

# City and County of San Francisco

## Office of the Controller - City Services Auditor

### OFFICE OF THE CONTROLLER

City Services Auditor  
Annual Report Fiscal Year 2004-2005



*October 20, 2005*





**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

**Ed Harrington**  
**Controller**  
**Monique Zmuda**  
**Deputy Controller**

October 20, 2005

Honorable Mayor Gavin Newsom  
Members of the Board of Supervisors  
City and County of San Francisco  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4694

Dear Mayor Newsom and Members of the Board of Supervisors,

The Controller's City Services Auditor Division presents its annual report on the work of the division during fiscal year 2004-05. This was the first year under the November 2003 Charter amendment that created the City Services Auditor (CSA). This report summarizes our efforts to implement the new mandates of the CSA, highlights some of the most significant audit reports, analyses and projects completed during this period and lists all of the audits issued. Highlights of the fiscal year include:

- The whistleblower line called for in the Charter began operation in August 2004;
- New standards have been created for San Francisco's parks and streets;
- Forty-nine audit reports were issued addressing financial, contracting and performance issues;
- City performance measurement ramped up during the year with the Mayor's SFStat program and new analysis of department data citywide;
- Our capacity has nearly doubled with the hire of 25 skilled new staff during the year and the reconfiguration of the Controller's City Hall offices to house them;
- Assistance and analysis was provided to more than a dozen City departments, the City's labor negotiations team, and the City's non-profit service providers.

For the Controller's Office, the City Services Auditor charter amendment takes what had been a \$2 million program of auditing and performance measurement and mandates a new \$8 million program of more comprehensive and risk-based auditing, whistleblower investigation, technical assistance, performance measurement, benchmarking and reporting on City services to the public in new ways. We are excited about meeting this challenge and are working to provide the best of critical analysis, public service and management to the leadership and citizens of San Francisco. If you have any questions or comments on this report, please contact Peg Stevenson of my staff at 554-7500.

Respectfully submitted,

  
Ed Harrington  
Controller

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# INTRODUCTION

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The mission of the Office of the Controller of the City and County of San Francisco is to ensure the City's financial integrity and promote efficient, effective, and accountable government. The Controller's vision is to strive to be a model for good government and to make the City a better place.

In Fiscal Year 2004-2005 the Controller's Office began implementation of the charter amendment which created the City Services Auditor. Passed by 71% of the voters in November 2003, the measure envisions a larger and more comprehensive effort to measure, audit and report on the City's performance than has previously been undertaken in San Francisco. The mandate of the amendment is to analyze the City's service delivery, compare and benchmark San Francisco to best practices nationwide, provide information to the public in new ways and help drive improvements in City government. This is among the most ambitious efforts of its kind in local government.

The City Services Auditor is budgeted through a 2/10ths of one percent commitment of funds from the general fund and city enterprise departments, about \$8 million in fiscal year 2004-05.

The City Services Auditor is charged under the City charter with:

- Reporting on the level and effectiveness of city services and providing information to the public and on the web;
- Auditing City departments and contractors on a regular and comprehensive basis including financial, performance and compliance audits;
- Measuring and reporting on the condition of the City's streets, parks and sidewalks according to specific standards;
- Reviewing employment practices in the City including the management of overtime and worker's compensation;
- Operating a whistleblower hotline and investigations;
- Overseeing and setting standards for certain types of contracting procedures;
- Other reports, analysis, and problem-solving work.

Reports and resources that are produced by the City Services Auditor and described in the following pages are available and are posted on the Controller's website at:

[http://www.sfgov.org/site/controller\\_index.asp](http://www.sfgov.org/site/controller_index.asp)

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## PERFORMANCE MANAGEMENT AND TECHNICAL ASSISTANCE

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The City Services Auditor Division includes a program of citywide performance measurement and management and a program providing consulting, technical assistance and problem-solving services to City departments. The staff that provide these services also conduct special analyses and reviews as required by the Charter and as requested by City leadership and staff the whistleblower program.

Through these programs, the Controller's Office is able to respond to a wide variety of requests for information and help from City departments and citizens, act on immediate problems and service issues that arise during the year, work with departments to implement audit recommendations and new legal mandates, and take both short and long-term approaches to improving the City's performance using a range of methods and resources. During FY 2004-2005, we worked with a variety of city departments on projects ranging from overtime control to how the City works with non-profit contractors to improving management of our hospitals and clinics—a sampling of this work is presented in this report.

The City Services Auditor reports regularly on its performance measurement and consulting work to the Mayor, to the Board of Supervisors through its Government Audit and Oversight Committee, and to the Citizen's Audit Review Board at its quarterly meetings.

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# THE WHISTLEBLOWER PROGRAM

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## Highlights...

***The Whistleblower Program was opened to the public on August 2, 2004, approximately one month after the effective date of the City Services Auditor legislation:***

- The program received a total of 230 calls during the fiscal year. Of these, 59% were resolved in less than 72 hours.***
- About two-thirds of calls to the whistleblower unit were requests for information or for referral to other City departments.***
- 57% of complaints were received via the Hotline, 24% via the online complaint form, and 14% by email or letter.***
- Reports of the Whistleblower Program, with examples of complaints and actions taken, are posted quarterly on the Controller's website:***

***[http://www.sfgov.org/site/whistleblower\\_index.asp](http://www.sfgov.org/site/whistleblower_index.asp)***

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**T**he Whistleblower Program receives and investigates complaints about the quality and delivery of government services, wasteful or inefficient City government practices, misuse of funds and improper activities by City government officials, employees, vendors or City contractors.

