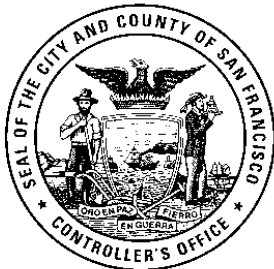


# Public Integrity Audit:

## Significant Changes Are Needed to the Design, Monitoring, and Control of the San Francisco Public Utilities Commission's Social Impact Partnership Program

San Francisco Public Utilities Commission (SFPUC)



December 9, 2021

City & County of San Francisco  
Office of the Controller  
City Services Auditor

## About the Audits Division

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that voters approved in November 2003. Within CSA, the Audits Division ensures the City's financial integrity and promotes efficient, effective, and accountable government by:

- Conducting performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of service delivery and business processes.
- Investigating reports received through its whistleblower hotline of fraud, waste, and abuse of city resources.
- Providing actionable recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government.

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# OFFICE OF THE CONTROLLER

## CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield  
Controller

Todd Rydstrom  
Deputy Controller

December 9, 2021

San Francisco Public Utilities Commission  
525 Golden Gate Avenue, 13th Floor  
San Francisco, CA 94102

Mr. Dennis Herrera, General Manager  
San Francisco Public Utilities Commission  
525 Golden Gate Avenue, 13th Floor  
San Francisco, CA 94102

Dear Commission President, Commissioners, and Mr. Herrera:

The Office of the Controller, City Services Auditor (CSA), Audits Division, presents the report of the performance audit of the Social Impact Partnership (SIP) Program of the San Francisco Public Utilities Commission (SFPUC). CSA engaged Sjoberg Evashenk Consulting, Inc., (SEC) to conduct the audit, which had as its overall objective to assess the appropriateness and effectiveness of SFPUC's governance and oversight of the program. The audit was undertaken as part of the Office of the Controller's public integrity work at SFPUC.

The audit found that, although the SIP Program was established a decade ago, it lacks the infrastructure and policies that would be expected of a mature program and that are necessary for program sustainability. There were several problems with how SFPUC developed the SIP Program and how it has administered SIP-related contract provisions and contractor commitments. This includes inconsistencies in the design of the SIP Program that create an inherent risk that SFPUC could award contracts to contractors that would not, in the end, provide the greatest value to the City and its residents; internal control weaknesses that contribute to confusion in the solicitation and award process, and that results in unreliable and inconsistent recordkeeping, which impedes program monitoring and transparency; and the lack of a sustainable framework—including policies and procedures, systems, and resources—to ensure program success in the long term. The report discusses these three findings in detail.

The report's seven recommendations appear at the end of the report, and SFPUC's responses are attached as Appendix B. CSA will work with your department to follow up every six months on the status of the open recommendations made in this report.

CSA and SEC appreciate the assistance and cooperation of SFPUC staff involved in this audit. For questions about the report, please contact me at [mark.p.delarosa@sfgov.org](mailto:mark.p.delarosa@sfgov.org) or 415-554-7574 or CSA at 415-554-7469.

Respectfully,

A handwritten signature in black ink, appearing to read "Mark de la Rosa".

Mark de la Rosa  
Director of Audits

cc: Board of Supervisors  
Budget Analyst  
Citizens Audit Review Board  
City Attorney  
Civil Grand Jury  
Mayor  
Public Library

# City and County of San Francisco Office of the Controller

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## Performance Audit of San Francisco Public Utilities Commission's Social Impact Partnership Program



**November 2021**



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# REPORT HIGHLIGHTS

## RESULTS

Since 2011, the Social Impact Partnership (SIP) Program, created by the San Francisco Public Utilities Commission (SFPUC), has led to contractor commitments of nearly \$22 million, 82,000 person-hours, and nearly \$1 million in in-kind services to serve communities in SFPUC's service area. Although the SIP Program has evolved since its creation more than a decade ago, it continues to lack the infrastructure and policies necessary for its sustainability or which would be expected of a mature program. This includes inconsistencies that could result in contract awards that would not, in the end, provide the greatest value to the City and its residents; internal control weaknesses, unreliable and inconsistent recordkeeping, and insufficient program monitoring and transparency; and the lack of a sustainable framework—including policies and procedures, systems, and resources—to ensure program success in the long term. Roughly two-thirds of all contractor commitments made since 2011 are as yet unfulfilled, although many are scheduled to be provided over the next decade. Some commitments were not fulfilled before the relevant contracts expired. With substantial commitments already on the line, it is imperative that SFPUC address the weaknesses identified by the audit and implement the improvements needed to ensure the program's long-term success.

## AUDIT PURPOSE

To assess the appropriateness and effectiveness of SFPUC's governance and oversight of the program, including evaluating the SIP criteria used in the selection process and reviewing SFPUC's SIP Program outcomes.

## BACKGROUND

In January 2011, SFPUC adopted a Community Benefits Policy to foster partnerships with communities in all service areas and to ensure that public benefits are shared across all communities. As part of this effort, SFPUC created the SIP Program to invite contractors working on SFPUC projects "to be a good neighbor to the communities affected by SFPUC's service operations."

The SIP Program is intended to be a voluntary program encouraging its contractors to donate time, money, or in-kind services to nonprofit or other organizations that provide job awareness, education, small business support, housing and economic development, and environment and community health services to communities in areas impacted by SFPUC projects.

## KEY FINDINGS

- SFPUC did not design and implement the SIP Program in a manner that always ensures the greatest value to the City and its residents.
  - SFPUC considers the value of SIP commitments made by contractors along with traditional criteria—cost, schedule, expertise, methodology, etc.—when awarding contracts, thereby choosing to award contracts to the contractor that offers the greatest value to SFPUC, the City, San Francisco residents, and communities impacted by certain SFPUC projects.
  - However, after contract award, some contractors have modified their commitments, in some cases lowering them by as much as half of the original committed value.
  - In several instances, SIP commitments remained unfulfilled after contracts expired.
  - By awarding contracts based, in part, on SIP commitments and allowing contractors to default on those commitments, SFPUC increases the risk that it will award contracts to contractors that ultimately will not deliver the greatest value to the City or its residents.
  - Allowing some contractors to default on their SIP commitments while others strive to (and do) meet their commitments, places contractors on unequal footing and jeopardizes the program's long-term sustainability.
- Two practices risk jeopardizing the voluntary nature of the SIP Program: (a) SFPUC sometimes directs contractor SIP commitments to specific community needs or ties them to other mandatory programs, reducing or eliminating discretion contractors should have in a voluntary program; and (b) the scoring criteria established for contractor selection, which incorporates SIP scores in the total possible points rather than providing bonus points for participating contractors, could signal to proposing firms that SIP Program participation is, in reality, required.
- The SIP Program lacks sufficient internal controls related to contract solicitations, commitment monitoring, and contract closeout. This is indicated by missing documentation on contractor solicitation and selection decisions; insufficient processes to receive and validate information reported by contractors relating to fulfilled commitments or to ensure accurate information in the program dashboard; and procedures, including conflict-of-interest forms, that do not adequately mitigate the risks posed by potential conflicts of interest.
- Since its inception, the SIP Program has been subject to inconsistent and/or insufficient guidance and policies. This includes, but is not limited to, policies that establish a sound approach to enforcing SIP contract provisions and to documenting program activities to ensure transparency.

## SUMMARY OF KEY RECOMMENDATIONS

- Enforce SIP-related contract requirements. SFPUC should consider proactively reaching out to contractors that do not meet reporting requirements or have not fulfilled their SIP commitments, posting information on the SIP Program website related to contractor performance and defaults, including contractors' past SIP performance in future solicitation scoring, and/or applying liquidated damages if commitments are not fulfilled.
- Formalize standardized policies, procedures, and controls to provide clear, consistent guidance for program participants and SIP staff.
- Increase transparency into the SIP Program by implementing a publicly available SIP Performance Dashboard and implement internal controls to ensure the dashboard presents data that is accurate, reliable, and updated in a timely manner.

## Introduction and Background

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In January 2011, the San Francisco Public Utilities Commission (SFPUC) adopted the Community Benefits Policy with the adoption of Resolution 11-0008. The goal of this policy is to develop “an inclusive and comprehensive community benefits program to better serve and foster partnership with communities in all SFPUC service areas and to ensure that public benefits are shared across all communities.” Under the policy, SFPUC is directed to:

- ✓ Develop processes to effectively engage stakeholders and communities in all SFPUC service areas.
- ✓ Develop and update a budget and staffing plan to implement and sustain the Community Benefits Program.
- ✓ Develop an implementation strategy to review, analyze, and coordinate community benefits initiatives, and integrate these initiatives into an agency-wide Community Benefits Program.
- ✓ Implement the Environmental Justice Policy that SFPUC adopted on October 13, 2009.<sup>1</sup>
- ✓ Develop and implement guidelines, metrics, and evaluation methodologies for existing and future community benefits initiatives.
- ✓ Develop diverse and culturally competent communication strategies to ensure that stakeholders can participate in decisions and actions that may impact their communities.
- ✓ Develop performance measures to evaluate the Community Benefits Program and report the results.
- ✓ Develop new and continue to implement existing initiatives to avoid or eliminate disproportionate impacts of SFPUC decisions and activities in all service areas.





To meet these objectives, SFPUC established a Community Benefits unit in its External Affairs Division. As part of its Community Benefits Program, SFPUC partners with local residents, leaders, and community organizations to “provide diverse communities with opportunities in workforce and economic development, the arts, urban agriculture and education.” These efforts include activities related to Project Learning Grants, art projects, education, and land use programs, as described in Exhibit 1.

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<sup>1</sup> The Environmental Justice Policy was established with the goals to prevent, mitigate, and lessen disproportionate environmental impacts of SFPUC’s activities on communities in all SFPUC service areas and to ensure that public benefits are shared across all communities.



## EXHIBIT 1. COMMUNITY BENEFITS PROGRAM FOCUS AREAS

COMMUNITY BENEFITS PROGRAM	
 PROJECT LEARNING GRANTS	SFPUC offers 15-25 Project Learning Grants, amounting to \$15,000-\$25,000 each, to local nonprofit organizations to fund projects providing youth and young adults from underserved communities with educational and employment programs. As of September 2021, SFPUC reported that its grants had supported 45 organizations and 3,702 youth.
 ART PROGRAMS	For each new aboveground capital improvement project, SFPUC strives to commission a new public art project connected to people and place. As of September 2021, SFPUC had worked with 96 artists commissioning 311 art projects.
 EDUCATION PROGRAMS	SFPUC partners with local school districts and city departments to teach youth about science, technology, engineering, and math (STEM). As of September 2021, SFPUC had worked with 228 schools and organizations to serve 80,350 youth.
 LAND USE PROGRAMS	Through the Frontyard Ambassador and Sidewalk Garden Programs, SFPUC offers local residents and organizations with funding to transform the pavement near their homes into low-maintenance green spaces. As of September 2021, SFPUC reported that the programs funded 517 gardens, diverted an estimated 618,000 gallons of stormwater, and removed 52,000 square feet of impervious surface.

Source: Auditor-generated from Community Benefits Program information published by SFPUC

SFPUC administers each program and supports educational institutions, artists, residents, and nonprofit organizations (nonprofits) directly using SFPUC resources. At the same time, SFPUC created the Social Impact Partnership (SIP) Program “as a way to invite private sector contractors working on SFPUC projects to be a good neighbor to the communities affected by SFPUC’s service operations.” In doing so, SFPUC encourages firms that profit from public projects to invest in the San Francisco community and communities impacted by SFPUC projects, just as SFPUC invests in the community. A premise of the SIP Program is that it would benefit affected communities without increasing SFPUC’s project costs.

The SIP Program, in which contractors’ participation is voluntary, was designed to provide an avenue for contractors competing for certain types of SFPUC contracts to pledge, as part of their formal project proposals, SIP commitments of donated money, in-kind goods and services, or volunteer hours to local schools or nonprofits aiding communities impacted by SFPUC’s work. As of December 31, 2020, SFPUC had executed 84 contracts in which firms made a total of \$21,983,056 in financial commitments, \$937,574 in in-kind commitments, and had pledged 81,573 volunteer hours.<sup>2</sup>

<sup>2</sup> Amounts for each category are subject to change because contractors can shift commitments between the three categories.

Contractors making such commitments receive extra points in the solicitation process. Those that choose not to participate in the program would not be deemed unresponsive to the solicitation, but would not receive any points for the SIP component of the evaluation and scoring criteria, which generally ranged from 3 to 5 percent of the total possible points. For instance, if a particular solicitation’s scoring criteria was set at a maximum of 100 points, with a SIP element that equaled 5 points, a firm declining to participate in the voluntary SIP Program could only achieve a maximum of 95 points in the evaluation process. When developing their SIP proposals, contractors have the opportunity to make SIP commitments in the form of financial, in-kind, and/or volunteer hours (herein referred to as “commitment types”) that they pledge to deliver during the term of the contract. Each commitment must be made to a school or non-profit specifically involved in at least one of five specified program areas: job awareness/exposure and internships, small business support, education, housing and economic support, and environment and community health. Each is summarized in Exhibit 2.

**EXHIBIT 2. SIP PROGRAM AREAS**

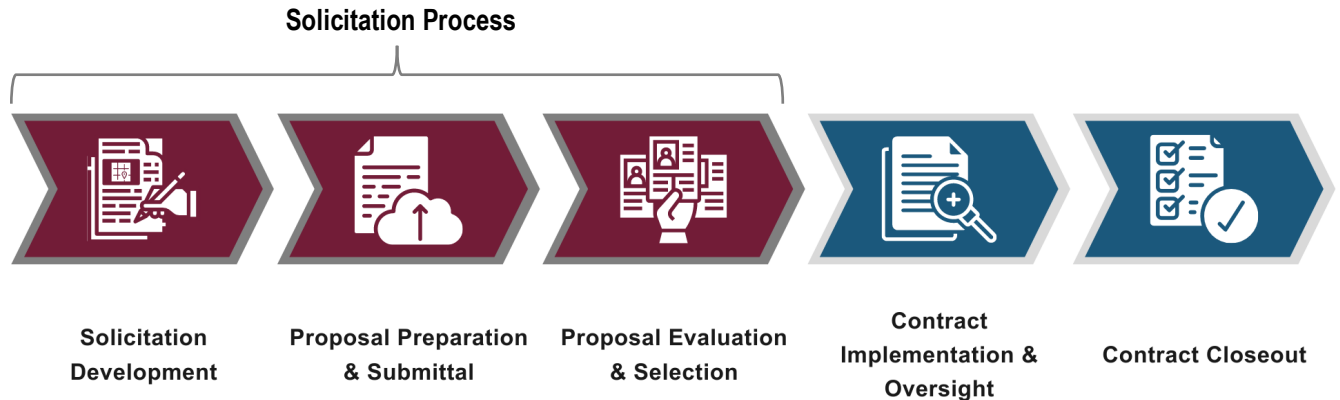
SOCIAL IMPACT PARTNERSHIPS PROGRAM		
	<b>JOB AWARENESS/ EXPOSURE &amp; INTERNSHIPS</b>	Internships, career exposure and awareness, job training programs, and removing barriers to jobs (such as childcare, driver's license, etc.).
	<b>EDUCATION</b>	Providing in-classroom lessons, field trips, school supplies, school events, scholarships, and public-school teacher trainings with a goal of increasing students' interest in STEM.
	<b>SMALL BUSINESS SUPPORT</b>	Providing technical and legal assistance, marketing and promotions to support women- and BIPOC-owned businesses.
	<b>HOUSING &amp; ECONOMIC SUPPORT</b>	Preventing displacement of low-income and long-term residents, including providing resources for food, housing counseling, generational housing preservation assistance, and safety net services.
	<b>ENVIRONMENT &amp; COMMUNITY HEALTH</b>	Providing resources to support the mental health and wellness of the community, including through improvement of the local environment.

