



**Date:** February 22, 2022  
**To:** Commissioner Anson Moran, President  
Commissioner Newsha Ajami, Vice President  
Commissioner Sophie Maxwell  
Commissioner Tim Paulson  
**Through:** Dennis J. Herrera, General Manager *D.J.H.*  
**From:** Nancy L. Hom, Deputy Chief Financial Officer *N.L.H.*  
**Subject:** FY 2021-22 Second Quarter Audit and Performance Review Report through December 31, 2021

This memorandum provides the San Francisco Public Utilities Commission (SFPUC) Quarterly Audit and Performance Review (QAPR) report, as of FY 2021-22 second quarter, ending December 31, 2021. In addition, this memo provides an update regarding the ongoing Public Integrity Assessment.

**I. REPORTS SUMMARY**

There were five completed audits since the last quarterly report:

1. 2020 Green-e Energy Audit, October 28, 2021

Report Summary: Third-party auditor Larkin & Associates, PLLC performed the audit procedures agreed upon by CleanPowerSF and the Center for Resource Resolutions (CRS) to verify compliance with annual reporting requirements of the CRS's Green-e Energy program.

Audit Findings Summary: The confidential report found no exceptions regarding the compliance of the Green-e Energy verification reporting requirements.

2. Social Impact Partnership Program Audit, December 9, 2021

Report Summary: The Controller's City Services Auditor (CSA) engaged Sjoberg Evashenk Consulting, Inc. (SEC), to assess the appropriateness and effectiveness of SFPUC's governance and oversight of the Social Impact Partnership (SIP) Program.  
*Report link: [SIP Audit Report](#)*

Audit Findings Summary: The audit found the SIP Program lacks the infrastructure and policies for program sustainability. The three findings were:

- 1. Inconsistencies in the design of the SIP Program create inherent risks that SFPUC could award contracts to contractors that would not, in the end, provide the greatest value to the City and its residents.
- 2. Internal control weaknesses contribute to confusion in the solicitation and award process, resulting in unreliable and inconsistent recordkeeping, which impedes program monitoring and transparency.

**London N. Breed**  
Mayor

**Anson Moran**  
President

**Newsha Ajami**  
Vice President

**Sophie Maxwell**  
Commissioner

**Tim Paulson**  
Commissioner

**Dennis J. Herrera**  
General Manager



3. The program lacks a sustainable framework (including policies and procedures, systems, and resources) to ensure long term success.

Management concurred with the seven recommendations addressing the audit findings and is committed to implementing the recommendations to strengthen the SIP Program and its operation and administration processes. The General Manager presented the audit report to this Commission on January 11, 2022.

### 3.- 5. FY 2020-21 Annual Physical Inventory Count, December 31, 2021

Report Summary: The SFPUC engaged third-party auditor Crowe, LLP (Crowe) to perform physical inventory counts for the three enterprise funds for FY 2020-21. The five reports cover results from Crowe's physical counts in warehouses located in Moccasin, City Distribution Division (CDD), Auxiliary Water Supply System (AWSS), Millbrae, Sunol Yard, Hetchy Power In-City, and Wastewater Southeast. *Report link: [FY 2020-21 Inventory Report](#)*

Audit Findings Summary: The audits found variances between the physical count and the amounts reported in the inventory system (Maximo). The three main findings were attributed to:

1. User error – items being processed in/out of Maximo incorrectly.
2. Non-stock items – whether to include or not; develop method to separate from inventory-stock items.
3. Ongoing user error and other challenges between Maximo and EJ Ward (fuel management system).

Management concurred with the recommendations and provided additional detail regarding mitigating actions.

## II. **Audit Recommendation Status**

Seven new audit recommendations are open for the Social Impact Partnership Program Audit. SFPUC is committed to incorporating these recommendations by the end of the calendar year 2022.

## III. **Public Integrity Assessment Updates**

Over the past several months, the Controller's City Services Auditor (CSA) and external auditors have conducted a series of audits and assessments related to public integrity. The status of these efforts is outlined below.

- *Community Benefit / Social Impact Partnership Program Audit* – commenced Q4, FY 2020-21. Completed second quarter of FY 2021-22.
- *SFPUC Public Integrity Assessment* – commenced Q1, FY 2021-22. CSA began its assessment of SFPUC's procurement and contracting processes. The target date for completion is Q3, FY 2021-22.
- *Sewer System Improvement Program (SSIP) Program Management Contract Audit* – commenced Q2, FY 2021-22. The target date for completion is Q4, FY 2021-22.

