



CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller
Todd Rydstrom
Deputy Controller

DATE: August 05, 2021
TO: Michael Carlin, Acting General Manager, Public Utilities Commission
FROM: Ben Rosenfield, Controller
SUBJECT: **Results of CY2020 Post Audit & Continuous Monitoring Program**

Thank you for your staff’s support of the Controller’s continuous monitoring and post audit program. This letter summarizes the audit work completed and explains observations that may have been found during that work. We recognize the extra work and resources required to collect the subject documentation, especially under these extraordinary circumstances, and we truly appreciate your department’s effort and assistance.

Department Financial Activity Highlights:

Financial Activity	Fiscal Year 2018		Fiscal Year 2019		Fiscal Year 2020	
	Count	Amount	Count	Amount	Count	Amount
Voucher	34,958	1,065,705,333.38	33,055	1,025,640,575.84	34,778	1,294,034,712.40
Expense Report	1,570	738,619.24	1,711	758,210.57	1,310	570,348.33
GL Journal Entries	4,690	154,532,024,619.74	5,034	41,104,889,409.62	5,038	29,443,732,999.71
KK Journal Entries	1,252	4,943,372,523.02	1,247	10,140,961,274.26	1,678	10,712,127,138.35
Purchase Order	9,444	128,919,210.99	8,406	98,544,505.99	11,075	181,812,100.90
Accounts Receivables	5,975	879,663,732.07	6,113	1,260,450,655.98	5,748	668,503,874.43
Totals	57,889	161,550,424,038.44	55,566	53,631,244,632.26	59,627	42,300,781,174.12

Program Overview

The continuous monitoring and post audit program are designed to help assess each department’s accounting and internal control practices and compliance with City laws, regulations, and policies. The monthly monitoring reports that we send you or your staff provide regular feedback about processing in your department. They can help identify areas that are working well and highlight those that may need immediate attention for change and improvement.

Post-Audit Approach

The post audit examines the effectiveness of the design and implementation of each department’s internal control. This year, a risk-based approach was used to determine the transaction cycles selected for testing. Each department was assigned a departmental risk level for each transaction cycle based on the materiality of the department’s operations to the City’s financial reporting objectives. This was done primarily on the magnitude, volume, and complexity of the department’s transactions, and adjusted for factors such as separate reporting funds and new systems, personnel, or management. Departments with more transactions, higher dollar amounts, more complex transactions, and separate financial statements were assigned a higher risk. The assessment of inherent risk is used to design audit procedures and is not a reflection on your department’s management or performance.

Financial transactions were selected for analysis and testing on a risk basis. Documentation provided by your department as well as preliminary inquiries of key personnel were used to evaluate the adequacy of the design of the controls on selected cycles. Subsequent testing was used to evaluate the adequacy of the implementation of the controls. In all cases, the existence of citywide controls and potential compensating controls are considered in the evaluation.

Procedures

Our audit team:

- Reviewed your response to our internal control questionnaire
- Reviewed your continuous monitoring results
- Reviewed your P-Card transactions in both US Bank Access Online and in PeopleSoft
- Reviewed your prior year's post audit results and your response
- Examined your written policies and procedures pertaining to the audit areas
- Interviewed key staff members to understand the design of controls

Strengths

The following areas are highlighted as your strengths. Your cooperation in timely preparation and organization of backup documentation contributed to an efficient post audit. The Controller's Office thanks you for your prompt response to our inquiries throughout the duration of the post audit.

1. **Compliance with Year-End Close Schedule.** Your department's fiscal staff is serious about meeting the year-end schedule and promptly responds to the Controller's request for information.
2. **Budget Entry Documents.** Your Department has maintained performance with no findings in this area.
3. **Journal Entry Documents.** Your Department has improved performance with no findings in these areas for this post audit.
4. **Cash Receipt Documents.** Your Department has improved performance with no findings in these areas for this post audit.
5. **Promptly Clearing Unidentified Receipts.** Your Department has maintained performance with no exception in this area.

Areas for Improvement

Based on the test work performed, there were certain areas that were found to need improvement or requested documentation was not received. Specific areas include:

1. **Six invoices we reviewed were paid untimely.** Additionally, the department was not able to take advantage of discounts offered for prompt payment for six invoices. The Department should ensure that all invoices are paid timely. Payments must be made within 30 days of the invoice receipt date and within the discount term. See Appendix A, Transaction Documentation for details.
2. **Two vouchers we reviewed the sales tax were not recorded properly.** The vouchers were processed as non-taxable while the invoices have taxable items. The sales tax was included in the total of the merchandise amount on the voucher distribution line. Per City Accounting Policies & Procedures Section 4.5.2 and 4.5.3, for each line on the purchase order, departments must indicate whether the items are taxable or not. Department must manually input the sales tax amount for taxable items before submitting the voucher. See Appendix A, Transaction Documentation for details.

