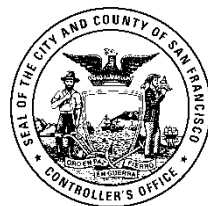


SAN FRANCISCO PUBLIC UTILITIES COMMISSION:

**Expenditures of the Mission and
Mount Vernon Street Sewer
Improvement Project Appear
Reasonable**



November 22, 2011

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the San Francisco Charter (charter) that was approved by voters in November 2003. Under Appendix F to the charter, CSA has broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

CSA conducts its audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Irella Blackwood, Audit Manager
Kat Scoggin, Associate Auditor



City and County of San Francisco

Office of the Controller - City Services Auditor

San Francisco Public Utilities Commission
Expenditures of the Mission and Mount Vernon Street Sewer Improvement
Project Appear Reasonable

November 22, 2011

Purpose of the Audit

The objective of the audit was to determine whether bond proceeds expended for the Mission and Mount Vernon Sewer Improvement project (project) were used in accordance with the intended uses stated in the San Francisco Charter and bond resolution and by action of the San Francisco Public Utilities Commission itself (commission) for the project. The audit period was July 1, 2007 through June 30, 2008.

Highlights

The bond resolution for the 2010 Series A/B Wastewater bonds indicates that bond proceeds should be used for financing the planning, design, construction, and improvement of various capital projects in furtherance of the Capital Improvements Program (CIP) and the Sewer System Improvement Program (SSIP) projects.

Of the \$10.3 million in project expenditures, the audit reviewed \$8.1 million (79 percent) and found that the expenditures were reasonable and in accordance with the bond resolution and intended uses of bond proceeds.

- Most expenditures fell into three main categories: construction progress payments, labor for city employees, and overhead.
- The majority of expenditures the audit reviewed were for progress payments on SFPUC's construction contract with Mountain Cascade. These progress payments were supported by detailed invoices of construction materials and work. Additionally, a Department of Public Works (DPW) resident engineer visually inspected the construction site to verify that the reported progress had been made. Further progress payment authorizations were signed by the DPW resident engineer, a DPW construction manager, and the SFPUC project manager.
- In addition to direct labor costs for SFPUC employees who worked on the project, SFPUC contracted work out to engineers with DPW. To ensure that these labor costs were reasonable, the project manager periodically reviewed labor reports and monitored whether labor costs ran over budget.
- Overhead expenditures included costs incurred in support of the CIP projects, but not directly attributable to a specific project. Such expenditures included salaries of top-level management and support staff, and non-personnel expenses such as office supplies.

Project Overview

The Mission and Mount Vernon Sewer Improvement project was a CIP project designed to improve area-wide sewer drainage for wastewater that is collected or transmitted on Mission Street in San Francisco around Mount Vernon Avenue, Ellington Avenue, and Foote Avenue.

The project entered the planning stages in September 2005 and was completed in September 2009 for \$10.3 million, finishing 10 percent under budget.

CIP was comprised of projects designed to improve the city's sewer system while SFPUC developed the current SSIP.

The project was originally funded with proceeds from the sale of commercial paper (short-term debt obligations SFPUC uses to temporarily fund projects while it prepares bond issuances). The commercial paper was refunded with proceeds from the 2010 Series A/B Wastewater bonds.

Copies of the full report may be obtained at:

*Controller's Office • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at <http://www.sfgov.org/controller>*

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 22, 2011

Aimee Brown, Chair
San Francisco's Public Utilities Revenue Bond Oversight Committee
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Chair and Members:

The Office of the Controller, City Services Auditor Division (CSA), presents its audit report of the Mission and Mount Vernon Sewer Improvement project (project) administered by the San Francisco Public Utilities Commission, Wastewater Enterprise. The audit objective was to determine whether bond proceeds expended on the project were used in accordance with the intended uses stated in the bond resolution and San Francisco Charter, and with the actions of the San Francisco Public Utilities Commission itself (commission).

CSA found that the expenditures of the project were in accordance with the bond resolution, intended uses, and commission action for the project.

The SFPUC's response to the audit is attached as an appendix.

We appreciate the assistance and cooperation that SFPUC staff and staff in other city departments provided to us during the audit.

