December 31, 2013.

### *Final project status*

A June 2016 Utilities Department presentation to the Utilities Advisory Commission showed that as of December 31, 2013, Hydromax had inspected about 13,000 (72 percent) of the 18,000 laterals and had identified 26 gas cross bores but that inspection attempts did not rule out cross bores for about 5,900 (45 percent) of the 13,000 inspected laterals. The City paid Hydromax a total of \$2.9 million - \$2.5 million for lateral inspections and \$407,000 for other work and let the contract expire without the remaining work being done due to unanticipated field conditions that required services beyond the contract scope. The Utilities Department estimated an additional \$3.3 million in future costs to inspect about 1,900 high priority laterals (e.g., laterals serving high occupancy properties), including laterals that Hydromax did not inspect.

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### **Scope**

We assessed Hydromax inspection and billing data from July 2011 through January 2015 that was associated with the City's \$4.3 million contract, which expired on December 31, 2013. We assessed relevant City contract and contract oversight documents to determine whether Hydromax met key contract requirements and whether the City exercised appropriate contract oversight. We did not engage Hydromax, the Utilities Operations Division, or subject matter experts who may have relevant information concerning the audit findings. Although our methodology (below) included a general assessment of the reliability and completeness of the City's sewer pipeline inspection data, we did not assess whether inspections met NASSCO standards or legal mandates.

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### **Methodology**

To accomplish our audit objective, we:

- Conducted a risk assessment to identify and prioritize risks associated with the City's cross bore inspection program.
- Identified and reviewed applicable laws and sewer pipeline inspection best practices.

- Reviewed and identified key provisions of the City's contract with Hydromax.
- Interviewed Utilities Department, Administrative Services Department, and City Attorney's Office staff to understand contract requirements.
- Reviewed Utilities Department invoice and inspection tracking documents and interviewed Utilities Department staff to assess whether contract oversight was sufficient to ensure that the City paid for Hydromax inspections that were completed and invoiced in accordance with contract terms.
- Assessed the reliability and completeness of the City's sewer pipeline inspection data.
- Verified Hydromax inspector certification numbers using NASSCO's online verification tool.

#### *Data reliability*

We used ACL™ Analytics and Excel software to assess the accuracy and completeness of Hydromax inspection records by searching for missing, inaccurate, and incomplete data based on our understanding of NASSCO requirements and database integrity principles. We interviewed Utilities Department staff who were knowledgeable about the data and brought data reliability concerns to their attention. We have included some of these concerns in the audit finding.

We selected and reviewed a sample of Hydromax inspection records for 10 sewer pipelines to determine the causes and potential impact of multiple inspection records that inspectors entered for the same sewer pipeline. We used judgmental sampling to focus on completed inspections that appeared to have been finalized and to include inspections from a variety of Hydromax inspectors. Because this was a judgmental sample, our conclusions cannot be projected to the total population of inspection records.

#### *Compliance with government auditing standards*

We conducted this audit of the City's cross bore inspection contract in accordance with our Fiscal Year 2017 Annual Audit Work Plan and 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

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believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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**We would like to thank management and staff in the Utilities and Administrative Services Departments for their time, cooperation, and assistance during the audit process.**

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## Finding 1

**Hydromax inspected 10,791 (60 percent) of 18,028 laterals and could not complete nearly half of its attempted inspections because of adverse conditions in sewer lines**

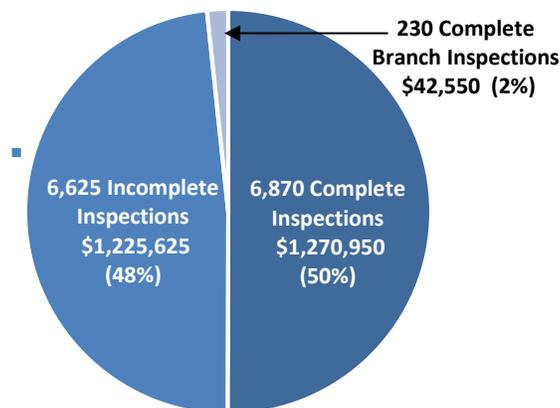
### Summary

Hydromax invoiced 13,725 lateral inspections under its contract with the City to inspect 18,028 laterals. Although the contract required Hydromax to inspect all mains and laterals for cross bores and to document lateral conditions, Hydromax invoices show that it could not complete 6,625 (48 percent) of 13,725 lateral inspections due to unanticipated field conditions. Furthermore, Hydromax inspection records contain inaccurate, incomplete, and potentially duplicative information. The City paid \$2.95 million for the work Hydromax performed under the \$3.5 million contract.

### Unanticipated sewer pipeline conditions hampered inspections

Hydromax invoiced the City for 13,725 lateral inspections. Although invoices do not specify sewer lines, Hydromax's inspection records show that it inspected 10,791 of 18,028 laterals in the City's records. Exhibit 2 shows that Hydromax invoiced \$1.3 million for 7,100 completed lateral and branch lateral inspections and \$1.2 million for 6,625 incomplete inspections. Hydromax could not complete all inspections because of sewer pipeline conditions, obstructions, and lateral branches hampered inspections and would have required services beyond the contract scope. The incomplete inspections may have still served to reduce or eliminate cross bore risks, which was the primary contract objective.

