

PUBLIC UTILITIES REVENUE BOND OVERSIGHT COMMITTEE CITY AND COUNTY OF SAN FRANCISCO MINUTES - DRAFT

Public Utilities Commission Building
525 Golden Gate Ave., 2nd Floor
Yosemite Conference Room
San Francisco, CA 94102

April 11, 2016 - 9:00 AM

Regular Meeting

Purpose: The purpose of the RBOC is to monitor the expenditure of revenue bond proceeds related to the repair, replacement, upgrading, and expansion of the City's water collection, power generation, water distribution, and wastewater treatment facilities.

Mission: The goal of the RBOC is to make certain public dollars are spent according to authorization and applicable laws. Its purpose is to facilitate transparency and accountability in connection with the expenditure of revenue bond proceeds. The General Public is invited and welcomed to attend RBOC meetings and to provide input.

1. Call to Order and Roll Call

Seat 1 Holly Kaufman (Holdover status)
Seat 2 Kevin Cheng, Co-Chair (Holdover status)
Seat 3 Vacant
Seat 4 Marina Pelosi (Holdover status)
Seat 5 Dari Barzel
Seat 6 Christina Tang, Vice Chair
Seat 7 Joshua Low, Co-Chair

Co-Chairs Kevin Cheng and Joshua Low called the meeting to order at 9:11 a.m. On the call of the roll, Members Cheng, Pelosi, Barzel, and Low were noted present. Members Kaufman and Tang were noted absent. There was a quorum.

2. Agenda Changes

There were no agenda changes.

3. Public Comment: Members of the public may address the Revenue Bond Oversight Committee (RBOC) on matters that are within the RBOC's jurisdiction but are not on today's agenda.

Public Comment: *Speakers: There were none.*

Items 4 through 7 were called and heard together.

4. Updates to Mission Statement

Mike Brown (SFPUC); Mark Blake, Deputy City Attorney; provided information and responded to questions raised throughout the hearing.

Public Comment: Speakers: There were none.

Member Tang was noted present at 9:13 a.m. and for the remainder of the meeting. Member Kaufman was noted present at 9:15 a.m. and for the remainder of the meeting.

Member Low moved to CONTINUE this item to the May 9, 2016, RBOC Regular Meeting. The motion passed by the following vote:

Ayes: 6 - Barzel, Cheng, Low, Kaufman, Pelosi, Tang

5. Follow Up: Strategic Planning Session

Mark Blake, Deputy City Attorney; Mike Brown (SFPUC); provided information and responded to questions raised throughout the hearing.

Public Comment: Speakers: There were none.

6. RBOC Member Vacancies

Mark Blake, Deputy City Attorney; Mike Brown (SFPUC); provided information and responded to questions raised throughout the hearing.

Mark Blake, Deputy City Attorney, will provide information regarding consecutive terms, as well as a list of past members who may be interested in serving on the Committee.

Derek Evans, Assistant Clerk of the Board of Supervisors, will provide the Committee with a list of Supervisors—each Committee member will reach out to select Supervisors.

Public Comment: Speakers: There were none.

7. RBOC Strategic Planning Preparations

Mark Blake, Deputy City Attorney; Mike Brown (SFPUC); provided information and responded to questions raised throughout the hearing.

Public Comment: Speakers: There were none.

8. San Francisco Public Utilities Commission (SFPUC) Staff Report: Capital Planning

Mike Brown (SFPUC); provided information and responded to questions raised throughout the hearing.

Item Nos. 8 through 10 were called and heard together. Christina Andersson, Debt Manager (SFPUC); provided an overview of debt management practices for the agency. Discussion centered on her presentation (included with these minutes).

Public Comment: Speakers: There were none.

San Francisco Public Utilities Commission (SFPUC) Staff Report: Water System Improvement Program (WSIP) Financial Audit Findings

Mark Blake, Deputy City Attorney; Christina Andersson, Debt Manager, and Mike Brown (SFPUC); provided information and responded to questions raised throughout the hearing.

