MEMORANDUM

TO: Citizens General Obligation Bond Oversight Committee

FROM: Tonia Lediju, Director of Audits

DATE: January 11, 2011

SUBJECT: Quarterly Meeting Update

The following are highlights of the City Services Auditor (CSA) Audits unit's activity for the period of October 14, 2010, through January 7, 2011. Please refer to the table at the end of this memo to see the report issuance dates.

- Office of the Treasurer and Tax Collector: Quarterly Review of the Schedule of Cash, Investments, and Accrued Interest Receivable as of June 30, 2010. This review was performed under contract by Macias Gini & O'Connell LLP. The audit found that the basic financial statements of the Treasurer present fairly, in all material respects, the financial position of the City's investment pool at June 30, 2010. Further, the Treasurer complied with the investment requirements in the California Government Code, and with the City's investment policy.
- Airport Commission: Concession Audit of the Bank of America, N.A. Bank of America overpaid its rent by \$25,946 for the reporting period. The lease contains errors and omits some key information. It omits a requirement for the bank to submit a certified annual report of its gross revenues to the Airport and does not specify the required transaction surcharge.
- Board of Supervisors: Administrative Code Chapter 12G, Political Activity Compliance Review and Board of Supervisors: Administrative Code Chapter 12G, Political Activity Compliance Review. Nine of the ten organizations audited did not use City funds to participate in, support, or influence a political campaign for any candidate or ballot measure. One organization used City funds to pay for one staff member to attend a political rally for one hour, and did not maintain adequate documentation for other staff at the same rally. The audit also identified that some City departments did not always comply with City rules or contract requirements.
- Airport Commission: The Airport Can Better Verify Aircraft Landing Data and Improve Some Key Computer Controls for Its Accounting System. The airlines self-report their aircraft landings to pay aircraft landing fees to the Airport. The Airport subscribes to Passur Pulse, an independent, radar-based source of landing data, but only informally uses the data to verify airlines' landing fees. The Airport's study found that airline self-reports varied by less than one percent from Passur data, but concluded that it would not be cost-effective to investigate the discrepancies. The Airport also concluded that the raw data from Passur Pulse could be a reliable source for verifying the landing fees airlines pay, and may potentially be used for electronic billing of landing fees in the future. CSA agrees with this conclusion. For this to work, the Airport would also need to require airlines to report details of their landings not subject to landing fees.

- San Francisco Public Utilities Commission: Audit of Crystal Springs Golf Partners, L.P. Crystal Springs Golf Partners (Partners) paid its rent due, but submitted most of its rent payments late. SFPUC did not assess Partners' late payment charges of \$72,320 that the lease entitled SFPUC to collect. Partners did not comply with significant lease terms, including its failure to report its gross revenues each quarter, and taking incorrect rent credits. SFPUC also did not adequately administer important provisions of the lease with Partners.
- San Francisco Public Utilities Commission: Hanson Aggregates, Inc. Did Not Make All Required Lease Payments and the SFPUC Did Not Properly Manage Its Leases. CSA found that Hanson Aggregates Mid-Pacific, Inc. (Hanson) has not complied with all lease terms, resulting in a potentially significant amount of uncollected revenue to the City. In addition, SFPUC did not properly manage its leases with Hanson. At least \$154,904 in additional rent, royalties, and other charges is owed to SFPUC, and another \$479,607 may be recoverable pending further information.
- Department of Public Health: Laguna Honda Hospital Needs to Improve the Management of Its Gift Fund. Laguna Honda incorrectly recorded into the Gift Fund's staff development accounts \$151,739 of donations, operating income, and interest not explicitly intended for staff. This occurred because Laguna Honda did not sufficiently monitor and provide oversight of the Gift Fund and lacked detailed policies and procedures to administer it.
- Office of the Treasurer and Tax Collector: Quarterly Review of the Schedule of Cash, Investments, and Accrued Interest Receivable as of September 30, 2009. This review was performed under contract by Macias Gini & O'Connell LLP. Based on this review, Macias Gini & O'Connell is unaware of any material modifications that should be made to the Schedule of Cash, Investments, and Accrued Interest Receivable as of September 30, 2009, for it to be in conformity with generally accepted accounting principles. However, investments are recorded as of the settlement date and management has not presented the risk disclosures required under Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3.
- Office of the Treasurer and Tax Collector: Quarterly Review of the Schedule of Cash, Investments, and Accrued Interest Receivable as of December 31, 2009. Same as above except for the quarter covered.
- Office of the Treasurer and Tax Collector: Quarterly Review of the Schedule of Cash, Investments, and Accrued Interest Receivable as of March 31, 2010. Same as above except for the quarter covered.
- San Francisco Arts Commission: The African American Art and Culture Complex Properly Used Grant Funds and the Arts Commission Needs to Clarify Some Provisions of the Grant Agreement Requirements. The African American Art and Culture Complex (AAACC) operates using hotel tax grant funds from the San Francisco Arts Commission. The AAACC generally complied with the City's requirements for using the \$491,919 in these funds, but did not always comply with the grant and lease requirements and did not always follow its own internal controls over payroll. In addition, the Arts Commission needs to clarify some provisions of the grant agreements to ensure the cultural centers' understanding of all the requirements.
- Memorandum: Results of Follow-up Review of the Branch Library Improvement Program (BLIP) Audit. This follow-up was intended to determine whether the San Francisco Public Library and Department of Public Works have implemented the recommendations outlined in the 2007 audit report. CSA concluded that the controls implemented by BLIP management are adequate to ensure the accuracy of financial reporting as well as efficient and transparent project management.