**EXHIBIT 2: Hydromax invoices for 13,725 lateral inspections**



Source: Utilities Department

In an effort to facilitate completion of the inspection project, the City added services to the original contract scope through change orders to address:

- Obstructions that required construction and repair – Hydromax said it would complete inspections after the required work at no additional cost.
- Sewer pipelines that required cleaning to facilitate traversing or televising the pipeline – Hydromax invoiced an hourly rate to supplement City’s efforts to clean pipelines.
- Branch laterals longer than 15 feet – Hydromax charged the City \$185 to inspect branch laterals longer than 15 feet.
- Longer than anticipated lateral lengths – Hydromax reported an average lateral length of 84 feet versus the 65 feet stated in the contract, which may have resulted in cost savings to the City. The extra length required specialized equipment, additional inspection, and additional condition coding.
- Mains with diameters of 6 inches or less, including mains with tree roots and other obstructions – Hydromax reported that these conditions increased costs because it had to use extra camera crews and specialized equipment.

The contract with Hydromax required payment for incomplete inspections after reasonable attempts. The City paid Hydromax \$2.54 million for the inspections performed, whether completed or not, and for 230 lateral branches that were longer than 15 feet, and another \$407,000 for other services, some of which were added to the contract through the change orders. The City also extended the contract timeline from December 31, 2012 to December 31, 2013.

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**Inspection records  
inconsistent, incomplete, and  
potentially duplicative**

Hydromax recorded 21,940 inspections for 15,121 sewer pipelines. Inspection records did not include information regarding invoicing, so we could not assess which inspections were included in invoices shown in Exhibit 2. Under the contract terms, the City relied on Hydromax to assess and quality control all inspection videos to definitively detect or rule out cross bores. Inspection records were not all consistent and complete and may have included duplicates. The City did not have a process to validate Hydromax inspection data and allowed the contract to lapse before Hydromax attempted to inspect at least 7,237 laterals.

About 12,900 (59 percent) of the 21,940 inspection records cited an inspection status (e.g., “complete”, “cannot complete”, “incomplete”) and 5,274 (24 percent) included condition scores. Hydromax inspectors recorded the final inspection status using nonstandardized, narrative text that does not fully support analysis (e.g., summaries by status) and does not always make clear the inspection status (e.g., “rerun push camera”). Although the primary contract purpose was to identify cross bores, inspection records that are not unique, do not show progress status, and/or do not include condition scores may not be useful to validate invoices, identify incomplete inspections, and repair, maintain or upgrade sewer pipelines. During the contract term, the City did not have any NASSCO-certified staff to interpret the inspection data (see related discussion in Finding 2).

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## Recommendations

The Utilities Department should:

- 1.1. Identify sewer pipelines that Hydromax did not fully inspect or attempt to inspect. Prioritize these sewer pipelines for inspection under a future contract(s). To the extent possible, based on past experience, predict potential inspection challenges, such as poor pipeline conditions, that may hinder future inspections. Disclose these challenges in future contract solicitations.

## Finding 2

### City oversight and NASSCO contracting guidelines can help ensure accurate, complete, and cost effective future inspections

#### Summary

The City's management of its cross bore inspection contract did not ensure that the City obtained accurate and complete inspection data in accordance with NASSCO standards and anticipated contract costs. The City can ensure it obtains accurate, complete, and cost effective sewer pipeline inspection data by incorporating NASSCO contracting guidelines, ensuring consistency of its contract documents, and providing sufficient oversight of contracted work and key deliverables.

#### City monitored contract but did not enforce all performance objectives or NASSCO standards

Utilities Department Engineering staff reviewed Hydromax's invoices and work progress but did not have NASSCO-certified staff or access to NASSCO manuals to ensure that Hydromax met the contract requirement to perform inspections in accordance with NASSCO. Utilities staff could not interpret the inspection information and use it for sewer pipeline operation and maintenance purposes. Although the primary contract objective was to rule out cross bores, providing condition codes (i.e., overall condition assessment scores) was also an objective and could have provided useful information for the City to prioritize future sewer pipeline work. Finding 1 discusses concerns about the reliability of inspection data. Since the end of the contract, one employee has become certified, and the Utilities Department has adopted NASSCO inspection standards.

#### Hydromax inspectors may have misrepresented their certification status

NASSCO issues certificate numbers that uniquely identify certified inspectors. NASSCO-certified inspection software requires inspectors to enter their certificate number when recording inspection data. The City did not ensure that Hydromax's inspectors were properly certified, and our search in NASSCO's online verification tool did not validate any of the inspector certificate numbers that Hydromax submitted to the City with the inspection records.<sup>1</sup> Multiple Hydromax inspectors entered the same certificate number, and most of the certificate numbers were obviously invalid, containing only zeroes or other invalid formats. A NASSCO representative told us that although NASSCO-certified software requires entry of certificate numbers, it does not validate the certificate.

<sup>1</sup> The NASSCO certificate verification tool is accessible at <https://www.nassco.org/>.

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**Condition assessment of sewer pipelines provides advantages**

Condition assessments of underground sewer pipelines is an ongoing process that provides information to avoid emergencies, prioritize repair and replacement projects, plan for the future, and enhance the ability to make technically sound judgments regarding asset management. The Utilities Department did not ensure that Hydromax complied with the contract requirement to code sewer pipeline conditions in accordance with NASSCO standards. Utilities Department staff stated that condition scores have limited value to them and may be misleading due to ongoing condition changes (e.g., new construction). Finding 1 discusses concerns that not all Hydromax inspection records included condition assessment scores. Exhibit 3 summarizes sewer pipeline condition assessment costs and benefits.