Every complaint is treated seriously and is reviewed to determine how it might be investigated or resolved. Examples of whistleblower actions during the year include:

- An allegation was made that employees were falsifying time records and otherwise abusing work schedules. Following an investigation, one person resigned and is barred from future City employment, another was reprimanded and the operating practices of the unit have been revised and are being enforced;
- Following an investigation, it was determined that employee dependents which had been alleged to be fraudulently receiving city health benefits were in fact properly qualified;
- A City vehicle was observed parked in a medical facility's loading zone. The complaint was found to have merit (the loading zone use was not business-related) and supervisory discipline was recommended.

Knowledgeable CSA staff answer the whistleblower hotline during the business day. Complainants also have the option to use a complaint form on the whistleblower website (<http://www.sfgov.org/whistleblower>), send an email to [whistleblower@sfgov.org](mailto:whistleblower@sfgov.org), or send a letter to the Controller's Office, and may remain anonymous. All complaints are entered into a tracking system developed for the program and complainants receive a tracking number by which they can track progress and learn the resolution of their complaint within the limits of City law and Civil Service Rules. The Whistleblower program staff meets quarterly with Citizens' Audit Review Board representatives who function in an oversight capacity.

# STREETS, PARKS AND SIDEWALKS STANDARDS

## Highlights...

**The City Services Auditor Charter amendment specifically mandates that the city will have objective standards for parks, streets and sidewalks:**

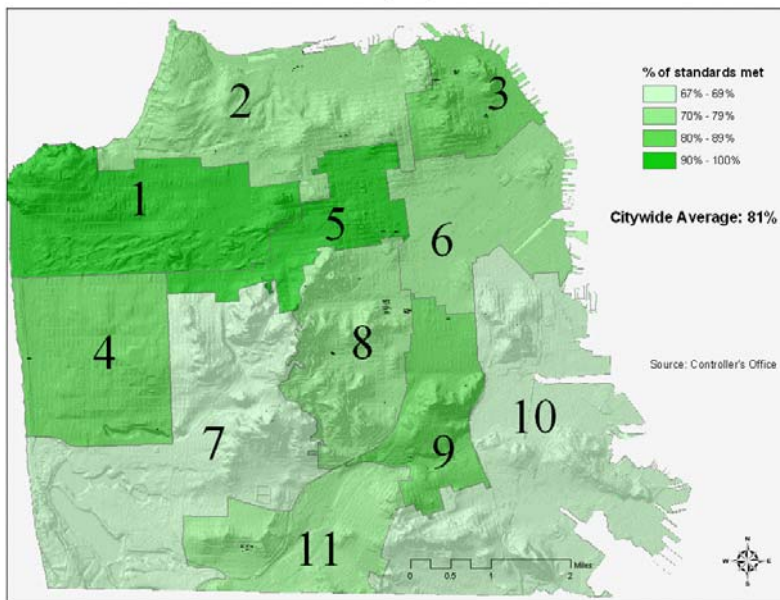
- ☑ **New park standards now detail how 14 features ranging from lawns to basketball courts should look, function and be cared for. Street standards address sweeping, trash cans, and graffiti.**
- ☑ **City staff, citizens and local organizations participated in creating the standards.**
- ☑ **City staff are measuring compliance with the standards with multiple field tests and data gathering throughout the year.**
- ☑ **Rec Park and DPW have posted, on the web, their schedules for park maintenance, sweeping, street & plaza cleaning, and other types of schedules.**
- ☑ **A detailed report on the parks and streets standards, with photographs and area-by-area detail, is on the Controller's website:**

[http://www.sfgov.org/site/controller\\_index.asp?id=29122](http://www.sfgov.org/site/controller_index.asp?id=29122)

During FY 2004-05, CSA worked with the Recreation and Park Department and the Department of Public Works (DPW) to develop, for the first time, objective standards showing what the City plans to deliver, and what its expectations are, for parks and streets.

The new park standards measure conditions of specific areas such as lawns, gardens, trees, trails, athletic fields, playgrounds, dog play areas, restrooms, waste disposal, benches and tables, and other amenities and structures. The new street standards measure street cleanliness on a scale from 1.0 “acceptably clean” to 3.0 “filthy,” rate the condition of public trash receptacles and report incidences of graffiti. Both park and street results can be analyzed by feature, or by geographic areas of the City.

February 11, 2005 Field Test Results of Park Maintenance Standards  
Overall Results by Supervisorial District



The standards were developed through a process that included staff expertise, lessons from other governments, and public feedback. Outreach mailings went to over 500 individuals and groups for each issue, and there were discussions at the Mayor's SFSStat meetings, the Board of Supervisors, the Recreation & Park Commission, the Parks Recreation and Open Space Advisory Committee, and citizen organizations including the Neighborhood Parks Council and SFSOS. The standards were field-tested by the Recreation and Park Department, DPW and Controller's Office staff, revised, and finalized in May 2005.



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# PERFORMANCE MEASUREMENT

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## Highlights ...

- ☑ ***The CSA analyzes and validates performance statistics with 13 of the largest City departments for public discussion in the Mayor's SFStat program.***
  - ☑ ***The Controller's City survey, in its tenth year, provides consistent ongoing measurement of citizen opinion on core public services such as streets, parks, transportation and libraries.***  
[http://www.sfgov.org/site/controller\\_page.asp?id=1825](http://www.sfgov.org/site/controller_page.asp?id=1825)
  - ☑ ***New performance measures have been developed by CSA to assess the delivery of City-funded school sports, arts, libraries, and music, and pre-school slots under the Public Education Enrichment Fund charter amendment.***  
[http://www.sfgov.org/site/controller\\_page.asp?id=31441](http://www.sfgov.org/site/controller_page.asp?id=31441)
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**B**eginning in 2004, the Mayor's Office instituted the SFStat program in which thirteen of the City's largest departments discuss their current performance in a scheduled public forum. The City Services Auditor supports SFStat through data analysis and developing benchmarks to measure San Francisco relative to other jurisdictions. As part of SFStat, our office also makes a quarterly presentation of citywide data on leave time, overtime and workers compensation that allows the Mayor and department heads to understand and better manage these costs. Service improvements that arose from SFStat discussions during the year include an effort to reduce 911 use by frequent callers with more appropriate case management and an analysis of the business processes that occur in and between the departments of City Planning and Building Inspection to reduce the total time required for issuing city permits. SFStat reports will be on the web beginning in FY 2005-2006.

The Controller's Office City Survey, in its tenth year, compiled opinions from more than 3,700 San Franciscans. Special analyses this year included a focus on issues of interest to parents and children and the use of a more familiar rating scale in the form of letter grades for City services. Overall, citizens rated City services a "C+." Citizen ratings of the City's parks, recreation programs, Muni and libraries all declined from 2003 to 2004. However, ratings improved in citizens' feelings of safety both with respect to crime and pedestrian safety. The survey showed that San Franciscans have high rates of health insurance coverage (87% of adults and 94% of children). We also asked about the pros and cons of living in San Francisco and found that more than a third of residents think that the City most needs a lower cost of housing (37% of respondents), followed by better schools (32%).

In March 2004 voters approved the Public Education Enrichment Fund, which commits city general fund dollars to the San Francisco Unified School District and pre-school in the City beginning with \$10 million in FY 2005-2006 and rising to \$60 million by FY 2009-2010. For the first allocation of these funds, the CSA analyzed the School District's and the First Five Commission's expenditure plans and worked with them to create performance measures that will track the City's achievement in expanding pre-school availability and making sports, libraries, arts and music programs available in the public schools as mandated by the Charter.

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# NON-PROFIT SERVICE PROVIDERS PROJECT

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## Highlights...

- ☑ ***The Controller's Office published a Finance Guide for Non-Profit Organizations and conducted three trainings on non-profit financial issues attended by more than 175 individuals and organizations.***
- ☑ ***City monitoring of non-profit contractors done by multiple city departments is being streamlined and will use common standards, testing methods, and scheduling—improving quality and reducing duplication.***
- ☑ ***A pilot program auditing a selection of non-profit contractors working for the City was underway by the end of FY 2004-2005.***
- ☑ ***The Finance Guide and all related materials are available on the Controller's website under the Resources for Non-Profits link:***

[http://www.sfgov.org/site/controller\\_index.asp?id=30547](http://www.sfgov.org/site/controller_index.asp?id=30547)

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**N**on-profit organizations are critical to the City's delivery of health services, human services, children's programs, senior programs, and a range of other areas. San Francisco spends over \$500 million annually on contracts and grants with more than 600 organizations. A task force of City and non-profit leaders issued a report in 2003 with recommendations for improving how the City does business in this sector. To address these issues and strengthen the relationship between non-profits and the City, the City Services Auditor is working to streamline and standardize city contract monitoring, provide technical assistance to non-profits and conduct financial and performance audits of non-profit contractors with City contracts.

Three of the largest City departments that together distribute approximately 90 percent of the City's funding to non-profit contractors—the Department of Public Health, the Human Services Agency, and the Department of Children, Youth and Families—worked closely with the Controller's Office this year to standardize the City's financial and compliance monitoring of their contracts. Widely varying measures and forms have now been standardized and repetitive site visits are being eliminated through coordination and the use of a master calendar. The information sharing and distribution of labor accomplished through this effort will allow City experts to focus on the quality of services, eliminate duplication, recognize excellent performance and address poor performance before the service or organization is at risk.

Technical assistance for non-profit contractors began with the publication of a *Finance Guide for Non-Profit Organizations* by the Controller's Office and three training sessions conducted in the spring of 2005. The training sessions drew over 175 participants in total and guidelines on specific issues will be issued as follow-up to the training.

In the spring of 2005, the City Services Auditor began the first of a group of pilot audits at seven non-profit contractors. CSA audits will not duplicate the annual financial audit already required of many non-profits, but instead will specifically address financial management of City funds and the performance quality and service results delivered under City contracts.

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## MORE PERFORMANCE IMPROVEMENT HIGHLIGHTS

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**Additional highlights of the CSA's analytical and service improvement work:**

- ☑ **A CSA-commissioned report shows that San Francisco can provide better public health services by rebuilding Laguna Honda Hospital with smaller scale facilities, and by integrating acute, skilled nursing, and community care services. Report at: [http://www.sfgov.org/site/controller\\_page.asp?id=33411](http://www.sfgov.org/site/controller_page.asp?id=33411)**
- ☑ **CSA's analysis of the Juvenile Probation Department details the staffing needed for safe and effective operations of Juvenile Hall while reducing overtime and disability pay costs. Report at: [http://www.sfgov.org/site/controller\\_index.asp?id=1362](http://www.sfgov.org/site/controller_index.asp?id=1362)**
- ☑ **CSA's analysis of pay, benefits and costs of service to City representatives and unions during labor negotiations helps San Francisco achieve timely labor agreements.**
- ☑ **Analysis of the rental market and space costs aided decision-making for the City's move to 1 South Van Ness.**

**A**s part of the CSA's work with the Department of Public Health, we contracted for an expert study of the City's approach to public health coordination generally and long-term care in particular. The report, by Health Management Associates, details the most successful public health models for delivering long-term and skilled nursing care and discusses the application of these models to the City's Laguna Honda Hospital re-build project. Many practitioners have found that smaller-scale facilities, on the order of 200 beds or less, both deliver the best clinical care and provide financial and management advantages, and the report recommends this approach for San Francisco. The report also illustrates an urgent need for the city to better coordinate patient care among its two hospitals and many types of community-based health services. The report shows that building a true continuum of care in San Francisco's public health system would mean better outcomes especially for hard-to-treat patient populations and would also result in more revenue from the state and federal governments and private insurers.

The City Services Auditor analyzed the City's Juvenile Hall and provided the Juvenile Probation Department with a staffing model showing a range of options for reducing overtime and improving counselor coverage in the Hall's living quarters and classrooms. The report details changes that the department can make to reduce time lost to injuries, better manage its pool of as-needed counselors and speed the hiring of new staff. These analyses also inform the staffing of the new juvenile detention facility now being completed.

The City and the many labor unions that represent its employees work under memoranda of understanding that are negotiated on approximately two to three year cycles depending on the organization. During the bargaining process, the City Services Auditor works to provide data and make cost estimates of both City and union proposals as they are exchanged—this analysis plays a critical role in successfully concluding labor agreements.

In 2004, office space became available at One South Van Ness and created an opportunity to reduce the City's rental costs in the Civic Center area and bring functions that had been widely scattered into one building, with multiple service advantages. The City Services Auditor performed real estate and financial analyses that helped the City execute the complex leases and logistics for this project.

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## PERFORMANCE AND FINANCIAL AUDITING

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The City Services Auditor has programs for both financial and performance auditing. Audits are conducted of City funds and functions, concessionaires and contractors based on requirements in the Charter, Administrative Code, and other legal mandates and management priorities. The audit units of the City Services Auditor schedule more audits than can be completed each year. The audits not completed during the fiscal year are carried over to the next fiscal year for completion. Audits are added or deleted from the schedule at least once annually based on a risk analysis of the City's departments, programs areas and contracted services. In fiscal year 2002-03, the Audits division issued 46 audit reports, and in fiscal year 2003-04, the division issued 48 audit reports and reviews. In fiscal year 2004-05, the CSA's audit units issued 48 audit reports and reviews.

### **Financial and Performance Audits Issued FY 2004-05**

**(As of June 30, 2005)**

Financial	18
Revolving Fund	7
Compliance	8
Investigation	1
Other	2
Concession	10
Performance	2
<b>Total</b>	<b>48</b>

Audit reports addressed a wide range of issues important to City officials and managers. The reports contained recommendations that provided management with a basis for improving operations, and developing more effective and efficient operations.

Audit reports that are not posted on the Controller's website can be obtained by calling the Controller's Office at 554-7500.

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## HUMAN SERVICES AGENCY:

### The Department of Aging and Adult Services Needs to Improve Its Needs Assessment and Contracting Processes to Better Serve Seniors and Adults with Disabilities

(May 2, 2004)

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#### **Audit Highlights...**

***Our audit of the Department of Aging and Adult Services (DAAS) granting function revealed the following:***

- ☑ ***The methods which DAAS determines the needs of the senior and disabled population are not adequate to determine what services should be funded.***
- ☑ ***The Department could reallocate up to \$10 million that it currently overmatches to State and Federal programs.***
- ☑ ***The Department violated their own rules and guidelines and awarded contract funds to providers scoring below the minimum point requirement.***

[http://www.sfgov.org/site/controller\\_page.asp?id=32961](http://www.sfgov.org/site/controller_page.asp?id=32961)

**W**e conducted a review of the Department of Aging and Adult Services' grant-making services in which it contracts with non-profit community based organizations to deliver more than \$17 million worth of services to seniors and adults with disabilities.

We found that while the Department conducts extensive research and does population surveys, it fails to analyze that information and conduct an appropriate gap analysis that would show what services should be funded by the City. Significant disparities also exist between what the needs assessment does show—that housing, transportation and in-home services are the services most needed by seniors, and what the Departments funds—meals, transportation and information and referral services.

Our review found that contract awards made by the Department and the Commission on Aging violated the rules and guidelines set up in their own Request for Proposals (RFP) and did not use consistent or objective criteria. Lobbying by providers influenced the outcomes and created a situation where community-based organizations were pitted against each other. Sixteen contractors that scored below the minimum point requirement were awarded funds, and a variety of other awards were made that were not reflective of the RFP scores and rankings. One contractor selected in this manner was later de-funded due to non-performance of their contract.

#### **STATUS**

The Department accepted the majority of the recommendations in the report. An update to the needs assessment is planned in FY2005-2006 will use improved analytical approaches. The Department has stated that the next Request For Proposals to provide senior services will revise scoring methods and decision rules and clarify how they will be applied.

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## HEALTH SERVICE SYSTEM:

### The System is Not Structured, Governed or Managed Effectively to Ensure Equitable and Cost-Effective Health Benefits for All Members and Their Employers (June 29, 2005)

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#### **Audit Highlights...**

##### ***Our audit of the Health Service Systems showed:***

- ☑ ***The annual process to set contributions and design health benefits does not result in accurate and affordable rates.***
- ☑ ***The Charter-mandated method for setting employer health contributions has resulted in over \$10 million in excess payments to the Trust Fund since 2002.***
- ☑ ***Assets available for benefits exceeded \$41 million as of June 2004, indicating inaccurate rates and overcharges to members and employers.***
- ☑ ***The Health Service Board needs to better define roles and responsibilities for itself, staff and consultants, and focus on cost containment and long-term strategies.***
- ☑ ***Outdated Charter requirements limit the System's effectiveness.***  
[http://www.sfgov.org/site/controller\\_page.asp?id=32961](http://www.sfgov.org/site/controller_page.asp?id=32961)

The Health Service System is the provider of health benefits for City employees and for some employees of the School District and Community College District. Our audit found that the annual rates and benefits setting process of the System have critical weaknesses. Despite a steadily accumulating balance in the Trust Fund (\$41 million as of June 30, 2004) indicating that members and employers have been overcharged, the Health Service Board does not conduct sufficient or effective analysis of its rates or oversight of the contractors who help set those rates.

Board members, employers and beneficiaries disagree over the management of the fund balance and the fund itself is not designed or managed as an investment trust. Reserve amounts in the Trust Fund are not based on a policy or appropriately adjusted.

Our review found that the Health Service Board is overly focused on operational detail and does not define roles and responsibilities for itself, staff and consultants. The cost of health care benefits to employers and members has risen by 85 percent and 39 percent respectively in the last five years, and other significant changes to the sector are pending, yet the Board does not plan for cost containment or other long term needs as part of its annual process.

Finally, structural issues in the Charter limit the Board's effectiveness. Charter provisions set employer contributions higher than the cost of the insurance chosen by some employees. The System is restricted from spending trust fund dollars on basic administrative and system improvements. Requirements that a member of the Board of Supervisors sit on the Board, and that one of the Mayor's appointees be a medical doctor, have made those seats difficult to fill consistently. The City's leadership should address these issues with Charter amendments in the near future.

#### **STATUS**

A new Health Service director was hired in May 2005 and has begun implementation of the audit recommendations. A rate reconciliation by the System's actuaries is planned.

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## OFFICE OF THE CITY ATTORNEY:

### The San Francisco League of Urban Gardeners Mismanaged Grant and Contract Funds From the City

(July 22, 2004)

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#### **Audit Highlights...**

***We found the following during our review of the San Francisco League of Urban Gardeners (SLUG):***

- SLUG overbilled the Department of Public Works by \$22,635.***
  - SLUG owes the Library \$33,743 and the Mayor's Office of Community Development \$15,600 for overpayments that SLUG did not earn.***
  - SLUG overstated its net income by more than \$275,000 for 2001.***
  - SLUG owed taxing authorities \$643,003 of payroll taxes at June 30, 2003.***
  - \$62,508 of SLUG's contract funds were improperly used by Public Works to buy a portable building for itself.***
- 

**T**he San Francisco League of Urban Gardeners (SLUG) describes itself as a grassroots organization that educates and employs individuals and provides communities with urban gardening. In July 2003, SLUG announced that it would be closing down and reorganizing in an attempt to avoid bankruptcy. As a result, the City Attorney asked the Controller to perform a financial review of SLUG's invoices to the City under its grant and contract agreements for fiscal year 2002-03 services.

Our review revealed that SLUG failed to accurately record all transactions and properly allocate its expenses for each of its city grants, that it mismanaged some of its city grants and contracts and overbilled or received overpayments from some city departments, and, as a result, owes the City \$71,978. We investigated several allegations that whistleblowers made to the City Attorney, many of which were not substantiated. However, we did verify an allegation that SLUG owed a large amount of unpaid payroll taxes (\$643,003 not including interest and penalties as of June 30, 2003) and an allegation that the Department of Public Works improperly used SLUG's contract with Public Works to purchase a \$62,508 portable building for Public Works' own use. Finally, we note that SLUG does not have complete and accurate accounting records, does not maintain proper internal controls over its cash or its financial reporting and lacks many basic policies, procedures and practices that organizations follow to help ensure that assets are safeguarded and operations are reported accurately.

#### **STATUS**

In July 2004, the Controller barred SLUG for two years from receiving any City contract, grant or loan agreement because the City Attorney provided evidence that SLUG used city funds to pay some of its employees when they were actually conducting campaign activities in the election for Mayor and District Attorney for San Francisco in November and December of 2003. By doing so, SLUG, at a minimum, violated Section 12G.1 of the San Francisco Administrative Code which prohibits organizations receiving funds from the City from using any of those funds to participate in, support, or attempt to influence a political campaign for any candidate or ballot measure.

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## PORT COMMISSION:

### Management Letter on the Port's Administration of Its Lease With Allright Cal., Inc (October 22, 2004)

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#### **Audit Highlights...**

***We found the following during our review of the Port's management of its lease with Allright Cal, Inc.:***

- ☑ ***The Port's real estate division did not obtain the approval of the Port Commission to continue the lease on a month-to-month basis for more than three years.***
  - ☑ ***The Port's real estate division improperly issued \$129,450 in rent credits to Allright to compensate it for incurring additional expenses.***
  - ☑ ***Port real estate staff improperly waived more than \$4,000 in late charges and penalty charges assessed against Allright for not making timely rent payments and timely submission of required reports.***
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The Office of the Controller presented a management letter on the administration of the lease with Allright Cal., Inc. (Allright) by the staff of the Port Commission (Port) in October 2004. Allright's two-year lease to operate surface public parking lots on Port property ended on May 31, 2001, and Allright continues to operate a primary and two expansion parking lots on a month-to-month basis. Our concession audit report, dated October 22, 2004, addressed whether Allright complied with the reporting and rental payment provisions of its lease with the Port. The management letter addresses matters not directly related to Allright's compliance with lease provisions, but to the Port's management of the lease.

Although the lease has a provision providing for a month-to-month tenancy after the expiration of its term, the Port's real estate division has allowed Allright to continue operating the parking lots for more than three years on a month-to-month basis without seeking the approval of the Port Commission to do so.

The Port's real estate division improperly issued \$129,450 in rent credits to Allright to compensate it for incurring additional expenses related to the primary parking lot and the expansion parking lots. However, the lease contains no provision for issuing rent credits, and the Port staff could not provide us any evidence that the Port Commission authorized granting any rent credits to Allright.

Port real estate staff improperly waived more than \$4,000 in late charges and penalty charges assessed against Allright for not making timely rent payments and timely submission of required reports. The lease, however, does not provide for any waivers of penalties or interest assessed against Allright.

## STATUS

The Port chose not to respond to this report, but the Port's supervising fiscal officer stated that the issues raised would be duly addressed by Port staff after issuance of the report.



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# **SAN FRANCISCO UNIFIED SCHOOL DISTRICT:**

## **The San Francisco Unified School District Cannot Accurately Account for the Revenues and Expenditures of Its \$90 Million 1997 Bond Issue (January 24, 2005)**

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### **Audit Highlights...**

***We found the following during our review of the San Francisco Unified School District's bond issue proceeds:***

- ☑ ***The school district duplicated \$381,000 in bond fund expenditures.***
- ☑ ***The school district underreported \$2.6 million in interest earnings.***
- ☑ ***The school district's accounting system cannot accurately report bond expenditures by project.***  
[http://www.sfgov.org/site/uploadedfiles/controller/reports/audit/sf\\_usd012505.pdf](http://www.sfgov.org/site/uploadedfiles/controller/reports/audit/sf_usd012505.pdf)

**O**ur review revealed that the San Francisco Unified School District (the District) cannot accurately account for and report on its 1997 bond issue proceeds of \$90 million because of errors in its accounting records and because it cannot produce reports by the specific project on which it spent the bond funds. Further, the District has incomplete policies and procedures for accounting for its project expenditures, and has experienced high turnover of critical staff positions.

After a series of unsatisfactory reports from the District, the Citizens' General Obligation Bond Oversight Committee asked the Controller to conduct a review of the District's financial controls and accounting systems for the use of its general obligation bond proceeds.

Our review of the District's accounting records showed that it duplicated \$381,000 in bond expenditures when it erroneously posted fourteen duplicate transactions. The District also underreported \$2.6 million in interest earnings because it improperly reduced the amount of interest that it reported by deducting the interest expense that it incurred from negative fund balances it had for its previous bond issues.

Finally, we found that reports from the school district's accounting system and facilities database cannot report by construction or improvement project. The accounting system contains approximately \$23.5 million dollars in adjustments to bond expenditures made through lump sum journal entries instead of to the individual projects, and also contains nearly \$20 million dollars in expenditures which it did not identify as specific construction or improvement projects.

### **STATUS**

The District accepted all of the recommendations in the report and the Chief Financial Officer stated that as of July 15, 2005 all but three of the recommendations have been implemented.

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## PLANNING COMMISSION:

### The Chinatown Economic Development Group Misspent More Than \$36,000 in Public Funds Earmarked for Open-Space Projects Approved by the City

(January 31, 2005)

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#### **Audit Highlights...**

***We found the following during our review of the Chinatown Economic Development Group:***

- Of the \$275,000 it received to develop or improve certain open-space in San Francisco's Chinatown, the Chinatown Group spent more than \$36,000 improperly.***
- Because it overspent some other amounts, and also earned interest on the initial funds, the Chinatown Group is ultimately responsible for spending \$202,890 on open-space projects or returning this amount to the City.***
- The Chinatown Group spent appropriately more than \$99,000 in grant funds that it received from the Mayor's Office of Economic Development.***

**T**he Chinatown Economic Development Group (Chinatown Group), a non-profit formed to help revitalize the Chinatown economy after the 1989 Loma Prieta earthquake, did not properly spend most of the \$275,000 that it received for open space in San Francisco's Chinatown. The funds were awarded by a private developer under a requirement to provide open space mitigation funds but were indirectly under the oversight of the City Planning Commission.

In 2001 the Chinatown Group accepted the \$275,000, and acknowledged to the Planning Commission that it had received the funds for developing or improving open space in Chinatown. We found only \$89,199 of that amount was spent for open space purposes and exceeded the approved budget for these expenditures by \$4,199. The Chinatown Group also misspent an additional \$36,155 by using open space funds for unallowable purposes, including paying for the expenses of one of its board members and its executive director to travel to Macau, China.

On January 18, 2005, the Chinatown Group took corrective action and submitted plans to the Planning Department indicating it would spend the open space funds to maintain alleyways and parks in Chinatown. The department should determine immediately whether the corrective action plan meets open space requirements.

The Chinatown Group generally complied with the provisions of a grant it received from the City's Mayor's Office of Economic Development to promote Chinatown tourism and stimulate the economy. The Chinatown Group properly submitted reimbursement requests for its expenses and was paid \$99,146 of the \$104,000 grant. Of the \$99,146, the Chinatown Group used \$76,738 (77 percent) to pay personnel to provide assistance to manage economic development plans and program activities. The remaining money was used for administrative support purposes.

## STATUS

The Chinatown Group re-paid approximately \$162,500 to the City by March 2005 and still owes the City an additional \$40,390. The organization's Board of Directors is discussing payment options.

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# **APPENDIX A**

## **CHARTER AND MISSION OF THE CITY SERVICES AUDITOR**

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### **CHARTER**

The City and County of San Francisco (City), through the City Charter and Administrative Code, has established an audit office and a services audit unit within the Controller's Office. According to the City Charter, Section 3.105, and Administrative Code, Section 2.92, the City Services Auditor, on behalf of the City Controller, is required to audit the accounts of all boards, commissions, officers, and employees of the City charged in any manner with the custody, collection, or disbursement of funds, including all accounts of money received by the Office of the Treasurer and Tax Collector. The City Services Auditor is further charged to evaluate the effectiveness and efficiency of the operations of all boards, commissions, offices, and departments. To carry out its duties, the City Services Auditor shall have access to, and authority to examine all documents, records, books, and other property of any board, commission, officer, or department. Further, when requested, the City Services Auditor shall audit the accounts of an officer or department.

### **MISSION**

The City Services Auditor is responsible for providing independent audits and reviews within the City as a service to the citizens of San Francisco as well as to the City's boards, commissions, and departments. The City Services Auditor evaluates systems of internal controls over City finances and operations to assure assets are protected and managed in accordance with all requirements stipulated in the Charter, Administrative Code, ordinances, policy statements, and accepted business practices. The City Services Auditor also provides recommendations to help management maximize the use of resources and provide adequate service levels. The City Services Auditor reports the findings of its reviews to the Mayor, Board of Supervisors, Civil Grand Jury, the appropriate commissions, and department management.

The City Services Auditor accomplishes its mission through financial, performance, investigative, and concession audits and through analysis, performance measurement and technical assistance to City departments and other agencies.

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## APPENDIX B

### AUDIT REPORTS ISSUED DURING FISCAL YEAR 2004-05

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Title of Report	Date Issued	Number of Recommendations
<b>Performance Audit Reports</b>		
Department of Aging and Adult Services: The Department Needs to Improve Its Needs Assessment and Contracting Processes to Better Serve Seniors and Adults with Disabilities	05/02/06	29
Health Service System: The System is Not Structured, Governed or Managed Effectively to Ensure Equitable and Cost-Effective Health Benefits for All Members and Their Employers	06/29/05	15
<b>Financial Audit Reports</b>		
Office of the Sheriff: Financial Statement Audit of the Mentally Ill Offender Crime Reduction Grant I From July 1, 1999, Through March 31, 2004	07/08/04	4
Children and Families Commission: Financial Statements Audit July 1, 2003, Through June 30, 2004	09/15/04	---
Children and Families Commission: Management Letter for the Financial Statements Audit for the Fiscal Year Ended June 30, 2004	09/15/04	3
Office of the Sheriff: Financial Statement Audit of the Mentally Ill Offender Crime Reduction Grant II From July 1, 2001, Through June 30, 2004	10/14/04	4
Office of the Treasurer and Tax Collector: Statement of Cash and Investments as of June 30, 2004	10/21/04	---

Title of Report	Date Issued	Number of Recommendations
<b>Financial Audit Reports (continued)</b>		
Office of the Treasurer and Tax Collector: Financial Activities for the Fiscal Year Ended June 30, 2004	10/21/04	---
Board of Supervisors: A Review of Comcast Corporation's Franchise Fee Payments July 1, 2000, Through December 31, 2002	10/21/04	3
San Francisco Police Department: Charitable Organization Audit of the Gayatri Foundation	11/30/04	---
San Francisco Police Department: Charitable Organization Audit of International Society for Krishna Consciousness of the Bay Area, Inc.	12/01/04	---
Office of the Treasurer and Tax Collector: Statement of Cash and Investments as of September 30, 2004	12/20/04	---
San Francisco Police Department: Charitable Organization Audit of Veterans of Foreign Wars 15th District	12/28/04	---
San Francisco Unified School District: The San Francisco Unified School District Cannot Accurately Account for the Revenues and Expenditures of Its \$90 Million 1997 Bond Issue	01/24/05	10
Planning Commission: The Chinatown Economic Development Group Misspent More Than \$36,000 in Public Funds Earmarked for Open-Space Projects Approved by the City	01/31/05	7
Office of the Treasurer and Tax Collector: Statement of Cash and Investments as of December 31, 2004	03/24/05	---

Title of Report	Date Issued	Number of Recommendations
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### Financial Audit Reports (continued)

Office of the Assessor/Recorder: Verification Letter for the AB589 State-County Property Tax Administration Program Results	03/28/05	---
San Francisco Police Department: A Review of the Department Head Transition	04/26/05	---
Port of San Francisco: A Review of the Department Head Transition	04/28/05	---
San Francisco Fire Department: A Review of the Department Head Transition	04/28/05	---

### Revolving Fund Audit Reports

Department of Building Inspection Revolving Fund January 1, 2003, Through June 18, 2004	7/13/04	3
Planning Department Revolving Fund January 1, 2003, Through May 27, 2004	7/20/04	3
Public Utilities Commission Revolving Fund January 1, 2003, Through December 31, 2003	09/22/04	6
Office of Emergency Services Revolving Fund	11/02/04	---
Hetch Hetchy Water and Power Revolving Fund November 1, 2003, Through November 16, 2004	02/10/05	2
Water Department Revolving Fund November 1, 2003, Through November 16, 2004	02/10/05	1
Department on the Status of Women Revolving Fund as of 2004	05/03/05	3

Title of Report	Date Issued	Number of Recommendations
<b>Compliance Audit Reports</b>		
Board of Supervisors: Malcolm Drilling Co., Inc. Complied With the City Requirement Not to Use Any City Funds for Political Activities	07/21/04	---
Board of Supervisors: Shimmick Construction Company, Inc./Homer J. Olsen, Inc., a Joint Venture, Complied With the City Requirement Not to Use Any City Funds for Political Activities	09/07/04	---
Board of Supervisors: Episcopal Community Services of San Francisco Complied With the City Requirement Not to Use Any City Funds for Political Activities	10/05/04	---
Board of Supervisors: Edgewood Center for Children and Families Did Not Use City Funds for Political Purposes	11/1/04	---
Board of Supervisors: Southeast Asian Community Center Did Not Use City Funds for Political Purposes	01/18/05	---
Board of Supervisors: Advent Capital Management, LLC Did Not Use City Funds for Political Purposes	01/25/05	---
Board of Supervisors: Mission Neighborhood Centers, Inc. Did Not Use City Funds for Political Purposes	01/27/05	---
Board of Supervisors: Florence Crittenton Services Did Not Use City Funds for Political Purposes	03/16/05	---

Title of Report	Date Issued	Number of Recommendations
<b>Investigation Report</b>		
Office of the City Attorney: The San Francisco League of Urban Gardeners Mismanaged Grant and Contract Funds From the City	07/22/04	11
<b>Other Reports</b>		
Status of the Implementation of the Recommendations of the 2002-03 San Francisco Civil Grand Jury	08/30/04	---
Management Letter on the Port's Administration of Its Lease With Allright Cal., Inc.	10/22/04	3



## CONCESSION AUDIT REPORTS

Title of Report	Date Issued	Reporting Period		Fees Paid	Fees Due From Tenant	Fees Due To Tenant
		From	To			

### Airport

Asiana Airlines	07/21/04	07/01/02	12/31/03	\$1,510,632		
Gemini Air Cargo, Inc.	07/21/04	07/01/02	12/31/03	237,005		
Mexicana Airlines	07/29/04	07/01/02	12/31/03	1,073,564		\$4,103
American Airlines	02/01/05	01/01/01	12/31/03	28,087,487	\$7,155	31,676

### Municipal Transportation Agency

Performing Arts Garage	08/09/04	04/01/01	03/31/03	\$3,343,054		
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### Port Commission

Fog City Diner	09/27/04	01/01/01	12/31/03	\$714,181		
Scoma's	09/27/04	01/01/01	12/31/03	2,478,831		
Franciscan Restaurant	09/28/04	07/01/00	06/30/03	920,538		
Franciscan Restaurant Parking Lot	09/28/04	07/01/00	06/30/03	1,086,553		
Allright Cal., Inc.	10/22/04	01/01/00	12/31/02	4,154,612	\$299,716	\$19,584