Source: Auditor-generated from SIP Program documentation provided by SFPUC

## SIP Program Overview

Since the program's inception in 2011, the tools and processes for overseeing and managing the program have evolved; however, the core responsibilities, from contract solicitation through close-out, of SFPUC SIP staff have remained relatively consistent. The contract lifecycle can be divided into five core phases, as illustrated in Exhibit 3. The first three phases relate to the solicitation process, and the remaining two relate to contract management and close-out.

EXHIBIT 3. PROCESS OVERVIEW OF SOCIAL IMPACT PARTNERSHIPS IN CONTRACTS



Source: Auditor-generated from SIP Program Guidelines

During the solicitation process, SIP staff are responsible for working with SFPUC's Contract Administration Bureau (CAB) to develop SIP solicitation language, identifying and recommending SIP panelists, and providing general information regarding the SIP Program to proposers during pre-proposal bidder / proposer conferences during the solicitation process. We describe each phase in this process below:

- **Solicitation Development.** Generally, all professional service, alternative delivery construction, and power procurement Request for Proposals and Request for Offers ("RFP" or "RFO" or, collectively "solicitations") that have an anticipated contract amount of \$5 million or more will include a SIP component in the solicitation. During the solicitation development phase, SIP staff meet with the SFPUC Project Manager and assigned CAB contract analyst to determine the geographic scope of the project. Although SFPUC's operations extend from Hetch Hetchy Reservoir to San Francisco, as illustrated in Exhibit 4, the selected contractor's commitments must occur both where SFPUC operates and within communities directly impacted by the project. For example, contractors proposing for work on SFPUC's Southeast Treatment Plant, located in the Bayview Hunters Point District, would be encouraged to submit SIP commitments that are delivered to communities in Southeast San Francisco.

#### EXHIBIT 4. SERVICE AREA OF THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION



Source: SFPUC's Template Pre-Bid Community Benefits Contracts Professional Service Presentation

After the geographic scope of the project has been determined, SIP staff update the solicitation with SIP template language and add SIP geographic scope of work (or eligible geography) to the solicitation, and both the SFPUC Project Manager and CAB contract analyst review and approve the solicitation. CAB staff then upload the final solicitation documents to the City's requisition system, SFBid, to solicit proposals or offers.

- **Proposal Preparation and Submittal.** Once advertised, SIP staff participate in a Pre-Proposal/Bid Submittal Conference and provide an overview of SFPUC's Community Benefits and Social Impact Partnership programs. This conference provides potential respondents with information about SIP Program requirements and processes. SFPUC then identifies panelists to review and score proposals. Two panels are convened: a technical panel that evaluates project-specific criteria and a separate SIP panel that evaluates respondents' proposed SIP commitments. According to SFPUC, SIP panelists generally must meet the following criteria:

- Programmatic expertise related to SIP Program components,
- Experience serving the local community within the eligible geography,
- Have not participated in the development of the solicitation under consideration, and
- No conflicts of interest with proposing contractors or proposed beneficiaries.

The City's Contract Monitoring Division within the City Administrator's Office, which is independent of SFPUC, also reviews panelist selections to ensure panelists are diverse in race and gender and that at least half of SIP panelists are not employed by SFPUC. Before final approval, panelists must conduct a preliminary review of the proposing contractors and proposed SIP beneficiaries. After this review, panelist must complete conflict of interest and confidentiality forms. CAB collects the completed forms and files them in formal solicitation records, which must be retained for a minimum of five years after the close of contract.

- **Proposal Evaluation and Selection.** CAB hosts orientation panels for both technical and SIP panels. The Contract Monitoring Division monitors the evaluation process and provides guidance to

panelists on the process and procedures proscribed by City ordinance. Both CAB and the Contract Monitoring Division monitor the process to ensure there is no undue influence on panelists when staff are communicating with the panelists. CAB provides panelists with a scoring rubric with SIP-specific evaluation criteria. According to SFPUC, both CAB and the Contract Monitoring Division review panelist scores. CAB tallies scores from the technical and SIP panelists to determine the highest-ranked proposal. After the protest period, CAB posts a notice of anticipated contract award and contractor rankings to the SFBid website. CAB also works with the SFPUC project team to draft the proposed contract, which will include the highest-ranked contractor's proposed SIP commitments. Staff then brings the recommended contract award to the SFPUC Commission for its consideration. Upon recommendation of the General Manager, the Commission awards the contract to the highest-ranked proposer (or the responsible contractor that submitted the lowest responsive bid, depending on the type of solicitation). Certain contracts are then subject to approval by the Board of Supervisors under the San Francisco Charter (Charter), Section 9.118. Following award, approval as to form by the Office of the City Attorney (City Attorney), and certification as to the availability of funds by the Office of the Controller (Controller), SFPUC staff executes the contract.

- **Contract Implementation and Oversight.** The assigned SFPUC contract manager is primarily responsible for overseeing contract compliance and deliverables; however, SIP staff are only responsible for overseeing all SIP-related contract requirements and for monitoring contractor compliance with SIP requirements. Upon contract execution, SIP staff meet with the contractor to discuss its SIP commitment, reporting requirements, required underlying support, and processes for submitting required information. Over the life of the contract, SIP staff are responsible for monitoring the contractor's delivery of SIP commitments by way of biannual and annual contractor reports and working with the contractor to encourage compliance and commitment fulfillment. SIP staff maintain and use a dashboard to track and report SIP commitments and contractors' progress in fulfilling those commitments.

**EXHIBIT 5. SIP PROGRAM REPORTING REQUIREMENTS**



Source: Auditor-generated from SIP Program documents provided by SFPUC

- **Contract Close-out.** SFPUC contract managers are responsible for maintaining most contract-related documents, but SIP staff are responsible for maintaining contract records demonstrating contractors' performance as it relates to the SIP commitments memorialized in the executed contract. Once a contractor has delivered all its proposed SIP commitments and submitted the corresponding reports and supporting documentation, SIP staff prepare a closeout letter and summary of SIP activities completed, email both to the contractor and key SFPUC personnel—i.e., SFPUC's Enterprise/Bureau Assistant General Manager, Project Manager, and SIP Manager)—and retain a copy of the correspondence in Salesforce, SFPUC's system of record for all SIP Program activities and records.

In Fiscal Year 2020-21, SFPUC dedicated nearly \$261,000 to staff the SIP Program, which funded one full-time analyst, part-time management resources (approximately 70 percent of the manager's time), and a half-time intern. Although additional resources are dedicated to the SIP Program for general administrative and overhead costs, such as supplies, printing, postage, rent, and utilities, SFPUC does not allocate or track such costs specifically to the SIP Program.<sup>3</sup>

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<sup>3</sup> The audit did not review the funding sources for program costs.

## Scope and Methodology

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Sjoberg Evashenk Consulting, Inc., was engaged by the Controller's Audit Division, to conduct a performance audit of the SIP Program. The primary objective of this audit was to assess the appropriateness and effectiveness of SFPUC's governance and oversight of the program and, specifically to determine whether:

- SFPUC exercised effective governance and oversight over the program and its related partnerships;
- Program criteria used in the selection process of consultants, contractors, program intermediaries, and community organization program beneficiaries are appropriate, fair, and transparent;
- Program financial and in-kind commitments were quantifiable and measurable, appropriately tracked and donated, and effectively allocated and distributed to intended recipients; and,
- Program partner outcomes were appropriately tracked, managed, and progressing toward program goals, workforce development, economic development, and neighborhood stabilization.

To meet the audit objectives, we gathered a variety of information that revealed the design and structure of the SIP Program. We interviewed SFPUC SIP Program management and staff, SFPUC Contracts Administration Bureau staff, and representatives from the Contract Monitoring Division of the Office of the City Administrator to gain an understanding of SFPUC's SIP Program oversight and management practices, solicitation and contract award processes, systems and tools used, documentation retained, reporting requirements, internal controls, and policies and procedure in place. We also obtained and reviewed key SIP Program documents, including Community Benefits and Environmental Justice policies, internal policies and procedures, program presentations, organizational charts, program costs, staffing levels, and other relevant documents to identify SIP Program requirements, guidance provided both internally and externally, and gain an understanding of program operations.

Finally, to assess the appropriateness and effectiveness of SFPUC's governance and oversight of the program, we performed the following evaluative procedures:

- Examined the SIP Program performance dashboard to identify performance trends, Program participation, commitments made and delivered, and Program growth.
- Walked through and observed key business processes, information systems, and tools used by SFPUC to execute and oversee SIP Program activities, such as the contractor reporting system, Salesforce, and the performance dashboard. We assessed system controls, including access to information, use of audit logs, and user's ability to add/change/delete information.
- Selected a sample of 16 SIP Program solicitations and resulting contracts. This equated to nearly 20 percent of the 84 SIP contracts executed as of December 30, 2020. This included all contracts for which Salesforce reflected the failure of the contractor to fulfill its SIP commitments by the time the contract terminated—a total of seven contracts. We assessed various attributes involving subsets of this sample, including:

- Contract solicitation and award documents, including requests for proposals/offers, responses submitted to solicitations, scoring and evaluation documentation, conflict-of-interest statements, resulting contracts, and, where applicable, protests filed.
  - Reports submitted to SFPUC related to the SIP Program, including annual newsletters/reports, workplans, and biannual reports—and underlying supporting documentation—to verify compliance with reporting requirements.
  - Salesforce and performance dashboard records reflecting contractor progress in meeting SIP commitments to verify information was accurate, reliable, and agreed with underlying supporting documents.
- Performed a high-level review of comparable community benefit type programs in the nation to identify leading practices in program oversight and delivery.

Sjoberg Evashenk Consulting conducted this performance 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.



## Findings and Conclusions

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SFPUC launched the SIP Program in 2011 to encourage contractors working on SFPUC projects to be a good neighbor to the communities affected by SFPUC's service operations. Since the inception of the SIP Program, there have been significant changes in both SFPUC leadership and staff responsible for overseeing and managing the program. Most of the SFPUC staff currently responsible for overseeing and managing the SIP Program have been in their current role for a year or less. A combination of staff attrition and poor record management/retention has led to a loss of institutional knowledge and historical context, particularly surrounding key SIP Program decisions and support for SFPUC's outreach to and oversight of contractors.

Although the SIP Program was established a decade ago, the audit found that the SIP Program lacked the infrastructure and policies that would be expected of a mature program and necessary for program sustainability. In this report we outline several problems with how SFPUC developed the SIP Program and how it administered SIP-related contract provisions and contractor commitments. This includes inconsistencies in the design of the SIP Program that creates inherent risks that SFPUC could award contracts to contractors that would not, in the end, provide the greatest value to the City and its residents; internal control weaknesses that contribute to confusion in the solicitation and award process, and that results in unreliable and inconsistent recordkeeping, which impedes program monitoring and transparency; and the lack of a sustainable framework—including policies and procedures, systems, and resources—to ensure program success in the long term. These three findings are discussed in detail below through the remainder of this report.

### **SFPUC Did Not Design and Implement the SIP Program in a Manner That Ensured the Greatest Value to the City and Its Residents**

The underlying principle of competitive selection processes is to enable the City to award contracts to contractors presenting the greatest value to the City. Factors considered typically include cost, experience, expertise, project approach, project team qualifications, schedule, and myriad other factors. However, based on its purpose, the existence of the SIP Program introduces another factor, which is typically not considered in contract awards. That is, the SIP Program causes those who select contractors for certain types of SFPUC professional service contracts to consider the potential benefit of the award to City residents and the surrounding impacted community, and this is a benefit that does not increase the cost of the contract to SFPUC.

The potential benefit is measured in terms of the monetary, volunteer hours, or in-kind commitments a contractor chooses to make (or not make) in its proposal as part of the SIP Program. Consistent with the design of the SIP Program, by considering both traditional criteria—cost, schedule, expertise, methodology, etc.—and the value of the commitments the contractor has promised to make to the surrounding community, SFPUC is choosing to award each of these contracts to the contractor that offers the greatest value to SFPUC, the City, San Francisco residents, and communities impacted by certain SFPUC projects.

However, also due to the program's design, SFPUC has not proactively enforced contract provisions related to the SIP Program and, thus, some contractors have failed to fulfill their commitments to the

community. The audit found that many commitments were unfulfilled as of December 30, 2020. In some cases, the projects had ended and contracts expired with unfulfilled commitments; in other cases, projects had progressed substantially but commitment fulfillment dragged considerably behind project progress. This occurred, in part, because program staff did not always follow up with contractors to elicit compliance or to encourage them to fulfill their commitments. In fact, SFPUC management stated it had not yet developed a method to enforce contractual commitments and obligations because it struggled to balance the voluntary nature of the program and the contractual obligations that ensued from these voluntary commitments.

By allowing contractors to change their commitments after the solicitation and award process or by allowing contractors to ignore their commitments altogether, SFPUC increases the risk that it will award contracts to contractors that ultimately will not deliver the greatest value to the City or its residents. In fact, we observed at least one instance in which this is likely to have occurred. In the end, most contractors appeared to make a good faith effort to fulfill their SIP commitments, but SFPUC's lack of enforcement of commitments allows some contractors to default on them while others strive to meet them, placing contractors on unequal footing and jeopardizing the program's long-term sustainability.

It is also evident that the communities impacted by SFPUC projects may not receive the full benefit from SIP commitments as promised. For instance, for one contract (CS-391.A) the contractor committed to providing benefits to the community valued at more than \$233,000 and stated in its SIP proposal that it would help the community by assisting Habitat for Humanity in building homes to benefit low-income residents in Tuolumne and Mariposa counties, establishing collection bin(s) to collect gently used items that Habitat for Humanity could use as part of its fundraising, and providing a Hetch Hetchy System Education Tour for high school students in Tuolumne and Mariposa counties, as well as in San Francisco. Although the contractor committed to providing these benefits to the communities impacted by the project, the contract expired in July 2020 and, as of September 2021, the contractor had not fulfilled more than \$82,000 of its commitments. It is uncertain whether the community will ever see the full benefit of the commitments made.

Below, we describe instances in which contractors have not met their SIP commitments, in which SFPUC allowed contractors to not meet their commitments, and in which this has led to awards that were not in the best interest of the City, its residents, or communities impacted by the associated projects.

