



San Francisco Water Power Sewer

Services of the San Francisco Public Utilities Commission

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Date: September 28, 2021

To: Commissioner Sophie Maxwell, President
Commissioner Anson Moran, Vice President
Commissioner Tim Paulson
Commissioner Ed Harrington
Commissioner Newsha Ajami

Through: Michael Carlin, Acting General Manager 

From: Eric Sandler, CFO and AGM Business Services 

Subject: SFPUC FY 2020-21 Fourth Quarter Audit and Performance Review Report through June 30, 2021

This memorandum provides the SFPUC Quarterly Audit and Performance Review (QAPR) report, as of the fourth quarter for FY 2020-21, ending June 30, 2021. In addition, this memo provides a FY 2020-21 audit recap as well as a new multi-year audit plan through FY 2023-24.

Report Summary:

There were three completed audits since the last quarterly report:

1. 2019 Post Audit, March 11, 2021
 - o Report can be found at this link: [2019 Post Audit Report Summary](#): The Controller’s Office performs the post audit to examine the effectiveness of the design and implementation of each department’s accounting and internal control practices and compliance with City laws, regulations, and policies.

Audit Findings Summary: The post audit highlighted SFPUC’s strengths in compliance with the year-end close schedule, initiation & approval of financial documents, budget entry documents, and clearing receipts. In response to the audit, SFPUC staff will continue to evaluate opportunities to promote and improve compliance with specific focus on observations noted in the areas for improvement, including taking advantage of prompt payment discounts, recording cash receipts in a timely manner, ensuring journal entries include cash balancing lines, reimbursements are submitted promptly, updating documented policies and procedures, and implementing the Project Costing to Asset Management process in the financial system.

2. 2017-18 Energy Center San Francisco Franchise Fee Audit, April 13, 2021
 - o Report can be found at this link: [2017-18 Energy Center San Francisco Franchise Fee Audit](#)

Report Summary: The Controller’s City Services Auditor (CSA) engaged Sjoberg Evashenk Consulting, Inc., (SEC) to audit whether Energy Center San Francisco LLC (Energy Center) properly paid the franchise fee that the City and County of San Francisco charges to use its streets to install, construct, maintain, and operate steam pipe conduits for distributing steam for heating purposes.

London N. Breed
Mayor

Sophie Maxwell
President

Anson Moran
Vice President

Tim Paulson
Commissioner

Ed Harrington
Commissioner

Newsha Ajami
Commissioner

Michael Carlin
Acting
General Manager

OUR MISSION: To provide our customers with high-quality, efficient and reliable water, power and sewer services in a manner that values environmental and community interests and sustains the resources entrusted to our care.



Audit Findings Summary: The audit found that Energy Center generally complied with its obligations under the franchise agreement and relevant provisions of the San Francisco Administrative Code; however, Energy Center was late in submitting the required annual report and paying the franchise fee for 2017 and failed to duly verify its 2018 statement. The report recommends the City Controller enhance its oversight practices to ensure agreement administrative procedures are consistent and accurate and the SFPUC should amend the agreement to include a late payment interest penalty provision. In response to the audit, staff will work with the Power Enterprise and CSA to resolve this recommendation.

3. FY 2019-20 Single Audit (OMB Circular A-133), June 25, 2021

- Report can be found at this link: [FY 2019-20 Single Audit](#)

Report Summary: Third party auditor Macias Gini & O'Connell LLP audited the City and County of San Francisco's (City) basic financial statements and schedule of expenditures of federal awards. The basic financial statements include governmental activities, business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City, and the related notes to the financial statements. It is fairly stated, in all material respects, in relation to the basic financial statements as a whole. Detailed information of SFPUC federal awards and loans are in the Notes to Basic Financial Statements section of the report and pertain to State Revolving Funds loans and Federal Emergency Management Agency (FEMA) Public Assistance Grants. There were no audit findings or recommendations for the SFPUC.

Audit Recommendation Status

One new audit recommendation is open:

1. 2017-18 Energy Center San Francisco Franchise Fee Audit

The audit recommended that the SFPUC amend Energy Center's franchise agreement to include a late payment interest penalty provision to help ensure the City receives the payments on time. SFPUC doesn't concur with this recommendation as the Controller is responsible for the financial aspects of the agreement and the SFPUC is responsible for the operational aspects. CSA has agreed that this issue be included as a part of a future agreement or amendment, but not cause for amendment on its own. CSA has agreed to close this open recommendation in FY 2021-22.

