



CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

**Ben Rosenfield
Controller**

**Todd Rydstrom
Deputy Controller**

DATE: July 13, 2023
TO: Dennis Herrera, General Manager, Public Utilities Commission
FROM: Ben Rosenfield, Controller
SUBJECT: **Results of CY2022 Post Audit & Continuous Monitoring Program**

Thank you for your staff’s support of the Controller’s continuous monitoring and post audit program. This letter summarizes the audit work completed and explains observations that may have been found during that work. We recognize the extra work and resources required to collect the subject documentation, especially under these extraordinary circumstances, and we truly appreciate your department’s effort and assistance.

Department Financial Activity Highlights:

Financial Activity	Fiscal Year 2020		Fiscal Year 2021		Fiscal Year 2022	
	Count	Amount	Count	Amount	Count	Amount
Voucher	34,778	1,294,034,712.40	33,409	1,588,215,434.88	33,546	1,622,368,235.70
Expense Report	1,310	570,348.33	994	184,424.25	869	210,397.36
GL Journal	5,038	29,443,732,999.71	5,074	23,145,784,893.40	5,262	30,660,350,651.21
KK Journal	1,678	10,712,127,138.35	1,717	11,736,739,230.79	1,740	12,810,672,792.25
Purchase Order	11,075	181,812,100.90	8,303	160,968,291.09	8,068	270,421,420.00
Accounts Receivable	5,748	668,503,874.43	5,147	1,965,463,122.99	6,812	2,004,061,324.43
Totals	59,627	42,300,781,174.12	54,644	38,597,355,397.41	56,297	47,368,084,820.95

Program Overview

The continuous monitoring and post audit program are designed to help assess each department’s accounting and internal control practices and compliance with City laws, regulations, and policies. The monthly monitoring reports that we send you or your staff provide regular feedback about processing in your department. They can help identify areas that are working well and highlight those that may need immediate attention for change and improvement.

Post-Audit Approach

The post audit examines the effectiveness of the design and implementation of each department’s internal control. This year, a risk-based approach was used to determine the transaction cycles selected for testing. Each department was assigned a departmental risk level for each transaction cycle based on the materiality of the department’s operations to the City’s financial reporting objectives. This was done primarily on the magnitude, volume, and complexity of the department’s transactions, and adjusted for factors such as separate reporting funds and new systems, personnel, or management. Departments with more transactions, higher dollar amounts, more complex transactions, and separate financial statements were assigned a higher risk. The assessment of inherent risk is used to design audit procedures and is not a reflection on your department’s management or performance.

Financial transactions were selected for analysis and testing on a risk basis. Documentation provided by your department as well as preliminary inquiries of key personnel were used to evaluate the adequacy of the design of the controls on selected cycles. Subsequent testing was used to evaluate the adequacy of the implementation of the controls. In all cases, the existence of citywide controls and potential compensating controls are considered in the evaluation.

Procedures

Our audit team:

- Reviewed your response to our internal control questionnaire
- Reviewed your continuous monitoring results
- Reviewed your prior year's post audit results and your response
- Examined your written policies and procedures pertaining to the audit areas
- Interviewed key staff members to understand the design of controls

Strengths

The following areas are highlighted as your strengths. Your cooperation in timely preparation and organization of backup documentation contributed to an efficient post audit. The Controller's Office thanks you for your prompt response to our inquiries throughout the duration of the post audit.

1. **Documentation.** Your department provided processes and procedures for all requested cycles for this post audit. This demonstrates commitment by management to implement an effective system of internal controls.
2. **Promptly Clearing Unidentified Receipts.** Your department has maintained performance with no exception in this area.
3. **Budget Entry Documents.** Your department has maintained performance with no findings in this area.
4. **Journal Entry Documents.** Your department has maintained performance with no findings in this area.