### **Several Contractors Did Not Fulfill SIP Commitments Before the Contracts Expired**

Since the program's inception, seven (8 percent) of the 84 contracts with SIP commitments had expired with the contractor having not fulfilled these commitments. Although these contractors pledged to provide financial, in-kind, and volunteer hours valued at nearly \$2.2 million as part of the SIP Program, the contractors only delivered SIP financial, in-kind, and volunteer hour contributions valued at approximately \$1.5 million, or 68 percent of the value committed.<sup>4</sup> This is illustrated in Exhibit 6. Of the contractors that did not fulfill their SIP commitments, three had fulfilled roughly half of their overall pledged commitments. As a result, amounts reported as committed and outstanding in SFPUC's SIP Program performance dashboard

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<sup>4</sup> A total of \$36,645 in financial commitments were not delivered, this equated to more than 5 percent of the total SIP commitment value not delivered.

do not reflect SIP commitments that are unlikely to be delivered unless the contractor were to fulfill its commitment after its contract expired.

**EXHIBIT 6. COMPARISON OF SIP COMMITMENTS TO AMOUNTS DELIVERED FOR ALL COMPLETED CONTRACTS WITH OUTSTANDING COMMITMENTS, AS OF DECEMBER 2020**

Contract	Contract End Date	SIP Commitment Value (A)	SIP Commitments Delivered Value (B)	Variance Between Committed and Delivered Value (B) - (A)	Percentage Delivered
CS-167 A	9/29/2018	\$367,000	\$184,278	(\$182,723)	50%
CS-193.B	1/1/2019	52,450	28,278	(24,172)	54%
CS-203.C	1/30/2021	250,200	117,715	(132,486)	47%
CS-386.A	10/27/2019	163,000	139,279	(23,721)	85%
CS-391.A	7/30/2020	233,380	151,300	(82,080)	65%
CS-391.C	7/30/2020	56,600	31,932	(24,669)	56%
CS-169	5/28/2021	1,050,050	834,796	(215,254)	80%
<b>Total</b>		<b>\$2,172,680</b>	<b>\$1,487,577</b>	<b>(\$685,103)</b>	<b>68%</b>

Note: Refer to Appendix A for contract details.

Source: Auditor-generated from Salesforce extract of pledged and delivered commitments provided by SFPUC

For example, although one contractor pledged to provide SIP financial, in-kind, and volunteer hour contributions valued at \$250,200, a total contribution value of \$117,715 was actually delivered by the end of the contract term—less than half of what was committed. The contract expired on January 31, 2021, and as of September 29, 2021, the outstanding SIP commitments valued at \$132,486 had not been delivered. Exhibit 7 shows the unfulfilled SIP commitments, by commitment type, for each of these contracts.

**EXHIBIT 7. UNDELIVERED SIP COMMITMENTS FOR SEVEN COMPLETED CONTRACTS, AS OF DECEMBER 2020**

Contract Number	Financial	In-Kind	Volunteer Hours <sup>A</sup>	Total Value
CS-167.A	\$1,000 <sup>B</sup>	(\$160,000)	(158)	(\$182,723)
CS-193.B	(4,000)	78 <sup>B</sup>	(135)	(24,172)
CS-203.C	40,014 <sup>B</sup>	0	(1150)	(132,486)
CS-386.A	1,000 <sup>B</sup>	(6,496)	(122)	(23,721)
CS-391.A	39,870 <sup>B</sup>	450 <sup>B</sup>	(816)	(82,080)
CS-391.C	(33,500)	754 <sup>B</sup>	54 <sup>B</sup>	(24,669)
CS-169	(81,029)	10,524 <sup>B</sup>	(965)	(215,254)
<b>Total</b>	<b>(\$36,645)</b>	<b>(\$154,690)</b>	<b>(3,292)</b>	<b>(\$685,103)</b>

Notes:

<sup>A</sup> In 2016 SFPUC provided guidance that contractors should value their volunteer hour commitments at \$150 per hour.

<sup>B</sup> Positive amounts indicate the value of SIP contributions provided exceed the value of the pledged amount for the commitment type.

Refer to Appendix A for contract details.

Source: Auditor-generated from Salesforce extract of pledged and delivered commitments provided by SFPUC

As of September 29, 2021, SFPUC records showed that one contractor (CS-391.C) had subsequently fulfilled its outstanding \$24,669 SIP commitment, and another contractor had reduced its outstanding SIP commitment from \$215,254 to \$26,771 (CS-169).

For none of these contracts could SFPUC provide substantive evidence that it notified the contractor that it was falling behind on its delivery or did not meet its pledged SIP commitment by the end of its contract term. Although the contractors failed to meet these contractual obligations, SFPUC took limited or no action to enforce the SIP contract provisions until after the Controller initiated this audit. In April 2021, after most of the contracts had expired, SFPUC notified these contractors, requesting that they provide support for contributions made through April 2021 and submit required reports. Waiting until after the contract expires to reach out to contractors is logistically and legally problematic because, once a contract term ends and SFPUC accepts the contract's deliverables as submitted, SFPUC forfeits the leverage it had to make the contractor fulfill its outstanding contractual obligations.

### **Fulfilling SIP Commitments May Lag Contract Progression, Increasing the Likelihood That Commitments Remain Unfulfilled When a Contract Is Closed Out**

Our review of a subsample of 10 contracts revealed that, as of December 30, 2020, six of the contracts were farther along in the contract term than the contractor was in fulfilling its SIP commitments, as shown in Exhibit 8. Until recently, SFPUC did not appear to have a process to monitor contractors' degree of SIP commitment delivery in relation to contract term progress and, thus, could not provide substantiating records demonstrating that SFPUC actively monitored contractor progress in fulfilling commitments or contacted contractors that were falling behind. With the exception of some contracts that include language requiring the contractor to perform commitments throughout the term of the contract, SFPUC had not developed any formal, written guidelines or interim delivery milestones for when contractors must fulfill their SIP commitments. Rather, SFPUC historically relied on contractors to provide annual workplans detailing their planned SIP activities, and it is unclear what, if any, input SFPUC provided to contractors on their proposed delivery schedules.

**EXHIBIT 8.** SAMPLE CONTRACTS WHERE SIP COMMITMENTS DELIVERED LAGGED BEHIND CONTRACT TERM PERCENTAGE COMPLETE, AS OF DECEMBER 30, 2020

Contract Number	Contract Start Date	Contract End Date	Contract Term Percentage Complete	SIP Commitment Percentage Complete	Variance
CS-169	5/28/2012	5/28/2021	95%	80%	-15%
DB-126	3/20/2017	3/20/2032	25%	21%	-4%
PRO.0068	8/28/2018	8/27/2025	33%	6%	-27%
PRO.0104	7/1/2018	6/30/2028	25%	14%	-11%
WW-628	8/15/2016	9/28/2022	72%	36%	-36%
WW-647	10/30/2017	10/6/2024	46%	2%	-44%

Note: Refer to Appendix A for contract details.

Source: Auditor-generated based on Salesforce data provided by SFPUC

As a result, a contractor may choose to deliver its SIP commitments over the life of the contract or wait until the very end of the contract term to deliver its SIP commitments. Although permissible, this practice makes it more challenging for SFPUC to ensure contractors fulfill the SIP commitments by the end of their contract

terms and increases the risk that contractors may not fulfill their SIP commitments, as previously discussed. For example, one contract, PRO.0068 was a third of the way through its nearly 7-year contract term; yet, as of December 30, 2020, the contractor had only fulfilled 27 percent of its commitment. According to SFPUC, it notified this contractor in writing that it was out of compliance. In another example, Contract WW-647, although the contractor was nearly halfway through its contract, the contractor had only delivered 2 percent of its SIP commitments. Although SFPUC stated that only 28 percent of the total contract amount had been expended as of October 1, 2021, SIP commitments delivered also lagged significantly behind expenditure progression.

According to SFPUC, a variety of factors impacted contractors' progress in delivering SIP commitments, such as contract type, availability of nonprofits and schools to use the commitment amounts, and most recently the impact of the COVID-19 pandemic. As of October 2021, SFPUC stated that for two of the six contracts listed above, the SIP commitment delivery was then on track, with contract progress on schedule or within 5 percent of what was expected. SFPUC also stated it was sending noncompliance notices, if needed, and notifications generated from Salesforce to contractors that submit reports. The notifications include a summary and details of the contractor's updated SIP commitments. Although SFPUC acted to improve its oversight and outreach in 2021, it has yet to develop formal, written policies and procedures to memorialize these improvements and ensure staff follow these procedures in the future.

As part of this analysis, we gathered information from other jurisdictions with similar programs. We find that the practices exhibited by those jurisdictions are worthy of consideration as SFPUC continues to improve its program oversight. For example, the City of Detroit developed a similar program, which requires contractors to participate in the city's Community Benefit Program if the project is worth \$75 million or more, receives \$1 million or more in property tax abatements, or receives \$1 million or more from city land sales or transfers. Detroit developed a robust process to track commitments and uses the following status indicators to track contractor progress in delivery-promised benefits:

- On Track – Actions taken towards satisfying commitment
- Off Track – Commitment not fulfilled
- Off Track but Compliance Plan submitted
- Compliance impacted by COVID-19
- Not Started – no action taken
- Additional information requested
- Completed – Commitment fulfilled

Detroit's contractors that are not on track to deliver their pledged commitments must submit a compliance plan detailing why the commitment was not met and steps the contractor plans to take to ensure the commitment is fulfilled. Further, Detroit's Community Benefit Program posts all biannual reports and compliance plans online, promoting transparency into the program and incentivizing contractors to meet their commitments.

The City of Oakland established another similar program for the \$800 million project to redevelop the Oakland Army Base. The program's contractor agreement includes enforcement mechanisms, such as liquidated damages in the form of a monetary penalty, if compliance violations occur.

## Contractors Modify, and Sometimes Decrease, SIP Commitments After Contract Award

Our review of 13 contracts found that for 11, or 85 percent, the contractor modified its commitments, either at the component level (i.e., volunteer hours, in-kind, and financial commitments) or the total value of the SIP commitment, after SFPUC awarded and executed the contract, as shown in Exhibit 9. Although SFPUC stated that contractors may modify commitments by changing the categories of the overall SIP commitment, in general, the total value of the SIP commitment should remain the same. Among the most recent contracts reviewed, SIP Program contracts require contractors to formally submit proposed changes to SFPUC for review and approval. However, we did not see any evidence that this occurred for the contracts reviewed. For four of the 11 contracts where variances were noted, the total value of the SIP commitment was reduced.

**EXHIBIT 9. VARIANCES BETWEEN SIP PROPOSAL AND SALESFORCE RECORDED COMMITMENTS, BY TYPE**

Sample No.	Contract Number	Volunteer Hours Commitment Variance	In-Kind Commitment Variance	Financial Commitment Variance	Total Commitment Value Variance
1	CS-165			✓	✓
2	CS-169	✓		✓	✓
3	CS-235	✓	✓	✓	✓
4	CS-297.A	✓	✓	✓	✓
5	CS-297.B	✓		✓	
6	CS-297.C	✓	✓	✓	✓
7	CS-297.D	✓	✓	✓	
8	DB-126	✓		✓	✓
9	PRO.0068				✓
10	PRO.0077/PRO.0153.A			✓	✓
11	PRO.0104				
12	WW-628	✓			
13	WW-647				
<b>Total Variances Identified</b>		<b>8</b>	<b>4</b>	<b>9</b>	<b>8</b>

Key: ✓ = variance identified

Note: Refer to Appendix A for contract details.

Source: Auditor-generated comparison of contractor SIP commitment records

For the four contracts in which the contractor subsequently reduced the total commitment value, the variances ranged from an immaterial \$50 to a significant \$917,196—or a reduction of 60 percent from the original \$1.5 million originally committed. For cases where these exceptions were occurred, we provide a comparison in Exhibit 10 of the SIP commitment value proposed to the commitment values recorded in SFPUC’s records.

**EXHIBIT 10. COMPARISON OF CONTRACTOR SIP PROPOSAL TO SFPUC RECORDS WHERE VARIANCES WERE NOTED**

Contract No.	Total SIP Commitment Value		Variance (B) – (A) Over/(Under)
	(A) Proposal	(B) Salesforce	
CS-297.A	\$80,039	\$79,972	(\$67)
DB-126	\$1,530,000	\$612,804	(\$917,196)
PRO.0068	\$500,000	\$499,950	(\$50)
PRO.0077/PRO.0153.A	\$500,000	\$325,000	(\$175,000)

Note: Refer to Appendix A for contract details.

Source: Auditor-generated comparison of contractor SIP proposal and SFPUC SIP commitment records

For the two solicitations where large variances were noted, the awarded contractors' SIP proposal commitments depended on the contract's term and award amount. For example, one contractor proposed a total SIP commitment of \$1.53 million, but noted that this value was contingent upon a contract amount of \$51 million. In this case, the actual contract award was significantly less, and, consequently, the SIP commitment in the contract was valued at nearly \$613,000. One element of the evaluation is the SIP commitment value. Allowing contractors to change the total value or to provide variable commitments that depend on the (future) contract's provisions compromises the integrity of the competitive selection process. This is because, had the actual value of the SIP commitment been considered, a different contractor may have been ranked higher and, therefore, may have been selected for contract award. Without knowing the contract term or award amount, it is unclear how the solicitation panelists accounted for the variable SIP commitments when scoring these two contractors' SIP proposals or how they compared them to the competing proposals.

The solicitations reviewed for the audit state that SIP commitments shall not be contingent on the contract amount. However, the solicitations do not explicitly state that proposals cannot depend on the contract term or other factors. Beginning in 2011 with the second SIP solicitation, the competitive solicitation materials SFPUC provided to potential proposers stated that the successful Proposer will perform the "specific commitments [committed to] in their response [SIP proposal]...". In 2016, this language was modified to convey that the "selected Proposer will deliver the proposed Community Benefits Commitments specified in the CB [SIP] Submittal and the Community Benefits [SIP] Plan." The two observed cases with conditional commitments were advertised in 2016 and 2017 and awarded in 2017 and 2018, respectively.

**Contractors' Failures to Deliver SIP Commitments Could Impact Award Decisions and Diminish the Ultimate Value to the City and Its Residents**

SFPUC's approach to scoring SIP proposals and enforcing contractual SIP commitments exposes the agency to the risk of awarding contracts to contractors that do not provide the best value to both the City and the residents/communities impacted by the projects. To illustrate the potential impact that SFPUC's insufficient oversight or enforcement of SIP commitments may have had on the selection process, we reviewed six contracts where the contract term had expired and the contractor had not fulfilled its contractually obligated SIP commitments. This revealed the potential that a contract award decision could

have been different had the selection panel evaluated the contractor based on the actual SIP commitment delivered rather than the inflated SIP commitment total.<sup>5</sup>

Our testing identified at least one instance in which this occurred. For this solicitation, SFPUC awarded four contracts estimated at \$4 million each. A breakdown of points provided to each contractor by proposal component and total score is provided for all proposing contractors in Exhibit 11. In this case, Contractor C was the third-ranked proposing contractor and received a score of 4.02 for its proposed SIP commitment. After SFPUC awarded the contract, which included SIP commitments valued at \$250,200, the contractor only delivered SIP commitments valued at \$117,715—only 47 percent of the amount committed. If Contractor C’s SIP score was reduced by 0.40 points or more, then the contract would have been awarded to Contractor E who scored slightly less than Contractor C, was ranked 5<sup>th</sup>, and did not receive a contract. Given a component of the SIP score is based on the value of the contractor’s proposed SIP commitments, it is reasonable to conclude that the award decision may have changed in this case.

