




San Francisco Water Power Sewer

Services of the San Francisco Public Utilities Commission

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Date: February 25, 2020

To: Commissioner Ann Moller Caen, President
Commissioner Francesca Vietor, Vice President
Commissioner Anson B. Moran, Commissioner
Commissioner Sophie Maxwell, Commissioner
Commissioner Tim Paulson, Commissioner

Through: Eric Sandler, AGM Business Services & Chief Financial Officer 

From: Charles Perl, Deputy Chief Financial Officer

Subject: **SFPUC Quarterly Audit and Performance Review Report, 2nd Quarter, Fiscal Year 2019-20**

For your reference, please find the attached *SFPUC Quarterly Audit and Performance Review Report*, as of the second quarter for FY 2019-20.

The Executive Summary highlights significant activities from the past quarter. All audits and projects can be reviewed in the Dashboard summary. *Appendix I – Audit Detail of Current Fiscal Year* provides the status, scope and updates of all audits. The report provides additional details in *Appendix II – Aging Audit Recommendations Report*, a summary of audits published prior to the current fiscal year and lists open and closed recommendations.

As of December 31, 2019, there were 24 audits and projects in total: 8 completed; 8 in progress; and 8 upcoming in the next six months.

Completed audits and projects in the last quarter include:

- Crystal Springs Construction Close-Out Audit, issued 10/24/2019
- Audited Financial Statements, FY 2018-19
 - Water Enterprise, issued 12/09/2019
 - Wastewater Enterprise, issued 12/23/2019
 - Hetch Hetchy Water and Power & CleanPowerSF, issued 12/23/2019

If you have any questions, ideas for enhancement to the quarterly report format or would like additional information, please contact me at (415) 487-5262 at your convenience.

cc: Harlan L. Kelly, Jr., General Manager
Michael Carlin, Deputy General Manager and Chief Operating Officer

att: SFPUC Quarterly Audit and Performance Review Report, 2nd Quarter, FY 2019-20

London N. Breed
Mayor

Ann Moller Caen
President

Francesca Vietor
Vice President

Anson Moran
Commissioner

Sophie Maxwell
Commissioner

Tim Paulson
Commissioner

Harlan L. Kelly, Jr.
General Manager

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



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QUARTERLY AUDIT AND PERFORMANCE REVIEW REPORT



**San Francisco
Water Power Sewer**
Services of the San Francisco Public Utilities Commission

Audit and Compliance
Business Services
FY 2019-20, Quarter 2
Ending December 31, 2019

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Quarterly Audit & Performance Review Report Dashboard

FY 2019-20, Quarter 2, Ending December 31, 2019

By status, as of December 31, 2019

Completed:	8
In Progress:	8
Upcoming:	8
Total:	24

#	Quarter Status	Audit Type	Enterprise / Bureau	Audit Name	Oversight Body
1	Completed	Financial	Water	Annual Physical Inventory Count, FY 2018-19	SFPUC, Finance
2	Completed	Financial	Wastewater		
3	Completed	Financial	Hetch Hetchy Water & Power		
4	Completed	Financial	Power	2018 CleanPowerSF Power Source Disclosure	California Energy Commission
5	[Updated] Completed	Financial	Water	Financial Statements Audit, FY 2018-19	Controller
6	[Updated] Completed	Financial	Wastewater		
7	[Updated] Completed	Financial	Hetch Hetchy Water & Power & CleanPowerSF		
8	[Updated] Completed	Financial	Infrastructure	Crystal Springs Construction Contract Close-out Audit	CSA, Controller
9	In Progress	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2017-18	BAWSCA
10	In Progress	Financial	Business Services, Finance	Sales and Use Tax Audit	CA Board of Equalization
11	In Progress	Financial	All SFPUC	Political Activity Fund Compliance Assessment, FY 2016-17	CSA, Controller
12	In Progress	Performance	Business Services, ITS	Cybersecurity Maturity Assessment and Interconnection Security Agreement, FY 2018-19	CSA, Controller
13	In Progress	Performance	Power	Pacific Gas and Electric Interconnection Cost Audit	CSA, Controller
14	In Progress	Performance	Infrastructure/External Affairs/HRS	Workforce Development Programs Audit	Board of Supervisors
15	In Progress	Performance	Business Services, ITS	Confidential Report: Internal/External Network Penetration Test and Vulnerability Assessment	CSA, Controller
16	In Progress	Performance	Human Resource Services (HRS)	Lean Hiring Process Improvement	CSA, Controller
17	Upcoming	Financial	Power	2019 Center for Resource Solutions Green-e Verification Audit	SFPUC Audit & Compliance
18	Upcoming	Financial	Business Services, Finance	SFPUC Comprehensive Annual Financial Report, FY 2018-19	SFPUC
19	Upcoming	Financial	Business Services, Finance	Popular Annual Financial Report, FY 2018-19	SFPUC
20	Upcoming	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2018-19	BAWSCA