- 3. One reimbursement was submitted in an untimely manner.** Expenses occurred in September 2019 while the expense report was submitted in February 2020, which was 150 days late. We recommend the department ensure employee to submit reimbursement request no more than 30 days from return of travel, or within 10 days if an advance was issued. See Appendix A, Transaction Documentation for details.

Summaries of all higher risk findings are presented in **Appendix A: Fieldwork Test Results** on page 4, **Appendix B: Grant Administration** on page 8, and **Appendix C: P Card** on page 9.

Follow-up

A detailed audit matrix that reflects test work for each area of the Post Audit was provided to the Department's Controller and discussed at the exit conference. We have not removed findings which we believe are valid although your staff may disagree. In those cases, we have communicated our reasons for retaining the finding to your staff and included any comments in the appendices.

By October 29, 2021, please provide us with a response for the observations that were reported above. If you have any questions about the audit or this report, please call Jocelyn Quintos at 415-554-6609 or Jane Yuan at 415-554-7546.

Cc: Eric Sandler, Chief Financial Officer, Public Utilities Commission
Nancy Hom, Deputy Chief Financial Officer, Public Utilities Commission
Charles Perl, Deputy Chief Financial Officer, Public Utilities Commission
Vivian Chen, Accounting Services Director
Sailaja Kurella, Acting Director, Office of Contract Administration
Jocelyn Quintos, Director of Accounting Operations and Supplier, Controller's Office

Appendix A: Fieldwork Test Results

Overview

Communication, documentation, and monitoring of compliance are critical elements of every sound financial system, and policies and procedures are an essential part of establishing internal controls. For this year's post audit, departments were asked to respond to an internal control questionnaire and submit copies of their policies and procedures for the basic accounting cycles, submit selected transaction documentation for review and to conduct walkthroughs on accounting cycle procedures.

Internal Control

While it was not within the scope of this audit to perform an extensive internal control review, the status of procedure documentation your department has submitted on requested cycles is below.

Cycle	Status
Cash Handling	Received
Revenue and Receivables	Received
Purchasing & Payables	Received
Payroll	Received
Grants	Not Received. Department follows Controller's Policies.
Journal Entries & Financial Closing	Received
Budget Changes	Not Received. Department follows Controller's Policies.
Debt	Received
Fixed Assets	Received
Inventory	Received
Trustee Accounts	Received
Claims	Received

Transaction Documentation

The following documents were selected for review, document numbers in bold indicate issues found. Please find our observations below.

Purchasing & Payables	Findings and Recommendation
01402535 01471271 01399306 01279685 01493914 01306425 01343471 01439228 01306447 01314546 01420831	Our review found nine higher risk items in this category. Six invoices we reviewed were paid 30 days after the invoices were received. As a result of late payment, department was not able to take advantage of discounts offered for prompt payment for five invoices. Another voucher, although was paid within 30 days, missed the discount offered because the voucher was paid outside of the discount term. We recommend the department ensure that invoices are paid within the City's prompt payment rule of 30 days. Also, department shall pay within the discount term from the invoice receipt date to capture the prompt payment discount.
01318159 01366138 01336161 01378181 01234409 01409022 01472780 01508475 01466544 01355148 01373141 01445872 01354229 01336347 01386607 01294867 01286738	Two vouchers we reviewed the sales tax were not recorded properly. The vouchers were processed as non-taxable while the invoices had taxable items. The sales tax was included in the total of the merchandise amount on the voucher distribution line. Per City Accounting Policies & Procedures Section 4.5.2 and 4.5.3, for each line on the purchase order, departments must indicate whether the items are taxable or not. Department must manually input the sales tax amount for taxable items before submitting the voucher.
01382208 01410105	Other observations have been noted in the Fieldwork Summary presented to your Finance staff.

Cash Receipts	Findings and Recommendation
153389 151732 121520 153479 153481 151878 153472 135560 117706 125809	Our review did not result in any findings for the documents selected. Other observations have been noted in the Fieldwork Summary presented to your Finance staff.

Journal Entry - Revenue & Receivable	Findings and Recommendation
0000278462 0000274962 0000284682 0000278308 0000289172	Our review did not result in any findings for the documents selected.

Journal Entry - Year end	Findings and Recommendation
0000307151 0000307867 0000307668 0000308267 0000306258	Our review did not result in any findings for the documents selected.

Budget – Non-Year End	Findings and Recommendation
0000292548 0000261050 0000284965 0000270172 0000275074	Our review did not result in any findings for the documents selected.

Budget - Financial Closing	Findings and Recommendation
0000301051 0000308023 0000307674 0000306271 0000308277	Our review did not result in any findings for the documents selected.