**EXHIBIT 11. CS-203 FINAL SCORING SUMMARY**

Contractors	Written Proposal Score (65)	OPS Score (30)	Community Benefits Score (5)	Points Subtotal (100)	LBE Bonus	Total Score	Ranking (AG)
<b>Proposing Contractors Awarded Contracts</b>							
Contractor A	58.22	30.00	3.45	91.67	6.87	98.54	1
Contractor B	57.50	30.00	4.02	91.52	6.86	98.38	2
Contractor C	54.12	30.00	4.02	88.14	8.81	96.95	3
Contractor D	56.91	30.00	3.02	89.93	6.74	96.67	4
<b>Proposing Contractors Not Awarded Contracts</b>							
Contractor E	55.93	30.00	3.90	89.83	6.73	96.56	5
Contractor F	58.31	24.00	2.93	85.24	6.39	91.63	6

Note: Refer to Appendix A for contract details.

Key:

- Contractor A: CH2M Hill and Avila (Joint Venture);
- Contractor B: Brown & Caldwell and SRT (Joint Venture);
- Contractor C: F.E. Jordan Associates, Inc.;
- Contractor D: Kennedy Jenks and WRE (Joint Venture);
- Contractor E: Carollo Engineers and PME (Joint Venture); and
- Contractor F: AECOM and AGS (Joint Venture)

Source: Auditor-recreated from SFPUC Agenda Item 8i, November 13, 2012

Further, the current SIP proposal evaluation and scoring process does not consider if a contractor failed to deliver its SIP commitments in a previous contract. By design, contractors that fail to meet their SIP commitments may propose on future contracts, with commitments resulting in winning scores, and may again default on those commitments. When combined with the lack of SFPUC’s enforcement of contractual obligations for delivering SIP commitments, this creates a potentially unfair solicitation process and

<sup>5</sup> Panelists evaluating the proposals could not have known at the time that one or more contractors later would not deliver their proposed SIP commitments.

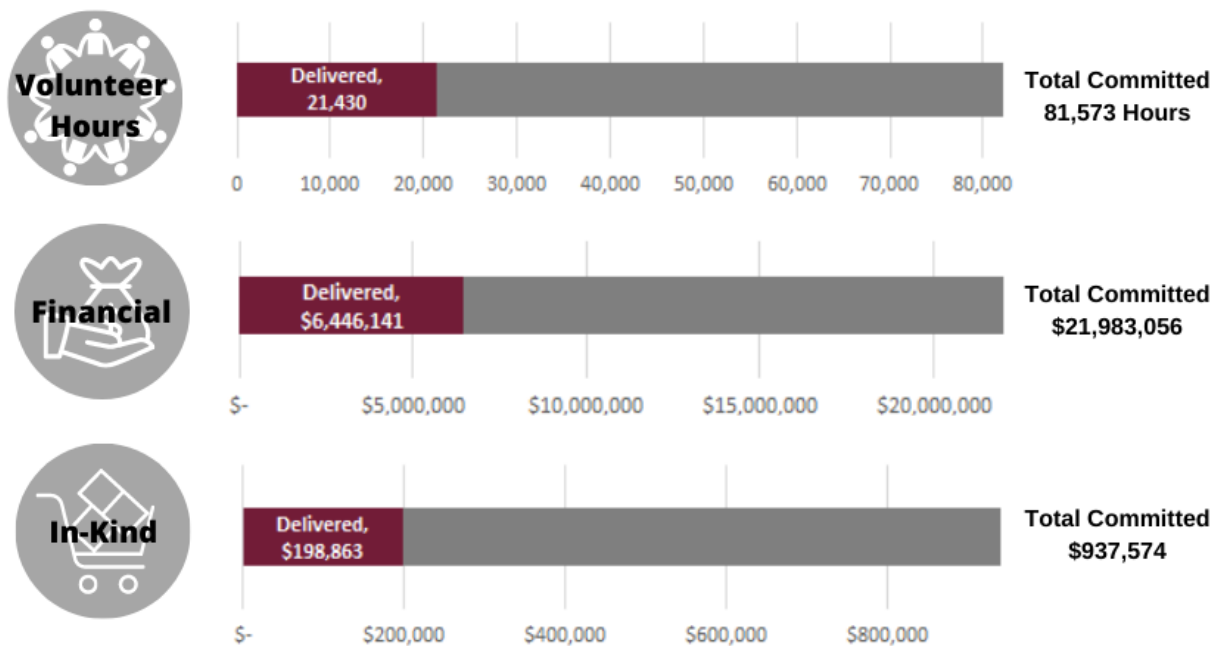


increases the risk of SFPUC awarding a contract to a contractor that does not provide the best value to both SFPUC and the impacted communities.

### Roughly Two-Thirds of Pledged Commitments Are to Be Delivered Over the Next Decade

With more than two-thirds of the current SIP pledged commitments remaining to be delivered over the next decade, it is imperative that SFPUC establish a program infrastructure that better enables it to oversee and manage the SIP Program to ensure program goals are met and the greatest value achieved. As of December 30, 2020, only 28 percent of the total pledged financial, in-kind, and volunteer hour SIP commitments—valued at nearly \$35.2 million—had been delivered, or nearly \$9.9 million in value. Specifically, as of December 30, 2020, there were a total of 84 contracts with SIP commitments totaling \$21,983,056 in financial commitments, \$937,574 in-kind commitments, and 81,573 volunteer hour commitments, as shown in Exhibit 12.<sup>6</sup>

**EXHIBIT 12. TOTAL SIP COMMITMENTS AND AMOUNTS DELIVERED, AS OF DECEMBER 30, 2020**

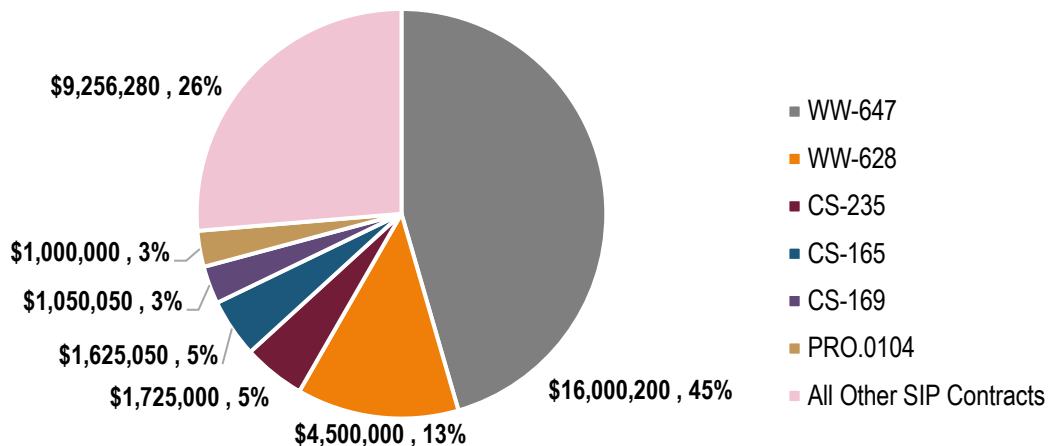


Source: Auditor-generated from SFPUC SIP Performance Dashboard Data Extract

As of December 2020, 16 contractors had not fulfilled any of their SIP pledged contributions and, as discussed previously in this section of the report, an additional 7 contractors had expired contracts but had only fulfilled a fraction of their pledged SIP commitments.

<sup>6</sup> Amounts for each category are subject to change because contractors can move commitments between the three categories. In addition, some of the amounts committed will likely not be delivered as the contract is complete and the contractor did not fulfill its commitments.

**EXHIBIT 13. TOTAL SIP COMMITMENTS VALUE, BY CONTRACT, AS OF DECEMBER 31, 2020**



Source: Auditor-generated from SFPUC SIP Performance Dashboard Data Extract

Further, as shown in Exhibit 13, six of the 84 contracts, or 7 percent, make up nearly 74 percent of the total pledged amount. Many of these contracts are multi-year, with some contract terms extending over the next decade. With such a large percentage of commitments outstanding, now is the time for SFPUC to make changes to ensure program benefits are maximized and the greatest value achieved for the City, its residents, and communities impacted by SFPUC projects.

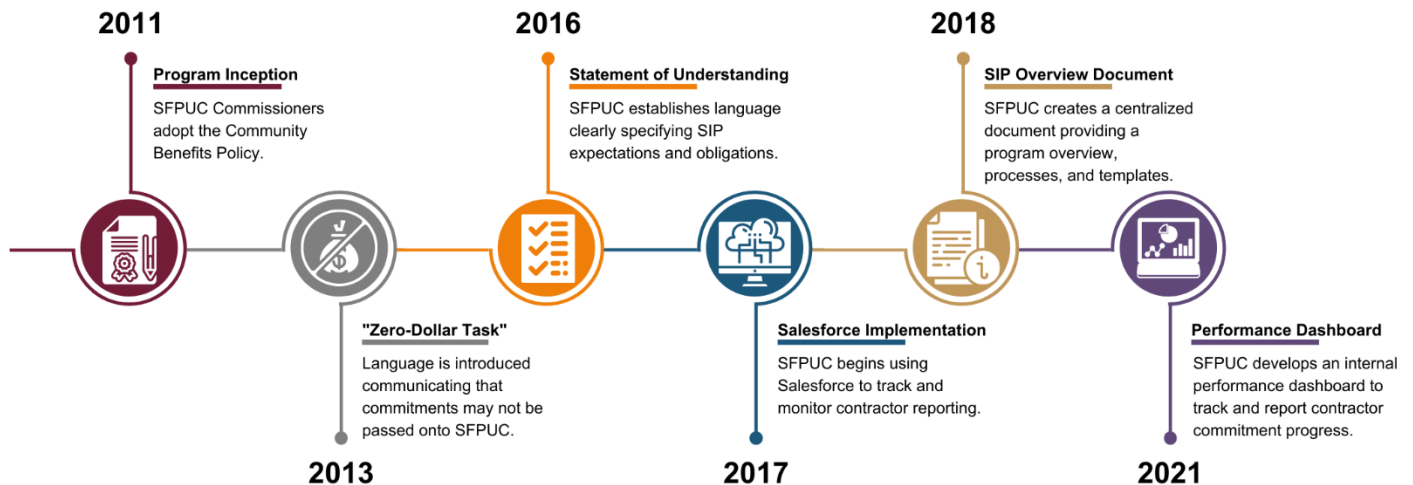
### **The SIP Program Lacks Sufficient Internal Controls Related to Contract Solicitations, Commitment Monitoring, and Contract Closeout**

Since its inception, the SIP Program has administered a workflow that has remained relatively consistent, with a contract life cycle divided into five core phases. The first three phases relate to the solicitation process, and the remaining two relate to contract management and close-out. As discussed previously, SIP Program staff are involved in each of the five phases. During the solicitation phase, SIP Program staff work with the SFPUC Project Manager, CAB, and City Attorney, to develop proposed contract language related to the SIP component, develop SIP-specific scoring criteria, provide proposing contractors with information about the SIP Program, and select SIP panelist. During the contract management phase, SIP staff are responsible for working with contractors and monitoring contractor compliance with SIP Program requirements established in the contract between SFPUC and the contractors.

Although this workflow has remained consistent over time, SFPUC modified and made improvements over the years, as shown in Exhibit 14. For instance, beginning in 2013 SFPUC introduced language in solicitations that SIP commitments are a zero-dollar task, meaning that the cost of the commitments may not be passed onto SFPUC, and by extension, ratepayers. Then, in 2016, SFPUC added a SIP Statement of Understanding to solicitations and contracts that clearly defined some program requirements and expectations for fulfilling SIP commitments. In 2017, SFPUC implemented Salesforce to monitor contractors and track contractor reporting. In 2018, SFPUC developed a document that provided an overview of the program, founding policies, information about the solicitation process, and SIP reporting requirements. SFPUC also implemented several iterations of conflict-of-interest forms for panelists participating in the solicitation process—incrementally improving transparency and accountability as it

relates to potential conflicts—with the most recent conflict of interest form indicating that panelists may not have any conflicts of interest with the proposing firms and the SIP beneficiaries. In 2021, SFPUC developed an internal performance dashboard to track and report contractors' fulfillment of SIP commitments and has implemented processes to more proactively contact contractors that are not meeting SIP Program requirements.

**EXHIBIT 14. TIMELINE OF IMPROVEMENTS MADE TO SIP PROGRAM**



Source: Auditor-generated from documentation provided by SFPUC

Although SFPUC implemented process improvements to oversee and track contractor performance in more recent years, the audit identified control weaknesses in each phase of the contract lifecycle. Informal policies were not always followed; SFPUC could not always provide substantiating documentation to demonstrate the established processes were consistently followed; and contractors were not held accountable to adhere to contract requirements related to the SIP Program. In the following sections we provide a discussion of control weaknesses identified throughout the contract lifecycle.

### **SIP-Related Scoring Criteria in Solicitations Was Inconsistent and Require Improvement**

Our review of SFPUC's practices for scoring SIP proposals identified three problems: the SIP component of solicitations are scored differently among different solicitations despite SFPUC routinely reporting that the SIP component of solicitations represents 5 percent of the overall points; the voluntary nature of the SIP Program is diminished by the mandatory scoring of SIP criteria in the solicitation and evaluation process; and, although the SIP scoring component focuses on commitments that will be delivered in the future, it ignores contractors' past performance in delivering on commitments already made. Each of these problems contributes to inconsistencies between actual program practice and how the program is represented to the community and contractors.

- Although SFPUC consistently reported that the SIP component of a solicitation represents 5 percent of the overall points, our review of 15 solicitations found that the SIP percentage and scoring methodology was not consistent across professional service solicitations, as shown in Exhibit 15. In one-third of the contracts reviewed, the SIP percentage of total solicitation points varied between 3 or 4 percent.

**EXHIBIT 15. VARIANCES IN SIP POINTS, AS A PERCENTAGE OF TOTAL POINTS, OVER TIME**

	Contract No.	Type of Contract	Solicitation Type	Advertisement Date	SIP Percentage	Scoring Methodology
<b>Professional Service</b>						
1	CS-165	Professional Services	RFP	3/14/2011	Unknown <sup>7</sup>	Totaled, Weighted
2	CS-169	Professional Services	RFP	9/23/2011	5.0%	Averaged, Weighted
3	CS-167	Professional Services	RFP	6/11/2012	5.0%	N/A <sup>8</sup>
4	CS-193	Professional Services	RFP	7/2/2012	5.0%	Totaled, Weighted
5	CS-203	Professional Services	RFP	7/2/2012	5.0%	Totaled, Weighted
6	CS-235	Professional Services	RFP	4/1/2013	5.0%	N/A <sup>5</sup>
7	CS-386	Professional Services	RFP	4/25/2014	3.0%	Averaged
8	CS-297	Professional Services	RFP	10/3/2014	3.0%	Averaged
9	CS-391	Professional Services	RFP	2/26/2015	3.0%	N/A <sup>5</sup>
10	PRO.0104	Professional Services	RFP	11/6/2017	5.0%	Averaged
11	PRO.0068	Professional Services	RFP	1/24/2018	4.2%	N/A <sup>5</sup>
<b>Alternative Delivery<sup>9</sup></b>						
12	DB-126	Alternative Delivery	RFQ, RFP	6/15/2016	5.0% <sup>A</sup>	Scaled to Max
13	WW-647	Alternative Delivery	RFQ, RFP	6/16/2016	5.0% <sup>A</sup>	Scaled to Max
14	WW-628	Alternative Delivery	RFP	12/9/2016	5.0% <sup>A</sup>	Scaled to Max
<b>Power Procurement</b>						
15	PRO-0077	Power Procurement	RFO	6/22/2017	5.0%	Averaged

Notes:

<sup>A</sup> For these solicitations, the SIP component was 5% of the Written Evaluation score, not the total score. Refer to Appendix A for contract details.