**EXHIBIT 3: Costs and Benefits of Sewer Pipeline Condition Assessments**

<u>Costs</u>	<u>Benefits</u>
Inspection equipment and labor	Early problem identification resulting in use of less expensive repair methods
Monitoring equipment and data collection	Reduced emergency costs and consequences
Post-inspection planning, data analysis, and reporting	Reduced operating and maintenance costs
Service disruptions due to inspection work	Avoided service disruptions
	Avoided or mitigated sanitary sewer overflows or pipeline breaks
	Avoided public health costs
	Improved planning and prioritizing of rehabilitation and replacement projects
	Reduced backlogs of deferred maintenance
	Identification and prediction of future capital renewal needs
	More effective and efficient operations and maintenance

**Source:** United States Environmental Protection Agency

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**Contract terms inconsistent; NASSCO guidelines not incorporated**

The City's cross bore inspection contract with Hydromax had inconsistent provisions and did not incorporate NASSCO's recommended contract language for billing, data, and inspector certification requirements that could help the City more effectively

meet its inspection program goals and objectives.<sup>2</sup> The City's contract:

- Required Hydromax to code laterals in accordance with NASSCO standards in one section but in another required inspections that allow for future coding according to standards, if desired.
- Did not require Hydromax to meet inspection standards prior to being paid.
- Did not specify data requirements. NASSCO guidelines provide a detailed list of required and optional data that can be customized and incorporated into contracts.
- Did not require proof of inspector certification. NASSCO contract guidelines require contractors to provide proof of certification for both inspectors and individuals performing coding prior to the start of work.

#### *Costs higher than anticipated*

Including incidental and change order costs, the City effectively paid \$215 per Hydromax lateral inspection (i.e., \$2.95 million ÷ 13,725 invoiced lateral inspections) as opposed to the anticipated, effective rate of \$200 per lateral inspection (i.e., contracted inspection and associated costs ÷ 13,725 invoiced lateral inspections). The contract required payment for incomplete inspections after reasonable attempts but did not include construction services needed to complete some inspections that were hampered by obstructions. The original contract scope assumed that the benefits of inspection attempts were greater than the costs, especially in comparison to rates that other jurisdictions paid during project term. A June 2016 Utilities Department presentation to the Utilities Advisory Commission showed that Hydromax had identified 26 gas cross bores.

#### *Contract disclosures may reduce change orders and costs*

The request for proposal documents disclosed that the City anticipated access challenges during inspections and provided some clarification on payment terms. These disclosures and clarifications were not all included in the final contract, which supersedes any preliminary contract documents. Specifically, the City disclosed to contractors placing bids:

- 80 percent of laterals would have some to a significant amount of roots.

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<sup>2</sup> NASSCO template contracts are at <https://www.nassco.org/resources/guideline-specs>.

- The City does not track resident-owned laterals or know their exact lateral lengths.
- For payment purposes, each branch lateral serving the same structure is one lateral.

Had the City included these disclosures and clarifications in the final contract, it may have avoided the need for the change orders, amendments, and additional contract costs discussed in Finding 1.

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**More flexible contract model  
may have been appropriate**

The contract with Hydromax required inspection of all 18,000 City laterals in City records for a fixed price of \$3.5 million, but the City did not have sufficiently detailed information regarding the condition, length, quantity, and diameter of its sewer pipelines, which resulted in greater than anticipated effort for Hydromax. Contracts should result in reasonable contractor risk and provide the contractor with the greatest incentive for efficient and economical performance. NASSCO's contract guidelines recommend payment terms based on linear foot inspected rather than the number of laterals inspected, which was the basis for payment in the Hydromax contract. As discussed in Finding 1, the City negotiated change orders and amendments with Hydromax to address the expanded scope of work, but Hydromax still could not complete all contracted inspections due to unanticipated conditions that required additional work outside the contract scope. Utilities Department staff do not know the number or conditions of remaining laterals and branches, or the extent of maintenance or construction necessary to enable inspectors to inspect the remaining laterals. Given the uncertainty about laterals remaining to inspect, the NASSCO contract billing model may offer the City more flexibility and more incentive to future contractors.

The contract required the City to pay for incomplete inspections after Hydromax made reasonable attempts. However, the City may have been able to negotiate an alternative pricing structure with Hydromax given the large number of inspections that Hydromax could not complete because of field conditions. Utilities staff stated that the City still benefited from inspection attempts because Hydromax identified cross bores at reasonable costs compared to fees paid by other jurisdictions.

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**City has prioritized remaining lateral inspections but may not have complete data**

A complete, independent list of laterals can help track inspection progress, identify sewer pipelines still at risk, and plan sewer pipeline maintenance and upgrades. Utilities staff have created a priority list of laterals remaining to inspect. However, many Palo Alto parcels in City records do not have a corresponding lateral record, so the priority list may not be complete and accurate. Although the Utilities Department does not have a process to ensure the completeness of its laterals data, the City's cross bore inspection process identified laterals that were connected to the City's main sewer lines using closed circuit television methods. This process should have identified laterals that were not in the City's records.

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**Recommendations**

The Utilities Department should:

- 2.1. Identify missing data in its laterals database by comparing it with independent databases such as Hydromax inspection data. Update its laterals database to ensure it can effectively serve to track inspection progress.
- 2.2. Incorporate relevant and useful provisions from NASSCO's contract template, such as linear foot pricing and prior verification of inspector certifications, in future sewer inspection contracts. Consult with the Administrative Services Department's purchasing staff and the City Attorney's Office to determine if City can enforce NASSCO template provisions that it plans to incorporate.
- 2.3. Identify gaps in staff expertise needed to monitor and facilitate field inspections and to review and track inspection data. Develop a training and certification plan for field staff who should have the expertise to help meet the City's inspection goals and objectives.