Respectfully,

A handwritten signature in black ink, appearing to read "Tonia Lediju". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tonia Lediju
Director of Audits

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LIST OF ABBREVIATIONS AND ACRONYMS

CIP	Capital Improvements Program
City	City and County of San Francisco
commission	Governing body of San Francisco Public Utilities Commission
CSA	City Services Auditor Division, Office of the Controller
DPW	Department of Public Works
FAMIS	Financial Accounting Management Information System
project	Mission and Mount Vernon Sewer Improvement Project
RBOC	San Francisco's Public Utilities Revenue Bond Oversight Committee
SFPUC	San Francisco Public Utilities Commission (a city department)
SSIP	Sewer System Improvement Program

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INTRODUCTION

Audit Authority

This audit was conducted under the authority of the charter of the City and County of San Francisco (City), which requires that the City Services Auditor (CSA) of the Office of the Controller conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.

CSA entered an agreement with San Francisco's Public Utilities Revenue Bond Oversight Committee (RBOC), a committee formed in November 2003 to monitor the bond expenditures of San Francisco Public Utilities Commission (SFPUC), to perform a series of five audits. At the request of RBOC, CSA evaluated the bond-funded expenditures of the Mission and Mount Vernon Sewer Improvement project (project) to determine if bond proceeds were used in accordance with the bond resolution, intended uses, and action of the San Francisco Public Utilities Commission itself (commission). The commission consists of five members, nominated by the Mayor and approved by the Board of Supervisors to provide operational oversight in areas such as rates and charges for services, approval of contracts, and organizational policy.

Background on Sewer System Improvement Program

The SFPUC initiated the Sewer System Improvement Program (SSIP) after seven years of sewer system master planning that began in 2005. Currently, SFPUC endorses five goals of SSIP:

- Provide a compliant, reliable, resilient, and flexible system that can respond to catastrophic events.
- Minimize flooding.
- Provide benefits to impacted communities.
- Modify the system to adapt to climate change.
- Achieve economic and environmental sustainability.

SSIP projects are designed to meet these goals by addressing the following system deficiencies:

- Aging infrastructure and poor condition of existing facilities.
- Seismic deficiencies and lack of structural integrity.
- Limited operating flexibility and lack of redundancy.

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Expenditures of the Mission and Mount Vernon Street Sewer Improvement Project
Appear Reasonable

- Ongoing need to protect the environment and public health, meet regulatory challenges, and conserve resources.

According to SFPUC management, before SSIP was formalized, related construction projects were conducted under the Capital Improvements Program (CIP).

Background on SFPUC Wastewater Bonds and Intended Uses

The San Francisco Charter (charter), Section 8B.124, authorizes SFPUC to issue revenue bonds, subject to the approval of the Board of Supervisors, for reconstructing, replacing, expanding, repairing, or improving water facilities or clean water facilities or combinations of water and clean water facilities under the jurisdiction of SFPUC. In 2010 SFPUC issued a series of wastewater revenue bonds.

The 2010 Series A/B Bonds are used to finance and refinance a portion of the costs of planning, design, construction, and improvement of various capital projects in furtherance of the CIP and the proposed SSIP of SFPUC's Wastewater Enterprise.

Background on the Project

The project was part of the CIP and its objective was to improve area-wide sewer drainage for wastewater that is collected or transmitted on Mission Street in San Francisco around Mount Vernon Avenue, Ellington Avenue, and Foote Avenue. The project started on September 26, 2005, with a budget of \$11.4 million.

SFPUC completed the project under budget.

According to the project manager, SFPUC worked with the Department of Public Works (DPW) for planning and design, and the construction contract was awarded to Mountain Cascade. The project was completed on September 22, 2009, finishing 10 percent below budget with total expenditures of \$10.3 million.

EXHIBIT 2 Mission and Mount Vernon Sewer Improvement Project Expenditures by Year

Fiscal Year	Amount
2005-06	\$ 322,114
2006-07	508,729
2007-08	9,398,842
2008-09	40,597
Total	\$ 10,270,282

Source: FAMIS data for fiscal years 2005-06 through 2008-09 as of November 1, 2011.

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Objective	The objective of the audit was to determine whether bond proceeds were used in accordance with the bond resolution, intended uses, and commission action for the project.
Scope and Methodology	The scope of the audit included the project's expenditures during fiscal year 2007-08. The audit team: • Reviewed charter provisions, bond indenture agreements, official statements, use of proceeds certificates, and commission resolutions. • Interviewed staff and managers to understand SFPUC's project management processes and expenditure approval processes. • Assessed the project's internal controls for expenditure processing and review. • Tested, on a sample basis, \$8.1 million of 2007-08 expenditure transactions recorded in the Financial Accounting Management Information System (FAMIS).
Statement of Auditing Standards	This performance 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. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

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AUDIT RESULTS

Summary

SFPUC's expenditures in the Mission and Mount Vernon Sewer Improvement Project were in accordance with the bond resolution and SFPUC had strong controls over expenditures to ensure that they were appropriate.