Source: Auditor-generated from SFPUC Summary Scoring Sheets and Memorandum

Although the San Francisco’s Administrative Code (Administrative Code) ultimately gives SFPUC discretion over the evaluation criteria by which it evaluates a professional services contract, if SFPUC continues to consider the SIP as a factor in the competitive selection process, it should improve consistency and transparency in the process; SFPUC should ensure that its scoring practices are consistent across solicitations and that actual scoring aligns with the methodology and approach that is publicly stated.<sup>10</sup>

<sup>7</sup> SIP criterion was combined with technical criteria, which together totaled 10 percent of total evaluation points.

<sup>8</sup> There was only one proposer.

<sup>9</sup> Alternative Delivery contracts include Design Build and Construction Manager/General Contractor contracts.

<sup>10</sup> The Administrative Code, Section 6.41(a), authorizes the department head to determine the criteria for professional services contracts on a project-by-project basis.

- Although participation in the SIP Program is voluntary, the manner in which SFPUC has incorporated the SIP Program into solicitation scoring inhibits contractors from obtaining the total possible points if they choose not to participate. The SIP Program is advertised as entirely optional where proposing contractors may receive “bonus” points for making voluntary commitments. However, the manner in which SIP scoring is currently structured does not align with the voluntary nature of the program, and the points are not structured as a “bonus.” Because SIP points are included as a component in the total points awarded during the evaluation process, not as bonus points in addition to the standard scoring, proposing firms cannot obtain the total points without participating in the program. In essence, a proposer who does not submit a SIP proposal cannot receive a full score (e.g., they can only receive 95 percent of the total available points). In comparison, other programs, such as the Local Business Enterprise program, provides contractors with additional “bonus” points that are separate from and in addition to the standard scoring criteria.

Per Administrative Code Chapter 14B, the assigned Contract Compliance Officer has the opportunity to award bonus points to proposals’ written, oral, and overhead profit schedule scores. The points awarded from the Contract Monitoring Division bonus are in addition to, but not included in, the scores for the various scoring categories (e.g., written evaluation, oral interviews, and overhead profit schedule). As such, proposers are eligible to receive the full point total (i.e., 100 percent of all possible points that may be awarded by SFPUC’s panelists) for proposals without the Contract Monitoring Division bonus. In this manner, bonus points reflect a preference, not a requirement—a message consistent with the Local Business Enterprise program.

As the SIP scoring component is currently implemented in SFPUC’s solicitation process, although including it is optional, proposals that do not include SIP commitments lose points when compared to those that do. Although the difference between how SIP points and Contract Monitoring Division bonus points are awarded may appear superficial, the method in which SFPUC has incorporated the SIP Program as a fixed element in the scoring process may imply that participation in the program is expected. In at least one case, a contractor raised this concern, questioning the voluntary nature of the program and suggesting perceptions of “pay to play.” Regardless of how SIP scoring is included in the evaluation, a contractor’s decision to participate or not participate could affect the awarding decision. However, the manner in which SFPUC incorporates the scoring sends a message, and the method currently employed is less likely to emphasize the program’s voluntary nature.

- SFPUC’s current scoring process does not account for contractor’s past performance in fulfilling promised SIP commitments and meeting contractual requirements. As discussed previously, some contractors making commitments do not fulfill those commitments by the time the contract is terminated and final deliverables have been accepted by SFPUC. In most cases, a contractor’s demonstrated ability to deliver on contractual commitments and obligations is considered during the solicitation and evaluation process, and contractors are asked to demonstrate their experience successfully delivering on prior contracts/projects of a similar nature. Yet, SFPUC’s evaluation of SIP commitments during the solicitation and evaluation process does not account for a contractor’s prior performance in the SIP Program. Although the program is voluntary, commitments that are made are accounted for in SFPUC’s awarding decision and are included as a required obligation in

the resulting contract. Not only could a contractor's failure to meet its commitments result in a situation in which the City could have received greater value from another contractor, but ignoring past performance on a new solicitation may convey a willingness to allow contractors to abdicate their responsibility in such commitments and undermines the intent and integrity of the SIP Program. One way this could be achieved is by incorporating criteria into the SIP evaluation criteria that accounts for demonstrated prior performance could further incentivize fulfilling commitments and would promote both accountability and transparency. Ensuring that all contractors understand that future proposals could be evaluated based on their performance under existing contracts, could further promote a level playing field for all firms and provide a greater incentive for contractors to fulfill SIP commitments. SFPUC could also incorporate other measures such as penalties for not fulfilling commitments.

### **SFPUC Focused Contractor SIP Commitments to Specific Community Needs and Tied Contractor SIP Commitments to Other Mandatory Program Categories**

Our analysis of solicitation documentation revealed practices that were consistent with SIP Program policies, which do not explicitly disallow SFPUC from guiding or influencing contractor commitments toward specific programs or service categories, but conflicted with SFPUC's assertions that it cannot and does not guide or influence commitments and that contractors' commitments are fully voluntary. Our review of guidance provided for 10 solicitations, and 13 subsequent contracts, identified at least 10 instances where SFPUC either directed contractors' proposed SIP commitments towards community-specific program areas and other mandatory programs and/or subjected the commitments to SFPUC direction after contract award.

For seven contracts, although in most cases the solicitation itself did not guide proposers, the contract language indicates that SFPUC could direct SIP commitments after contract award. Some contracts specifically state that contract commitments must be "aligned with, directed by, and driven by the SFPUC Assistant General Manager for External Affairs' community benefits strategy for the SFPUC and in order to best leverage our collective resources and positive community impacts." Directing the voluntary commitments of contractors in this manner may diminish the voluntary nature of the program.

For four solicitations, SFPUC focused contractor commitments through specific guidance included in solicitation documents and the scoring criteria used during the evaluation and scoring process. In two cases, SFPUC used the results of an analysis on the impact of SFPUC's Biosolids Digester Facilities Project on the Bayview Hunters Point District community to focus SIP proposal commitments on the thematic issues the report raises. One solicitation prioritized environmental health, education, and corporate innovation, while the other prioritized neighborhood stabilization, education, and corporate innovation. Per SFPUC, "The purpose of affirmatively identifying the program areas or categories... was to reflect the priorities identified by the community... to address the specific impacts of our utility [SFPUC] on that [affected] community."

For the remaining two solicitations, SFPUC tied mandatory program requirements stemming from the Administrative Code, Chapter 14B, and SFPUC's 2007 Water System Improvement Program (WSIP) Project Labor Agreement to the voluntary SIP Program. By doing so, SFPUC effectively made participation in the SIP Program mandatory. Specifically, in collaboration with the City's Office of Economic and Workforce Development, SFPUC developed solicitation materials that focused SIP commitments on the

Job Training and Opportunities Program (JTOP) and Business Training and Opportunities Program (BTOP).<sup>11</sup> Under JTOP, contractors are required to notify referral agencies located nearest to the project of the available opportunities for work, with the City’s designated referral agency being CityBuild. Similarly, BTOP is intended to support local and small businesses to satisfy legal requirements such as mandates in Administrative Code Chapter 14B’s Local Business Enterprise utilization and Non-Discrimination in Contracting Ordinance and the WSIP Project Labor Agreement.

Rather than including JTOP and BTOP as additional requirements in these two solicitations, SFPUC tied requirements to meet these program requirements to the voluntary SIP Program. The inclusion of these requirements as part of the SIP component diminishes the voluntary nature of the program. Subsequent documents, which SFPUC released in 2016, clearly state in the Statement of Understanding that “[c]ommitments are separate from and in addition to any regulatory or legal requirements related to the Agreement.”

**Exhibit 16.** JTOP and BTOP Criteria Reflected in SIP Scoring Sheets

**Table 2: Community Benefits Score Sheet**

Evaluation Criteria	Types of Community Benefits Commitments	Reference to Sections in Appendix K	Percent of Total Community Benefits Points
A. Application Check List		Section II A	5
B. Work Approach		Section II B	20
C. Project Team/Organization		Section II C	10
D. Community Benefits Commitments*		Section II D	60
	<i>JTOP</i> Total Value of Financial Contributions	Section II D <i>Table: Row 1; Column A</i>	12
	Total Value of Volunteer Hours	Section II D <i>Table: Row 1; Column D</i>	6
	Total Value of Trainee Hours	Section II D <i>Table: Row 1; Column G</i>	12
	<i>BTOP</i> Total Value of Financial Contributions	Section II D <i>Table: Row 2; Column A</i>	15
	Total Value of Volunteer Hours	Section II D <i>Table: Row 2; Column D</i>	15
E. Accountability, Performance Measures, and Deliverables		Section II E	5
<b>TOTAL</b>			<b>100</b>

Source: SFPUC Pre-Submittal Presentations

<sup>11</sup> According to SFPUC, JTOP is required by the WSIP Project Labor Agreement between SFPUC and local, regional, and national building and construction trade unions covering construction work to upgrade and seismically strengthen SFPUC’s water delivery system.

Finally, although SFPUC language in each of the solicitations indicating that proposing firms could submit SIP proposals for other programs in line with the Community Benefits and Environmental Justice policies, and provided proposing firms with the scoring criteria, it is unclear how panelists evaluating SIP proposals would have scored proposals for other programs as the scoring criteria was also geared towards the focused programs. For example, as shown in Exhibit 16, the Community Benefit commitment portion of the score sheet, which accounted for 60 of the total 100 possible points for the SIP proposal, was focused on contributions to JTOP and BTOP. Although SFPUC stated panelists would have known how to score other commitment types, the score sheet established SFPUC's preference for the review panel and represents the only evidence of any guidance provided by SFPUC to the panel. If panelists would have known when and how to apply other criteria to score other commitment types suggests, in the absence of other formal guidance, this would suggest undue subjectivity in the evaluation process and implies contractors may be evaluated based on additional criteria not conveyed in the solicitation materials.

### **Contractors' SIP Proposals Were Not Consistent, and Some Contained Mathematical Errors**

As discussed earlier, one component used by SFPUC to evaluate and score SIP proposals is the total value of the SIP commitment. To this end, for panelists to evaluate SIP proposals consistently, it is important that all proposing contractors use the same basis to determine the value of the SIP commitments they propose. A review of the solicitation process for a sample of 10 solicitations identified three factors that could impact the total SIP commitment value and potentially the score received by the proposing contractor. Specifically, we noted mathematical errors in calculating SIP commitment values: inconsistent hourly rates applied to volunteer hours, commitment contingencies that contributed to variances between the ultimate commitment and delivery of community benefits by a contractor, and the points with which the contractor was credited during the evaluation process. Each could result in situations in which the selected firm does not propose to (and will not) provide the greatest value to the City, its residents, and its communities. Specifically:

- **Inconsistent Hourly Rate for Volunteer Hours Used to Calculate Volunteer Hours Value:** For two of the 10 solicitations reviewed, the contractor did not specify the hourly rate it used to determine the value of volunteer hours committed. This issue was subsequently resolved in 2016, when SFPUC provided guidance that contractors should use a standard rate of \$150 per hour to determine the value of volunteer hour commitments. However, it is unclear whether or not SFPUC retroactively applied this rate to contracts awarded before the change. SFPUC was able to provide support validating the volunteer hour commitment value and total commitment, though variances of \$50 remained across records for the two cases due to what appear to be rounding errors in SFPUC's records.
- **Contractor SIP Proposals Contained Mathematical Errors:** Three of the 10 solicitations sampled included mathematical inaccuracies that impacted amounts in the proposal. For example, one SIP proposal proposed 10,500 volunteer hours at \$150 per hour, equating to a value of \$1,575,000, but the value of the volunteer hours stated in the proposal was \$787,500—half as much as it should have been. This mathematical error decreased the total value of the SIP proposal. According to SFPUC, when mathematical errors are identified, SFPUC discusses them with the contractor, and the errors are corrected in the contract; however, for this case the error was not corrected in the contract. Moreover, SFPUC reported that when staff input SIP



commitments into Salesforce, staff record each individual commitment type and Salesforce auto-calculates the total commitment. Staff did *not* input the volunteer hours listed in the contract (10,500 volunteer hours) and instead recorded volunteer hours in Salesforce based off of the miscalculated commitment value of \$787,500, decreasing the volunteer hour commitment by 5,250 hours. For the three instances where we found mathematical errors, SFPUC could not provide any documentation supporting such a discussion or any changes made as a result. In fact, the errors in two proposals appear to be in the executed contracts.

Although some of the inaccuracies identified are related to manual mathematical errors or rounding errors in Salesforce—inaccuracies that ultimately resulted in immaterial reductions in total commitments, they illustrate a broader risk and reveal weaknesses in the processes SFPUC used to try to ensure the accuracy of commitment data.



### **Although SFPUC Improved SIP Panelist Conflict-of-Interest Forms, Inherent Risks Remain**

To address the risk of a potential panelist being influenced by a bias or applying poor judgment because of an obligation or commitment to two or more competing interests, SFPUC requires panelists to complete a conflict-of-interest statement, referred to as the Panel Participant Acknowledgement form. Although SFPUC improved the language in its conflict-of-interest statement to better ensure that SIP panelists do not have a conflict of interest involving any proposing firm or proposed SIP beneficiary at the time of the solicitation, the forms do not address future conflicts. Specifically, because SFPUC uses panelists who have service experience in the community in the eligible geographic area and panelists with SIP-related programmatic experience, panelists could be associated with a future beneficiary of a contractor's SIP commitments.

SIP Program panels are composed of a combination of City employees and community stakeholders. As described previously, panelists are generally required to have programmatic expertise related to SIP Program components and specific service experience in the local community in the eligible geographic area. Panelists are also prohibited from having participated in the development of the solicitation, or having any conflicts of interest with proposing firms or proposed beneficiaries.

Over the years, SFPUC has made several revisions to improve its conflict-of-interest form language and to reduce the risk of panelists having conflicts with either proposing firms or SIP commitment beneficiaries. For instance, in 2016, SFPUC amended its conflict-of-interest form to replace “firms” with “entities.” Then, in 2017, SFPUC specifically added “Community Benefits Beneficiaries” to the list of entities with which panelists have to attest to having no conflict of interest. Exhibit 17 compares the conflict-of-interest form used in 2011 to a consolidated version of the form used in 2017.