## APPENDIX 1 – City Manager’s Response

The City Manager has agreed to take the following actions in response to the audit recommendations in this report. The City Manager will report progress on implementation six months after the Council accepts the audit report, and every six months thereafter until all recommendations have been implemented.

<b>Finding: 1. Hydromax inspected 10,791 (60 percent) of 18,028 laterals and could not complete nearly half of its attempted inspections because of adverse conditions in sewer lines.</b>			
1.1 Identify sewer pipelines that Hydromax did not fully inspect or attempt to inspect. Prioritize these sewer pipelines for inspection under a future contract(s). To the extent possible, based on past experience, predict potential inspection challenges, such as poor pipeline conditions, that may hinder future inspections. Disclose these challenges in future contract solicitations.	Utilities	<p><b>Concurrence:</b> Agree</p> <p><b>Target Date:</b> Late 2018</p> <p><b>Action Plan:</b> Staff will review a previously generated prioritization list based on assessment of risk for property classifications, review inventory of parcels that do not have an associated lateral, and develop a final prioritization list and cost estimates based on experience and data from the original crossbore contract. Implementation of next phase will proceed based on available funding.</p>	
<b>Finding: 2. City oversight and NASSCO contracting guidelines can help ensure accurate, complete, and cost effective future inspections.</b>			
2.1 Identify missing data in its laterals database by comparing it with independent databases such as Hydromax inspection data. Update its laterals database to ensure it can effectively serve to track inspection progress.	Utilities	<p><b>Concurrence:</b> Agree</p> <p><b>Target Date:</b> Mid 2018</p> <p><b>Action Plan:</b> Staff will utilize existing data to review and update the City’s GIS to reflect missing active City-owned laterals. This will be done in conjunction with the inventory of parcels referenced in Finding 1.1.</p>	
2.2 Incorporate relevant and useful provisions from NASSCO’s contract template, such as linear foot pricing	Utilities	<p><b>Concurrence:</b> Agree</p> <p><b>Target Date:</b> Mid to Late 2018</p> <p><b>Action Plan:</b></p>	

*Utilities Department: Cross Bore Inspection Contract Audit*

<p>and prior verification of inspector certifications, in future sewer inspection contracts. Consult with the Administrative Services Department's purchasing staff and the City Attorney's Office to determine if City can enforce NASSCO template provisions that it plans to incorporate.</p>		<p>Staff will review the NASSCO contract template and look for provisions to incorporate in a future City contract, as applicable.</p>	
<p>2.3 Identify gaps in staff expertise needed to monitor and facilitate field inspections and to review and track inspection data. Develop a training and certification plan for field staff who should have the expertise to help meet the City's inspection goals and objectives.</p>	<p>Utilities</p>	<p><b>Concurrence:</b> Agree  <b>Target Date:</b> Late 2018 to Start of future contract  <b>Action Plan:</b>  Staff will continue to review staffing gaps for office and field personnel. If gaps are identified and are not resolved by training, additional expertise will be identified within the City or via contract.</p>	



# POLICY AND SERVICES COMMITTEE TRANSCRIPT EXCERPT

Special Meeting  
Tuesday, June 13, 2017

Chairperson Wolbach called the meeting to order at 6:06 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Kniss, Kou, Wolbach (Chair)

Absent: DuBois

## Agenda Items

5. Utilities Department: Cross Bore Inspection Contract Audit.

Chair Wolbach: Alright, we're now back on track to end by 9 o'clock, hopefully, or earlier. We might end earlier if possible. Let Staff enjoy – oh, here we go. So now we're going to move onto item five, our last real item of the evening and that is Utilities Department Cross Bore Inspection Contract audit. We have one member of the public to speak to this. Any other speaker cards now is a good time to get them in. Again, I will turn to Staff for a presentation and then we will go to the public and then back to the Committee.

Vice Mayor Kniss: Not something that I am terribly familiar with; cross bores.

Mr. Shikada: Not familiar, that's a good thing.

Harriet Richardson, City Auditor: Good evening Mr. Chair and Members of the Committee. Harriet Richardson, City Auditor here with Senior Auditor Houman Boussina to present the cross bore inspection contract audit. So, to address Council Member Kniss's comment, we start off – if you look up at the screen, there is a picture of what a cross bore is on the right side. It's when one utility line, such as a gas line is inadvertently installed through another – it cuts through another such as a sewer line and that's what we are showing in the picture on the right there. The picture on the left is the desired installation. The picture on the right is not and so if you end up with a cross bore and a plumber or resident accidentally cuts into the gas line when they are opening a cross bore sewer line, gas may be introduced into the connected structure – the building that you see there - and that can cause an explosion. The federal law requires the City to develop and

# TRANSCRIPT EXCERPT

implement a procedure to identify, monitor and address gas pipeline risk. In 2011, the City entered into an 18-month, \$3.5 million contract with Hydromax USA to use closed circuit television inspection methods to inspect the City's main and lateral sewer lines to identify cross bores and document sewer line conditions in accordance with industry standards set by the National Association of Sewer Service Companies or NASSCO. Our audit focused on assessing Hydromax's compliance with key contract terms, such as inspection of all 18,000 known City laterals and connected privately owned laterals and the City's oversight of the contract. One thing that I want to point out is that we did this audit at the request of the City Manager's Office because this contract was not able to be completed as anticipated and in knowing that they would want to go out for a future contract where the work can be completed, the City Manager's Office wanted to know what they could do differently to ensure success on a future contract. At this point...

