Date: December 12, 2017

To: Ike Kwon, President
    Vince Courtney, Vice President
    Ann Moller Caen, Commissioner
    Francesca Vietor, Commissioner
    Anson B. Moran, Commissioner

From: Nancy L. Hom, Interim Deputy Chief Financial Officer and Director,
    Assurance and Internal Controls

Through: Eric Sandler, Assistant General Manager, Business Services and
    Chief Financial Officer

RE: SFPUC Quarterly Audit and Performance Review Report,
    1st Quarter, Fiscal Year 2017-18

For your reference, please find the attached SFPUC Quarterly Audit and Performance Review Report, as of the first quarter for Fiscal Year 2017-18.

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. In response to the Commission’s request for additional details in our progress in closing audit recommendations, we included a synopsis of all audits within the presentation, entitled Appendix II – Aging Audit Recommendations Report. Next quarter, we will begin providing expanded tables that further detail open, closed and contested recommendations.

In the first quarter of fiscal year 2017-18, there are 28 audits and projects in total: 5 completed; 17 in progress; and 6 upcoming in the next six months.

Completed audits and projects in the last quarter include, by order of issuance:

- Community Benefits, Phase IB: Southeast Community Investments Evaluation Framework
- Annual Physical Inventory Count, FY 2016-17
  - Water Enterprise
  - Wastewater Enterprise
  - Hetch Hetchy Power
- WECC Compliance Monitoring Audit (Confidential)

If you have any questions, ideas for enhancement to the quarterly report format or would like additional information, please contact me at (415) 487-5229 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, 1st Quarter, FY 2017-18

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
Executive Summary
FY 2017-18, Quarter 1, ending September 30

Audit and Performance Highlights:

Hetch Hetchy Water & Power Enterprise
1. 2017 Western Electricity Coordinating Council (WECC) Compliance Audit, 9/28/2017
   WECC conducted an Operations and Planning and Critical Infrastructure Protection (CIP) Compliance Audit of Hetch Hetchy Water and Power. HHWP was evaluated by the Compliance Audit team for compliance with 17 operations and planning, and 18 CIP requirements for the 2017 Electric Reliability Organization (ERO) Enterprise Compliance Monitoring and Enforcement Program. As a result of the audit, 6 recommendations were made to HHWP. The audit report is confidential.

All SFPUC
2. Annual Physical Inventory Count, 8/7/2017
   Macias Gini & O’Connell LLP (MGO) performed inventory count services at five inventory locations for completeness and accuracy: Southeast Treatment Plant Warehouse (SEP), City Distribution Division (CDD), Auxiliary Water Supply System (AWSS), Water Supply and Treatment (Millbrae), and Hetch Hetchy Water and Power (Moccasin). MGO performed a 100% physical inventory count at the Hetch Hetchy Water and Power (Moccasin) warehouse.

   MGO made the following recommendations to the Enterprises:
   - Update Maximo immediately after items are issued (SEP).
   - Update Maximo for changes in bin locations and create a tracking list of items temporarily moved (CDD, AWSS)
   - Conduct continuous, on-going, inventory counts (CDD, AWSS, HHWP).
   - Coordinate updating and reporting of fuel levels in the inventory valuation report (CDD, AWSS, WST, HHWP).

   To date, the Enterprises have made the following progress:
   - Updating the system to fix the fuel reading interface will be completed December 2017 (CDD, AWSS, WST, HHWP)
   - Instituted a policy requiring written justification for inventory variances $1,000 or more (CDD, AWSS, WST, HHWP).

External Affairs, Community Benefits
3. Community Benefits, Phase 1B: Southeast Community Investments Evaluation Framework
   SFPUC is leveraging long-term community and stakeholder partnerships. These partnerships create transparency and oversight in accordance with ordinances, policies, and laws. The evaluation method created relies on several surveys that include input from SFPUC Citizens’ Advisory Committee, key staff and executive leadership.

Open Audits and Recommendations, Prior Fiscal Years
As of Q1, FY 2017-18. 93% (88 of 95) of prior years' audit recommendations were closed as a result of management’s internal follow up. Of the open audits, 17% (1 of 6) were issued prior to FY 2016-17. Refer to Appendix II for details.