Finding

The project's expenditures were appropriate and in accordance with the bond resolution.

SFPUC's expenditures for the project were in accordance with the bond criteria.

All of the \$8.1 million in audited expenditure transactions appear reasonable. The bond resolution indicates that bond proceeds should be used for financing the planning, design, construction, and improvement of various capital projects in furtherance of CIP and SSIP projects. According to SFPUC Financial Planning staff, the project was originally funded with commercial paper proceeds, which were repaid with the 2010 wastewater bond proceeds. To test whether expenditures were appropriate, the audit selected and reviewed \$8.1 million of expenditure transactions, which are categorized in Exhibit 2.

EXHIBIT 2		Mission and Mount Vernon Sewer Improvement Project Expenditure Transactions for Fiscal Year 2007-08		
Transaction Category	Total	Total of Selected Transactions	Results of Review	
Construction contract progress payment transactions	\$8,402,490	\$8,103,614	No exceptions	
City employee labor payment	856,118	30,534	No exceptions	
Overhead	85,323	218	No exceptions	
Other	54,911	0		
Total	\$9,398,842	\$8,134,366	No exceptions	

Source: Auditor's evaluation of FAMIS data for fiscal year 2007-08.

According to the project manager, construction contract progress payments were made to the construction contractor for any verifiable work performed under the contract. The audited progress payment requests included detailed invoices for construction work performed by the contractor and invoices from subcontractors. All expenses were for construction materials and labor. Additionally, a DPW resident engineer visually inspected the construction

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Appear Reasonable

site to verify that the reported progress had been made, and progress payment authorizations were signed by the DPW resident engineer, a DPW construction manager, and the SFPUC project manager.

Payments for city employee labor covered expenses incurred for hours worked by employees of SFPUC and DPW related to the project. For instance, SFPUC worked with DPW civil engineers on building designs and specifications that were later constructed by the contractor. SFPUC tracked the city employee labor costs charged against the project through periodic reviews of labor reports.

According to SFPUC budget staff, the overhead transactions indicated in Exhibit 2 include overhead costs incurred by SFPUC's Infrastructure Bureau that cannot be attributed directly to a project, such as the salaries of top-level management, the salaries of administrative and support staff, and office supplies. Through contracting with an external financial consultant, the Infrastructure Bureau ensures that the expenses it categorizes as overhead and its methodology for allocating overhead expenses to projects are reasonable.

The audit found no evidence that any unallowable costs were funded through the project.

APPENDIX: SAN FRANCISCO PUBLIC UTILITIES COMMISSION RESPONSE



San Francisco
Water Power Sewer
Services of the San Francisco Public Utilities Commission

1155 Market Street, 11th Floor
San Francisco, CA 94103
T 415.554.3155
F 415.554.3161
TTY 415.554.3488

November 4, 2011

Tonia Lediju, Audit Director
Office of the Controller, City Services Auditor Division
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Management's Responses to Expenditures of the Mission and Mount
Vernon Street Sewer Improvement Project Appear Reasonable

Dear Ms. Lediju,

Thank you for providing us the opportunity to review the audit entitled
Expenditures of the Mission and Mount Vernon Street Sewer Improvement
Project Appear Reasonable, prepared for the Revenue Bond Oversight
Committee by the Controller's Office, City Services Auditor, for the period July
1, 2007 to June 30, 2008.

The SFPUC will continue to work with Wastewater project management to
ensure ongoing compliance throughout the Enterprise's capital programs.

If you have any questions or need additional information, please do not hesitate
to contact me at (415) 554-1600.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ed Harrington", followed by a small flourish.

ED HARRINGTON
General Manager

cc: Aimee Brown, Chair, Revenue Bond Oversight Committee
Michael Carlin, Deputy General Manager
Todd L. Rydstrom, AGM Business Services & Chief Financial Officer
Charles Perl, Deputy Chief Financial Officer
Nancy L. Hom, Director, Assurance & Internal Controls

Edwin M. Lee
Mayor

Anson Moras
President

Art Torres
Vice President

Ann Moller Cook
Commissioner

Francesca Viorio
Commissioner

Vince Courtney
Commissioner

Ed Harrington
General Manager