Vice Mayor Kniss: Just one, I just have to know how could you do that? How could you – do you just accidentally not know where there's another pipe and you cut into it?

Ms. Richardson: The – do you want to address – I'll let—Utilities is here to address that. They could probably explain it...

Vice Mayor Kniss: It just seems as though...

Ed Shikada, Assistant City Manager: This is really a phenomenon after the advent of trenchless technologies so the gas line itself was bored in after an existing structure was already there. In some cases, the sanitary sewer could be in place for decades and not documented as to the location. So, Robert, why don't you go ahead.

Vice Mayor Kniss: So, you really could bore right through one that already exists, is that the case?

Robert Item, Senior Engineer for Utilities: Yes.

Vice Mayor Kniss: You wouldn't know because it's boring rather than trenching?

Mr. Item: Correct.

Vice Mayor Kniss: That helps because I couldn't quite figure out how you could have even happened.

# TRANSCRIPT EXCERPT

Mr. Shikada: Not know if it was there.

Mr. Item: Yeah, many times you can imagine too in your residence, you have – yes, excuse me. I am Robert Item, I am a Senior Engineer with the Utilities Department. I have involved in the cross bore project from the inception to currently. So, many times in a residence, we – they have fancy landscapes and all kinds of things going on there. So, there's a real tradeoff between actually trying to trench at which would appear at first to be maybe less costly if you add all these other costs to it versus drilling. Drilling has been a preferred method as a matter of fact. Some of these other projects here in the future you will see gas and water being drilled in the – as well as open cut. That was a choice that was made with the new technologies to minimize the open cut work and initially, it saves a significant cost. However, there are some drawbacks and this is one of them. Just making sure that there are no cross bores and most times, it's fairly obvious. Many homeowners will sit there and tell you that, I've been here 40-years and I know where my sewer lateral is and you guys are over here with your gas service; there's no cross bore. Just the same, many of those obvious ones we end up finding a cross bore.

Vice Mayor Kniss: Oh, really?

Mr. Item: Yes, there was one – we have many laterals that may go to one house and then all of a sudden it branches off to the house adjacent and it's unknown.

Vice Mayor Kniss: Have we had any terrible accidents in the City?

Mr. Item: Thankfully we haven't and this is one of the things – I mean this is a relatively costly program. You start talking about millions of dollars but the flip side of it is if you have one accident that you, God forbid, kill anyone or all this, that's tens of millions probably in this area.

Vice Mayor Kniss: So, Lydia, you must know all about this already? I didn't know anything about – I am going to go home and see if we're cross bored; no telling.

Mr. Item: Yes. So, I mean I guess I can let it progress on here and I'll answer anything...

Ms. Richardson: Houman Boussina is going to discuss the audit findings and recommendations.

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Houman Boussina, Senior Performance Auditor: Ok, I am Houman and senior performance auditor. This audit has two findings, the first one focuses on the actual contract work that Hydromax completed in the second – the City's oversight. Hydromax invoiced the City about \$2.95 million for 13,725 lateral inspections. The invoices show that Hydromax could not complete 6,625 or forty-eight percent of the 13,725 attempted inspections because of obstructions in the City's sewer lines that would have required construction services that were beyond the contract scope. The City's contract required payment for incomplete inspections after reasonable attempts, which is one of the reasons the dollar amount despite not completing all of the inspections. Hydromax inspection records show that it inspected 10,791 or sixty percent of the 18,000 sewer lines in the City's records. Hydromax inspection records were inconsistent and incomplete, potentially duplicative, so we could not determine which inspections Hydromax included in this invoices that I discussed prior. City oversight and incorporating NASSCO contracting guidelines in future contracts can help ensure that future sewer line inspections are accurate, complete and cost-effective. Finding 2 makes several important points. One of the key points is that although the City monitored the Hydromax contract, it did not enforce all the performance objectives cited in the contract or NASSCO standards and did not have NASSCO certified staff or access to the NASSCO manuals to ensure Hydromax conducted the inspections in accordance with the contract requirements and NASSCO standards. Another key point is that we could not validate any of the names or certificate numbers that Hydromax inspectors entered into NASSCO's certified inspection software, which means that Hydromax inspectors may have misrepresented their certification status. Another key point was that some provisions within the contract were inconsistent with other provisions and the contract did not incorporate some of NASSCO's recommended contract language that could have helped the City meet inspection programs, goals and objectives. The final key point is that the City's sewer pipeline records may be incomplete. Hydromax inspected some pipelines that were not in the City's records and there are many parcels in City's records that do not have a corresponding lateral record and the audit report goes into more detail on these issues. The audit report includes four recommendations to the Utilities Department, including identifying and prioritizing sewer pipelines remaining to inspect, identifying missing data in the City's lateral database, incorporating NASSCO provisions in future inspection contracts and identifying gaps in Staff expertise needed to provide oversight of future inspections.

Ms. Richardson: So that concludes our presentation and we're open for questions.

Vice Mayor Kniss: So...

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Chair Wolbach: Liz?

Vice Mayor Kniss: ...(inaudible).

Ms. Richardson: Oh, I do want to point out that the City Manager's Office agreed with all of our recommendations and they submitted an implementation plan with their response.