• Airport Commission: Administration of the SFO Shuttle Bus Company Contract Needs to Be Significantly Improved. The Airport needs to revise the SFO Shuttle contract because its language is unclear. This contributed to weaknesses in the Airport's administration of the contract, which resulted in overpayments to SFO Shuttle and questioned costs. For example, the Airport paid SFO Shuttle two profit payments during the audit period totaling \$518,516. One of these payments was an additional management profit based on a verbal agreement. In another example, the Airport reimbursed SFO Shuttle for administrative costs totaling \$270,037 based on a budgeted amount instead of actual costs incurred.

City Services Auditor Issued Reports by Issuance Date

Date Issued	Report Title
01/07/11	Office of the Treasurer and Tax Collector: Financial Statement Audit of the City Investment Pool as of June 30, 2010
12/14/10	Airport Commission: Concession Audit of the Bank of America, N.A.
12/14/10	Board of Supervisors: Administrative Code Chapter 12G, Political Activity Compliance Review and Board of Supervisors: Administrative Code Chapter 12G, Political Activity Compliance Review
12/06/10	Airport Commission: The Airport Can Better Verify Aircraft Landing Data and Improve Some Key Computer Controls for Its Accounting System
12/01/10	San Francisco Public Utilities Commission: Audit of Crystal Springs Golf Partners, L.P.
11/23/10	San Francisco Public Utilities Commission: Hanson Aggregates, Inc., Did Not Make All Required Lease Payments and the SFPUC Did Not Properly Manage Its Leases
11/22/10	Department of Public Health: Laguna Honda Hospital Needs to Improve the Management of Its Gift Fund
11/18/10	Office of the Treasurer and Tax Collector: Quarterly Review of the Schedule of Cash, Investments, and Accrued Interest Receivable as of September 30, 2009
11/18/10	Office of the Treasurer and Tax Collector: Quarterly Review of the Schedule of Cash, Investments, and Accrued Interest Receivable as of December 31, 2009
11/18/10	Office of the Treasurer and Tax Collector: Quarterly Review of the Schedule of Cash, Investments, and Accrued Interest Receivable as of March 31, 2010
11/10/10	San Francisco Arts Commission: The African American Art and Culture Complex Properly Used Grant Funds and the Arts Commission Needs to Clarify Some Provisions of the Grant Agreement Requirements
11/08/10	Memorandum: Results of Follow-up Review of the Branch Library Improvement Program (BLIP) Audit
10/25/10	Airport Commission: Administration of the SFO Shuttle Bus Company Contract Needs to Be Significantly Improved