Expense - 12X Banned State	Findings and Recommendation
0000047079 0000052467 0000063709 0000047721 0000046704 0000048237 0000057863	<p>Our review found one higher risk item in this category.</p> <p>One reimbursement was submitted in an untimely manner. Expenses occurred in September 2019 while the expense report was submitted in February 2020, which was 150 days late. We recommend the department ensure employee to submit reimbursement request no more than 30 days from return of travel, or within 10 days if an advance was issued.</p> <p>Other observations have been noted in the Fieldwork Summary presented to your Finance staff.</p>

Expense	Findings and Recommendation
0000056715 0000047589 0000063394 0000059738 0000057174 0000053573 0000053406 0000057149 0000060478 0000061889	<p>Our review did not result in any findings for the documents selected.</p> <p>Other observations have been noted in the Fieldwork Summary presented to your Finance staff.</p>

Appendix B: Grant Administration

The following grants were selected for review, below are our observations.

Grant Code & Title	Findings and Recommendation
CNV10029475 CTR00001844	Our review did not result in any findings for the documents selected. Other observations have been noted in the Fieldwork Summary presented to your Finance staff.

Appendix C: Procurement Card (P-Card)

Overview

The City Procurement Card (P-Card) program enables designated City employees to make authorized purchases during declared emergencies and for certain employee reimbursement items. All transactions should comply with both the citywide P-Card policy and your pre-approved departmental policy. P-Card purchases are monitored monthly and quarterly using reports available from PeopleSoft and US Bank. Departments must respond to all inquiries from the P-Card team and/or fund accountant to ensure that transactions are compliant and that any potential violations are reviewed and granted an exception.

Transaction Documentation

The following documents were selected for review. Document numbers in bold indicate exceptions found. Please find our observations below.

Voucher#	Observations	Recommendations
01223674 01223689 01256823 01250723 01257047 01257065 01285890 01286057 01386714	<p>Covid Response Team food purchases - pre-approval was not obtained, however, approval was obtained after purchases were made.</p> <p>Note: Laptops/Notebooks were not in original allowable agreement between PUC and AOSD on 5/14/2021. Total amount exceeded estimate of \$50,000 and laptops/notebooks are not minor IT items. PUC has updated their policy to reflect this change after fact and has obtained proper documentation/approval from EOC and OCA prior to purchases.</p>	Suggest updating PUC P-card PnP regarding food policy and emergencies.

Table A: Audit Criteria

The following table summarizes the criteria considered for the audit.

Audit Criteria Fulfilled		Exceptions Found
Authorization and Pre- Authorization	<ul style="list-style-type: none"> All requests for business travel require approval in advance by the Department Head or an Authorized Travel Signatory Purchases must be made after P-Card Request Authorization form was signed 	01223674 01223689
Supporting Documents	<ul style="list-style-type: none"> Supporting documents such as receipts and registration must be retained and match pre-approvals 	None

Audit Criteria Fulfilled		Exceptions Found
	for travel, training, or other employee reimbursement items	
Items That Should be Procured through Purchase Orders	Recurring purchases that should be obtained through a purchase order or requisition are strictly prohibited	None
Purchases Made by Non-Cardholder Employees	Purchases must be made by the person whose name is on the card. P-Cards must be properly stored and handled	None
Sales Tax Accrual	The department must accrue sales tax when shopping online where sales tax is not charged	None
Food Policy	Department must have a food policy before purchasing food for employees, guests, and/or clients	None
Prohibited Items	Prohibited purchases include, but are not limited to: <ul style="list-style-type: none"> • Personal purchases of any kind (personal purchases are defined as purchases of goods or services intended for non-work-related use or use other than for official business) • Donations or gifts to a charity, a gift to an entity, or a political contribution. • Fuel for personal cars since the personal vehicle expenses will be compensated through mileage reimbursement • Refer to the P-Card Policies & Procedures for additional prohibited items 	None
IT Related Items	Departments should utilize the Technology Marketplace and not use P-Cards to circumvent City procurement policies	None
Payments for Recurring Subscriptions	Purchases of recurring subscriptions must be pre-approved and documented in the Departmental policy	None
> \$200 Non-Travel	Purchases should follow non-travel expense reimbursement guidelines when applicable	None
Payment of Existing Invoices for After-the-fact Purchases	P-Card should not be used to pay for after-the-fact purchases	None
Segregation of Duties	An employee cannot be both the Authorized Cardholder and the Purchase Approver	None
Timely Payment	Payment (Scheduled Due Date) must be made within fourteen (14) days of the statement date	None
Voucher amount matches US Bank transactions	Voucher should match transaction receipts and cardholder/managing statements	None
Supplier only takes charge cards (i.e., no checks, no EFTs)	When possible, purchases should go through the standard procurement process.	None

Table B: Strengths and Improvements Needed

Strengths	Needs Improvement
Communicates with CON prior to using P-Card for large purchases.	
Timely responses to the CON P-Card team and fund accountants on inquiries and potential risks.	
Department has thorough supporting documentation.	
	Department should confirm written pre-approval prior to the purchase and ensure it is included in supporting documentation. Exceptions must be justified and documented in the PUC P-card policy and approved by CON.