If you have questions, please contact me at [nhom@sfgwater.org](mailto:nhom@sfgwater.org).

Attachment: FY 2021-22 Audit Plan, By Status as of December 31, 2021  
Appendix I: City Services Auditor Recommendations, Aging Report



## Quarterly Audit & Performance Review Report FY 2021-22 Audit Plan, By Status As of December 31, 2021

By status, as of Dec 31, 2021

Completed:	8
In Progress:	8
Canceled:	0
Upcoming:	12
Total:	28

#	Quarter Status	Audit Type	Enterprise / Bureau	Audit Name	Oversight Body
1	[Updated] Completed	Financial	Water	Annual Physical Inventory Count, FY 2020-21	SFPUC, Finance
2	[Updated] Completed	Financial	Wastewater		
3	[Updated] Completed	Financial	Hetch Hetchy Water & Power		
4	[Updated] Completed	Financial	Power	Green-e Verification Audit, 2020	Center for Resource Solutions
5	In Progress	Financial	Water	Audited Financial Statements, FY 2020-21	Controller
6	In Progress	Financial	Wastewater		
7	In Progress	Financial	Hetch Hetchy Water & Power & CleanPowerSF		
8	Completed	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2019-20	BAWSCA
9	Upcoming	Financial	All SFPUC	Political Activity Fund Compliance Assessment, FY 2017-18	CSA, Controller
10	Completed	Financial	Business Services, Finance	Post Audit 2020	Controller
11	Completed	Financial	Business Services, Finance	Sales and Use Tax Audit, 2018-20	CA Department of Tax & Fee Administration
12	In Progress	Revenue Bond Oversight Committee	RBOC	SFPUC Bond Expenditure Audit	RBOC
13	[Updated] Completed	Performance	External Affairs	Community Benefit / Social Impact Partnership Program Audit	CSA, Controller
14	[Updated] In Progress	Performance	All SFPUC	SFPUC Public Integrity Assessment	CSA, Controller
15	Upcoming	Performance	All SFPUC	Citywide Audit and Assessment of Emergency Contracting and No Bid Sole Source Contracts	CSA, Controller
16	Upcoming	Financial	Business Services, Finance	Wholesale Revenue Requirement: Statement of Changes in Balancing Account, FY 2020-21	BAWSCA
17	[Updated] In Progress	Financial	Business Services, Finance	Annual Comprehensive Financial Report, FY 2020-21	SFPUC
18	[Updated] In Progress	Financial	Business Services, Finance	Popular Annual Financial Report, FY 2020-21	SFPUC
19	[Updated] In Progress	Performance	Infrastructure	SSIP Program Management Contract Audit	CSA, Controller
20	Upcoming	Performance	Infrastructure	SFPUC Project Controls Audit	CSA, Controller
21	Upcoming	Concessions, Lease Revenue	Real Estate Services	Revenue Lease Audit	CSA, Controller
22	Upcoming	Performance	Business Services, ITS	IT Penetration Test & Vulnerability Assessment	CSA, Controller
23	Upcoming	Performance	Business Services, ITS	CleanPowerSF Privacy Audit	CPUC

#	Quarter Status	Audit Type	Enterprise / Bureau	Audit Name	Oversight Body
24	Upcoming	Financial	Power	Green-e Verification Audit, 2021	Center for Resource Solutions
25	[Updated] Upcoming	Financial	Water	Annual Physical Inventory Count, FY 2021-22	SFPUC, Finance
26	[Updated] Upcoming	Financial	Wastewater		
27	[Updated] Upcoming	Financial	Hetch Hetchy Water & Power		
28	[Updated] Upcoming	Financial	Business Services, Finance	Single Audit (OMB Circular A-133), FY 2020-21	OMB

### Audit Program Summary

	Total	Open	Closed	% Complete
<b>Audits</b>	<b>20</b>	<b>1</b>	<b>19</b>	<b>95%</b>
<b>Recommendations</b>	<b>256</b>	<b>7</b>	<b>249</b>	<b>97%</b>

### Open Audits

	Audit Title	Report Issued Date	Open Rec	Total Rec	Months Open	% Complete	Target Close Date**
<b>External Affairs</b>							
1	Significant Changes Are Needed to the Design, Monitoring, and Control of the San Francisco Public Utilities Commission's Social Impact Partnership Program	12/9/2021	7	7	2	0%	12/31/2022
	<b>Total*</b>		<b>7</b>	<b>7</b>	<b>0</b>	<b>0%</b>	

\* As of July 1, 2015 in AuditShare.