Areas for Improvement

Based on the test work performed, there were certain areas that were found to need improvement or requested documentation was not received. Specific areas include:

1. **Purchasing & Payables Processing.** Ten invoices we reviewed were paid untimely and did not take advantage of the supplier's discount terms resulting in lost discount. Also, two invoices were paid within 30 days from invoice receipt but did not take advantage of the supplier's discount terms. The department should ensure that invoices are processed following City's prompt payment rule of 30 days and within the discount terms. See Appendix A, Transaction Documentation for details.
2. **Expense Reports Processing.** One employee reimbursement for food exceeded Controller's threshold of \$200 per single vendor and should have gone through the procurement process. We recommend the department remind employees of the Controller's guidelines to ensure reimbursements fall within the policy. See Appendix A, Transaction Documentation for details.

Summaries of all higher risk findings are presented in **Appendix A: Fieldwork Test Results** on page 4, **Appendix B: Grant Administration** on page 8, and **Appendix C: P Card** on page 9.

Year-End Close

An ongoing goal of the Controller’s office is to have a well-managed process for CCSF’s Year-End Close. To accomplish this goal, departments must meet the year-end schedule, respond promptly to Controller’s request for information and required actions. This ensures that the processes for the issuance of our Annual Comprehensive Financial Report (ACFR) provides financial data integrity, accuracy, and timeliness. Below is your department’s last three year’s statistics on budget and journal entries submitted after the month 13 deadline and deleted vouchers that were not fully approved by the year-end deadline.

Financial Activity	Fiscal Year 2020		Fiscal Year 2021		Fiscal Year 2022	
	Count	Amount	Count	Amount	Count	Amount
Deleted Vouchers	141	4,873,413.82	32	1,718,100.54	58	2,001,160.95
GL submitted after year-end deadline	4	8,849,379.46	1	18,630,319.28	2	27,906,130.56
KK submitted after year-end deadline	-	-	-	-	2	18,604,087.04

Follow-up

A detailed audit matrix that reflects test work for each area of the Post Audit was provided to the Department’s Controller and discussed at the exit conference. We have not removed findings which we believe are valid although your staff may disagree. In those cases, we have communicated our reasons for retaining the finding to your staff and included any comments in the appendices.

By September 15, 2023, please provide us with a response for the observations that were reported above. If you have any questions about the audit or this report, please call Jocelyn Quintos at 415-554-6609 or Lilly Ting at 415-554-7567.

- Cc: Nancy Hom, Chief Financial Officer / Assistant General Manager, Business Services
- Laura Busch, Acting Deputy Chief Financial Officer
- Vivian Chen, Accounting Services Director
- Sailaja Kurella, Director, Office of Contract Administration
- Jocelyn Quintos, Director of Accounting Operations and Supplier, Controller’s Office

Appendix A: Fieldwork Test Results

Overview

Communication, documentation, and monitoring of compliance are critical elements of every sound financial system, and policies and procedures are an essential part of establishing internal controls. For this year's post audit, departments were asked to respond to an internal control questionnaire and submit copies of their policies and procedures for the basic accounting cycles, submit selected transaction documentation for review and to conduct walkthroughs on accounting cycle procedures.

Internal Control

While it was not within the scope of this audit to perform an extensive internal control review, the status of procedure documentation your department has submitted on requested cycles is below.

Cycle	Status
Cash Handling	Received
Revenue and Receivables	Received
Purchasing & Payables	Received
Payroll	Received
Grants	Not Received. Department follows Controller's Policies.
Journal Entries & Financial Closing	Received
Budget Changes	Not Received. Department follows Controller's Policies.
Debt	Received
Fixed Assets	Received
Inventory	Received
Trustee Accounts	Received
Claims	N/A

Transaction Documentation

The following documents were selected for review, document numbers in bold indicate issues found. Please find our observations below.

