



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: August 19, 2014

SUBJECT: CSA Audits Activity Update

The following are highlights of the City Services Auditor Division (CSA) Audits Unit's activity during May 15 through August 19, 2014.

Date Issued	Report
8/19/2014	<p><i>Board of Supervisors: Pacific Gas and Electric Company Properly Paid Its Franchise Fees and Surcharges for 2011 and 2012</i></p> <p>Pacific Gas and Electric Company (PG&amp;E) correctly reported \$1,766,570,678 in gross receipts and correctly paid \$11,770,129 in franchise and surcharge fees to the City to use city streets to transmit, distribute, and supply electricity and gas. Also, the San Francisco Public Utilities Commission and the Office of the Controller complied with most of the requirements for administering and monitoring the franchise agreement.</p>
8/7/2014	<p><i>Airport Commission: Edge 1 Cellular, L.P., Correctly Reported Its Gross Revenues and Paid Its Rent for 2011 and 2012</i></p> <p>Edge 1 Cellular, L. P., (Edge 1) correctly reported \$4,430,138 in gross revenues and correctly paid rent due to the Airport. However, Edge 1 made multiple late rent payments and paid late fees. The difference between the amount of late fees assessed by the Airport and the amount of late fees due according to the auditors' calculations is insignificant.</p>

Date Issued	Report
8/5/2014	<p><i>Port Commission: The Port Should Strengthen Internal Controls Over Its Inventory</i></p> <p>Port management is addressing recommendations in CSA's 2008 audit report on the Port's inventory practices. In particular, the Port implemented a new inventory system and revised its purchasing, receiving, and inventory policy and procedures. However, the Port still has weaknesses in its inventory processes and controls, which it must remedy. Although the Port has formal policies and procedures for receiving, processing, and distributing inventory, Port staff does not always adhere to these policies. Further, to ensure successful implementation of their goals, some policies must be revised. Overall, the Port needs to strengthen its internal controls to ensure that its assets are properly accounted for and safeguarded.</p>
7/30/2014	<p><i>Board of Supervisors: NRG Energy Center San Francisco LLC Properly Paid Its Franchise Fees for 2011 and 2012</i></p> <p>NRG Energy Center San Francisco LLC (NRG) correctly reported \$36,652,327 in gross receipts and correctly paid \$391,418 in franchise fees to the City to use city streets to install, construct, maintain, and operate steam pipe conduits for distributing steam for heating purposes. Also, the San Francisco Public Utilities Commission and the Office of the Controller complied with most of the requirements for administering and monitoring the franchise agreement.</p>
7/21/2014	<p><i>Airport Commission: Avis Budget Car Rental, LLC, Needs to Improve Internal Controls Over the Reporting of Gross Revenues to the Airport for 2010 and 2011</i></p> <p>Avis Budget Car Rental, LLC, (Avis Budget) reported gross revenues of \$207,134,383 to the Airport. However, the auditors could not determine whether Avis Budget correctly reported the number of car rentals or paid the Airport the correct amount of rent because Avis Budget did not provide sufficient documentation to support the sales information. Also, Avis Budget did not always submit its certified statement of revenues on time and made multiple late rent payments. The Airport did not assess \$53,843 for the late payments because its policy before April 2012 was not to assess late fees.</p>
7/21/2014	<p><i>Airport Commission: Hudson News Company Correctly Paid Its Rent but Made Multiple Late Rent Payments for April 2010 Through April 2012</i></p> <p>Hudson News Company (Hudson) correctly reported \$13,849,665 in gross revenues and correctly paid \$2,898,493 in rent due to the Airport. Although Hudson made multiple late rent payments, the Airport did not assess \$7,030 for the late payments because its policy before April 2012 was not to assess late fees.</p>

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7/21/2014	<p><i>Airport Commission: Lori's Diner International, Inc., Correctly Reported Its Gross Revenues and Paid Its Rent for 2011 and 2012</i></p> <p>Lori's Diner International, Inc. (Lori's) correctly reported \$7,248,348 in gross revenues and correctly paid \$571,914 in rent due to the Airport. Lori's made multiple late rent payments and was assessed late fees, which differed slightly from the late fees calculated by the auditors, but the difference is insignificant.</p>
7/21/2014	<p><i>Airport Commission: The Hertz Corporation Correctly Paid Its Rent but Made Multiple Late Rent Payments for 2011 and 2012</i></p> <p>The Hertz Corporation (Hertz) correctly reported \$286,902,557 in gross revenues and correctly paid \$29,129,446 in rent due to the Airport. Although Hertz made multiple late rent payments, the Airport did not assess \$13,534 for the late payments because its policy before April 2012 was not to assess late fees.</p>
7/17/2014	<p><i>Citywide: Recommendations Not Implemented After Two Years on June 30, 2014</i></p> <p>The report summarizes city departments' progress in implementing recommendations that CSA issued between July 1, 2010, and June 30, 2012. Although departments report having implemented 96 percent of the 689 recommendations issued in that period, 28 recommendations from nine reports and memorandums remain open across seven departments.</p>
7/10/2014	<p><i>San Francisco Public Utilities Commission (SFPUC): Follow-up of Audit of Water Enterprise Warehouse Inventory Management</i></p> <p>CSA completed a field follow-up to determine the corrective actions that the Water Enterprise of the SFPUC has taken in response to the audit report, <i>Water Enterprise Should Continue to Improve Its Inventory Management</i>, issued on April 12, 2011. The audit report contains 13 recommendations, all of which were included in the field follow-up. Of the 13 recommendations, 7 have been implemented or otherwise closed. One of the other 6 recommendations, although only partially implemented, is also considered closed. Thus, 5 recommendations remain open. Of these, 3 are partially implemented and 2 have not been implemented.</p>
7/9/2014	<p><i>Citywide: Fiscal Year 2013-14 Combined Assessment: Departments Need to Improve Their Cash Handling</i></p> <p>CSA assessed the adequacy of cash-handling policies and procedures, controls, safeguarding techniques, deposit timeliness, and recordkeeping at</p>

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	<p>seven cash collection points for six departments of the City and County of San Francisco (City) in fiscal year 2013-14. CSA concluded that the cash-handling processes in three of the seven selected cash collection points need some improvement, three need major improvement, and one has adequate controls. The assessments resulted in eight overarching findings, each one applying to at least one department, and 13 overarching recommendations for departments. The departments generally concurred with CSA's findings and agreed to implement the majority of the recommendations.</p>
7/1/2014	<p><i>Human Services Agency: Some Aid Assistance Controls at the Department Need Improvement</i></p> <p>The Human Services Agency has some adequate cash disbursement processes and controls. However, it should establish written policies and procedures for processing aid assistance payments, ensure that requests are accurately recorded with the receipt date and receiver's initials, and ensure that there is complete documentation for each voided disbursement check.</p>
6/26/2014	<p><i>City Services Auditor Summary of Implementation Statuses for Recommendations Followed Up on in Fiscal Year 2013-14, Third Quarter</i></p> <p>During the third quarter of fiscal year 2013-14, CSA followed up on 102 open and contested recommendations from nine reports or memorandums. Results of the follow-ups are summarized in the report.</p>
6/25/2014	<p><i>Port Commission: The Bay Institute Aquarium Foundation Underpaid Rent by \$39,309 and Needs to Improve Internal Controls Over the Reporting of Gross Receipts to the Port for 2010 Through 2012</i></p> <p>The Bay Institute Aquarium Foundation (Aquarium) underreported gross receipts to the Port by incorrectly deducting from gross receipts the cost of sales related to its photography services and having a lack of internal controls to ensure the accuracy of its gross receipts reporting, resulting in a net underpayment of \$39,309 in rent. During the audit period the Aquarium reported \$25,343,046 in gross receipts and paid \$1,013,722 in rent to the Port.</p>
6/19/2014	<p><i>Citywide: Fiscal Years 2012-13 and 2013-14 Combined Construction Audits, Assessments, and Reviews: Opportunities Exist to Strengthen Departments' Management, Oversight, and Controls Over Construction Projects</i></p> <p>CSA performed construction related audits, assessments, and reviews in fiscal years 2012-13 and 2013-14 for departments with construction contracting authority. The objectives of these audits, assessments, and reviews varied according to the specific department or program, but were</p>

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	<p>related to the need for oversight of capital program projects and the overall purpose and objectives of CGOBOC to provide review and oversight of construction projects to ensure that projects stay on time, on scope, and on budget. Based on the findings from construction audits, assessments, and reviews, CSA concludes that opportunities exist to improve contracts and strengthen departments' management, oversight, and controls over construction projects.</p>
6/4/2014	<p><i>Office of the Treasurer and Tax Collector: Quarterly Review of the Schedule of Cash, Investments, and Accrued Interest Receivable as of September 30, 2013</i></p> <p>This review found no material modifications that should be made to the Schedule of Cash, Investments, and Accrued Interest Receivable as of September 30, 2013, for it to be in conformity with generally accepted accounting principles.</p>
6/3/2014	<p><i>Department of Public Health: San Francisco General Hospital's Materials Management Department Must Improve Controls to Better Manage Assets</i></p> <p>The internal controls over inventory at the Materials Management Department (Materials Management) at San Francisco General Hospital and Trauma Center (General Hospital) are inadequate to ensure that assets are accurately accounted for, adequately organized, or that inventory purchases were properly approved and recorded accurately and in a timely manner. The audit found that Materials Management had numerous errors in the sampled inventory records, lacks internal controls for security system access and daily inventory counts, has no policies or procedures to guide inventory cycle counts, and dispenses expired and obsolete items.</p>
5/21/2014	<p><i>San Francisco Department of Public Works: Controls Over Billings and Payments for the General Hospital Rebuild Project Are Effective, but Some Contract Requirements Need Clarification</i></p> <p>CSA assessed the controls over progress billings and contractor payments for the San Francisco General Hospital and Trauma Center Rebuild Project. CSA engaged Marsh Risk Consulting as a specialist to help perform the audit, which addressed controls of the Department of Public Works (Public Works) and Jacobs Project Management Company over progress billings submitted by Fong &amp; Chan Architects (FCA). FCA provides architectural and engineering services for the Rebuild Project.</p> <p>The audit found that controls over progress billings generally complied with best practices and contract requirements and that Public Works' procedures for progress billings and payment applications were effective. However, some instances of noncompliance exist, including FCA's noncompliance with</p>

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	reimbursable expense requirements and Public Works' early release of retention payments before work was completed.
5/21/2014	<p data-bbox="430 411 1078 441"><i>Whistleblower Program 2013-14 Quarter 3 Report</i></p> <p data-bbox="430 478 1380 611">During January through March 2014 (Quarter 3), 79 complaints were filed with the Whistleblower Program, which had 39 open complaints as of January 1, 2014. The Whistleblower Program closed 65 complaints in the quarter, leaving 53 complaints open on April 1, 2014.</p>
5/20/2014	<p data-bbox="430 680 1411 743"><i>Citywide: Adopting Leading Practices Could Improve the City's Construction Contractor Bid Pool</i></p> <p data-bbox="430 781 1433 1178">City departments do not adequately assess contractor performance and do not consider past performance in the construction contract award process. Although 70 percent of surveyed city construction staff report having at least occasionally encountered city contractors that they considered poor performers, the City's Administrative Code does not require departments to assess the performance of construction contractors, and past performance is not considered in awarding city contracts. Poor-performing contractors negatively affect the City through project delays, substandard work, and higher likelihood of claims and litigation. Because departments do not systematically track project data, they cannot assess the magnitude of these negative impacts. However, case studies from several departments show that poor-performing contractors have negatively affected the City.</p>