FY 2020-21 Audit Recap and Multi-Year Audit Plan

FY 2020-21 has resulted in a number of changes to the Quarterly Audit and Performance Review report with Commissioner input, including:

- Updated audit information presentation as the quarterly report now summarizes audit reports and the audit findings
- Links to the completed audit reports are provided where possible
- Development of a multi-year audit plan
- Lease audits and audit frequency are now included in the audit plan

Approximately \$1.4 million of SFPUC's funds were budgeted for the Controller's City Services Auditor (CSA) functions under the [Charter-mandated](#) commitment of two-tenths of one percent of the City's annual budget for FY2020-21. The following highlights the audit activity for FY 2020-21:

- 37 audits and reports during the year; 31 were either completed or in progress as of fiscal year-end
- 14 financial audits and 6 performance audits were completed in FY 2020-21
- 15 audit projects (in-progress or upcoming) have been moved into the FY 2021-22 audit plan

External auditors noted a material weakness in internal controls relating to ‘tone at the top’ for the FY 2019-20 Audited Financial Statements. SFPUC Management acknowledged the deficiency and has been working on mitigation activities to further improve the internal control environment of the organization. These activities include further development and enforcement of policies and procedures, and the enhancement of the SFPUC Audit Plan.

Over the past several months, CSA has been developing the attached audit plan for FY 2021-22 through FY 2023-24 driven by a variety of issues but primarily a Public Integrity Assessment, scheduled for the first half of FY 2021-22 and directly associated with the Federal charges filed against the former General Manager. This quarterly report includes the first SFPUC forward audit planning calendar CSA Audit Plan for the next three years. It represents the forward view of planned audits and assessments and will be further refined as audit scoping and objectives are developed.

The Audit Plan includes proposed audits in the following areas:

- SFPUC Community Benefits Program
- SFPUC Public Integrity Assessment
- RBOC Bond Spending
- SSIP Program Management
- Emergency Contracting
- SFPUC Project Controls
- Revenue Leases
- Citywide Mandated Audits
- Capital Projects funded by Grants
- Contracting and Procurement Lifecycle
- SSIP Biosolids Digester Facilities
- SSIP Headworks Facility
- SSIP Projects under Construction Management/General Contractor Project Delivery Model

The audit plan was developed with consideration of mandates by the City Charter and municipal codes, risk assessments, and input from city leadership. Commission input on the audit plan will be provided to CSA. The memorandum and audit schedule are included as attachments. We encourage and value this Commission’s feedback on the multi-year audit plan.

If you have questions, please contact me at esandler@sfwater.org.

Attachment: FY 2020-21 Audit Plan, By Status as of June 30, 2021
Appendix I: City Services Auditor Recommendations, Aging Report
Appendix II: CSA Audit Plan
CSA Audit Workplan for SFPUC, Fiscal Years 2021-22 Through 2023-24



Quarterly Audit & Performance Review Report FY 2020-21 Audit Plan, By Status As of June 30, 2021

By status, as of June 30, 2021	
Completed:	20
In Progress:	11
Canceled:	2
Upcoming:	4
Total:	37

#	Quarter Status	Audit Type	Enterprise / Bureau	Audit Name	Oversight Body
1	Completed	Financial	Water	Annual Physical Inventory Count, FY 2019-20	SFPUC, Finance
2	Completed	Financial	Wastewater		
3	Completed	Financial	Hetch Hetchy Water & Power		
4	Completed	Financial	Power	Center for Resource Solutions Green-e Verification Audit, 2019	Center for Resource Solutions
5	Completed	Financial	Infrastructure	Proposition 1E Grant Audit: Stormwater Flood Management	CA Department of Finance
6	Completed	Performance	Infrastructure/External Affairs/HRS	Workforce Development Programs Audit	Board of Supervisors
7	Canceled	Performance	Power	Pacific Gas and Electric Interconnection Cost Audit	CSA, Controller
8	Completed	Financial	Water	Audited Financial Statements, FY 2019-20	Controller
9	Completed	Financial	Wastewater		
10	Completed	Financial	Hetch Hetchy Water & Power & CleanPowerSF		
11	Completed	Financial	Business Services, Finance	Sales and Use Tax Audit, 2014-17	CA Department of Tax & Fee Administration
12	Completed	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2018-19	BAWSCA
13	[Updated] Canceled	Performance	Wastewater	Sewer Repair and Maintenance Performance Audit	CCSF Board of Supervisors
14	Completed	Performance	Hetch Hetchy Water & Power	Reliability Standards Compliance Audit, 2017-20	WECC / NERC
15	Completed	Performance	Power	Pacific Gas and Electric Franchise Fee Audit, 2017-18	CSA, Controller
16	[Updated] Completed	Performance	Power	Energy Center San Francisco Franchise Fee Audit, 2017-18	CSA, Controller
17	Completed	Performance	Power	CA Independent System Operator (CAISO), Scheduling Coordinators Self-Audit, 2018-20	CAISO
18	Completed	Performance	Business Services, ITS	Web Application Security Assessment, FY 2020-21	CSA, Controller
19	Upcoming	Financial	Power	Center for Resource Solutions Green-e Verification Audit, 2020	Center for Resource Solutions
20	Completed	Financial	Business Services, Finance	Annual Financial Report, FY 2019-20	SFPUC
21	Completed	Financial	Business Services, Finance	Popular Annual Financial Report, FY 2019-20	SFPUC
22	In Progress	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2019-20	BAWSCA
23	Upcoming	Financial	All SFPUC	Political Activity Fund Compliance Assessment, FY 2017-18	CSA, Controller
24	In Progress	Revenue Bond Oversight Committee	RBOC	SFPUC Bond Expenditure Audit	RBOC

#	Quarter Status	Audit Type	Enterprise / Bureau	Audit Name	Oversight Body
25	[Updated] In Progress	Performance	External Affairs	Community Benefit / Social Impact Partnership Program Audit	CSA, Controller
26	Upcoming	Performance	All SFPUC	SFPUC Public Integrity Assessment	CSA, Controller
27	Upcoming	Performance	All SFPUC	Citywide Audit and Assessment of Emergency Contracting and No Bid Sole Source Contracts	CSA, Controller
28	[Updated] In Progress	Financial	Water	Annual Physical Inventory Count, FY 2020-21	SFPUC, Finance
29	[Updated] In Progress	Financial	Wastewater		
30	[Updated] In Progress	Financial	Hetch Hetchy Water & Power		
31	[Updated] In Progress	Financial	Water	(Interim) Audited Financial Statements, FY 2020-21	SFPUC, Finance
32	[Updated] In Progress	Financial	Wastewater		
33	[Updated] In Progress	Financial	Hetch Hetchy Water & Power		
34	[Updated] Completed	Financial	Business Services, Finance	Post Audit 2019	Controller
35	[Updated] In Progress	Financial	Business Services, Finance	Post Audit 2020	Controller
36	[Updated] Completed	Financial	Business Services, Finance	Single Audit (OMB Circular A-133), FY 2019-20	OMB
37	In Progress	Financial	Business Services, Finance	Sales and Use Tax Audit, 2018-20	CA Department of Tax & Fee Administration

Audit Program Summary

	Total	Open	Closed	% Complete
Audits	1	1	0	0%
Recommendations	249	1	248	99%

Open Audits

	Audit Title	Report Issued Date	Open Rec	Total Rec	Months Open	% Complete	Target Close Date**
Power Enterprise							
1	Energy Center San Francisco LLC Paid the Correct Franchise Fees for 2017 and 2018 but Paid Its 2017 Fee Months Late and Did Not Always Meet Reporting Requirements	4/13/2021	1	1	2	0%	8/31/2021
	Total*		1	1	2	0%	

* As of July 1, 2015 in AuditShare.

** Date when last recommendation will close.

Open Recommendations

	Audit Title	Explanation	Target Close Date**
2017-18 Energy Center San Francisco Franchise Fee			
1	Amend Energy Center's franchise agreement to include a late payment interest penalty provision to help ensure the City receives the monies to which it is entitled on time.	The SFPUC does not concur. As noted in the report, Office of the Controller (Controller) is responsible for the financial aspects of the agreement and the SFPUC is responsible for the operational aspects. It is recommended this issue be included as a part of a future agreement or amendment, but not cause for amendment on its own.	8/31/2021

Fiscal Year 2021-22

#	Project	Notes
1	SFPUC Community Benefits Program (Social Impact Partnership Program) Audit	Ongoing. Planned completion: November 2021.
2	SFPUC Public Integrity Assessment	Ongoing review of internal controls in the contracting and procurement processes. Planned completion: December 2021.
3	RBOC Revenue Bond Audits – Batch 1	Ongoing audits of six revenue bonds. Planned completion: November 2021.
4	SSIP Program Management Contract Audit	Address the agency's CS165 SSIP program management responsibilities. Planned completion: February 2022.
5	Emergency Contracting and No-Bid Sole Source Contracts Audit (Citywide)	Examine emergency procurement and contract management business processes. SFPUC to be included in this citywide audit. Planned completion: June 2022.
6	SFPUC Project Controls Audit	Assess the effectiveness and efficiency of SFPUC's project controls. Planned start: March 2022.
7	Revenue Lease Audits (Citywide)	Mandated audits of lessees to ensure compliance with the revenue reporting and payment terms of their leases. Recent audits for SFPUC have been of quarry operators.
8	Miscellaneous Mandated Audits	Annual mandated audits that may affect SFPUC, including those of Local Business Enterprises (citywide), political activity of suppliers and grantees (citywide), and electricity and steam franchise fees.