Purchasing & Payables		Findings and Recommendation
Hetch Hetchy	PUC	<p>Our review found twelve higher risk items in this category.</p> <p>Ten vouchers we reviewed were paid more than 30 days after the invoices were received. Of the ten vouchers, eight voucher did not take advantage of the suppliers' payment discount terms and resulted in lost discounts due to late payment. We recommend the department review and update their payment procedures to ensure that invoices are paid within the City's prompt payment rule of 30 days.</p> <p>Ten vouchers, including the eight mentioned above failed to obtain the discount allowed from the vendor with total discount loss of \$8,237.24. We recommend the department develop a tracking system to track payments with discount terms and to give these payments the priority when processing.</p> <p>Other minor findings related to these transactions were discussed with your staff.</p>
01942880	01942880	
02022626	02264214	
02050328		
02051742		
02126657		
02136038		
02165311		
02187524		
02263074		
02302907		
02306785		
02308503		
Water	Wastewater	
01942880	01942880	
01943848	02045366	
01951563	02136038	
02021936	02148140	
02026611	02264214	
02026635	02275477	
02038595	02278094	
02086836	02304468	
02205021	02324830	
02221130		
02244923		
02251252		
02279319		
02283932		
02326283		
CleanPower		
01946750		
02128485		
02165311		

Cash Receipts		Findings and Recommendation
Hetch Hetchy 218689 252249	PUC No samples	Our review found one higher risk item in this category. One deposit was not recorded in PeopleSoft within 5 days after the actual deposits were processed to the bank. We recommend the Department to post cash receipts about the same time the money is deposited, at least within 5 calendar days, to ensure it is timely reflected in the financial system.
Water 208021	Wastewater 208021	
CleanPower 207191 208215		

Journal Entry - Revenue & Receivable		Findings and Recommendation
Hetch Hetchy No samples	PUC 0000468971	Our review did not result in any findings for the documents selected.
Water 0000466091 0000468971 0000483050	Wastewater 0000468971 0000483050	
CleanPower No samples		

Journal Entry - Year end		Findings and Recommendation
Hetch Hetchy 0000469999 0000481835	PUC No samples	Our review did not result in any findings for the documents selected
Water 0000476061 0000481835	Wastewater 0000476061 0000481835	
CleanPower No samples		

Budget – Non-Year End		Findings and Recommendation
Hetch Hetchy 0000505413	PUC 0000426515	Our review did not result in any findings for the documents selected.
Water 0000467901	Wastewater No samples	
CleanPower No samples		

Budget - Financial Closing		Findings and Recommendation
Hetch Hetchy No samples	PUC No samples	Our review did not result in any findings for the documents selected.
Water 0000479336 0000480071	Wastewater 0000487971	
CleanPower No samples		

Expense		Findings and Recommendation
Hetch Hetchy 0000084719	PUC 0000085284	Our review found one higher risk item in this category. One employee reimbursement was non-compliant with Controller reimbursement guidelines. Per Controller’s Employee Reimbursement Guidelines, officers or employees may be reimbursed for reasonable work-related costs, minor and non-recurring goods up to \$200 from any single vendor. One reimbursement request we reviewed exceeded the \$200 maximum allowable amount. We recommend department to go through the procurement process and to remind employees of the Controller’s guidelines to ensure reimbursements fall within the policy and reimburse only for reasonable work-related costs that encompass minor and non-recurring goods.
Water 0000084912 0000085870	Wastewater 0000089810	
CleanPower No samples		

Appendix B: Grant Administration

The following grants were selected for review, below are our observations.

Grant Code & Title	Findings and Recommendation
CTR00002964 - SRF Headworks - 10015807	Our review did not result in any findings for the grant selected.

Appendix C: Procurement Card (P-Card)

Overview

The City Procurement Card (P-Card) program enables designated City employees to make authorized purchases during declared emergencies and for certain employee reimbursement items. All transactions should comply with both the citywide P-Card policy and your pre-approved departmental policy. P-Card purchases are monitored monthly and quarterly using reports available from PeopleSoft and US Bank. Departments must respond to all inquiries from the P-Card team and/or fund accountant to ensure that transactions are compliant and that any potential violations are reviewed and granted an exception.


Your department did not have any P Card process during our post audit period.