Public Comment: Speakers: There were none.

9. **San Francisco Public Utilities Commission (SFPUC) Staff Report: Legal Compliance with Bond Requirements**

Mark Blake, Deputy City Attorney; Christina Andersson, Debt Manager, and Mike Brown (SFPUC); provided information and responded to questions raised throughout the hearing.

Public Comment: Speakers: There were none.

10. **Announcements, Comments, Questions, and Future Agenda Items**

Member Low will review and provide comments on the RBOC work plan.

Member Barzel will work with SFPUC staff (Mike Brown) to elaborate on the next staff presentation for the May 9, 2016, meeting.

Mark Blake, Deputy City Attorney, will provide comments on the RBOC Mission statement document (included with these minutes), information regarding Propositions H and B, and information on term limits, as well as a list of past members who may be interested in serving on the Committee.

Derek Evans, Assistant Clerk of the Board of Supervisors, will provide Committee members with a list of Supervisors and each Committee member will select and reach out to Supervisors.

Christina Andersson, Debt Manager (SFPUC), will provide to the Committee executive summaries of audits (included with these minutes), follow up with Nancy Hom, Director of Assurance and Internal Controls (SFPUC) regarding outliers, and follow up with the Committee regarding a City Services Auditor divisional audit 101 for the June or July RBOC regular meeting.

Member Cheng will work with Mike Brown (SFPUC) regarding upcoming presentation (date to be determined) on Mountain Tunnel.

Public Comment: Speakers: There were none.

11. Adjournment

There being no further business, the meeting adjourned at 10:30 a.m.

N.B. The Minutes of this meeting set forth all actions taken by the Revenue Bond Oversight Committee on the matters stated but not necessarily in the chronological sequence in which the matters were taken up.

Agenda Item Information

Each item on the agenda may include: 1) Department or Agency cover letter and/or report; 2) Public correspondence; 3) Other explanatory documents. For more information concerning agendas, minutes, and meeting information, such as these documents, please contact RBOC Clerk, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 – (415) 554-5184.

Audio recordings of the meeting of the Revenue Bond Oversight Committee are available at: http://sanfrancisco.granicus.com/ViewPublisher.php?view_id=97

For information concerning San Francisco Public Utilities Commission please contact by e-mail RBOC@sfgov.org or by calling (415) 554-5184.

Meeting Procedures

Public Comment will be taken before or during the Committee's consideration of each agenda item. Speakers may address the Committee for up to three minutes on that item. During General Public Comment, members of the public may address the Committee on matters that are within the Committee's jurisdiction and are not on the agenda.

Procedures do not permit: 1) persons in the audience to vocally express support or opposition to statements by Commissioners by other persons testifying; 2) ringing and use of cell phones, pagers, and similar sound-producing electronic devices; 3) bringing in or displaying signs in the meeting room; and 4) standing in the meeting room.

The ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing or use of a cell phone, pager, or other similar sound-producing electronic devices.

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翻譯 必須在會議前最少四十八小時提出要求
請電 (415) 554-7719

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Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils, and other agencies of the City and County exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review.

For more information on your rights under the Sunshine Ordinance (San Francisco Administrative Code, Chapter 67) or to report a violation of the ordinance, contact by mail: Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102; phone at (415) 554-7724; fax at (415) 554-7854; or by email at soff@sfgov.org.

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RBOC DRAFT MISSION AND GOALS

March 7, 2016

MISSION: The purpose of the RBOC is to monitor the expenditure of revenue bond proceeds related to the repair, replacement, upgrade and expansion of the SFPUC's water, power and sewer infrastructure. The RBOC's goal is to ensure that specific SFPUC revenue bond proceeds are spent appropriately and according to authorization and applicable laws. The RBOC provides oversight to ensure transparency and accountability in connection with expenditure of the proceeds. The public is welcome to attend RBOC meetings and provide input.