\*\* Date when most complex recommendation of audit will close.

## Open Recommendations

	Recommendation	Explanation	Target Close Date
<b>Social Impact Partnership Program Audit</b>			
1	<p>Take steps to enforce contract requirements related to the SIP Program, including consideration of the following:</p> <p>a. Institute procedures to proactively contact contractors that do not meet reporting requirements and notify contractors that have not demonstrated adequate progress in fulfilling their commitments.</p> <p>b. Post on the program website information related to contractor performance for all contractors participating in the program, including commitments fulfilled and unfulfilled, nonprofit organization beneficiaries, and compliance with program requirements.</p> <p>c. Incorporate contractors' past performance in fulfilling commitments into future solicitation criteria for participation in the program.</p> <p>d. Apply liquidated damages or other penalties to contractors that fail to meet their commitments</p>	<p>SFPUC concurs with this recommendation, and will complete the following by the end of 2022:</p> <p>1a: The audit report notes that, "SFPUC acted to improve its oversight and outreach in 2021," and that, "we noted increased outreach by SFPUC in April 2021." As stated in the report, in April 2021, SFPUC contacted all contractors with SIP commitments, "requesting that they provide support for contributions made through April 2021 and submit required reports." In 2021, SFPUC began developing procedures to contact firms that are not demonstrating compliance. In August 2021, SFPUC sent a standardized letter notifying all non-compliant contractors of any and all outstanding documentation and/or compliance issues. As a result of those efforts, SFPUC received some additional reports from contractors documenting their progress in fulfilling their SIP commitments. SFPUC staff will continue to proactively contact contractors that do not meet reporting requirements and notify contractors that have not demonstrated adequate progress in fulfilling their commitments.</p> <p>1b: As noted in the audit report, "In 2021, SFPUC developed an internal performance dashboard to track and report contractors' fulfillment of SIP commitments and has implemented processes to more proactively contact contractors that are not meeting SIP Program requirements." Additionally, the audit report notes, "SIP staff maintain and use a dashboard to track and report SIP commitments and contractors' progress in fulfilling those commitments." Finally, the audit report states, "SFPUC plans to share the information on its website." SFPUC will post this dashboard on SFPUC's website, which will provide information related to contractor performance for all contractors participating in the program, including commitments fulfilled and unfulfilled, nonprofit organization beneficiaries, and compliance with program requirements.</p> <p>1c: SFPUC staff will work with the City Attorney's Office to develop procedures that incorporate contractors' past performance in fulfilling commitments into future solicitation criteria for participation in the program.</p> <p>1d: SFPUC staff will work with the City Attorney's Office to develop the procedures to apply liquidated damages or other penalties to contractors that fail to meet their commitments.</p>	12/31/2022
2	<p>Move forward with plans to obtain Board of Supervisors approval of a SIP Program policy that includes requirements to standardize processes and practices and provide clear, consistent guidance for the program's contractors.</p>	<p>As stated in the audit report, "in May 2019, it (SFPUC) began working with the City Attorney and Board of Supervisors to draft an ordinance formally legislating the SIP Program. However, in August 2019, SFPUC management decided to pause these efforts until this audit of the SIP Program was completed to ensure that any findings from the audit could be incorporated into the legislation." Now that the audit is complete, SFPUC will</p>	12/31/2022