Date: September 5, 2023

To: Ben Rosenfield, Controller

Through: Dennis Herrera, General Manager

From: Nancy L. Hom, Chief Financial Officer, Assistant General Manager, Business Services 

Subject: **Management Response to CY 2022 Post Audit Findings**

Thank you for your Post Audit Report dated July 13, 2023, detailing the results of the Calendar Year 2022 Post Audit & Continuous Monitoring Program. Controller’s Office monitoring and review program is beneficial and supports SFPUC’s enforcement of adherence and compliance to citywide policies and procedures. We greatly appreciate your highlights of our department’s strengths, as well as the insightful observations noted in the report. SFPUC staff will continue to evaluate opportunities to promote and enhance compliance in the monitored areas, with particular emphasis on areas highlighted by recent findings. SFPUC’s detailed responses and work plans follow:

A. Purchasing & Payables Processing

Findings	Response/Action Plan
<p>Our review found twelve higher risk items in this category.</p> <p>Ten vouchers we reviewed were paid more than 30 days after the invoices were received. Of the ten vouchers, eight voucher did not take advantage of the suppliers’ payment discount terms and resulted in lost discounts due to late payment. We recommend the department review and update their payment procedures to ensure that invoices are paid within the City’s prompt payment rule of 30 days.</p> <p>Ten vouchers, including the eight mentioned above failed to obtain the discount allowed from the vendor with total discount loss of \$8,237.24. We recommend the department develop a tracking system to track payments with discount terms and to give these payments the priority when processing.</p> <p>Other minor findings related to these transactions were discussed with your staff.</p>	<p>SFPUC Accounting will continue to provide trainings to divisional purchasing and accounts payable staff of the City’s Prompt Payment policy and the requirement to expedite payment processing on discounted invoices.</p> <p>The SFPUC’s Accounts Payable GoPaperless system has embedded a systematic tracking of invoices requested to be expedited.</p> <p>Divisional staff are trained to select the checkbox “Expedited” for expeditious processing on discounted invoices. Staff are reminded to take discount whenever possible.</p>

- London N. Breed**
Mayor
- Newsha K. Ajami**
President
- Sophie Maxwell**
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- Tim Paulson**
Commissioner
- Anthony Rivera**
Commissioner
- Kate H. Stacy**
Commissioner
- Dennis J. Herrera**
General Manager



B. Cash Receipts

Findings	Response/Action Plan
<p>Our review found one higher risk item in this category.</p> <p>One deposit was not recorded in PeopleSoft within 5 days after the actual deposits were processed to the bank. We recommend the Department to post cash receipts about the same time the money is deposited, at least within 5 calendar days, to ensure it is timely reflected in the financial system.</p>	<p>SFPUC has strictly followed Controller's Office and departmental policies to post cash receipts within 5 days.</p> <p>This delay is isolated due to staff unfamiliar with adjusting entry made in the newly implemented billing system, C2M, for power utility service. The staff was provided further training on this matter.</p>

C. Expense

Findings	Response/Action Plan
<p>Our review found one higher risk item in this category.</p> <p>One employee reimbursement was non-compliant with Controller reimbursement guidelines. Per Controller's Employee Reimbursement Guidelines, officers or employees may be reimbursed for reasonable work-related costs, minor and non-recurring goods up to \$200 from any single vendor. One reimbursement request we reviewed exceeded the \$200 maximum allowable amount. We recommend department to go through the procurement process and to remind employees of the Controller's guidelines to ensure reimbursements fall within the policy and reimburse only for reasonable work-related costs that encompass minor and non-recurring goods.</p>	<p>SFPUC will continue to provide trainings to employees to ensure compliance of Controller's Office policies and procedures.</p> <p>The employee and manager were notified to follow proper purchasing guideline for future food purchases.</p>

SFPUC staff will carefully consider all other observations and recommendations for improvement in relation to this post-audit.

cc: Jocelyn Quintos, Director of Accounting Operations and Systems, Controller's Office
Sailaja Kurella, Director of Office of Contract Administration
Ronald P. Flynn, Deputy General Manager
Vivian Aiyi Chen, Deputy Chief Financial Officer
Irella C. Blackwood, Audit Director