GOALS:

- 1) Monitoring – The Committee maintains awareness of program scope, schedule and budget, and any major issues in planning and implementation of the program.

Activities:

- Through review of staff documents and discussions during staff presentations, members are made aware of milestones, schedule and budget adherence, question staff and consultants and provide advice on any remedial or mitigation strategies needed.
- Where additional technical assistance is needed, reports are prepared in conjunction with special consultants, reporting to the Committee.
- Routine reporting is in place, diagnostics of project delay are handled expeditiously, and course correction advice is provided in a timely manner.
- Conduct site visits

- 2) Accountability – The Committee is accountable toSFPUC customers to ensure that the rates they pay fund projects that materially improve the services they receive.

Activities:

- Committee members have an in depth knowledge of agency staff roles and responsibilities. When program or project delay or advancement occurs, the Committee understands where the accountability lies for delivery of program components.
- The Committee also takes steps to keep the Commission, the Mayor's Office and the general public informed of the results of the monitoring and oversight activities, and summarizes these activities in its Annual Report.

- 3) Transparency - The Committee practices transparency in its operations.

Activities:

- Transcripts of all meetings are available in various formats.

- Meetings are open to the public and some meetings are held at community locations
- 4) Efficiency – The Committee utilizes staff and consultant time in cost effective ways.

Activities:

- The Committee meetings are well run.
- Meeting attendance is nearly one hundred percent
- Preparation and participation by members is active and involved.
- When a subject needs more detailed work than the entire Committee has available, ad hoc subcommittees are established by the Chair.
- Contractual assistance is competitively bid and the resulting recommendations used for improved program or project implementation.

SUMMARY NOTES

San Francisco Public Utilities Commission Revenue Bond Oversight Committee

2016 Strategic Planning Meeting

February 8, 2016

Attendees: Kevin Chang, Co-Chair
Joshua Low, Co-Chair
Holly Kaufman
Marina Pelosi
Christina Tang
Dari Barzel, Applicant for Committee appointment
Derek Evans, Assistant Clerk, SFBOS
Mark Blake, Deputy City Attorney
Mike Brown, SFPUC Finance staff

Discussion of Committee Mission

After a summary of the background legislation and purpose of the RBOC given by Mark Blake, the Committee members discussed and redrafted the mission statement as follows:

The purpose of the RBOC is to monitor the expenditure of revenue bond proceeds related to the repair, replacement, upgrade and expansion of the SFPUC's water, power and sewer infrastructure. The RBOC's goal is to ensure that SFPUC revenue bond proceeds are spent appropriately and according to authorization and applicable laws. The RBOC provides oversight to ensure transparency and accountability in connection with expenditure of the proceeds. The public is invited to attend RBOC meetings and provide input.

Members agreed to review the draft and plan to adopt a final revision at their next meeting.

Improvement of Committee Operations

After the discussion and redrafting above, Committee members agreed that they are clear on the mission of the Committee. They then discussed the strategic issues facing the group for the next 12-18 months. These issues and possible actions are summarized below:

- 1) The Committee needs a study of program comprehensiveness. There is a need to find out if the scope of the capital program is responsive to issues of recycling,

climate change, flooding. What other capital program components are mission critical and how does the Committee ensure that they are not omitted?

- 2) There is a need to stress test the overall budget, especially with the impact on the ability to pay off bonds due to current revenue decline.
- 3) How to best incorporate WISP lessons learned into sewer program? Should staff continue the annual peer review established for WISP or is it better to continue with independent audit? Request staff to provide the top 10 recommendations and what the results are of those that have been accepted and implemented. Need to coordinate and get recommendations from City Auditor and coordinate with their work plans.
- 4) The members agreed that a separate strategy session focused on the above 3 issues should be scheduled very soon.
- 5) Find a way to get staff time committed to implementation of the Committee's work plan
- 6) Consider bringing back subcommittees to improve ability to drill down into a topic.
- 7) Decide early if Committee wants a site visit/tour of facilities; Derek will request and coordinate.
- 8) Request staff to provide copies of the presentation materials prior to the RBOC meeting, preferably in the agenda packet.