■ Positive
■ Some Concern
■ Significant Concern

#	Quarter Status	Audit Type	Enterprise / Bureau	Audit Name	Oversight Body
21	Upcoming	Financial	All SFPUC	Political Activity Fund Compliance Assessment, FY 2017-18	CSA, Controller
22	Upcoming	Revenue Bond Oversight Committee	RBOC	SFPUC Bond Expenditure Audit	RBOC
23	Upcoming	Performance	External Affairs	External Affairs Divisional Audit	CSA, Controller
24	Upcoming	Performance	Business Services, ITS	Cybersecurity Maturity Assessment and Interconnection Security Agreement, FY 2019-20	CSA, Controller

1.-3.	Audit Name:	Annual Physical Inventory Count, FY 2018-19
	Quarter Status:	Completed
	Enterprise/Bureau:	Water, Wastewater, Power & HHWP
	Oversight Body:	SFPUC, Finance
	Purpose:	Third-party consultant: MGO, LLP. Annual count of inventory to ascertain completeness and accuracy. Mandatory full physical count inventory at least every three years, with random sampling in other years.
	Highlights:	Completion Date: August 20, 2019
4.	Audit Name:	2018 CleanPowerSF Power Source Disclosure
	Quarter Status:	Completed
	Enterprise/Bureau:	Power
	Oversight Body:	California Energy Commission
	Purpose:	To verify CleanPower's SuperGreen compliance with the Power Source Disclosure Program.
	Updates:	Completion Date: September 4, 2019
5.-7.	Audit Name:	Financial Statements Audit, FY 2018-19
	Quarter Status:	[Updated] Completed
	Enterprise/Bureau:	Water, Wastewater, Hetch Hetchy Water & Power & CleanPowerSF
	Oversight Body:	Controller
	Purpose:	Third-party consultant: KPMG LLP. Assure financial statements are accurate and do not contain material misstatements.
	Updates:	Published: December 2019
8.	Audit Name:	Crystal Springs Construction Contract Close-out Audit
	Quarter Status:	[Updated] Completed
	Enterprise/Bureau:	Infrastructure
	Oversight Body:	Center for Resource Solutions (CRS) / SFPUC Assurance & Internal Controls (AIC) Bureau
	Purpose:	Determine whether Infrastructure has adequately overseen compliance with Crystal Springs construction contracts' close-out procedures.
	Updates:	Published: October 24, 2019
9.	Audit Name:	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2017-18
	Quarter Status:	In Progress
	Enterprise/Bureau:	Business Services, Finance
	Oversight Body:	Bay Area Water Supply and Conservation Agency (BAWSCA)
	Purpose:	Third-party consultant: KPMG LLP and Yano Accountancy. Assure the Statement of Changes in the Balancing Account is prepared in compliance with the Water Supply Agreement.
	Updates:	Anticipated Completion Date: Q1, FY 2019-20
10.	Audit Name:	Sales and Use Tax Audit
	Quarter Status:	In Progress
	Enterprise/Bureau:	Business Services, Finance
	Oversight Body:	California State Board of Equalization
	Purpose:	Review of the application of Sales & Use Tax for out-of-state transactions for the period from 2015 through 2018.
	Updates:	Anticipated Completion Date: Q2, FY 2019-20

Audit Type:

Financial
 Concession/Lease Revenue
 Performance
 Revenue Bond Oversight Committee (RBOC)