Summary of Quarterly Activity:
As of the report date, the SFPUC has a total of 28 audits in various stages of completion for FY 2017-18: 5 are completed, 17 are in progress and 6 are upcoming.

Figure 1: Portfolio by Audit Status, Q1
Figure 2: Portfolio by Audit Type, Q1

Projects Completing Next Quarter:
- Audited Financial Statements, FY 2016-17: Water, Wastewater & Hetch Hetchy Water & Power
- Comprehensive Annual Financial Report, FY 2016-17
- Popular Annual Financial Report, FY 2016-17
- Citywide Fleet Management Performance Audit
<table>
<thead>
<tr>
<th>#</th>
<th>Quarter Status</th>
<th>Audit Type</th>
<th>Enterprise / Bureau</th>
<th>Audit Name</th>
<th>Oversight Body</th>
<th>Outcome</th>
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By status, as of September 30, 2017
- Completed: 5
- In Progress: 17
- Upcoming: 6
- Total: 28
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<th>Enterprise / Bureau</th>
<th>Audit Name</th>
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<th>Outcome</th>
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<td>Financial</td>
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<td>Political Activity Fund Compliance Assessment, FY 2015-16</td>
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<td>2016-17 CA Independent System Operator (CAISO), Scheduling Coordinators Self-Audit</td>
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<td>Concessions / Lease Revenue</td>
<td>Real Estate Services</td>
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<td>Water, Wastewater, Hetch Hetchy Water &amp; Power</td>
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<tr>
<td>Purpose</td>
<td>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. A full count of inventory was performed for Hetch Hetchy Water and Power Enterprise.</td>
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<td>Highlights</td>
<td>Reports issued: August 7, 2017</td>
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| Recommendations | • Update Maximo immediately after items are issued (SEP).  
• Update Maximo for bin location changes and track items temporarily moved (CDD, AWSS).  
• Conduct continuous, on-going, inventory counts (CDD, AWSS, HHWP).  
• Coordinate updating/reporting of fuel levels in the inventory valuation report (CDD, AWSS, WST, HHWP). |
| Each Enterprise has made progress towards implementing all recommendations made in reports. |

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<th>Audit Name</th>
<th>2017 WECC Compliance Monitoring Audit</th>
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<td>Oversight Body</td>
<td>Western Electricity Coordinating Council (WECC)</td>
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<tr>
<td>Purpose</td>
<td>Assess Hetch Hetchy Water &amp; Power’s compliance with WECC policies and procedures.</td>
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<td>Highlights</td>
<td>Report issued: September 28, 2017</td>
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<td>Six recommendations were issued to HHWP. HHWP was evaluated by the Compliance Audit team for compliance with 17 operations and planning and 18 Critical Infrastructure Protection (CIP) requirements for the 2017 Electric Reliability Organization (ERO) Enterprise Compliance Monitoring and Enforcement Program.</td>
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<thead>
<tr>
<th>Audit Name</th>
<th>Community Benefits, Phase IB: Southeast Community Investments Evaluation Framework</th>
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<td>Enterprise/Bureau</td>
<td>External Affairs, Community Benefits</td>
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<td>Oversight Body</td>
<td>CSA, Controller</td>
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<tr>
<td>Purpose</td>
<td>Develop and pilot a framework to evaluate/measure economic and other impacts on Southeast neighborhoods and agency-wide; identify and track community indicators to provide data necessary to improve the program. Evaluation plan will focus stakeholder engagement. Phase IA resulted in a plan for community investments in environmental justice, place-based revitalization, workforce development and education.</td>
</tr>
<tr>
<td>Highlights</td>
<td>Completion Date: July 1, 2017</td>
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<td>The evaluation method created relies on several surveys that include input from SFPUC Citizens’ Advisory Committee, key staff and executive leadership. This effort will assist the SFPUC in building and leveraging long-term community and stakeholder partnerships, inclusive of multiple interests.</td>
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<th>Audit Name</th>
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<td>Controller</td>
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<td>Purpose</td>
<td>Third-party consultant: KPMG LLP. Assure financial statements are accurate and do not contain material misstatements.</td>
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<td>Updates</td>
<td>Anticipated Completion Date: Q2, FY 2017-18</td>
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<th>Audit Name</th>
<th>Distributed Antennae System (DAS) Revenues, Process Review</th>
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<td>Enterprise/Bureau</td>
<td>Power</td>
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<td>Oversight Body</td>
<td>SFPUC Assurance &amp; Internal Controls (AIC) Bureau</td>
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<td>Purpose</td>
<td>Review program and lease administration processes of the Distributed Antennae System (DAS) program and the program’s internal control points for revenue / cash processing and reconciliation for accuracy and completeness.</td>
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<td>Updates</td>
<td>Fieldwork started: October 2016</td>
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<td>Anticipated Completion Date: Q2, FY 2017-18</td>
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* Includes audits 2 and 3  
** Includes audits 5 and 6  

Audit Type:  
- Financial  
- Concession/Lease Revenue  
- Performance  
- Revenue Bond Oversight Committee (RBOC)
10. **Audit Name**: Green-e Verification Audit  
**Quarter Status**: In progress  
**Enterprise/Bureau**: SFPUC Assurance & Internal Controls (AIC) Bureau  
**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 2016-17, No exceptions noted. Anticipated Completion Date: Q2, FY 2017-18

11. **Audit Name**: Proposition 84 Audit: Groundwater Storage and Recovery Phase 1A  
**Quarter Status**: [Updated] In progress  
**Enterprise/Bureau**: Infrastructure  
**Oversight Body**: Department of Finance, State of CA  
**Purpose**: Review Groundwater Storage and Recovery (GSR) Project grant expenditures meet the requirements of the grant and have appropriate oversight. Additionally, confirm project deliverables are being met.  
**Updates**: Anticipated Completion Date: Q1, FY 2017-18

12. **Audit Name**: Citywide Payroll Audit Program  
**Quarter Status**: In progress  
**Enterprise/Bureau**: All SFPUC  
**Oversight Body**: CSA, Controller  
**Purpose**: Determine whether city employees were paid appropriately and in compliance with eligibility provisions of labor agreements and applicable labor laws.  
**Updates**: Fieldwork started: May 2015  
**Anticipated Completion Date**: Q2, FY 2017-18

13. **Audit Name**: SFPUC Comprehensive Annual Financial Report, FY 2016-17  
**Quarter Status**: In progress  
**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 Completion Date: Q2, FY 2017-18

14. **Audit Name**: Popular Annual Financial Report, FY 2016-17  
**Quarter Status**: In progress  
**Enterprise/Bureau**: Business Services, Finance  
**Oversight Body**: SFPUC  
**Purpose**: To highlight examples of how the SFPUC continues to build upon its strengths of rebuilding water and wastewater infrastructure, advancing green power and environmental initiatives, and leading the way in delivering clean, efficient services now and into the future.  
**Updates**: Anticipated Completion Date: Q2, FY 2017-18

15. **Audit Name**: OMB A-133 Single Audit – Federal Grants  
**Quarter Status**: [Updated] In progress  
**Enterprise/Bureau**: Business Services, Finance  
**Oversight Body**: SFPUC  
**Purpose**: Third-party consultant: MGO, LLP. Assure and assess whether the department is within compliance to requirements associated with federal grant awards/programs; includes review of internal controls related to maintaining compliance. The SFPUC was not audited since federal expenditures were low in FY 2016-17.  
**Updates**: Anticipated Completion Date: Q2, FY 2017-18

16. **Audit Name**: Royalties Lease, Administration Audit  
**Quarter Status**: [Updated] In progress  
**Enterprise/Bureau**: Real Estate Services  
**Oversight Body**: CSA, Controller  
**Purpose**: Ensure the Real Estate department is adequately managing its royalties leases. City Admin Code requires all real property leases of $500K and more to be audited at regular intervals by the Controller.  
**Updates**: Self-Audit Anticipated Completion Date: Q2, FY 2017-18  
**Anticipated Completion Date**: Q3, FY 2017-18
17. **Audit Name:** Sewer System Improvement Program (SSIP), Planning and Pre-Construction Audit  
   **Quarter Status:** In progress  
   **Enterprise/Bureau:** Infrastructure  
   **Oversight Body:** CSA, Controller  
   **Purpose:** Determine whether SSIP planning and pre-construction activities have adequate practices in place to control cost, ensure work activities proceed according to plan, the early procurements follow guidelines, and that adequate governance and compliance processes are in place to ensure expenditures follow policies and procedures.  
   **Updates:** Fieldwork started: March 2017  
   Anticipated Completion Date: Q3, FY 2017-18

18. **Audit Name:** Construction Contract Close-out Risk Assessment  
   **Quarter Status:** [Updated] In progress  
   **Enterprise/Bureau:** Infrastructure  
   **Oversight Body:** CSA, Controller  
   **Purpose:** Determine whether City departments have adequately overseen compliance with construction contracts’ close-out procedures for FY 2014-15 through FY 2016-17. CSA will select contracts to audit based on the risk assessment.  
   **Updates:** Anticipated Completion Date: Q2, FY 2017-18

19. **Audit Name:** Citywide Fleet Management Performance Audit  
   **Quarter Status:** In progress  
   **Enterprise/Bureau:** Business Services, Fleet Management  
   **Oversight Body:** CSA, Controller  
   **Purpose:** Citywide assessment of the adequacy and effectiveness of fleet management oversight and operations.  
   **Updates:** Anticipated Completion Date: Q2, FY 2017-18

20. **Audit Name:** Community Benefits, Phase III: Agencywide Community Benefits Evaluation Framework  
   **Quarter Status:** [Updated] In progress  
   **Enterprise/Bureau:** External Affairs, Community Benefits  
   **Oversight Body:** CSA, Controller  
   **Purpose:** Provide strategic planning and evaluation services from the Controller’s City Performance Unit to implement an Agencywide Community Benefits Program Evaluation Framework measured by the following deliverables: (1) Collecting Agencywide Community Indicators related to the objectives of the 2011 Community Benefits Policy; (2) Implementing Agencywide Community Benefits Evaluation Framework with internal and external partners; (3) Utilizing Salesforce for tracking and reporting.  
   **Updates:** Anticipated Completion Date: Q4, FY 2017-18

21. **Audit Name:** Health and Safety Program Performance Assessment, Phase III  
   **Quarter Status:** In progress  
   **Enterprise/Bureau:** All SFPUC  
   **Oversight Body:** CSA, Controller  
   **Purpose:** Continued efforts to implement recommendations reported on in the 2015 Health and Safety Program Assessment. Areas of focus include training on the purpose and elements of a safety management system, coaching on performance goals and expectations, developing self-audits, and assessing the SFPUC safety committee role and structure.  
   **Updates:** Anticipated Completion Date: Q3, FY 2017-18

22. **Audit Name:** Citywide Procurement Card Transaction Audit, FY 2016-17  
   **Quarter Status:** In progress  
   **Enterprise/Bureau:** All SFPUC  
   **Oversight Body:** CSA, Controller  
   **Purpose:** Annual evaluation of whether procurement card transactions were made in accordance with the requirements of the City’s Charter, including Appendix F, and City codes.  
   **Updates:** Anticipated Completion Date: Q4, FY 2017-18

23. **Audit Name:** Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2016-17  
   **Quarter Status:** [Updated] 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 2017-18
<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Quarter Status</th>
<th>Enterprise/Bureau</th>
<th>Oversight Body</th>
<th>Purpose</th>
<th>Updates</th>
</tr>
</thead>
<tbody>
<tr>
<td>24. Political Activity Fund Compliance Assessment, FY 2015-16</td>
<td>Upcoming</td>
<td>All SFPUC</td>
<td>CSA, Controller</td>
<td>Verify compliance with the Administrative Code, Section 12G, prohibiting use of City funds for vendor political activity citywide.</td>
<td>Anticipated Completion Date: Q4, FY 2017-18</td>
</tr>
<tr>
<td>25. 2016-17 CA Independent System Operator (CAISO), Scheduling</td>
<td>Upcoming</td>
<td>Power</td>
<td>CA Independent System</td>
<td>Evaluate SFPUC’s compliance with settlement meter data processing in accordance with the CAISO Scheduling Coordinator Self-Audit requirements.</td>
<td>Anticipated Start Date: Q1, FY 2017-18</td>
</tr>
<tr>
<td>26. PG&amp;E Interconnection Cost Audit</td>
<td>[Updated] Upcoming</td>
<td>Power</td>
<td>CSA, Controller</td>
<td>Third-party consultant: Sjoberg Evashenk Consulting, Inc. Determine if SFPUC correctly paid fees according to the terms of the interconnection agreement with PG&amp;E.</td>
<td>Anticipated Start Date: Q2, FY 2017-18</td>
</tr>
<tr>
<td>27. Technology Procurement Audit</td>
<td>Upcoming</td>
<td>All SFPUC</td>
<td>CSA, Controller</td>
<td>Evaluate SFPUC’s compliance with Administrative Code, Section 21.03, technology procurement policies. Preliminary objectives are to determine whether effective controls are in place to a) assess the business need/justification of purchases, b) ensure purchases comply with contract terms/city policies, and c) safeguard assets.</td>
<td>Anticipated Start Date: Q3, FY 2017-18</td>
</tr>
<tr>
<td>28. Real Estate Divisional Audit</td>
<td>[Updated] Upcoming</td>
<td>Real Estate Services</td>
<td>CSA, Controller</td>
<td>Ensure the Real Estate department is providing adequate oversight of leases for property/land owned by the SFPUC.</td>
<td>Anticipated Start Date: Q3, FY 2017-18</td>
</tr>
</tbody>
</table>
SFPUC, Open Audits

30% (72 of 237) of recommendations related to 6 open and 3 confidential CSA audits issued before FY 2017-18 remain open.

- In Q1, SFPUC closed 10 GoSolarSF Rebate and Incentives Audit open recommendations including:
  - Modifying user access to the PowerClerk system, SFPUC rebate/incentive application management system
  - Updating the admin code language to clarify eligibility requirements of an incentive
  - Renaming an incentive to further clarify eligibility requirements
  - Updating formal procedures, handbooks, and literature to clarify participant eligibility

- Assurance and Internal Controls is working with Enterprises and Bureaus to close the remaining open 36 recommendations
  - 3 audits issued in FY 2016-17, with 39 open recommendations were added to the list of tracked open audits

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### Quarterly Audit and Performance Review Report

**Appendix III: Aging Audit Recommendations Report**

<table>
<thead>
<tr>
<th>FY</th>
<th>Audit Name</th>
<th>Enterprise/Bureau</th>
<th>Issue Date</th>
<th>Open</th>
<th>Contested</th>
<th>Closed*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>Most GoSolarSF Incentives Were Paid Correctly, but the Environment Code and Some Program Controls Should Be Improved</td>
<td>Power</td>
<td>1/19/2017</td>
<td>1</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Citywide Construction: The City Would Benefit From a More Proactive Approach to Construction Safety Management</td>
<td>Infrastructure</td>
<td>4/11/2017</td>
<td>8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2015-16</td>
<td>Audit of Department Class One Power Sales to Modesto and Turlock Irrigation Districts in California</td>
<td>Power</td>
<td>2/17/2015</td>
<td>5</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>The Department Needs to Improve Its Management and Monitoring of Telephone Assets and Costs</td>
<td>Business Services, ITS</td>
<td>2/26/2015</td>
<td>1</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>2012-13</td>
<td>Water Enterprise Should Continue To Improve Its Inventory Management</td>
<td>Water</td>
<td>4/11/2012</td>
<td>1</td>
<td>0</td>
<td>12</td>
</tr>
</tbody>
</table>

**Total Recommendations FY2016-17 Open Audits**

|       | 39 | 2 | 12 |

**Total Recommendations FY2015-16 Open Audits**

|       | 6  | 0 | 28 |

**Total Recommendations FY2012-13 Open Audits**

|       | 1  | 0 | 12 |

**Total Recommendations Open CONFIDENTIAL AUDITS**

|       | 36 | 0 | 101 |

**Grand Total**

|       | 72 | 2 | 163 |

*Closed recommendations are determined solely by the Controller’s Office, City Services Auditor.*
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
Tommy Moala
  Assistant General Manager, Wastewater Enterprise
Steve Ritchie
  Assistant General Manager, Water Enterprise
Eric Sandler
  Assistant General Manager, Business Services and Chief Financial Officer

Assurance and Internal Controls Bureau

Nancy L. Hom, Interim Deputy Chief Financial Officer and Director of Assurance and Internal Controls

Audit and Compliance
Christina M. Andersson, Manager
Lenore Koutney, Senior Analyst

Risk Management
Tricia Yang, Financial System Project Manager
Benson Hua, Acting Risk Manager
Matthew R. Low, Risk and Business Data Analyst

Report Prepared By Audit and Compliance Division
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525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102