Preliminary 2016 Calendar Items

Committee members drafted the preliminary work plan (Attachment 1).

Performance Metrics

Members discussed ways that they and the public would know that they were accomplishing the mission. Some of those discussed are listed below:

- 1) Member attendance
- 2) Member full participation/contribution of ideas, recommendations, solutions
- 3) Measure not only inputs (audits), but outputs (what difference/value added did it make that the Committee was doing its job?)
- 4) Transparency
- 5) Accountability
- 6) Level and type of monitoring activity
- 7) Efficiency

Attachment 1

Preliminary 2016 RBOC Work Plan

March

- 1) Adopt 2016 Calendar
- 2) Briefing on Project Cost Management; lessons learned from WISP, especially any from design build experience
- 3) Bond sale updates/refunding
- 4) Staff presentation for re-baseline of wastewater program; accuracy of estimates and program comprehensiveness
- 5) Calaveras Dam presentation

April

- 1) Staff report on capital planning
- 2) Staff report on WISP financial audit findings
- 3) Presentation on legal compliance with bond requirements

May

- 1) Review of stress test for WISP re-baseline
- 2) Identify studies that RBOC will initiate
- 3) Water update – staff report
- 4) Mountain Tunnel presentation

June

- 1) Wastewater - staff report
- 2) Investigations/studies placeholder
- 3) Peer review program for wastewater – what is the plan?
- 4) Workshop on RBOC scorecard – metrics for measuring committee performance
- 5) Project cost management – update from March briefing

July

- 1) Power update – staff report
- 2) Follow-up to Mountain Tunnel and Calaveras Dam project issues

August

- 1) Half day field trip/site visit – location TBD

September

- 1) Water update
- 2) Wastewater update

October

- 1) Draft Annual Report

November

- 1) Next strategic planning session

December

- 1) Adoption of final Annual Report

Note: Schedule briefings on legislation before the BOS that affects RBOC on ad hoc/
as needed basis

SFPUC Audit Update & Review Presentation to RBOC

April 11, 2016

Christina Andersson
Manager, Audits & Compliance

AIC – Overview and Objectives

Overview

- Administers the Governance Risk and Compliance framework through independent advisement, analyses.
- Champions best practices for internal controls, risk, compliance, transparency.

Objectives

- Ensure value-added audits
- Cultivate an organizational culture of ethics, accountability and internal controls.
- Maximize cost efficiency, avoidance and recovery.
- Advise and promote strategic risk taking to increase opportunities and reduce liabilities.

Q3 Stats – As of 3/31/16

- **Audits and Assessments (Total YTD, 50)**

Completed	20
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In-Progress	14
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Upcoming	16
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- The bulk of the audits are financial and performance audits.



City Services Auditor - Audit Planning

Current Plan Examples:

- Cash Receipts (in progress)
- GoSolarSF (in progress)
- Water Divisional (upcoming)
- Quarry Leases (upcoming)

Audit Planning:

- Generally occurs in the spring for the next FY.
- Input from SFPUC senior management, AIC and Controller.
- Most of this year's plan will carryover to next year.



Other Audits (Non-City Svc Auditor)

Financial

- State Coastal Conservancy Grant Administration
 - Southern Skyline Boulevard Ridge Trail, \$185,000
- Department of Water Resource Grant Administration
 - Stormwater Flood Management, \$24,147,000

City Performance Reviews

- Southeast Community Investments, Phase II
- Health and Safety Assessment, Phase II



Previous CSA Audits Funded by RBOC and SFPUC

RBOC Audits

- Mission and Mount Vernon Sewer Improvement (2011)
- Bay Division Pipeline Reliability (2011)
- Lake Merced Pump Station (2012)
- Harry Tracy & Pulgas Cost Categorization (2012)

SFPUC/WSIP Audits

- Tesla Water Treatment Facility (2011)
- Alameda Siphon No. 4 (2013)
- Harry Tracy Treatment Plant (2013)



Sunol Valley Water Treatment Plant Audit

- Issued March 8, 2016
- Focused on management of change orders for SVWTP and Treated Water Reservoir Project, as awarded to Shimmick Construction Co.
- Findings were on labor surcharges, equipment costs etc.
- SFPUC generally concurred with the 7 Recs to improve documentation and ensure costs were within contract terms.



