

**PUBLIC UTILITIES
COMMISSION:**

Concession Audit of Santa Clara
Sand and Gravel

FINANCIAL AUDITS



*August 22, 2006
05071*



CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

**Ed Harrington
Controller
Monique Zmuda
Deputy Controller**

August 22, 2006

Audit Number 05071

Public Utilities Commission
City and County of San Francisco
1155 Market Street, 4th Floor
San Francisco, CA 94103

President and Members:

The Office of the Controller presents its report concerning the audit of Santa Clara Sand and Gravel (tenant). The tenant had a twenty-year lease with the Public Utilities Commission (PUC) of the City and County of San Francisco. The lease, which expired in December 2000, allowed the tenant to operate a gravel quarry near Sunol, California, but has continued on a month-to-month holdover.

Reporting Period: July 1, 2002, through June 30, 2005

Royalties Paid: \$1,629,649

Results:

The tenant correctly reported 1,516,481 gross tons of products removed from the quarry and in all material respects correctly paid its royalty fees to the PUC.

Respectfully submitted,

Original signed by:
Noriaki Hirasuna
Director of Financial Audits

INTRODUCTION

BACKGROUND

Santa Clara Sand and Gravel (tenant) entered a twenty-year lease with the Public Utilities Commission (PUC) of the City and County of San Francisco to operate a gravel quarry near Sunol, California. The tenant, together with its parent, RMC Pacific Materials, was acquired by CEMEX in 2005. The lease commenced on December 31, 1980, and expired on December 31, 2000. However, the director of the PUC's Bureau of Real Estate Services stated that the tenant was on a month-to-month holdover.

The lease requires the tenant to pay the PUC a royalty fee for the greater of a minimum annual guarantee or percentage rent based on gross tons of product removed from the quarry. The royalty rates ranged from \$1.0332 to \$1.1193 per ton of quarry product removed during the audit period.

SCOPE AND METHODOLOGY

The purpose of this audit was to determine if the tenant complied with the reporting and payment provisions of its lease with the PUC. To conduct the audit, we reviewed the applicable terms of the lease, subsequent amendments and agreed upon royalty rates. We assessed the adequacy of the tenant's procedures for recording, summarizing, and reporting to the PUC the gross tons removed from the quarry. To determine whether the tenant accurately reported to the PUC the gross tons removed, we tested, on a sample basis, the tenant's monthly sales summaries, daily sales reports, and sales records. We also determined whether the tenant has any outstanding payments due the PUC for the review period.

AUDIT RESULTS

SANTA CLARA SAND AND GRAVEL CORRECTLY REPORTED ITS GROSS TONS REMOVED AND PAID ITS ROYALTY FEES

From July 1, 2002, through June 30, 2005, Santa Clara Sand and Gravel correctly reported 1,516,481 gross tons of quarry products removed and, in all material respects, correctly paid royalty fees of \$1,629,649 to the PUC. The table below shows the reported gross tons removed and royalty fees paid to the PUC.

TABLE

**Gross Tons Removed and Royalty Fees
July 1, 2002, Through June 30, 2005**

Fiscal Year	Gross Tons Removed	Royalty Fees Paid
July 1, 2002, through June 30, 2003	444,021	\$500,000*
July 1, 2003, through June 30, 2004	485,941	502,074
July 1, 2004, through June 30, 2005	586,519	627,575
Total	1,516,481	\$1,629,649

**The tenant paid an agreed upon minimum royalty amount of \$500,000 for fiscal year 2002-2003.*

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Kevin Baloca, Audit Manager
Lorita Chung

cc: Mayor
Board of Supervisors
Civil Grand Jury
Public Library