Date: September 20, 2021

To: Ben Rosenfield, Controller

Through: Eric Sandler, AGM Business Services and Chief Financial Officer
 Nancy L. Hom, Deputy Chief Financial Officer *ES/NLH*

From: Vivian Chen, Accounting Services Director *VC*

Subject: **Management Response to CY 2020 Post Audit Findings**

Thank you for your Post Audit Report, dated 8/05/21, detailing results of the Calendar Year 2020 Post Audit & Continuous Monitoring Program. The Controller's Office monitoring and review program is beneficial and supports SFPUC's enforcement of adherence and compliance to your citywide policies and procedures. We appreciate your highlight of our department's strengths, in addition to the observations noted in the report. SFPUC staff will continue to evaluate opportunities to promote and improve compliance in the monitored areas, with specific focus upon areas with noted findings from the recent review.

SFPUC's detailed responses and work plans are as follows:

A. Purchasing & Payables

Findings	Response/Action Plan
<p>Six invoices we reviewed were paid 30 days after the invoices were received. As a result of late payment, department was not able to take advantage of discounts offered for prompt payment for five invoices. Another voucher, although was paid within 30 days, missed the discount offered because the voucher was paid outside of the discount term. We recommend the department ensure that invoices are paid within the City's prompt payment rule of 30 days. Also, department shall pay within the discount term from the invoice receipt date to capture the prompt payment discount.</p> <p>Two vouchers we reviewed the sales tax were not recorded properly. The vouchers were processed as non-taxable while the invoices had taxable items. The sales tax was included in the total of the merchandise amount on the voucher distribution line. Per City Accounting Policies &</p>	<p>SFPUC continues to improve business processes and upgrading local systems to ensure timely payment to suppliers and discount is taken.</p> <p>Accounting Services will continue to provide trainings to divisional purchasing and accounts payable staff of City purchasing and payment policies.</p>

- London N. Breed**
Mayor
- Sophie Maxwell**
President
- Anson Moran**
Vice President
- Tim Paulson**
Commissioner
- Ed Harrington**
Commissioner
- Newsha Ajami**
Commissioner
- Michael Carlin**
Acting
General Manager

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



Procedures Section 4.5.2 and 4.5.3, for each line on the purchase order, departments must indicate whether the items are taxable or not. Department must manually input the sales tax amount for taxable items before submitting the voucher.	
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B. Expense

Findings	Response/Action Plan
One reimbursement was submitted in an untimely manner. Expenses occurred in September 2019 while the expense report was submitted in February 2020, which was 150 days late. We recommend the department ensure employee to submit reimbursement request no more than 30 days from return of travel, or within 10 days if an advance was issued.	<p>Management notes this finding has no relation to the Admin Code 12X Banned States. This is a matter of an employee submitting their reimbursement requesting late.</p> <p>Accounting Services will continue to notify and train SFPUC employees of the City policy.</p>

C. Procurement Card (P-Card)

Observations	Response/Action Plan
<p>Covid Response Team food purchases - pre-approval was not obtained, however, approval was obtained after purchases were made.</p> <p>Note: Laptops/Notebooks were not in original allowable agreement between PUC and AOSD on 5/14/2021. Total amount exceeded estimate of \$50,000 and laptops/notebooks are not minor IT items. PUC has updated their policy to reflect this change after fact and has obtained proper documentation/approval from EOC and OCA prior to purchases.</p>	<p>The SFPUC P-Card Policy and User Agreement were updated on 10/23/2020. Training was immediately provided to SFPUC cardholders to ensure compliance of the City policy.</p> <p>Note: In addition, SFPUC received prior approval from OCA/Controller during the initial weeks/months following the COVID pandemic shelter-in-place order to procure hardware using a structured and monitored P-Card process. SFPUC needed to immediately mobilize its workforce to work remotely, as the marketplace for laptops was running out of inventory. The practice stopped immediately once inventory levels were available in the Tech Marketplace.</p>

SFPUC staff will consider other observations and recommendations for improvement, as discussed or reported by the Controller's staff in relation to the current post-audit.

We appreciate your team's commitment to excellence and thank you for the time the team spent on completing this important audit. If you have any questions, please don't hesitate to contact me.

cc: Jocelyn Quintos, Director of Accounting Operations and Systems, Controller's Office
Sailaja Kurella, Acting Director, Office of Contract Administration
Charles Perl, Deputy Chief Financial Officer