Wastewater Divisional Audit

- Started in August 2014
- Broad Scope as a “Divisional” Audit
- Focused on compliance with laws, regs, mission and goals; internal controls – e.g. work orders, payroll, purchasing and contracts
- SFPUC currently reviewing draft report with expected completion in the late Spring.

THANK YOU

Feedback & Questions?

Reference Materials



Evaluation of Lessons Learned from WSIP, and Applied to SSIP

- **Objective**

- Evaluation of lessons learned from Water System Improvement Program, and applied to Sewer System Improvement Program and review of disputed costs and where efficiency cost may have been achieved.
(commissioned by Revenue Bond Oversight Committee).

- **Recommendations**

- Approximately 585 lessons grouped into 10 knowledge management themes, inclusive of budget, contingency, lessons learned, project delivery, contracting, change management, bidding, financial and schedule reporting, risk assessment, and design.



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

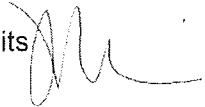
Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: Commission President and Commissioners
San Francisco Public Utilities Commission

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

FROM: Tonia Lediju, Director of City Audits
City Services Auditor Division 

DATE: March 8, 2016

SUBJECT: San Francisco Public Utilities Commission: The Department Inadequately
Monitored Change Orders for the Sunol Valley Water Treatment Plant
Improvement Project

EXECUTIVE SUMMARY

McGladrey LLP¹ (McGladrey), through a contract with the Office of the Controller's City Services Auditor Division (CSA), assessed the management of change orders for the Sunol Valley Water Treatment Plant and Treated Water Reservoir Project (project), part of the Water System Improvement Program (WSIP) of the San Francisco Public Utilities Commission (SFPUC). The project's construction was awarded to Shimmick Construction Co., Inc., (Shimmick) under a contract with SFPUC. The assessment found that SFPUC:

- Did not always maintain complete and adequate change order documentation.
- Allowed vehicle costs in excess of contract terms in some change orders.
- Allowed labor surcharges in excess of contract terms in some change orders.
- Allowed equipment costs in excess of contract terms in some change orders.
- Incorrectly treated credits and related markups in some change orders.

As indicated in the attached departmental response, SFPUC concurs or partially concurs with all seven recommendations resulting from this assessment. Further, the department emphasizes its longstanding commitment to safeguarding public resources and ratepayer assurance through continuous monitoring of contractor documentation and charges.

¹ In October 2015 McGladrey LLP merged with RSM International under the common brand name RSM.

BACKGROUND, OBJECTIVES, AND METHODOLOGY

Background

This assessment was conducted under the authority of the City and County of San Francisco (City) Charter, which provides CSA with broad authority to conduct audits and assessments. The project consisted of the improvement and expansion of the Sunol Valley Water Treatment Plant, located in the Sunol Valley, an unincorporated portion of Alameda County. The project is part of the \$4.8 billion WSIP, the purpose of which is to repair, replace, and seismically upgrade the Hetch Hetchy Water System's aging pipelines, reservoirs, and dams. The project's construction was awarded to Shimmick under a contract with SFPUC. The project contract had an original value of \$83,102,160. The final contract value, including all approved change orders, is \$102,718,272.