Fiscal Year 2022-23

#	Project	Notes
1	Audits of Capital Projects Funded by Federal & State Grants	To be based on a risk assessment of various capital projects funded by federal and state grants.
2	Contracting and Procurement Lifecycle Audits	A risk-based audit of SFPUC's contract and procurement life cycles.
3	SSIP Biosolids Digester Facilities Audit	An effectiveness, efficiency, and compliance audit of the SSIP Biosolids Digester Facilities.
4	SSIP Headworks Facility Audit	An effectiveness, efficiency, and compliance audit of the SSIP Headworks Facility.
5	Audit of SSIP Projects Under Construction Manager/General Contractor Project Delivery Model	Assess the efficiency and effectiveness of the agency's project delivery methods.
6	Revenue Lease Audits (Citywide)	Mandated audits of lessees to ensure compliance with the revenue reporting and payment terms of their leases. Recent audits for SFPUC have been of quarry operators.
7	RBOC Revenue Bond Audits – Batch 2	Audits of six revenue bonds selected based on a risk assessment.
8	Miscellaneous Mandated Audits	Annual mandated audits that may affect SFPUC, including those of Local Business Enterprises (citywide), political activity of suppliers and grantees (citywide), and electricity and steam franchise fees.

Fiscal Year 2023-24

#	Project	Notes
1	Revenue Lease Audits (Citywide)	Mandated audits of lessees to ensure compliance with the revenue reporting and payment terms of their leases. Recent audits for SFPUC have been of quarry operators.
2	RBOC Revenue Bond Audits – Batch 3	Audits of six revenue bonds selected based on a risk assessment.
3	Miscellaneous Mandated Audits	Annual mandated audits that may affect SFPUC, including those of Local Business Enterprises (citywide), political activity of suppliers and grantees (citywide), and electricity and steam franchise fees.

* Projects may be subject to change in consultation with CSA, resources, and priorities.



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: Michael Carlin, Acting General Manager
San Francisco Public Utilities Commission

FROM: Mark de la Rosa, Director of Audits, Audits Division, City Services Auditor

DATE: August 30, 2021

SUBJECT: CSA Audit Workplan for SFPUC, Fiscal Years 2021-22 Through 2023-24

The Office of the Controller's City Services Auditor (CSA), Audits Division, presents its audit work plan for the San Francisco Public Utilities Commission (SFPUC) for fiscal years 2021-22¹ through 2023-24. CSA developed the work plan by considering audits and other responsibilities mandated by the San Francisco Charter and municipal codes, risk assessment results, and input from city stakeholders. CSA may change the plan, in consultation with SFPUC, in response to changes in organizational resources and priorities. Besides the projects listed here, CSA will continue to implement other efforts, including information technology and cybersecurity assessments and penetration tests, citywide cost recovery support, key business process audits, and Whistleblower Program investigations of alleged wrongdoing.

Fiscal Year 2021-22

Project	Notes
1. SFPUC Community Benefits Program (Social Impact Partnership Program) Audit	Ongoing. Planned completion: November 2021.
2. SFPUC Public Integrity Assessment	Ongoing review of internal controls in the contracting and procurement processes. Planned completion: December 2021.
3. RBOC Revenue Bond Audits – Batch 1	Ongoing audits of six revenue bonds. Planned completion: November 2021.
4. SSIP Program Management Contract Audit	Address the agency's CS165 SSIP program management responsibilities. Planned completion: February 2022.
5. Emergency Contracting and No-Bid Sole Source Contracts Audit (Citywide)	Examine emergency procurement and contract management business processes. SFPUC to be included in this citywide audit. Planned completion: June 2022.
6. SFPUC Project Controls Audit	Assess the effectiveness and efficiency of SFPUC's project controls. Planned start: March 2022.

¹ CSA's work plan for fiscal year 2021-22 is [here](#).

Project	Notes
7. Revenue Lease Audits (Citywide)	Mandated audits of lessees to ensure compliance with the revenue reporting and payment terms of their leases. Recent audits for SFPUC have been of quarry operators.
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Fiscal Year 2022-23

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2. Contracting and Procurement Lifecycle Audits	A risk-based audit of SFPUC's contract and procurement life cycles.
3. SSIP Biosolids Digester Facilities Audit	An effectiveness, efficiency, and compliance audit of the SSIP Biosolids Digester Facilities.
4. SSIP Headworks Facility Audit	An effectiveness, efficiency, and compliance audit of the SSIP Headworks Facility.
5. Audit of SSIP Projects Under Construction Manager/General Contractor Project Delivery Model	Assess the efficiency and effectiveness of the agency's project delivery methods.
6. Revenue Lease Audits (Citywide)	Mandated audits of lessees to ensure compliance with the revenue reporting and payment terms of their leases. Recent audits for SFPUC have been of quarry operators.
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Fiscal Year 2023-24

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3. Miscellaneous Mandated Audits	Annual mandated audits that may affect SFPUC, including those of Local Business Enterprises (citywide), political activity of suppliers and grantees (citywide), and electricity and steam franchise fees.