Vice Mayor Kniss: I quite frankly, most things I feel pretty comfortable with but I don't feel really comfortable with sewer pipelines and cross bores and I am not being flip about it. I just – I don't know enough. I would certainly accept what you have said and certainly be ready to support a motion but – and I am sure this is the kind of thing Lydia would be interested in as well. When we lived in an Eichler, we had the most very unusual sewer system and I think it was called Orange...

Mr. Item: Orangeburg Pipe.

Vice Mayor Kniss: Yes, so I wonder does that still exist in parts of the City because it was certainly not desirable?

Mr. Item: Yeah, Orangeburg pipe is basically a cardboard tube with a coal tar – basically an oil base coating and that was pretty typical, especially after the late 40's, early 50's.

Vice Mayor Kniss: Yeah, when most of the Eichlers were built, right.

Mr. Item: Unfortunately, we're still finding some and I think in a lot of Eichlers, they're slabs and so a lot of that underneath – specifically the house, you're pretty well encased but once you get outside, we found some sewer lines that are barely holding up.

Vice Chair Kniss: I was trying to think what I could add that would sound like I knew something but I just – it sounds like you have done a terrific job. I'm glad to know about cross boring but I don't know if I will be using it a lot on a daily basis but thank you; good report.

Mr. Shikada: Chair and Members of the Committee, at the appropriate time, I would like to make some comments for the Staff.

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Chair Wolbach: Go right ahead and then we'll hand it over to Lydia if you're (inaudible).

Mr. Shikada: So, I would like to thank the auditor and Houman for the work. As Harriet noted, I actually requested this audit early on when I first joined the Utilities Department, recognizing the magnitude of dollars that were expended on this contract, as well as the inability to ultimately complete the goals that were originally laid out. I appreciate the work and the forensic review on helping us identify some really important recommendations on how we move forward with this. I also had the opportunity through the audit process to I think, provide or learn some important context in terms of how this contract originally came together. I think it is notable that the contract itself was originally put in place within a year after San Bruno and the explosion and much of the follow-up work that was done both in terms of identifying some of the key risk areas, as well as then undertaking this contract to address any potential risk here in Palo Alto. The effort undertaken immediately after that really had been carried on for a number of years, maybe a little too long before we identified the need to revisit the contract, so I think we're at the point that as we take the audit recommendations going forward, this will give us some good baseline information for the next version of the contract. As I think you may have read, both in the audit as well as in our Staff report on this topic that one of the major learnings through this original contract was that what had originally been established as an inspection contract, ultimately, we've concluded that it needs to also involve the inclusion of repairs as a part of the scope of work so that you could address the issues immediately once blockages were identified. Not just sewer blockages but maybe the result of roots and the like to enable going forward. Why don't I stop there and we can talk maybe about some of the particulars as needed.

Chair Wolbach: I apologize (inaudible) to Herb Borock, our one public speaker on this issue. I want to give you three minutes to share your comments with us.

Herb Borock: As I understand, the reports to the Committee and to the Utilities Advisory Commission last year, this audit refers to work that was done – that was completed by the end of 2013, which is what, 3 ½ years ago. It came – first, it came to the Utilities Advisory Commission a year ago on June 1<sup>st</sup> and at that point, it was over 13,000 pipes that had been inspected. Now, to find that it's over 13,000 invoices but 3,000 less pipes that have been inspected by a company that didn't have apparently the appropriate skills that we now know are needed to do this and that asked for extensive contract amendments and additions of payments that were approved. I don't have the confidence based upon what I have seen that

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there's any way to know whether we overpaid. Whether we actually got what they said they had given us. That's a substantial amount of money. Also, I am concerned about the amount of time that it's taken to make it this far. Even accounting for the time of the audit, if you subtract the time of the audit, it's still a long time to follow this. The other is whether this approach of doing the entire City was the right one because if we had done a smaller piece that we could find these problems that needed to be corrected at that time. For example, doing it at the same time as say a sewer project that was being done in a particular neighborhood. That you are doing that piece of the system or when someone is doing a development project requiring it be done because as I understand it, the camera looks at the entire lateral hole – through the entire property that is being serviced – the entire part of the lateral that's the responsibility of the property owner. There have been, as reported to the Utilities Advisory Commission, there are other cross bores in other utilities that were found in the sewers and in addition, a larger number of suspected cross bores. That's my main thing is the financial thing because the contract thing would be been written differently and the bidding might have been different if those additions had been part of the contract. Thank you.

Chair Wolbach: Thank you, Mr. Borock. Lydia, do you have any questions or comments on this one?

Council Member Kou: I guess I'd ask how confident are we that this contractor had done their job correctly? So, the ones that they have inspected and how confident are we that they've done it right?

Ms. Richardson: I think that would be a better question for Utilities because we don't have the technical skills to address that.

Council Member Kou: Rob?

Chair Wolbach: (Inaudible) utilities here, Director?

Mr. Shikada: I'll let Robert take the first crack at it.

Mr. Item: Ok, first a little bit more background that when we chose this contractor, we chose it at a time that this was a legacy cross bore inspection which we're investigating cross bores after the fact, was – we're kind of in the – more of the cutting edge. Especially when we're talking from our sewer main street or yes, sewer main on the street, all the way to the structure. There were several – there were a couple other cities that have investigated

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their legacy cross bores but they usually all stopped right at the property line and so they were much shorter.

Council Member Kou: Like this right?