11.	Audit Name:	Political Activity Fund Compliance Assessment, FY 2016-17
	Quarter Status:	In Progress
	Enterprise/Bureau:	All SFPUC
	Oversight Body:	CSA, Controller
	Purpose:	Verify compliance with the Administrative Code, Section 12G, prohibiting use of City funds for vendor political activity citywide. The scope of the audit will include the following firms: Davis & Associates Communications, Inc., San Francisco Bay Area Planning and Urban Research Association (SPUR), and Community Initiatives.
Updates:	Anticipated Completion Date: Q4, FY 2019-20	
12.	Audit Name:	Cybersecurity Maturity Assessment and Interconnection Security Agreement, FY 2108-19
	Quarter Status:	In Progress
	Enterprise/Bureau:	Business Services, ITS
	Oversight Body:	CSA, Controller
	Purpose:	Mandated by the Committee on Information Technology's (COIT) Citywide Cybersecurity Policy as well as the San Francisco Charter, Appendix F, Section F1.110. The Cybersecurity Maturity Assessment and the Interconnection Security Agreement are based on the National Institute of Standards and Technology (NIST) Cybersecurity Framework and allows for identification and prioritization opportunities for cyber risk management improvement.
Updates:	Anticipated Completion Date: Q2, FY 2019-20	
13.	Audit Name:	PG&E Interconnection Cost Audit
	Quarter Status:	In Progress
	Enterprise/Bureau:	Power
	Oversight Body:	CSA, Controller
	Purpose:	Third-party consultant: Sjoberg Evashenk Consulting, Inc. Determine if SFPUC correctly paid fees according to the terms of the interconnection agreement with PG&E.
Updates:	Anticipated Completion Date: Q2, FY 2019-20	
14.	Audit Name:	PUC Workforce Development and Community Benefits Audit
	Quarter Status:	In Progress
	Enterprise/Bureau:	Infrastructure/WEPS, External Affairs/Community Benefits and HRS
	Oversight Body:	Board of Supervisors, Budget and Legislative Analyst Office
	Purpose:	Review of Workforce Development and Community Benefits efforts
Updates:	Anticipated Completion Date: Q3, FY19-20	
15.	Audit Name:	Confidential Report: Internal/External Network Penetration Test and Vulnerability Assessment
	Quarter Status:	In Progress
	Enterprise/Bureau:	Business Services, ITS
	Oversight Body:	CSA, Controller
	Purpose:	Controlled IT network penetration testing of PUC computing environments.
Updates:	Anticipated Completion Date: Q3, FY 2019-20. Internal report completed in Q1, FY19-20.	
16.	Audit Name:	Lean Hiring Process Improvement (HRS)
	Quarter Status:	In Progress
	Enterprise/Bureau:	Human Resource Services
	Oversight Body:	CSA, Controller
	Purpose:	A Lean Improvement Program is underway; the SFPUC is evaluating internal processes and expects to reduce time-to-hire and create a more transparent, user-friendly process overall.
Updates:	Phase I Anticipated Completion Date: Q1, FY 2019-20 Phase II Anticipated Completion Date: Q3, FY 2019-20	
17.	Audit Name:	Reporting Year 2019, Center for Resource Solutions (CRS) Green-e Verification Audit
	Quarter Status:	Upcoming
	Enterprise/Bureau:	Power
	Oversight Body:	SFPUC Audit and Compliance
	Purpose:	Ensure that the renewable electricity or renewable energy certificates (RECs) purchased and sold by the certified provider were not sold to more than one customer and that only one party claimed use of renewable energy.
Updates:	Verification Self-Audit Submit Date: Q4, FY 2018-19 Anticipated Completion Date: Q2, FY 2019-20 – publication by CRS.	

Audit Type:

Financial
 Concession/Lease Revenue
 Performance
 Revenue Bond Oversight Committee (RBOC)