**EXHIBIT 17. COMPARISON OF SIP PANELIST CONFLICT OF INTEREST FORM LANGUAGE IN 2011 VERSUS 2017**

 <p style="text-align: center;"><b>CONFLICT OF INTEREST STATEMENT</b></p> <p style="text-align: center;"><b>San Francisco Public Utilities Commission Consultant Selection</b></p> <p>I, _____, understand that, as a member of a selection panel for the City and County of San Francisco, I may not participate on this panel if I have a direct or indirect interest in the contract for _____.</p> <p>Accordingly, I hereby attest that to the best of my knowledge neither I, nor my immediate family (my spouse and dependent children): (1) have received income or gifts within the past 12 months from any of the firms listed in the attachment; (2) have any ownership interest or other direct or indirect investments, in any of the firms listed in the attachment; (3) expect or intend to seek employment with any of the firms listed in the attachment; (4) or have any other direct or indirect interest in any of the firms listed in the attachment that would prevent me from exercising the undivided duty of loyalty I owe to the City and County of San Francisco when I participate in making governmental decisions.</p> <p>_____ Signature</p> <p>_____ Date</p> <p>_____ Print Name</p> <p>_____ Title/Position</p>	 <p style="text-align: right; font-size: small;">Contract Administration Bureau 525 Golden Gate Avenue, 8th Floor San Francisco, CA 94102 T 415.554.4603 F 415.554.3225 TTY 415.554.3488</p> <p style="text-align: center;"><b>PANEL PARTICIPANT ACKNOWLEDGEMENT</b></p> <p>I, the undersigned, understand that I have been asked to participate in a vendor solicitation or contracting process (Request for Proposals, Request for Qualifications, Request for Quotes, Request for Information, etc.) or in the results of such process on behalf of the City and County of San Francisco ("City").</p> <p>I understand and acknowledge that, as applicable, my responsibility is to assist the City with identifying an entity in accordance with published requirements to potentially award a contract with public funds.</p> <p><b>CONFLICT OF INTEREST (applicable to all participants)</b> I hereby attest that to the best of my knowledge neither I, nor any member of my immediate family or household (including my spouse/domestic partner and dependent children):</p> <ol style="list-style-type: none"> <li>1. Have received income or gifts within the past or current year from any of the entities listed below;</li> <li>2. Will receive income or gifts in the next year from any of the entities listed below;</li> <li>3. Have any ownership interest or other investments (except in mutual funds) in any of the entities listed below;</li> <li>4. Expect or intend to seek employment or any other relationship, such as a contractual relationship, with any of the entities listed below; or</li> <li>5. Have any other relationship of any kind with any of the entities listed below that would prevent me from exercising fair and impartial judgment when I participate in this solicitation/contracting process. <i>Please note: if you sit on the board of, or receive funding from, any of the Community Benefit beneficiaries identified in these proposals, you will be conflicted out of this evaluation process.</i></li> </ol> <p><b>Community Benefits Beneficiaries:</b> <i>See Community Benefits Proposals for Beneficiaries</i></p> <p>_____ Signature</p> <p>_____ Date</p> <p>_____ Print Name</p> <p>_____ Title, Department or Firm</p>
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Source: Auditor-generated from solicitation documentation provided by SFPUC

Although the revisions implemented appear to address some concerns raised by at least one of the proposing firms, the changes do not address the risk inherent to the inclusion of panelists with backgrounds and experience that intersects with nonprofits that may benefit from the SIP Program. The conflict-of-interest forms require panelists to attest to current and past relationships with the nonprofits that contractors name in their proposals. However, as mentioned previously, contractors are allowed to change their SIP commitments between categories (financial, in-kind, and volunteer hours) and may also change the beneficiaries identified and amounts provided to each beneficiary. There is nothing that precludes a contractor from changing its commitment, after contract award, to a nonprofit connected with a panelist. Although there are a variety of reasons a contractor may elect to change the beneficiary, such as resource limitations of SIP beneficiaries or changing needs of the communities served, this ability also poses the potential risk that a panelist may collude with a contractor after the solicitation is completed to obtain some or all of the SIP resources for an affiliated nonprofit. The audit did not conclude that this occurred for the solicitations and contracts sampled.

**SFPUC Did Not Always Retain Documents Supporting Solicitation and Award Decisions**

We found that SFPUC generally retained much of the documentation supporting the solicitation process and award decisions for 10 sampled solicitations; however, for four of the 10 solicitations, contract files did not include documentation necessary to demonstrate the solicitation selection process was appropriate, fair, and transparent. Specifically, to assess whether the CAB retained appropriate documentation to demonstrate fair and transparent solicitations, we requested and reviewed a variety of documents related to the solicitation and contract award process, including solicitation documents, contractor responses to

solicitations, individual panelist and summary scoring sheets, and SIP panelist Conflict of Interest forms. As shown in Exhibit 18, for four of the solicitations reviewed, CAB could not locate one or more SIP panelist conflict of interest forms and in one instance could not locate the summary scoring sheet.

**EXHIBIT 18. MISSING DOCUMENTATION BY CONTRACT**

Contract Number	Award Start Date	Award End Date	Document Retention Period End Date <sup>12</sup>	Missing Documentation
CS-165	6/28/2011	9/25/2026	9/25/2031	One missing Conflict of Interest form
DB-126	3/14/2017	3/20/2032	3/20/2037	One missing summary scoring sheet
WW-628	5/24/2016	9/28/2022	9/28/2027	Two missing Conflict of Interest forms
WW-647	5/9/2017	10/6/2024	10/6/2029	Two missing Conflict of Interest forms

Note: Refer to Appendix A for contract details.

Source: Auditor testing results

- **Three of Ten Solicitations Were Missing Conflict of Interest Forms.** For three of 10 sampled solicitations, SFPUC was missing at least one SIP panelist conflict of interest form. Without the forms, we could not definitively assess whether at least 50 percent of panelists were not SFPUC employees, as required by the Contract Monitoring Division rules and regulations.<sup>13</sup> However, Contract Monitoring Division stated that its staff reviews and approves technical and SIP panelists and stated that the 50 percent requirement may be waived if SFPUC cannot meet the requirement and can provide justification and demonstrate its efforts to meet the requirement. Further, without the completed conflict of interest forms for all panelists, we could not verify that all panelists attested to having no conflict that would preclude their participation. SFPUC later provided other supporting documentation that listed the names and titles of SIP panelists.
- **One Missing Scoring Sheet.** For one solicitation, CAB could not locate a summary scoring sheet. Although supporting documentation, such as award memorandums, may demonstrate the points awarded to proposers for each of the criteria categories, they do not contain the formulas used to normalize, scale, and summarize point totals, which may preclude efforts to validate methodologies and mathematical accuracy.

SFPUC’s draft records retention schedule stipulates that documentation related to pre-contract certification (e.g., RFPs, evaluation and scoring records, submittals, responses and related correspondence, etc.) should be retained for five years from the time of contract closure. SFPUC recognized the importance of retaining records supporting the solicitation and contract award process and stated in its policy that the purpose of the policy and schedule is to meet SFPUC’s business needs (e.g., ensuring accessibility to necessary information) and comply with legal and regulatory requirements (e.g., San Francisco’s Sunshine

<sup>12</sup> Per SFPUC’s Records Retention Schedule, documentation falling under the Contract – Pre-Certification category (e.g., RFPs, evaluation and scoring records, contract related correspondence, etc.) must be retained for five years after the close of the contract.



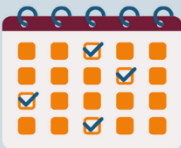
<sup>13</sup> San Francisco Administrative Code Chapter 14B gives the Contract Monitoring Division of the Office of the City Administrator the authority to adopt rules, regulations, guidelines, and forms and take any and all other actions reasonable and necessary to implement and enforce Chapter 14B.

Ordinance). Failure to adhere to the Agency’s records retention policy has impacted the transparency of the program, as lacking documentation can inhibit SFPUC’s ability to substantiate whether policies and processes were followed.

### Improvements Are Needed to Ensure Contractors Comply With Reporting Requirements

Our review of 10 contracts revealed that each of the contractors did not submit required reports and/or did not submit the reports by the deadline for the periods sampled, as shown in Exhibit 20. SFPUC currently requires contractors participating in the SIP Program to submit an annual newsletter and workplan by July 31<sup>st</sup>, and biannual reports by January 31<sup>st</sup> and July 31<sup>st</sup> each year, as shown in Exhibit 19. These reports are used by SFPUC to track contractor progress in fulfilling SIP commitments, as they detail planned activities and actual commitments delivered.

**EXHIBIT 19.** SIP PROGRAM REPORTING REQUIREMENTS

Report	Due Date	Description
<b>Biannual Report</b> 	<b>January 31</b> <b>July 31</b>	Report detailing the geographic scope of commitment, activities and outcomes, key metrics, and the total number of dollars, etc. contributed to-date. Contractors are required to submit documentation substantiating activities and funds associated were delivered to the communities they were intended to benefit.
<b>Annual Newsletter</b> 	<b>July 31</b>	Newsletters provide the contractor's mission, commitment to corporate social responsibility, and highlight activities and projects completed. In earlier contracts, SFPUC required an annual report.
<b>Annual Workplan</b> 	<b>July 31</b>	Road map detailing planned SIP related activities submitted by the contractor. After a contract is awarded, the contractor shall develop a plan that provide details regarding community partnerships, expenditures, a schedule, and timelines related to fulfilling its SIP proposal.

Source: Auditor-generated from SIP Program documents provided by SFPUC

Beginning in July 2018, SFPUC began sending notices to contractors that detailed the upcoming reporting deadlines. Despite these reminders, contractors continued to not always adhere to reporting requirements. Further, although it stated that its practice was to follow up with contractors that did not meet reporting requirements, SFPUC provided limited or no documentation supporting the outreach it conducted, although we noted increased outreach by SFPUC in April 2021.

**EXHIBIT 20. CONTRACTOR COMPLIANCE WITH ANNUAL REPORTING REQUIREMENTS (TESTING RESULTS)**

Sample No.	Contract Number	Fiscal Year	Annual Report/Newsletter		Annual Workplan		Quarterly or Bi-Annual Reports	
			Report Submitted?	Submitted Timely?	Report Submitted?	Submitted Timely?	Reports Submitted?	Submitted Timely?
1	CS-165	2011-12	No	No	Yes	Yes	Partial Q3/Q4	Partial
2		2019-20	No	No	No	No	Yes	No
3	DB-126	2017-18	No	No	Yes	No	Yes	Partial
4		2018-19	Yes	No	Yes	Yes	No	No
5	WW-647	2018-19	Yes	No	Yes	No	Partial Q3/Q4	No
6		2019-20	Yes	No	Yes	Unknown	Yes	No
7	Pro.0068	2018-19	No	No	Yes	Yes	Partial Q3/Q4	No
8		2019-20	No	No	Yes	No	Partial Q1/Q2	No
9	WW-628	2017-18	Yes	No	Yes	Yes	Yes	Yes
10		2019-20	No	No	Yes	No	Yes	No
11	Pro.0153 A	2019-20	Yes	No	No	No	Partial Q3/Q4	No
12	Pro.0104	2018-19	No	No	Yes	No	Partial Q3/Q4	No
13		2019-20	No	No	Yes	Yes	Partial Q1/Q2	No
14	CS-235	2013-14	No	No	Yes	Yes	Yes	Yes
15		2019-20	No	No	Yes	Unknown	Yes	No
16	CS-169	2012-13	No	No	Yes	Yes	Yes	Yes
17		2019-20	No	No	Yes	No	Partial Q1/Q2	No
18	CS-297.A	2015-16	No	No	Yes	No	Partial Q1/Q2	Partial
19		2018-19	No	No	Yes	Yes	Partial Q1/Q2	Partial
<b>Total Not in Compliance</b>			<b>14 of 19</b>	<b>19 of 19</b>	<b>2 of 19</b>	<b>9 of 19</b>	<b>11 of 19</b>	<b>16 of 19</b>

Note: Refer to Appendix A for contract details.

Source: Auditor-generated from review of Salesforce with SFPUC and related documentation provided by SFPUC

According to SFPUC, if contractors do not have any planned activity or did not complete an activity during a reporting period, they may notify SFPUC instead of submitting a workplan and/or report. However, SFPUC did not track if or when contractors had notified it, and staff stated that this information and evidence of any

outreach conducted by SFPUC staff may have been saved in the e-mail boxes of former SFPUC employees to which current staff do not have access. Although SFPUC stated that as of July 2021 it began uploading into Salesforce some documentation of outreach conducted, it has not developed any formal policies or guidance on scenarios when documentation should be uploaded into Salesforce or the information that should be retained. Without such documentation, it is impossible to determine whether contractors were truly noncompliant or if SFPUC failed to retain appropriate documentation. SFPUC also stated that it does not use the information submitted in the annual newsletter. Given that annual newsletters/reports were not submitted for 14 of the 19 periods sampled and that SFPUC stated that it does not need the information to track contractor progress, SFPUC should remove the requirement rather than simply not enforce it.

### **Inadequate Validation of Contractor Information Impaired Accuracy of the SIP Dashboard**

A review of underlying support submitted for SIP commitments delivered for 10 contractors, identified discrepancies between amounts recorded in Salesforce and underlying support submitted by contractors for six of the 19 periods sampled, or 32 percent. Contractors are required to submit underlying support to substantiate amounts reported as delivered during a reporting period, such as:

- A letter from the beneficiary organization acknowledging receipt of the contribution with the date received, amount received and intended use, goods received, and/or volunteer hours performed;
- Copies of a check, check stub, credit card statement, or proof of electronic funds transfer; or
- Copy of internal tracking system of employee volunteer hours detailing the name and number of employees and volunteer hours associated with each employee.

SFPUC stated that its current process entails SIP staff reviewing reports submitted by contractors and verifying underlying support substantiates amounts reported, requesting underlying support or clarification when discrepancies are identified, and certifying the information reported is accurate and supported in Salesforce. However, this process was not always followed. Testing identified discrepancies in amounts reported over several fiscal years, from Fiscal Year 2011-12 through 2019-20, and up until recently in 2021, found little evidence that SFPUC notified contractors that amounts reported were not supported and/or were inaccurate. In Exhibit 21, we provide a comparison of amounts recorded in Salesforce based on contractor reporting of commitments delivered through quarterly or bi-annual reports submitted during the fiscal year sampled and the amounts supported by underlying documentation for sample items where exceptions were noted.

**EXHIBIT 21. SAMPLE ITEMS WITH VARIANCES BETWEEN SALESFORCE SYSTEM AND CONTRACTORS' DOCUMENTATION**

Commitment Type	Contract Number	CS-165	WW-628	WW-628	PRO.0104	CS-235	CS-297A
	Fiscal Year	FY11-12	FY17-18	FY19-20	FY19-20	FY19-20	FY15-16
Financial	Salesforce	\$49,500.00	\$620,191.80	\$670,753.00	\$102,500.00	\$259,560.15	\$13,600.00
	Contractor Support	\$35,500.00	\$434,500.00	\$813,037.00	\$102,500.00	\$320,400.00	\$6,800.00
	Variance	(\$14,000.00)	(\$185,691.80)	\$142,284.00	\$0.00	\$60,839.85	(\$6,800.00)
In-Kind	Salesforce	\$0.00	\$0.00	\$0.00	\$0.00	\$1,060.00	\$0.00
	Contractor Support	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	Variance	\$0.00	\$0.00	\$0.00	\$0.00	(\$1,060.00)	\$0.00
Volunteer Hours	Salesforce	310	0	36	140.0	312.00	0
	Contractor Support	310	0	36	126.5	309.75	0
	Variance	0	0	0	(13.5)	(2.25)	0

Note: Refer to Appendix A for contract details.