Mr. Item: Correct, so our inspection was -- the intent and it varies from house to house, was to go in generally from the sewer main in the street all the way to the structure and so in that per se, we did this with a thinking that we would have multi-levels of inspection, which at the time, that was something that wasn't -- we -- you can get a person like Roto-Rooter, they'll go out and they'll snake it through and they'll go we're done; here's a video. From our experience -- because in the past we knew that this was an issue throughout our cross bore projects, we have required the contractor that was doing the work to actually video tape it and then they would submit it to us in-house and we would review it. This has been the common practice to ensure that there haven't been cross bores. When we embarked on this project, we understood that we weren't -- how safe are you if a -- not to say anything about the Staff in general but a person that doesn't always look for cross bores on the kind of day-to-day basis if you would or if it was just one view through the pipe, then you have one level of inspection. This contractor was with three levels of inspection and so you would have the initial person doing the inspection in the field, then you would have another person in the office then coding the NASSCO coding. Then you would you have another person again, reviewing the tapes, looking at a -- we gave it our GIS so they would be able to identify any crossing gas lines on the -- that we know about, any crossing gas lines on the sewer path. Then that person would look at it further to say hey, was there a problem there? Let me take a look at it. So far through this program, we have not had a thing where our ops. crews have found another cross bore in one inspected -- from one that was inspected by Hydromax. A matter of fact, they actually had but they found out that it happened after Hydromax was there. So, far you ask how good -- it's kind of like over time the proof is in the pudding kind of thing. We'll see and we try to be -- there's always a risk. I mean, are you ninety-nine percent certain? Ninety-nine point nine nine and it goes on and on. Obviously, as you get into the small fractions, the cost goes up and it's beyond. Again, along with the findings, we're focused on actually seeing that it's going to involve construction and construction is expensive. We're focused on prioritizing what we have and narrowing it down to what -- to the ones that are the most critical and then working from there.

Council Member Kou: Ok, thank you for the explanation. Then, I think Ed had answered that because I said -- I had a question of the one that are

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cross bored, is it going to be needed to be corrected? So, you did mention that now with the new...

Mr. Shikada: To include repairs as a part of the scope.

Mr. Item: Yes, in the past it's been part of scope and it continues to be part of the scope. Whether our crews are doing the drilling because our crews drill services in currently, to if a contractor is out there doing the work.

Council Member Kou: How do you connect with the homeowner to let them know that you are going to be looking into their lines?

Mr. Item: In a general sense, we give a notice and the intent originally of the Hydromax contract was to lateral launch as much as possible. That means that they are going into the main in the street and then launching up the lateral and so hopefully, that was the original idea and the homeowners wouldn't even know that we were going up to their house. They might see a person walking around with a vest tracking that – where the camera was or is at that point in time but that was pretty much it. It was noninvasive, although as we found out through this project, it involved much more customer interaction because we – because our lines were relatively small, there were issues in terms of offsets and things where the lateral launch camera could not traverse up the main. We ended up having to have the second crew – Hydromax had the second crew to come in and they would first identify with a smaller camera where the laterals were and then have a second crew come in from the top side – now dealing with the homeowner much more intimately, and then videotape that lateral. Sometimes they would have to pull toilets, on the roof, go from the back yard if there is nothing in the front yard to access it. So, there were a number of challenges and as you can probably imagine, there are probably every different kind of combination out there in terms of lateral configurations. We had a lateral that actually went three-quarters of the way around the house.

Council Member Kou: I know in my neighborhood, actually there is a lateral that goes past the back neighbor's property and comes out to the street behind. I mean there are some weird ones out there but anyways. I was wondering, so I never quite understand how – when you put an RF – it's not the RFP but you know when you put out a proposal to ask for the contractors to come in with a bid. How do you choose the bid and why does it always end up being the lowest? Is there a State law for that, if I understand that correctly?

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Mr. Shikada: For construction contract, that would be the case. This one was a professional service, correct Robert?

Mr. Item: Yes.

Council Member Kou: So, a level of how much they know.

Mr. Shikada: It could be a selection based on criteria, as opposed to the lowest responsible bidder which would be typical of construction contracts.

Council Member Kou: Ok, so this is different.

Mr. Shikada: Right. This is done as a professional service.

Council Member Kou: Very good. Ok, I think I'm – I'm also good with the recommendations but thank you.

Chair Wolbach: I just wanted to follow up on something that we heard from the public and just ask for clarification, have we really checked whether we were overcharged for the work delivered and if we were, is there a mechanism by which we plan to recover any excess payments?

Ms. Richardson: We couldn't actually determine that because there wasn't a clear link between the invoices and what those – what laterals were inspected for those invoices so, we couldn't actually determine that. We did check with the City Attorney's Office as we were doing this audit about whether there was any potential for recovery and it wasn't – I didn't ask for a formal opinion, we just had a little discussion—side discussion and she told me that the period of time – the statute of limitations for being able to go back to collect if we had been overcharged was either three or four years. So, whether it was three years or four years, we're beyond that period of time.

Mr. Shikada: If I could add one more thing. That as noted in the audit, one of the learnings is the structure of the contract and this contract required payment for incomplete inspections after reasonable intent – attempts. So, that standard basically said that if they tried and they made reasonable attempts to try and survey the line, that we would be responsible for payment. That set a relatively permissive bar for the contract.

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Ms. Richardson: When you look at that, there is – I have to find which page it is on – we did calculate that it did cost – cause us to pay more per lateral inspection than the actual contract terms.

Chair Wolbach: Yeah, like a 7 1/2 percent extra or something. Wasn't it like \$215 instead of \$200?

Ms. Richardson: Correct, I am looking for the actual number, yes.