18.	Audit Name:	SFPUC Comprehensive Annual Financial Report, FY 2018-19
	Quarter Status:	Upcoming
	Enterprise/Bureau:	Business Services, Finance
	Oversight Body:	SFPUC
	Purpose:	Third-party consultant: KPMG LLP. Assure the comprehensive financial statements are accurate and do not contain material misstatements.
	Updates:	Anticipated Start Date: Q2, FY 2019-20
19.	Audit Name:	Popular Annual Financial Report, FY 2018-19
	Quarter Status:	Upcoming
	Enterprise/Bureau:	Business Services, Finance
	Oversight Body:	SFPUC
	Purpose:	The PAFR highlights financial results and conveys how the SFPUC continues to deliver services that value diverse communities and a culture that practices sustainability. This includes investing in vital upgrades to the SFPUC's water and wastewater systems, expanding its clean energy portfolio, and working to address the City's climate action goals.
	Updates:	Anticipated Start Date: Q2, FY 2019-20
20.	Audit Name:	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2018-19
	Quarter Status:	Upcoming
	Enterprise/Bureau:	Business Services, Finance
	Oversight Body:	Bay Area Water Supply and Conservation Agency (BAWSCA)
	Purpose:	Third-party consultant: KPMG LLP and Yano Accountancy. Assure the Statement of Changes in the Balancing Account is prepared in compliance with the Water Supply Agreement.
	Updates:	Anticipated Start Date: Q2, FY 2019-20
21.	Audit Name:	Political Activity Fund Compliance Assessment, FY 2017-18
	Quarter Status:	Upcoming
	Enterprise/Bureau:	All SFPUC
	Oversight Body:	CSA, Controller
	Purpose:	Verify compliance with the Administrative Code, Section 12G, prohibiting use of City funds for vendor political activity citywide. The scope of the audit will include the following firms: Davis & Associates Communications, Inc., San Francisco Bay Area Planning and Urban Research Association (SPUR), and Community Initiatives.
	Updates:	Anticipated Completion Date: Q4, FY 2019-20
22.	Audit Name:	SFPUC Bond Expenditure Audit
	Quarter Status:	Upcoming
	Enterprise/Bureau:	All SFPUC
	Oversight Body:	Revenue Bond Oversight Committee (RBOC)
	Purpose:	Audit expenditures from a sample size of 20 bonds to assess compliance with applicable laws and rules.
	Updates:	Anticipated Start Date: Q1, FY 2019-20
23.	Audit Name:	External Affairs Divisional Audit
	Quarter Status:	Upcoming
	Enterprise/Bureau:	External Affairs
	Oversight Body:	CSA, Controller
	Purpose:	Review non-profit grant monitoring.
	Updates:	Anticipated Start Date: Q2, FY 2019-20
24.	Audit Name:	Cybersecurity Maturity Assessment and Interconnection Security Agreement, FY 2109-20
	Quarter Status:	In Progress
	Enterprise/Bureau:	Business Services, ITS
	Oversight Body:	CSA, Controller
	Purpose:	Mandated by the Committee on Information Technology's (COIT) Citywide Cybersecurity Policy as well as the San Francisco Charter, Appendix F, Section F1.110. The Cybersecurity Maturity Assessment and the Interconnection Security Agreement are based on the National Institute of Standards and Technology (NIST) Cybersecurity Framework and allows for identification and prioritization opportunities for cyber risk management improvement.
	Updates:	Anticipated Completion Date: Q4, FY 2019-20

Audit Type:

Financial
 Concession/Lease Revenue
 Performance
 Revenue Bond Oversight Committee (RBOC)

Audit Program Summary

	Total	Open	Closed	% Complete
Audits	18	2	16	88%
Recommendations	248	7	241	97%

Open Audits

	Audit Title	Report Issued Date	Open Rec	Total Rec	Months Open	% Complete	Target Close Date**
Real Estate Services							
1	SFPUC: Oliver De Silva, Inc., Complied With Its Sunol Valley Aggregate Quarry Lease for January 2015 Through June 2018 and a Few Improvements Can Strengthen the Lease Administration	6/25/2019	4	6	6	33%	3/31/2020
Infrastructure							
2	SFPUC Adequately Documented Adherence to Most Close-Out Procedures in Its Crystal Springs/San Andreas Transmission System Upgrade Contract	10/24/19	1	1	2	0%	6/30/2020
	TOTAL*		5	7	N/A	28%	

* As of July 1, 2015 in AuditShare.

** Date when last recommendation will close.

SFPUC, Open Audits

2% (7 of 248) of total recommendations relate to 2 open audits.

- Audit and Compliance is working with Enterprises and Bureaus to close the remaining recommendations.

Open Recommendations

	Audit Title	Explanation	Target Close Date
Royalties Lease, Administration Audit: Oliver De Silva, Inc.			
1	Credit or negotiate with ODS the resolution of the \$82,329 in royalty overpayment.	The SFPUC concurs and will allow ODS to credit their next monthly payment of royalties.	12/2019
2	Review the Lease with ODS by September 30, 2019 to ensure terms reflect current business practices and product offerings.	The SFPUC concurs that the current lease language does not address the sale of new products and the related royalty calculation. New lease language will be negotiated to provide ODS with the flexibility to offer new products and calculate royalties associated with them.	12/2019
3	Require ODS to notify SFPUC of new products sold on a regular basis, and work with ODS to develop reporting and calculating royalty procedures for new categories that may result.	The SFPUC concurs and will require ODS to notify SFPUC of new products sold and will work with ODS to develop reporting and royalty calculation procedures for new products consistent with the new lease language addressed in Recommendation #2 above.	12/2019
4	Review products sold annually by ODS to ensure product list reported reflects actual product sales.	The SFPUC concurs and will review products sold annually by ODS to ensure the product list reported reflects the actual product sales.	12/2019
5	Clarify the calculation for low sales data to ensure accurate reporting of revenues and submittal of royalty payments.	The SFPUC concurs. SFPUC and ODS will clarify the calculation for low sales data using an agreed upon proxy for the price of products with low sales data to ensure accurate reporting of revenues and submittal of royalty payments.	12/2019
6	Revise its annual review process to include a year-end true-up of low sales calculations, sale reversals, adjustments, or other anomalies.	The SFPUC concurs. SFPUC and ODS will develop a more meaningful year-end true-up of annual sales data.	12/2019
Crystal Springs/San Andreas Transmission System Contract Close-Out Procedures			
1	The San Francisco Public Utilities Commission should follow close-out procedures by ensuring all required close-out activities are documented.	The SFPUC concurs and will follow procedure to obtain OLSE, OEWD and CMD approval at time of Substantial and Final Completion as noted per finding No. 1 of partial compliance of procedures 5.1.2 and 5.2.3.	6/30/2020

Recently Closed Audits

	Audit Title	Report Issued	Closed Date	Open Rec	Total Rec	Months Open	% Complete
Business Services							
1	CITYWIDE CONTRACT COMPLIANCE AUDIT: The Contract Compliance of Many Vendor Payments Cannot Be Verified and the City Should More Often Take Advantage of Cost Savings Such as Early Payment Discounts	5/9/2016	5/31/2016	0	3	1	100%
2	SFPUC: The Department Needs to Improve Its Management and Monitoring of Telephone Assets and Costs	2/26/2015	11/23/2015	0	23	9	100%
Infrastructure							
3	Citywide Cash Disbursements and Contract Compliance Audit	4/20/2017	10/19/2017	0	2	6	100%
4	GSA: Fiscal Year 2012-13 Chapter 14B Audit – None of the Three Audited Contractors Fully Complied With Certain Provisions of the Local Business Enterprise Ordinance	10/1/2014	11/19/2015	0	6	14	100%
5	SFPUC: The Department Inadequately Monitored Change Orders for the Sunol Valley Water Treatment Plant Improvement Project	3/8/2016	8/9/2016	0	7	5	100%
6	SFPUC: The Job Order Contract Program Lacks Sufficient Oversight to Ensure Program Effectiveness	12/26/2012	5/9/2016	0	19	41	100%
7	CITYWIDE CONSTRUCTION: The City Would Benefit From a More Proactive Approach to Construction Safety Management	4/11/2017	7/19/2018	0	8	15	100%
8	SFPUC: Procedures Should Be Refined and Documentation Improved to Strengthen Preconstruction Practices for the Sewer System Improvement Program	3/8/2018	7/1/2019	0	18	16	100%
Real Estate Services							
9	SFPUC: Audit of Administration of Fixed Rent Agreements with Revenues Exceeding \$100,000	8/10/2010	5/17/2017	0	23	67	100%
10	SFPUC: Audit of Crystal Springs Golf Partners, L.P.	12/1/2010	12/14/2015	0	22	61	100%
Power Enterprise							
11	SFPUC: Power Enterprise Lacks Adequate Controls to Safeguard Its Inventory	10/29/2012	7/13/2016	0	11	40	100%
12	SFPUC: Audit of Department Class One Power Sales to Modesto and Turlock Irrigation Districts in California	2/17/2015	9/4/2019	0	11	55	100%
13	SFPUC: Most GoSolarSF Incentives Were Paid Correctly, but the Environment Code and Some Program Controls Should Be Improved	1/18/2017	3/1/2018	0	14	14	100%

Wastewater Enterprise							
14	SFPUC: Wastewater Enterprise Could Improve its Inventory Management	8/17/2010	3/17/2016	0	30	68	100%
15	SFPUC: The Wastewater Enterprise Should Better Manage and Monitor Work Flow, Premium Pay, Overtime, and Absenteeism	6/8/2017	7/1/2019	0	31	25	100%
Water Enterprise							
16	SFPUC: Water Enterprise Should Continue To Improve Its Inventory Management	4/12/2011	12/19/2017	0	13	81	100%
TOTAL*				0	241	-	100%

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Executive Management

Harlan L. Kelly, Jr.

General Manager

Michael Carlin

Deputy General Manager and Chief Operating Officer

Juliet Ellis

Assistant General Manager, External Affairs

Barbara Hale

Assistant General Manager, Power Enterprise

Kathy How

Assistant General Manager, Infrastructure

Greg Norby

Assistant General Manager, Wastewater Enterprise

Steve Ritchie

Assistant General Manager, Water Enterprise

Eric Sandler

*Assistant General Manager, Business Services and
Chief Financial Officer*

Report Prepared by Audit and Compliance Division

Charles Perl, Deputy Chief Financial Officer

Christina M. Andersson, Manager

*Requests for additional information regarding this report can
be sent to:*

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