Source: Auditor-generated from SIP contract data provided by SFPUC

The discrepancies identified were the result of documentation not submitted by contractors, contractors reporting contributions for the incorrect fiscal year, and contractor rounding errors when totaling volunteer hours. For example, although a contractor reported providing \$49,500 in financial support during Fiscal Year 2011-12, the underlying support submitted only totaled \$35,500, and \$14,000 could not be substantiated. In another example, nearly \$186,000 in contractor delivered commitments were attributed to the wrong fiscal year. Further, in another instance, in response to questions raised during the audit, SFPUC modified contractor delivered commitment data in Salesforce, moving nearly \$16,000 in delivered financial commitments from Fiscal Year 2019-20 to 2020-21.

The failure of SFPUC to verify whether contractors provide adequate documentation to support delivered commitments is not only a non-compliance issue, but also has other ramifications and risks to the SIP Program. First, without appropriate support from contractors, SFPUC cannot be assured that the commitments reported were actually delivered, diminishing the potential benefit of the program. Second, although not identified during audit testing, by not verifying whether contractors are attributing commitments to the appropriate fiscal year, there is a risk that a contractor may report the same commitment delivery multiple times in various fiscal years, or may submit the same documentation to fulfill SIP commitments for multiple contracts, thus overstating that actual value delivered and again diminishing the benefits derived from the program. Finally, when information is incorrect in Salesforce, it impacts the accuracy of information reported in the SIP performance dashboard. Although this dashboard is not currently publicly available, it has been used to report program performance to management and has been provided in response to public records requests. Further, SFPUC stated that it plans to share the SIP Program dashboard publicly in the future, increasing the importance that information maintained in Salesforce, and subsequently uploaded into the dashboard, is accurate and reliable.

## **SFPUC Has Not Established a Sustainable Framework to Oversee and Manage the SIP Program**

Based on best practices promulgated by the United States Government Accountability Office (GAO) and by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a “system of internal control” broadly refers to the policies, procedures, processes, systems, and methods that an organization relies on to ensure that it achieves its mission, goals, and objectives on an ongoing basis. As illustrated throughout this report, SFPUC had developed a general framework, a business process, that started with the solicitation of SIP-eligible projects and ended with contract close-out. Over the past decade, this workflow remained intact, but elements of it evolved to address identified shortcomings and process improvements. This is to be expected. During the start-up phase of an organization, it is not uncommon for business processes to be informal and subject to ad hoc decision-making. However, for organizations in the growth phase and mature organizations, informal processes and ad hoc decision-making is expected to be replaced by formal policies and procedures, clearly defined roles and responsibilities, and systems of internal control that are applied consistently and in a manner that furthers the mission, goals, and objectives identified in the Community Benefit and Environmental Justice policies.

The SIP Program, 10 years after it was created, does not yet exhibit the characteristics that would be reasonably expected of an organization in a growth or mature phase. Below, we describe four critical factors that find are necessary for the SIP Program to address in order for it to develop a sustainable framework that could support the future success of the program. These include:

- Developing formal policies and procedures, clearly defined roles and responsibilities, and consistently applied processes and controls;
- Formalizing a method to enforce program-related contract provisions;
- Ensuring the program employs sufficient staffing resources to provide an effective system of internal controls; and
- Instituting mechanisms specifically designed to make the program transparent to City officials, the public, and the contractors participating in the program.

Each is described below.

### **Inconsistent Guidance, Policies, and Practices Have Led to Internal Control Weaknesses**

As discussed throughout this report, the SIP Program has undergone numerous changes in almost every element of the program. Although it is not uncommon for a program to evolve and improvements made to processes and controls, we found that SFPUC has not established clear, consistent guidance and practices to manager and oversee the SIP Program. Given the program was established more than a decade ago, it is reasonable to expect SFPUC to have established formal, written policies and procedures guiding program operations.

SFPUC has not developed a SIP Program-specific policy; there are very few internal policies and procedures guiding SFPUC SIP Program management and contractor oversight practices; and over the past decade there has been inconsistent and evolving program requirements included in both solicitation



documents and contract provisions. An unintentional impact of inconstant practices is that they can lead to confusion and a perception that practices are not fair nor transparent.

In the absence of formal policies and procedures, in 2018, SFPUC developed a “SFPUC Community Benefits Program Social Impact Partnerships” document that provides the Community Benefits and Environmental Justice policies; examples and samples of pre-submittal conference agendas, selection of SIP panelist, scoring, SIP contract language, and panelist conflict-of-interest statements; general overview of the solicitation process; and SIP reporting requirements. This document does not include policies for how SFPUC manages and oversees contractors’ compliance with SIP contract provisions and may not be inclusive of all of SFPUC’s informal program requirements and practices.

According to SFPUC, it recognized the need for a SIP Program Policy, and in May 2019, it began working with the City Attorney and Board of Supervisors to draft an ordinance formally legislating the SIP Program. However, in August 2019, SFPUC management decided to pause these efforts until this audit of the SIP Program was completed to ensure that any findings from the audit could be incorporated into the legislation.

### **SFPUC Did Not Enforce SIP Contract Provisions**

SFPUC consistently failed to enforce contract provisions related to the SIP Program and, up until more recently, either could not provide any evidence or provided minimal evidence supporting outreach it conducted in prior years to contractors that were out of compliance with program requirements. According to SFPUC, although staff worked with contractor representatives to monitor and encourage fulfillment of contractor commitments, no action was taken because, from its perspective, the program is voluntary and was designed without any repercussions or penalties for contractors that fail to fulfill their SIP commitments or comply with reporting requirements. As described previously, SFPUC management stated that the department had not yet developed a method to enforce contractual commitments and obligations because it struggled to balance the voluntary nature of the program and the contractual obligations that ensued.

However, both contract and solicitation language are clear that submitting a SIP proposal obligates contractors to comply with program requirements and deliver promised SIP commitments. Specifically, as shown in the excerpts provided below (*emphasis added*), the language SFPUC used in its solicitations and contracts clearly states that these commitments are binding:

- “Community Benefits commitments submitted in response to this RFP *must* be performed by the successful Proposer progressively during the Agreement term.”
- “The total commitment amount listed in the Community Benefits Summary Table in the final Agreement is considered *binding*.”
- “Proposer *commits* to complying with SFPUC’s reporting requirements.”
- “Contractors *shall* submit quarterly reports...” and “a stand-alone annual report...”

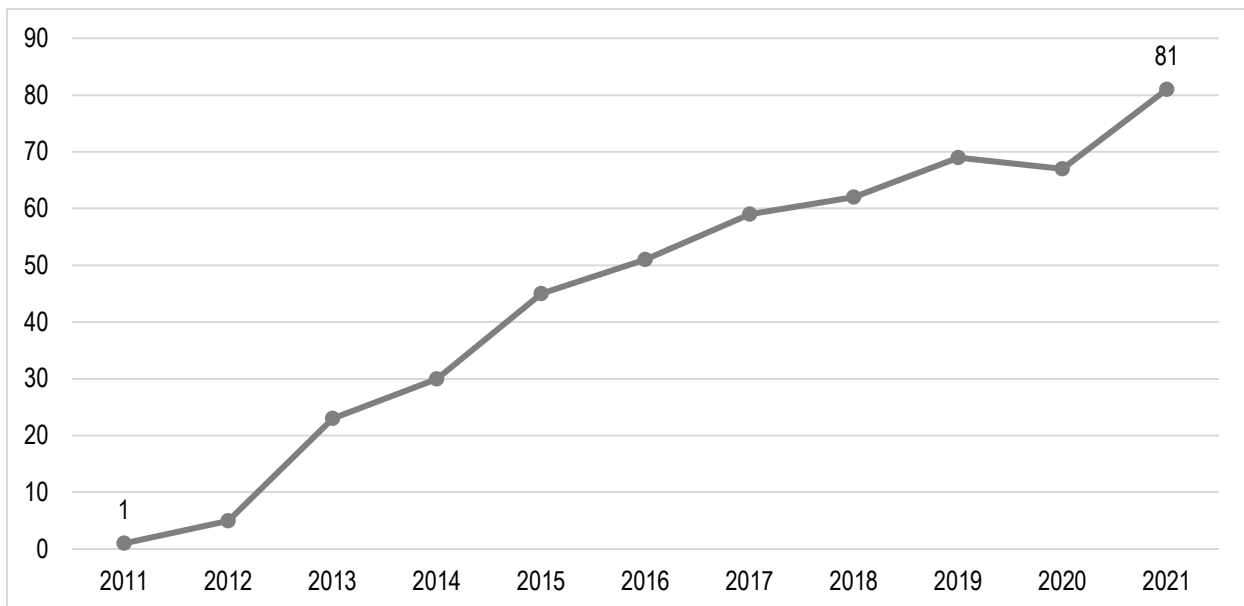
Although participation in the program is voluntary, once the contract (which states the SIP Program provisions) is awarded, contractors are contractually obligated to comply. These contracts state no penalties or other recourse for SFPUC if commitments are not fulfilled. However, SFPUC has the authority

to notify contractors when they are out of compliance with contract provisions. Further, as mentioned earlier, other options exist to further incentivize contractors to meet contractual obligations, such as publicly posting contractors' performance in fulfilling their SIP commitments and including provisions in future solicitations that consider contractors' past performance.

### Staffing Resources Have Remained Stagnant Despite Significant Program Growth

In fiscal years 2016-17 through 2020-21, SFPUC dedicated an annual average of \$176,000 to staff the SIP Program, which funded up to one full-time analyst, part-time management resources (approximately 70 percent of the manager's time), and a half-time intern. In Fiscal Year 2020-21, the annual budget for staff was nearly \$261,000. The SIP Program reached its peak staffing levels in Fiscal Year 2020-21, during which SFPUC allocated approximately 2.2 full-time equivalent positions to administer the SIP Program and to provide oversight of SIP-related activities. Although SFPUC resources for overseeing and managing the SIP Program have remained relatively constant, the number of active solicitations and contracts with SIP commitments have grown significantly over the years, as shown in Exhibit 22. As of September 2021, SFPUC reported there were 81 active solicitations and contracts with SIP components. Given the control weaknesses identified in this report, SFPUC should re-assess whether current staffing levels allow it to address the weaknesses identified and are sufficient to provide the degree of oversight necessary to ensure contractors comply with SIP Program requirements.

**EXHIBIT 22.** ACTIVE SIP SOLICITATIONS AND CONTRACTS BY YEAR, AS OF SEPTEMBER 2021<sup>A</sup>



Note: <sup>A</sup>As of December 30, 2020, 84 contracts had been executed with SIP commitments since program inception.

Source: Auditor-generated from SIP contract data provided by SFPUC

### Enhancing Transparency Into Program and Contractor Performance Is Essential

For decades, public sector agencies have developed policies and procedures—and laws and regulations—focused on ensuring fair and open competition in the solicitation and awarding of government contracts. Transparency into this process is fundamental to ensuring public trust in public contracting and the spending of public resources. A key element to government accountability is transparency. For the SIP

Program, this requires transparency not only into the contract solicitation and awarding processes of SFPUC, but also into the participation of contractors in the SIP Program as well as their performance in the program—just as a contractor’s performance as it relates to other obligations under a public contract should be visible to the public. Transparency enables residents not only to understand what their government is doing but also provides information they need to make informed decisions and hold public officials accountable for their actions.

As a byproduct of its actions, SFPUC diminished transparency into its operation and management of the SIP Program, as well as contractor involvement and performance in the SIP Program. We noted three areas related to performance reporting and solicitation record retention, where improvements are necessary to better ensure transparency.

- SFPUC has not established a method to publicly share SIP Program performance information, such as SIP commitments, contractor delivery of those commitments, the private organizations supported by contractors under the SIP Program, and the impact commitments have in helping SFPUC achieve program goals and objectives.
- SFPUC does not provide any information that ties program performance back to the goals and objectives of the Community Benefits and Environmental Justice policies that were the foundation for establishing the program.
- SFPUC has not established a mechanism to report contracts that do not fulfill SIP commitments, nor is there a process for the public to easily identify those contractors.

Although in 2020 SFPUC began developing a Power Business Intelligence dashboard to track contractor SIP commitments and delivery of those commitments, this information is not shared publicly on its website and improvements are necessary to ensure information reported in the performance dashboard is accurate and reliable—as discussed previously in this report. SFPUC has not established a timely schedule to update the SIP performance dashboard information. As of September 2021, data recorded in the dashboard had been most recently updated in December 2020 and included some erroneous information. SFPUC stated that the performance dashboard has been shared with the public when requested and that SFPUC plans to share the information on its website that is similar to the performance dashboard available for the Community Benefit Program. Enhancing transparency into SIP Program performance and operations, including contractor delivery of SIP commitments, is necessary to gain to public trust and ensure fair and equitable practices.

## Recommendations

To better ensure SIP Program goals and the goals and objectives of the Community Benefits and Environmental Justice founding policies are met and the City and its residents obtain the greatest value from the SIP Program, we recommend that SFPUC:

1. Take steps to enforce contract requirements related to the SIP Program, including consideration of the following:
  - a. Institute procedures to proactively contact contractors that do not meet reporting requirements and notify contractors that have not demonstrated adequate progress in fulfilling their commitments.
  - b. Post on the program website information related to contractor performance for all contractors participating in the program, including commitments fulfilled and unfulfilled, nonprofit organization beneficiaries, and compliance with program requirements.
  - c. Incorporate contractors' past performance in fulfilling commitments into future solicitation criteria for participation in the program.
  - d. Apply liquidated damages or other penalties to contractors that fail to meet their commitments.
2. Move forward with plans to obtain Board of Supervisors approval of a SIP Program policy that includes requirements to standardize processes and practices and provide clear, consistent guidance for the program's contractors.
3. Develop formal, written SIP Program policies and procedures on:
  - a. The oversight and management of the program and guidance provided to external parties.
  - b. Roles and responsibilities of staff and management assigned to the program.
  - c. Standardized contract provisions and protocols for monitoring and reporting on contractor compliance.
  - d. Access and usage of information systems used for program management.
4. Formalize the Contract Administration Bureau's record retention policy and ensure the bureau retains all documentation supporting the solicitation and contract award process, including documentation relating to the SIP Program. In doing so, SFPUC should consider developing a formal checklist and filing system to ensure all documentation is retained in a central location and files are easy to locate in the event of staff attrition.