Chair Wolbach: Yeah, I am just pulling off...

Ms. Richardson: Yes, \$200 -- \$215, yes.

Chair Wolbach: So, just about 7 1/2 percent. So, how do we plan to review future contract work in a cost-effective way but in a time efficient way so that if we, in the future – this is really a question for the City – and ask Utilities Director Shikada in his role as Assistant City Manager Shikada because this doesn't just apply to one department. It's a broader question for the organization of the City. How do we plan to make sure that in the future, after the contract is done, that we do a little Monday morning review and see if it was screwed up? See if we overpaid and if necessary, recover before the statute of limitations run out? I think that was one of the key questions that is before us to consider. If there – I just want to have some reassurance that we're at least trying to figure out how to answer that question, even if we haven't answered that question yet.

Mr. Shikada: Well, and to be completely frank, that is the reason we are doing this – we did this audit to start with. In my opening comments, I made the point that perhaps just in passing that this probably went too long before we got to this point and decided to initiate the audit but that said, that would certainly be one of the areas. In addition, again, going back to the origins of this contract. This is not an activity that the City would consider routine. I mean it somewhat became routine because of the magnitude of the project and the volume of laterals that needed to be inspected but this is not the kind of activity that we would expect to be doing 10-years from now and beyond. It was done as a specific remediation for a situation that was identified as a priority that needed to be addressed as quickly as possible. So, on that basis, I think that again, if we both in hindsight, as well as going forward on the scope of an effort like this, we'd want to take advantage of best practices as have been discussed to ensure that the structure of the contract, as well as the timeliness and the magnitude of the contract, would allow for more 'as you go' review in ensuring that it was done in a most cost-effective manner.

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Chair Wolbach: I appreciate that and I know there's – I think the City Auditor and Assistant City Manager and the Utilities Director weren't here at the time but I just want to make sure that we're learning – that we really are learning from this as an organization, right? That we don't repeat these mistakes and that we really use, as you've indicated, use this as a learning opportunity; since we can't use it as a cost recovery opportunity at this point. So, tell me if I am wrong but the way I see it is the City Manager's Office is really responsible for ensuring that any contracting done by any department has the real support that that Staff needs and that department needs to be able to go out, craft that scope, the RFP, evaluate respondents, pick a respondent, finalize the contract, review the contract and review the work and to go through all of those steps. I don't think that that's – I don't think that should just be – even though we want to empower departments to be active and empower Staff to be active. I don't think it's entirely up to them to feel like they are shooting in the dark without some support from the City Manager's department and from ASD. I just want to make sure that is the case across all departments in the City, especially, when it's a nonroutine contract as was just indicated, right? So, in the future when there is a nonroutine contract, where the department participating in it or in seeking the contract is doing something that is not routine for them, that they have that support from ASD and guidance from ASD, City Attorney, and City Manager's Office. I just want to make that comment and see if there are any thoughts about that.

Mr. Shikada: Oh absolutely, I completely agree. The partners so to speak that you just described, I think are really critical. There's a technical expertise that comes from the department. There's the procurement that ASD would be involved with. There's the structure of the agreement that the City Attorney's Office advises on but again, all -- none of these are exclusive domains for any of the folks that are involved. Again, from the City Manager's Office perspective, really trying to ensure that the resources are provided. At the same time, recalling the last agenda item, having positions filled, ensuring that the people filling positions have the appropriate qualifications. Those kinds of things are equally important so we operate as part of an eco-system so to speak and it's really our ongoing effort to make sure that those bases are all covered and balanced.

Chair Wolbach: I appreciate that and I think that's really the point, right? That all of us in our respective roles have our areas of expertise and especially when we are doing something that is outside of our usual scope, that we can rely on other people within the organization and that we feel supported in the work that we are doing. I think we -- again, not wanting to micromanage departments from the Council, we really look to the City Manager's Office as the place to make sure that coordination is happening

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and I think that's what we will look for in the future. With that said, I don't think it's something appropriate to include in the motion tonight but I would just put out for consideration that when the next contract on this comes forward, we might want to consider putting it as an action item and not a consent item for the Council.

Vice Mayor Kniss: But this isn't action tonight, is it?

Mr. Shikada: It's just accepting the audit.

Chair Wolbach: (Crosstalk) Right, right but I – that's right. I said that I don't think it should be in the motion but just – I want to put that out there for...

Mr. Shikada: I think you are referring to the next contract...

Chair Wolbach: Yeah, next contract...

Mr. Shikada: ...related to cross bores.

Chair Wolbach: Thank you for clarifying that. That is exactly what I meant. So, with that, any motions?

Vice Mayor Kniss: I move that we accept the report as given.

Chair Wolbach: I'll second it and any other discussion? Do you need to speak to your motion? I don't think I need to speak any more to my second. Lydia, any other thoughts or questions? Ok, all in favor? Aye. Passes unanimously. Thank you very much for bringing this up. This was an important one and I really appreciate it.

**MOTION:** Vice Mayor Kniss, seconded by Chair Wolbach to recommend the City Council accept the Utilities Department: Cross Bore Inspection Contract Audit.

**MOTION PASSED:** 3-0 DuBois absent

Vice Mayor Kniss: Was this motivated by San Bruno?

Mr. Shikada: Yes, (inaudible).

Chair Wolbach: The original investigation [Audio cut out] and then the audit had asked for.

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Mr. Shikada: (Inaudible)

Vice Mayor Kniss: This company was hired during the recession, right?

Mr. Shikada: 2011 to (crosstalk)(inaudible)