



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

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MEMORANDUM

TO: Citizens General Obligation Bond Oversight Committee

FROM: Tonia Lediju, Director of City Audits
City Services Auditor Division

DATE: March 18, 2014 

SUBJECT: CSA Audits Activity Update

The following are highlights of the City Services Auditor Division (CSA) Audits Unit's activity during January 15, 2014, through March 18, 2014.

Date Issued	Report
3/10/2014	<i>Port Commission: San Francisco Waterfront Partners, LLC, Had Inadequate Internal Controls Over the Reporting of Gross Receipts to the Port for 2010 Through 2012</i> San Francisco Waterfront Partners, LLC, (Waterfront) incorrectly reported gross income to the Port by using an as-billed basis instead of the cash basis required by the lease. The error did not affect the rent due to the Port because credits were available to offset any underpayments by Waterfront. Also, Waterfront did not verify sublessee gross income to obtain assurance that its sublessee reports were complete and accurate before reporting income to the Port. During the audit period Waterfront reported \$15,174,975 in gross income and paid \$150,000 in rent to the Port.
2/27/2014	<i>Airport Commission: The Department's Equipment Procurement Process Is Adequate but Should Be Strengthened</i> The equipment procurement process at the Airport Commission (Airport) is generally adequate but should be improved to increase compliance with City and County of San Francisco (City) requirements and to reduce the risks associated with equipment procurement. Although it capitalized equipment assets at the proper value, the Airport does not have written equipment purchasing policies that would guide staff and promote process uniformity and compliance with requirements. The Airport will improve its internal controls over the purchasing process if it reviews its purchases by vendor.

Date Issued	Report
2/25/2014	<i>Port Commission: Arthur Hoppe Did Not Have Adequate Internal Controls Over the Reporting of Gross Receipts to the Port for 2010 Through 2012</i> Arthur Hoppe overreported its gross receipts to the Port due to a lack of internal controls to ensure the accuracy of its gross receipts reporting, resulting in an overpayment of \$121 in rent. Also, the Port underbilled the tenant by \$1,823 by not adjusting the tenant's minimum rent annually since 2006. The Port billed the tenant in July 2013 for the net amount of back rent and has collected the underpayment. During the audit period Arthur Hoppe reported \$9,517,681 in gross receipts and paid \$842,805 in rent due to the Port.
2/25/2014	<i>Port Commission: Portco, Inc., Underreported its Gross Receipts, Owes \$39,534 in Rent for 2010 Through 2012, and Needs to Improve Internal Controls</i> Portco Inc., (Portco) underreported its gross receipts to the Port by excluding from gross receipts employee healthcare surcharges paid by customers and by reporting unadjusted monthly sales, resulting in rent underpayments of \$39,224 and \$310, respectively. Because the understatement appears material, the cost of this audit may be borne by Portco according to the lease. However, the lease does not define the percentage or rate that constitutes a material understatement and, due to the extraordinary nature of the underreporting, the Port will not seek recovery of audit costs from Portco. During the audit period Portco reported \$16,560,030 in gross receipts and paid \$1,117,801 in rent due to the Port.
2/18/2014	<i>Human Services Agency: The Department's Contract With Its Security Contractor Is Silent on Paying Security Officers for Hours Not Worked on City Holidays</i> The Human Services Agency (Human Services) must improve internal controls and contract monitoring procedures and needs to adhere to provisions of its five-year, \$19.3 million contract with Guardsmark, GP. (Guardsmark). The audit's key finding is that Human Services did not properly document that it agreed to pay Guardsmark for time not worked by security officers whose regularly scheduled facilities were closed on city holidays. Because this agreement is not stated in the contract, the legality and appropriateness of an estimated \$613,000 in payments to Guardsmark for this purpose is in question.

Date Issued	Report
2/13/2014	<i>Airport Commission: The Department Did Not Use the Appropriate Contract Type and Did Not Perform All Close-out Procedures</i> The Airport used a personal services contract for its Parking Access Revenue Control System (PARCS) project, although the project's scope called for a construction contract. As a result, the contract with Scheidt & Bachmann USA Inc. (S&B) excluded close-out procedures typically included in Airport construction contracts, and these procedures were not performed.
2/12/2014	<i>Airport Commission: Asiana Airlines Paid All Landing Fees Due but Incurred \$12,846 in Late Charges for 2010 Through 2012</i> Asiana Airlines correctly reported 1,016 revenue aircraft landings and correctly paid \$2,062,721 in landing fees due to the Airport. However, Asiana made multiple late payments resulting in late fee assessments of \$12,846.
2/12/2014	<i>Airport Commission: China Airlines Paid All Landing Fees Due for 2010 Through 2012</i> China Airlines correctly reported 696 revenue aircraft landings and correctly paid \$1,619,125 in landing fees due to the Airport.
2/11/2014	<i>City Services Auditor Quarterly Summary of Recommendation Follow-Up Activity - Fiscal Year 2013-14, First Quarter</i> During the first quarter of fiscal year 2013-14, CSA followed up on 146 recommendations from 20 reports or memorandums. Results of the follow-ups are summarized in the report.
2/5/2014	<i>Port Commission: Hornblower Yachts, Inc., Overpaid Rent by \$25,599 for 2009 Through 2011 and Needs to Improve Internal Controls Over the Reporting of Gross Receipts to the Port</i> Hornblower Yachts, Inc., (Hornblower) overreported its gross revenues to the Port due to a lack of internal controls to ensure the accuracy of its gross receipts reporting, resulting in an overpayment of \$25,599 in rent. During the audit period Hornblower reported \$77,687,547 in gross revenues and paid \$5,167,027 in rent due to the Port.

Date Issued	Report
1/22/2014	<i>Public Library: The Department Needs Improved Internal Controls to Better Administer and Monitor Its Contract With Baker & Taylor Corporation</i> Baker & Taylor Corporation (Baker & Taylor) generally complied with contract provisions, but the Public Library (Library) can improve its internal controls to ensure that it effectively administers and monitors the contract. Specifically, the Library needs to improve its invoice review procedures and lacks comprehensive tracking logs for deliveries and follow-up items.