5. Ensure staff review required SIP reports and underlying documentation in a timely manner, ensuring information reported by contractors is accurate, reliable, and supported. As discrepancies are identified, SFPUC should proactively and promptly contact contractors to address the discrepancies and areas where additional support is necessary. Documentation supporting SFPUC's efforts should be retained in Salesforce or a centrally located network drive that is available in the event of staff turnover.
  - a. SFPUC should also conduct periodic supervisory reviews of a sample of approved contractor submissions to ensure that SIP Program staff are following established processes and that information reported by the contractor is supported by the underlying documentation required by SFPUC.
6. Assess SIP Program staffing levels to ensure sufficient resources are available to provide oversight and controls necessary to ensure the integrity of the program and accuracy of information reported.
7. Increase transparency into the SIP Program by implementing a publicly available SIP Performance Dashboard, and implement internal controls to ensure the dashboard presents data that is accurate, reliable, and updated in a timely manner.

## Appendix A. List of Contracts

Contract Number	Contract Title	Contractor	Award Date	NTP Date	Contract End Date
CS-165	Program Management Services, Sewer System Improvement Program (SSIP)	AECOM-Parsons Joint Venture	6/28/2011	9/2/2011	9/25/2026
CS-167 A.	As-Needed Comprehensive Technical Services for Renewable & Advanced Energy Generation Systems	AEPC Group, LLC	9/28/2012	11/14/2012	9/29/2018
CS-169	Planning and Engineering Services CBSIP	Stantec (formerly MWH)	6/8/2012	6/27/2012	5/28/2021
CS-193 B.	As-Needed Energy Efficiency Services	Enovity	1/2/2013	4/29/2014	1/1/2019
CS-203 C.	As-Needed Wastewater & Storm Water Technical Services	F.E. Jordan Associates, Inc.	1/31/2013	8/9/2013	1/30/2021
CS-235	Planning and Engineering Services, Southeast Plant Biosolids Digester Facilities Project	Brown and Caldwell	8/5/2013	8/9/2013	12/31/2025
CS-297.A	As-Needed Construction Management Services	Avila Associates	3/15/2015	5/22/2015	3/15/2020
CS-297.B	As-Needed Construction Management Services	CPM-Alta Joint Venture	3/15/2015	6/8/2015	3/15/2020
CS-297.C	As-Needed Construction Management Services	ECS	3/15/2015	5/20/2015	3/15/2020
CS-297.D	As-Needed Construction Management Services	MCK Associates	3/15/2015	5/29/2015	3/15/2020
CS-386 A.	As-Needed Engineering Design Services	Kennedy Jenks-AGS Inc. Joint Venture	10/27/2014	2/11/2015	10/27/2019
CS-391.A	As-Needed Operations and Maintenance Support Services for HHWP	Wood-Sonika Joint Venture	8/31/2015	12/2/2015	7/30/2020
CS-391.C	As-Needed Operations and Maintenance Support Services for HHWP	Stantec (formerly MWH)	8/31/2015	10/16/2015	7/30/2020
DB-126	Distributed Control System (DCS) Upgrades	Emerson	3/14/2017	3/20/2017	3/20/2032
PRO.0068	Biosolids Digester Facilities Construction Management Staff Augmentation Services	Arcadis	8/28/2018	11/14/2018	8/27/2025
PRO.0077/ PRO.0153.A	Request for Offers for Renewable Energy Supplies	NextEra Energy (formerly Blythe Solar IV)	4/24/2018	5/1/2018	12/31/2022
PRO.0104	SEP Construction Management Services	Parsons	7/13/2018	11/14/2018	6/30/2028
WW-628	Southeast Water Enterprise Pollution Control Plant New Headworks Facility	Sundt-Walsh Joint Venture	5/24/2016	8/15/2016	9/28/2022
WW-647	Biosolids Digester Facilities	MWH-Webcor Joint Venture	5/9/2017	10/30/2017	10/6/2024

Source: Salesforce Extract of SIP Contracts provided by SFPUC, as of September 14, 2021

# Appendix B. Department Response



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December 3, 2021

Mark de la Rosa  
Director of Audits  
City Hall, Room 476  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Subject: San Francisco Public Utilities Commission (SFPUC) Response to Social Impact Partnership (SIP) Program Audit

Dear Mr. de la Rosa,

Thank you for providing the SFPUC the opportunity to review the SIP Program Audit Report and respond to its findings and recommendations.

We appreciate the time and effort spent by the staff of Sjoberg Evashenk Consulting, Inc. and the City Services Audit Division to learn about the SIP Program over the course of the Audit.

The SFPUC concurs with the seven recommendations of the Audit. We are committed to incorporating these recommendations that will strengthen our Department's SIP Program and its operation and administration processes.

Please see attached for:

- SFPUC's Recommendation and Response Form

If you have any questions or need additional information, please contact me at 415-554-1600.

Sincerely,

  
Dennis J. Herrera  
General Manager

Cc: Ronald Flynn, Chief of Staff  
Eric Sandler, AGM Business Services/CFO  
Charles Perl, Deputy Chief Financial Officer

**London N. Breed**  
Mayor

**Anson Moran**  
President

**Newsha Ajami**  
Vice President

**Sophie Maxwell**  
Commissioner

**Tim Paulson**  
Commissioner

**Ed Harrington**  
Commissioner

**Dennis J. Herrera**  
General Manager

Services of the San Francisco Public Utilities Commission

**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.



## Recommendations and Responses

For each recommendation, the responsible agency should indicate in the column labeled Agency Response whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If your department does not concur or partially concurs, please provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Agency Response	CSA Use Only Status Determination*
<p>The San Francisco Public Utilities Commission should:</p> <ol style="list-style-type: none"> <li>1. Take steps to enforce contract requirements related to the SIP Program, including consideration of the following:               <ol style="list-style-type: none"> <li>a. Institute procedures to proactively contact contractors that do not meet reporting requirements and notify contractors that have not demonstrated adequate progress in fulfilling their commitments.</li> <li>b. Post on the program website information related to contractor performance for all contractors participating in the program, including commitments fulfilled and unfulfilled, nonprofit organization beneficiaries, and compliance with program requirements.</li> <li>c. Incorporate contractors' past performance in fulfilling commitments into future solicitation criteria for participation in the program.</li> <li>d. Apply liquidated damages or other penalties to contractors that fail to meet their commitments</li> </ol> </li> </ol>	<p> <input checked="" type="checkbox"/> Concur              <input type="checkbox"/> Do Not Concur              <input type="checkbox"/> Partially Concur         </p> <p>SFPUC concurs with this recommendation, and will complete the following by the end of 2022:</p> <p><b>1a:</b> The audit report notes that, "SFPUC acted to improve its oversight and outreach in 2021," and that, "we noted increased outreach by SFPUC in April 2021." As stated in the report, in April 2021, SFPUC contacted all contractors with SIP commitments, "requesting that they provide support for contributions made through April 2021 and submit required reports." In 2021, SFPUC began developing procedures to contact firms that are not demonstrating compliance. In August 2021, SFPUC sent a standardized letter notifying all non-compliant contractors of any and all outstanding documentation and/or compliance issues. As a result of those efforts, SFPUC received some additional reports from contractors documenting their progress in fulfilling their SIP commitments. SFPUC staff will continue to proactively contact contractors that do not meet reporting requirements and notify contractors that have not demonstrated adequate progress in fulfilling their commitments.</p> <p><b>1b:</b> As noted in the audit report, "In 2021, SFPUC developed an internal performance dashboard to track and report contractors'</p>	<p> <input checked="" type="checkbox"/> Open  <input type="checkbox"/> Closed  <input type="checkbox"/> Contested         </p>



Recommendation	Agency Response	CSA Use Only Status Determination*
The San Francisco Public Utilities Commission should:	<p>fulfillment of SIP commitments and has implemented processes to more proactively contact contractors that are not meeting SIP Program requirements." Additionally, the audit report notes, "SIP staff maintain and use a dashboard to track and report SIP commitments and contractors' progress in fulfilling those commitments." Finally, the audit report states, "SFPUC plans to share the information on its website." SFPUC will post this dashboard on SFPUC's website, which will provide information related to contractor performance for all contractors participating in the program, including commitments fulfilled and unfulfilled, nonprofit organization beneficiaries, and compliance with program requirements.</p> <p><b>1c:</b> SFPUC staff will work with the City Attorney's Office to develop procedures that incorporate contractors' past performance in fulfilling commitments into future solicitation criteria for participation in the program.</p> <p><b>1d:</b> SFPUC staff will work with the City Attorney's Office to develop the procedures to apply liquidated damages or other penalties to contractors that fail to meet their commitments.</p>	
2. Move forward with plans to obtain Board of Supervisors approval of a SIP Program policy that includes requirements to standardize processes and practices and provide clear, consistent guidance for the program's contractors.	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>As stated in the audit report, "in May 2019, it (SFPUC) began working with the City Attorney and Board of Supervisors to draft an ordinance formally legislating the SIP Program. However, in August 2019, SFPUC management decided to pause these efforts until this audit of the SIP Program was completed to ensure that any findings from the audit could be incorporated into the legislation." Now that</p>	<p><input checked="" type="checkbox"/> Open  <input type="checkbox"/> Closed  <input type="checkbox"/> Contested</p>

Recommendation	Agency Response	CSA Use Only Status Determination*
The San Francisco Public Utilities Commission should:		
	the audit is complete, SFPUC will seek Board of Supervisors approval of the SIP Program policy by the end of 2022.	
<p>3. Develop formal, written SIP Program policies and procedures on:</p> <ul style="list-style-type: none"> <li>a. The oversight and management of the program and guidance provided to external parties.</li> <li>b. Roles and responsibilities of staff and management assigned to the program.</li> <li>c. Standardized contract provisions and protocols for monitoring and reporting on contractor compliance.</li> <li>d. Access and usage of information systems used for program management.</li> </ul>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>SFPUC concurs with this recommendation, and will complete the following by the end of 2022:</p> <p><b>3a.</b> The audit report states, "SFPUC had developed a general framework, a business process, that started with the solicitation of SIP-eligible projects and ended with contract close-out." The report states, "in 2018, SFPUC developed a 'SFPUC Community Benefits Program Social Impact Partnerships' document that provides the Community Benefits and Environmental Justice policies; examples and samples of pre-submittal conference agendas, selection of SIP panelist, scoring, SIP contract language, and panelist conflict-of-interest statements; general overview of the solicitation process; and SIP reporting requirements." In 2021, SFPUC updated this framework and business process document regarding the oversight and management of the SIP Program. SFPUC will review and develop this framework and business process document into formal, written SIP Program policies and procedures on the oversight and management of the program and guidance provided to external parties based on the recommendations of this audit.</p> <p><b>3b.</b> In 2021, SFPUC clarified the roles and responsibilities of staff and management assigned to the program. SFPUC will develop formal, written SIP Program policies and procedures documenting the roles and responsibilities of program staff and management consistent</p>	<p><input checked="" type="checkbox"/> Open</p> <p><input type="checkbox"/> Closed</p> <p><input type="checkbox"/> Contested</p>

Recommendation	Agency Response	CSA Use Only Status Determination*
The San Francisco Public Utilities Commission should:		
	<p>with the recommendations of this audit.</p> <p><b>3c.</b> In 2021, SFPUC staff have been working with the City Attorney’s Office to standardize the solicitation language for contracts that contain the SIP language. As a component of this effort, SFPUC staff have updated the language regarding required documentation from contractors to report their progress in delivering SIP commitments. These updates are reflected in solicitations and contracts containing SIP language that have been advertised since August 2021. While the solicitation language will continue to be updated to reflect changes to contracting laws and requirements, SFPUC will work with the City Attorney’s Office to update standardized contract provisions for monitoring and reporting on contractor compliance.</p> <p><b>3d.</b> The audit report notes that, “In 2017, SFPUC implemented Salesforce to monitor contractors and track contractor reporting.” In 2021, SFPUC staff updated the reporting system utilized by contractors to submit their reports and supporting documentation to be more user-friendly and accessible. SFPUC also standardized the fields in the reporting system and Salesforce to make contractor reporting more consistent and to better ensure that the corresponding data maintained in Salesforce is accurate and reliable. In 2021, SIP Program staff are working with SFPUC’s Information Technologies staff to improve and automate systems that assist in contract compliance. SFPUC will develop formal, written SIP Program policies and procedures regarding access and usage of information systems used for program management.</p>	
4. Formalize the Contract Administration Bureau’s record retention policy and ensure the bureau	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed

Recommendation	Agency Response	CSA Use Only Status Determination*
The San Francisco Public Utilities Commission should:		
<p>retains all documentation supporting the solicitation and contract award process, including documentation relating to the SIP Program. In doing so, SFPUC should consider developing a formal checklist and filing system to ensure all documentation is retained in a central location and files are easy to locate in the event of staff attrition.</p>	<p>SFPUC’s Contract Administration Bureau (CAB), with guidance from the City Attorney’s office, will review and formalize the Bureau’s record retention policy. CAB will also develop a formal checklist and filing system to ensure all documentation is retained in a central location and files are easy to locate even with staff attrition. This will be completed by the end of 2022.</p>	<input type="checkbox"/> Contested
<p>5. Ensure staff review required SIP reports and underlying documentation in a timely manner, ensuring information reported by contractors is accurate, reliable, and supported. As discrepancies are identified, SFPUC should proactively and promptly contact contractors to address the discrepancies and areas where additional support is necessary. Documentation supporting SFPUC’s efforts should be retained in Salesforce or a centrally located network drive that is available in the event of staff turnover.</p> <p>a. SFPUC should also conduct periodic supervisory reviews of a sample of approved contractor submissions to ensure that SIP Program staff are following established processes and that information reported by the contractor is supported by the underlying documentation required by SFPUC.</p>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>As noted in the audit report and cited above, in spring 2021 SFPUC staff reviewed all of the SIP documentation and reports submitted by firms to date. SFPUC will proactively contact firms to address any discrepancies and provide additional support as necessary. In 2022, SFPUC will retain all such documentation in Salesforce or a centrally located network drive that is available in the event of staff turnover. SFPUC will conduct periodic supervisory reviews of a sample of approved firm submissions to ensure SIP Program staff are following established processes and that information reported by the contractor is supported by the underlying documentation required by SFPUC by the end of 2022.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>6. Assess SIP Program staffing levels to ensure sufficient resources are available to provide</p>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p>	<p><input checked="" type="checkbox"/> Open</p>

Recommendation	Agency Response	CSA Use Only Status Determination*
The San Francisco Public Utilities Commission should:		
oversight and controls necessary to ensure the integrity of the program and accuracy of information reported.	SFPUC will assess SIP Program staffing levels to ensure sufficient resources are available to provide oversight and controls necessary to ensure the integrity of the program and accuracy of information reported by the end of 2022.	<input type="checkbox"/> Closed <input type="checkbox"/> Contested
7. Increase transparency into the SIP Program by implementing a publicly available SIP Performance Dashboard, and implement internal controls to ensure the dashboard presents data that is accurate, reliable, and updated in a timely manner.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur  As noted in the audit report, "In 2021, SFPUC developed an internal performance dashboard to track and report contractors' fulfillment of SIP commitments and has implemented processes to more proactively contact contractors that are not meeting SIP Program requirements." As also stated in the audit report, "SFPUC plans to share the information on its website." By the end of 2022, SFPUC will make the SIP Performance Dashboard publicly available and will implement internal controls to ensure that the dashboard presents data that is accurate, reliable, and updated in a timely manner.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested