



OFFICE OF THE CONTROLLER CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: Mr. Harlan Kelly, Jr., General Manager
San Francisco Public Utilities Commission

FROM: Mark de la Rosa, Acting Chief Audit Executive
Audits Division, City Services Auditor 

DATE: October 24, 2019

SUBJECT: **SFPUC Adequately Documented Adherence to Most Close-Out Procedures in Its Crystal Springs/San Andreas Transmission System Upgrade Contract**

EXECUTIVE SUMMARY

The San Francisco Public Utilities Commission (SFPUC) adequately documented full adherence to 22, partial adherence to 2, and had no documentation for 2 of 26 applicable close-out procedures for its Crystal Springs/San Andreas (CSSA) Transmission System Upgrade Project contract with Kiewit Infrastructure West Company. SFPUC concurs with the findings and agrees to implement the recommendation, which is that SFPUC should adhere to its close-out procedures by ensuring all required close-out activities are documented.

BACKGROUND, OBJECTIVES & METHODOLOGY

Background

The Basis of the Audit. As part of an ongoing program of auditing compliance with construction contract close-out procedures in various departments of the City and County of San Francisco (City), and in accordance with its work plan for fiscal year 2018-19, the Office of the Controller's City Services Auditor (CSA) audited SFPUC's compliance with close-out procedures in the CSSA Transmission System Upgrade Project (the project). This contract (Contract No. WD-2601) was selected based on a risk assessment of construction contracts that were closed out during fiscal years 2014-15 through 2016-17. The risk assessment considered factors such as the original contract amount, project duration, and cost increases as a percentage of the original contract amount.

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Close-out Defined. Contract close-out formally ends the construction phase of a capital project and ensures the fulfillment of all contractual and legal obligations before final payment is released to the contractor. By following all close-out procedures, the City can be assured that the contractor has completed the work in accordance with contract terms. Prompt completion of close-out procedures limits the administrative costs that continue to accrue during the close-out period.

The San Francisco Public Utilities Commission. SFPUC is responsible for three essential service utilities: water, wastewater, and power. As the third-largest municipal utility in California, SFPUC serves 2.7 million residential, commercial, and industrial customers in the San Francisco Bay Area. SFPUC's Water System Improvement Program (WSIP) is a \$4.8 billion dollar, multiyear capital program to upgrade its regional and local water systems. SFPUC anticipates completing the WSIP by December 2021. In fiscal year 2019-20 SFPUC has a budget of \$1.4 billion.

The Project. The project is part of the WSIP and was intended to upgrade and retrofit the transmission systems that move water in the Crystal Springs Reservoir System and to the Harry Tracy Water Treatment Plant. Kiewit Infrastructure West Company (Kiewit) was awarded the contract in September 2010. Under the contract, Kiewit was to provide seismic and hydraulic upgrades to the Crystal Springs/San Andreas Transmission System. A Notice to Proceed for construction was set for December 2010, substantial completion occurred in June 2014, and the project was completed in November 2015. The original contract amount was \$99,763,000, but after contract modifications and change orders, the final contract amount was \$132,421,418, a 33 percent increase.

Objective

The purpose of this audit was to determine whether SFPUC and its contractor, Kiewit, complied with the close-out procedures applicable to the contract.

Methodology

To achieve the objective, CSA:

- Reviewed SFPUC's contract close-out procedures.
- Developed a checklist of requirements for all phases of close-out based on SFPUC's contract close-out procedures.
- Obtained and reviewed close-out documentation from SFPUC for the contract. Interviewed staff of SFPUC's Water Capital Projects and Programs and Construction Management Bureau regarding the close-out process and specific close-out requirements.
- Determined whether SFPUC complied with each close-out requirement applicable to the contract.

This audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. CSA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

RESULTS

Finding 1 – SFPUC fully adhered to 22 and partially adhered to 2 of 26 close-out procedures.

Of the 26 applicable close-out procedures for the project, SFPUC complied with 22 (84 percent) and partially complied with 2 (8 percent). SFPUC provided documentation that indicates the following close-out procedures were partially adhered to:

1. Verification of Compliance Before Substantial Completion. Close-out procedure 5.1.2 requires the project construction manager to perform the following steps before the project is substantially complete:
 - a. Seek approval from the Office of Labor Standards Enforcement (OLSE) on the contractor's compliance with the City's prevailing wage requirements and the Project Labor Agreement.
 - b. Seek approval from the Office of Economic and Workforce Development (OEWD) on compliance with the City Build/First Source Referral Program and review the contractor's compliance with other related contract requirements.
 - c. Contact the Contract Monitoring Division (CMD) to verify that the contractor has met all CMD-related contract requirements.

Although SFPUC provided documentation showing it verified the contractor's compliance with CMD's requirements, it could not provide documentation demonstrating it received the appropriate approvals from OLSE and OEWD during construction. During the audit, approximately five years after the project's substantial completion, SFPUC provided documentation that it had recently received OLSE's approval regarding the contractor's compliance. However, SFPUC did not provide documentation that it received OEWD's approval for the project.

2. Verification of Compliance Before Final Completion. Close-out procedure 5.2.3 requires the project construction manager to perform the following:
 - a. Verify the contractor has submitted a variety of documents, including all required warranties, final record drawings, and modifications to the contract documents. SFPUC provided documentation demonstrating the contractor submitted the required items before final completion.
 - b. Confirm with OLSE and OEWD that the contractor complied with all contract requirements before establishing the project's final completion. SFPUC could not provide documentation of such confirmation for either of the two agencies.

During the audit, approximately five years after the project's final completion, SFPUC provided documentation that OLSE had recently confirmed the contractor's compliance. However, SFPUC did not provide documentation that it received OEWD's confirmation for the project.

According to SFPUC, the project construction manager invited OLSE and OEWD staff to regular construction close-out meetings. Staff also stated this is likely why the project construction manager did not obtain documentation confirming contractual requirements before declaring substantial completion and final completion.

Finding 2 – SFPUC did not adhere to 2 of 26 close-out provisions.

Of the 26 applicable close-out procedures for the contract, SFPUC did not comply with 2 (8 percent). SFPUC could not provide documentation to show that the following close-out procedures were adhered to:

1. Signed Checklist for Substantial Completion. Close-out procedure 5.1.7 requires the project construction manager to prepare a Notice of Substantial Completion checklist to be reviewed and signed by the regional construction manager, regional project manager, and the deputy director of construction before issuing a Certificate of Substantial Completion. SFPUC could not provide a Notice of Substantial Completion checklist for the project signed by the appropriate staff.
2. Signed Checklist for Final Completion. Similarly, close-out procedure 5.3.10 requires the project construction manager to prepare a Notice of Final Completion checklist to be reviewed and signed by the regional construction manager, regional project manager, deputy director of construction, and WSIP director before issuing a Certificate of Final Completion. SFPUC could not provide a Notice of Final Completion checklist for the project signed by the appropriate staff.

According to SFPUC, the project construction manager had regular meetings with relevant leadership personnel, including the deputy director of construction and the WSIP director, to keep them apprised of any close-out issues before issuing the Notice of Substantial Completion and the Certificate of Final Acceptance. Staff stated that, because of these meetings, the project construction manager did not retain formal documentation of approval from leadership staff.

Recommendation

The San Francisco Public Utilities Commission should follow its close-out procedures by ensuring all required close-out activities are documented.

SFPUC's response is attached. CSA will work with SFPUC to follow up every six months on the status of the open recommendation made in this memorandum. CSA extends its appreciation to you and your staff who assisted with this audit. If you have any questions or concerns, please contact me at (415)554-7574 or mark.p.delarosa@sfgov.org.

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cc: SFPUC

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Attachment: Department Response



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October 15, 2019

Mark de la Rosa, Acting Chief Audit Executive
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City Hall, Room 476
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San Francisco, CA 94102

Subject: Management's Response to San Francisco Public Utilities Commission: SFPUC Adequately Documented Adherence to most Close-Out Procedures in Its Crystal Springs/San Andreas Transmission Upgrade Contract

Dear Mr. de la Rosa,

Thank you for providing us the opportunity to review the results of the report, on *San Francisco Public Utilities Commission: SFPUC Adequately Documented Adherence to most Close-Out Procedures in Its Crystal Springs/San Andreas Transmission Upgrade Contract*, prepared by the Controller's Office, City Services Auditor.

We appreciate the time your staff dedicated to this audit and are pleased the report noted that the SFPUC complied with the vast majority of close out provisions. We have fully concurred with the single recommendation.

If you have any questions or need additional information, please contact me at (415) 554-1600.

Sincerely,

A handwritten signature in black ink, appearing to read "Harlan L. Kelly, Jr.".

Harlan L. Kelly, Jr.
General Manager

cc: Kathy How, AGM Infrastructure
Eric Sandler, AGM Business Services/CFO
Charles Perl, Deputy Chief Financial Officer

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Vice President
Anson Moran
Commissioner
Sophie Maxwell
Commissioner
Tim Paulson
Commissioner
Harlan L. Kelly, Jr.
General Manager

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Recommendation and Response

For each recommendation, the responsible agency should indicate in the column labeled Agency Response whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Agency Response	CSA Use Only Status Determination*
<p>The San Francisco Public Utilities Commission should follow close-out procedures by ensuring all required close-out activities are documented.</p>	<p> <input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur </p> <p>The SFPUC concurs and will follow procedure to obtain OLSE, OEWD and CMD approval at time of Substantial and Final Completion as noted per finding No. 1 of partial compliance of procedures 5.1.2 and 5.2.3.</p> <p>The SFPUC also concurs and will follow procedures 5.1.7 and 5.3.10 to obtain signatures for Substantial and Final Completion Checklist per Finding No. 2.</p>	<p> <input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested </p>

* Status Determination based on audit team’s review of the agency’s response and proposed corrective action.