


OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller
Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: Dennis Herrera, General Manager
San Francisco Public Utilities Commission

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

DATE: February 9, 2022

SUBJECT: **Management Letter on Retention of SFPUC Bond Records**

This management letter concerns the retention of records by the San Francisco Public Utilities Commission (SFPUC) regarding the revenue bond programs it administers. It is based on a recent audit of water revenue bonds.

Background

The Public Utilities Revenue Bond Oversight Committee (RBOC) engaged my office, the City Services Auditor Division (CSA) of the Controller's Office, which, in turn, engaged HKA Global, Inc., (HKA) and, as its subcontractor, Yano Accountancy Corporation (YAC), to audit the SFPUC's expenditures made under the revenue bond program. To perform the audit, HKA and YAC requested from SFPUC and gathered documentation to assess whether revenue bond funds were spent in accordance with the stated purposes and permissible use of such bonds.

On February 9, 2022, to document the results of the audit, CSA issued its report, *The San Francisco Public Utilities Commission Spent Revenue Bond Funds for Allowable Purposes but Should Improve Its Controls Over Reporting and Quality Assurance*. The information in this management letter is not included in the audit report because it addresses an issue, record retention, that is not directly related to the audit objective.

This management letter is for a nonaudit service. Generally accepted government auditing standards do not cover nonaudit services, which are defined as professional services other than audits or attestation engagements. Therefore, SFPUC is responsible for the substantive outcomes of the work performed during this assessment and is responsible to be in a position, in fact and appearance, to make an informed judgment on the results of the nonaudit service.

Observation

The Records That SFPUC Should Have Retained: As part of the audit procedures, HKA and YAC asked SFPUC for several types of supporting documentation, including but not limited to documents showing the labor, benefits, and allocated overhead expenses for the San Francisco Water Revenue Bonds, 2006, Series A. However, SFPUC could not provide detailed payroll information for costs incurred from June 1, 2003, through June 30, 2008, totaling \$156.7 million.

According to SFPUC, the support for these expenses was unavailable because its legacy system has been decommissioned and because the department's associated record retention policy does not require payroll records to be kept for this long. However, SFPUC's record retention policy requires bond-related documents, including the records in question, to be retained for the life of the relevant agreement plus five years. The San Francisco Administrative Code, Section 8.3, requires each department head to prepare a schedule for the systematic retention and destruction of records, among other things. Also, U.S Internal Revenue Service (IRS) regulations require records to be "retained for so long as the contents thereof are material in the administration of internal revenue law."¹ The IRS additionally states bond records should generally be kept for as long as the bonds are outstanding, plus three years after the final redemption date of the bonds.² The City risks penalties and other consequences by not maintaining bond documentation for an appropriate time period.

SFPUC has since obtained backup electronic files that may contain some of the required information, but the department will need to ensure the completeness of these files in the future.

Recommendations

The San Francisco Public Utilities Commission should:

1. Comply with its record retention policy regarding bond-related documents.
2. Ensure relevant staff understand the requirements of the department's record retention policy to maintain the completeness of bond-related documents.

SFPUC's response is attached. CSA will not follow up on the status of the recommendations in this management letter because this work is advisory in nature.

CSA, HKA, and YAC appreciate the assistance and cooperation of all staff involved in this audit. For questions about the report, please contact me at mark.p.delarosa@sfgov.org or 415-554-7574 or CSA at 415-554-7469.

¹ 26 CFR § 1.6001-1

² <https://www.irs.gov/tax-exempt-bonds/tax-exempt-bond-faqs-regarding-record-retention-requirements>

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cc: San Francisco Public Utilities Commission

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Charles Perl
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Mike Brown

Controller

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Appendix

Department Response



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February 4, 2022

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

Subject: Management's Response to Memorandum: Management Letter on Retention of SFPUC Bond Records

Dear Mr. de la Rosa,

Thank you for the opportunity to review the Management Letter detailing the observation and recommendations concerning record retention by the San Francisco Public Utilities Commission (SFPUC) for the administration of the revenue bond programs. We appreciate the time your staff dedicated to this work.

We concur with the two recommendations noted in the Management Letter. Management has already begun internal review and discussion regarding the department's record retention policy related to revenue bond programs. The organization will identify and detail the internal control environment, inclusive of internal and external systems of record that support record retention. For those systems of record where the SFPUC relies on external city departments, we will collaborate with the system owners to develop, improve, and/or document adequate policies and procedures supporting compliance.

The SFPUC is committed to continuous improvement and transparency and will continue to work with the Controller's Office and other citywide departments to remain in compliance with record retention policies.

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

Sincerely,

A handwritten signature in blue ink that reads "D.J. Herrera".

Dennis J. Herrera
General Manager

cc: Michael Carlin, Deputy General Manager
Ronald P. Flynn, Chief of Staff
Charles Perl, Deputy Chief Financial Officer
Nancy L. Hom, Deputy Chief Financial Officer
Jennifer Hopkins, Chief Information Officer

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