	Recommendation	Explanation	Target Close Date
		seek Board of Supervisors approval of the SIP Program policy by the end of 2022.	
3	<p>Develop formal, written SIP Program policies and procedures on:</p> <p>a. The oversight and management of the program and guidance provided to external parties.</p> <p>b. Roles and responsibilities of staff and management assigned to the program.</p> <p>c. Standardized contract provisions and protocols for monitoring and reporting on contractor compliance.</p> <p>d. Access and usage of information systems used for program management.</p>	<p>SFPUC concurs with this recommendation, and will complete the following by the end of 2022:</p> <p>3a. The audit report states, "SFPUC had developed a general framework, a business process, that started with the solicitation of SIP-eligible projects and ended with contract close-out." The report states, "in 2018, SFPUC developed a 'SFPUC Community Benefits Program Social Impact Partnerships' document that provides the Community Benefits and Environmental Justice policies; examples and samples of pre-submittal conference agendas, selection of SIP panelist, scoring, SIP contract language, and panelist conflict-of interest statements; general overview of the solicitation process; and SIP reporting requirements." In 2021, SFPUC updated this framework and business process document regarding the oversight and management of the SIP Program. SFPUC will review and develop this framework and business process document into formal, written SIP Program policies and procedures on the oversight and management of the program and guidance provided to external parties based on the recommendations of this audit.</p> <p>3b. In 2021, SFPUC clarified the roles and responsibilities of staff and management assigned to the program. SFPUC will develop formal, written SIP Program policies and procedures documenting the roles and responsibilities of program staff and management consistent with the recommendations of this audit.</p> <p>3c. In 2021, SFPUC staff have been working with the City Attorney's Office to standardize the solicitation language for contracts that contain the SIP language. As a component of this effort, SFPUC staff have updated the language regarding required documentation from contractors to report their progress in delivering SIP commitments. These updates are reflected in solicitations and contracts containing SIP language that have been advertised since August 2021. While the solicitation language will continue to be updated to reflect changes to contracting laws and requirements, SFPUC will work with the City Attorney's Office to update standardized contract provisions for monitoring and reporting on contractor compliance.</p> <p>3d. The audit report notes that, "In 2017, SFPUC implemented Salesforce to monitor contractors and track contractor reporting." In 2021, SFPUC staff updated the reporting system utilized by contractors to submit their reports and supporting documentation to be more user friendly and accessible. SFPUC also standardized the fields in the reporting system and Salesforce to make contractor reporting more consistent and to better ensure that the corresponding data maintained in Salesforce is accurate and reliable. In 2021, SIP Program staff are working with SFPUC's Information Technologies staff to improve and automate systems that assist in contract compliance. SFPUC will develop formal, written SIP</p>	12/31/2022

	Recommendation	Explanation	Target Close Date
		Program policies and procedures regarding access and usage of information systems used for program management.	
4	Formalize the Contract Administration Bureau's record retention policy and ensure the bureau retains all documentation supporting the solicitation and contract award process, including documentation relating to the SIP Program. In doing so, SFPUC should consider developing a formal checklist and filing system to ensure all documentation is retained in a central location and files are easy to locate in the event of staff attrition.	SFPUC's Contract Administration Bureau (CAB), with guidance from the City Attorney's office, will review and formalize the Bureau's record retention policy. CAB will also develop a formal checklist and filing system to ensure all documentation is retained in a central location and files are easy to locate even with staff attrition. This will be completed by the end of 2022.	12/31/2022
5	Ensure staff review required SIP reports and underlying documentation in a timely manner, ensuring information reported by contractors is accurate, reliable, and supported. As discrepancies are identified, SFPUC should proactively and promptly contact contractors to address the discrepancies and areas where additional support is necessary. Documentation supporting SFPUC's efforts should be retained in Salesforce or a centrally located network drive that is available in the event of staff turnover.  a. SFPUC should also conduct periodic supervisory reviews of a sample of approved contractor submissions to ensure that SIP Program staff are following established processes and that information reported by the contractor is supported by the underlying documentation required by SFPUC.	As noted in the audit report and cited above, in spring 2021 SFPUC staff reviewed all of the SIP documentation and reports submitted by firms to date. SFPUC will proactively contact firms to address any discrepancies and provide additional support as necessary. In 2022, SFPUC will retain all such documentation in Salesforce or a centrally located network drive that is available in the event of staff turnover. SFPUC will conduct periodic supervisory reviews of a sample of approved firm submissions to ensure SIP Program staff are following established processes and that information reported by the contractor is supported by the underlying documentation required by SFPUC by the end of 2022.	12/31/2022
6	Assess SIP Program staffing levels to ensure sufficient resources are available to provide oversight and controls necessary to ensure the integrity of the program and accuracy of information reported.	SFPUC will assess SIP Program staffing levels to ensure sufficient resources are available to provide oversight and controls necessary to ensure the integrity of the program and accuracy of information reported by the end of 2022.	12/31/2022
7	Increase transparency into the SIP Program by implementing a publicly available SIP Performance Dashboard, and implement internal controls to ensure the dashboard presents data that is accurate, reliable, and updated in a timely manner.	As noted in the audit report, "In 2021, SFPUC developed an internal performance dashboard to track and report contractors' fulfillment of SIP commitments and has implemented processes to more proactively contact contractors that are not meeting SIP Program requirements." As also stated in the audit report, "SFPUC plans to share the information on its website." By the end of 2022, SFPUC will make the SIP Performance Dashboard publicly available and will implement internal controls to ensure that the dashboard presents data that is accurate, reliable, and updated in a timely manner.	12/31/2022