Objectives

The overall purpose of the assessment was to determine whether, for the project, SFPUC and Shimmick complied with cost and certain other contract provisions regarding change orders. The assessment's objectives included, but were not limited to, determining:

- Whether change orders were reasonable in cause and pricing, were accurate, and were accompanied by the required supporting documentation.
- The timeliness of the identification and resolution of potential change order items and the impact on project schedules.
- Whether change orders were properly reviewed, whether the price was negotiated, and whether the change orders were approved according to departmental standards and contract provisions before work began.
- Whether written change order policies and procedures, and actual practices observed, were in accordance with best practices.

Methodology

The assessment reviewed SFPUC's adherence to the City's procedures for the management and administration of change order work as set forth primarily by the following documents:

- San Francisco Public Utilities Commission Water System Improvement Program Construction Management Procedures, WSIP Construction Management Procedure 16, Construction Change Management
- San Francisco Public Utilities Commission Water System Improvement Program Construction Management Business Processes, WSIP Construction Management Business Process No. 003a, Contract and Change Management
- San Francisco Public Utilities Commission Water System Improvement Program Construction Management Procedures, WSIP Construction Management Procedure 036, Administration of Force Accounts (Time & Materials)

- Sunol Valley Water Treatment Plant Expansion and Treated Water Reservoir Contract WD-2582

Based on the results of its assessment, McGladrey provided CSA with preliminary findings. To evaluate these preliminary findings, CSA:

- Interviewed members of SFPUC's Program Management Team assigned to the project to obtain further explanation of key business processes related to the department's change management procedures.
- Documented SFPUC's interpretation of the contract related to construction change management.
- Reviewed additional change order cost documentation provided by SFPUC, which included, but was not limited to, change order documentation that supports SFPUC's undocumented standard business practices.

The assessment performed by McGladrey and the subsequent work performed by CSA are nonaudit services. Government Auditing Standards do not cover nonaudit services, which are defined as professional services other than audits or attestation engagements. Therefore, SFPUC is responsible for the substantive outcomes of the work performed during this assessment and is responsible to be in a position, in fact and appearance, to make an informed judgment on the results of the nonaudit service.

RESULTS

Finding 1 - SFPUC did not always maintain complete and adequate change order documentation.

Of 70 change order files reviewed, 45 (64 percent) were missing at least some required change order documentation.² Missing documents included requests for information, proposed change orders and change order requests, and cost control documentation (contractor, subcontractor, and engineer's cost estimates).

According to SFPUC staff, change order documentation is missing from some files because some hard copy documents were not scanned and entered in SFPUC's project system of record, the Construction Management Information System (CMIS). SFPUC staff also stated that WSIP policies and procedures require that all project documentation be entered into CMIS. Failure to adequately maintain and track change order documentation may extend the time needed to process a change order and makes it difficult for SFPUC to ensure that all change order costs paid are properly supported.

² McGladrey reviewed a sample of 70 (23 percent) of 298 change orders for required change order support documentation. The review was limited to documents significant to the City's change order processes and procedures.

Recommendations

The San Francisco Public Utilities Commission should:

1. Maintain all significant supporting documentation for change orders, including but not limited to: requests for information, proposed change orders and change order requests, and all cost control documentation.
2. Enter in a timely manner all required change order file documentation in its Construction Management Information System to adequately track communication flow and streamline documentation requests.

Finding 2 - SFPUC allowed vehicle costs in excess of contract terms to be included in some change orders.

Shimmick regularly included additional costs of job vehicles (foremen and crew pickup trucks) in its estimates of change order costs. Further, the amounts were not excluded from final change order amounts and were subsequently paid by SFPUC. The contract's General Conditions, Section 6.06B, state that job vehicle costs should be compensated through the contractor's markup for profit and overhead. Thus, including these costs in change orders resulted in additional costs to the project.

According to SFPUC, Shimmick's vehicles at the job site were primarily used for performing the project work, and, thus, SFPUC interpreted the contract to mean that these vehicles were *equipment* that was used by Shimmick for the contracted work. SFPUC personnel stated they considered these trucks to be equipment because the trucks had equipment installed on them that would be used for work on the job site. Further, SFPUC provided an example of a change order from another WSIP project where job vehicles used for work purposes were allowed as costs.

Although SFPUC's practice may be to allow additional costs for job vehicles used as equipment, SFPUC should require the contractor to document vehicles used at the project site primarily for project work in order to clearly differentiate job vehicle costs that should not be compensated through the contractor's markup for overhead. Further, vehicles used for work should be included in the inventory as work vehicles and should be monitored by the appropriate SFPUC staff.

Recommendation

3. The San Francisco Public Utilities Commission should ensure that contractors clearly document and differentiate job vehicle costs that should not be compensated through the contractor's markup for overhead.

Finding 3 – SFPUC allowed labor surcharges in excess of contract terms in some change orders.

Shimmick regularly included labor surcharge costs in excess of contract terms in its estimates of change order costs. The amounts were not excluded from final change order amounts and were subsequently paid by SFPUC. Per the contract's General Conditions, Section 6.06A, the labor surcharge is intended to cover payroll taxes, worker's compensation, and liability insurance, and is to be applied at percentages in the California Department of Transportation Labor Surcharge and Equipment Rental Rates Book (Rates Book) for the respective periods. According to the Rates Book, the allowable labor surcharge ranged from 11 to 16 percent during the review period. However, Shimmick applied a labor surcharge ranging from 22 to 27 percent to base wages. Applying higher labor surcharge rates resulted in higher costs on some change orders.

According to SFPUC, it did not follow the contract procedure for allowable labor surcharges and instead used the contractor's submitted labor surcharge. According to SFPUC personnel, they determined it was reasonable for the contractor to apply the higher surcharge because the contractor provided to SFPUC proof of payment of the higher amount to employees. Although this may be the case, the contract stipulates that the allowable Rates Book surcharge should be used in pricing change order work, so SFPUC should either follow this procedure or amend the contract to allow a higher labor surcharge in specific cases. Further, according to SFPUC, typically the construction management consultant compares change order costs against the contract terms (in this case, the Rates Book). However, SFPUC staff stated that in some instances no such review of change order costs occurred for this project. Reviewing the labor surcharge and other costs in change orders may have uncovered the excess labor surcharges in these change orders, resulting in lower overall change order costs.

Recommendations

The San Francisco Public Utilities Commission should:

4. Comply with the provision in its construction contracts related to allowable labor surcharges or revise the contract(s) accordingly to allow for a higher labor surcharge in specific cases.
5. Ensure that it follows its procedure that requires the construction management consultant to review change order costs and compare them to allowable costs per the contract.

Finding 4 – SFPUC allowed equipment costs in excess of contract terms in some change orders.

McGladrey found that Shimmick included owned and rental equipment costs in excess of contract terms, both in estimates of change order costs and in final change order amounts. The

contract's General Conditions, Section 6.06A, state that the contractor shall use the lesser of the rental rates stipulated in the Rates Book or the Rental Rate Blue Book for owned or rented equipment costs. In addition to using higher rates to determine the cost of equipment, Shimmick provided little or no support for the reported equipment hours needed to complete change order work and did not include any cost reductions for unproductive time.

According to SFPUC staff, the project team used the rates provided by Shimmick, not the rates stipulated by the contract terms, to calculate final change order costs. This resulted in higher overall costs to SFPUC for the change order work. Strictly adhering to the terms of the contract regarding pricing of change order work in these cases would have resulted in lower overall change order costs.

Recommendation

6. The San Francisco Public Utilities Commission should comply with the relevant sections of its construction contracts related to allowable equipment costs.

Finding 5 – SFPUC incorrectly treated credits and related markups in some change orders.

Some costs exceeded those allowed by contract terms because Shimmick failed to provide offsets for deductive change order work from equipment rental costs, both in estimates of change order costs and final change order amounts. The contract's General Conditions, Section 6.06C.4, state that for change orders that result in a net decrease in direct costs, the City shall receive a credit for the amount of the actual net decrease in direct costs plus an additional 10 percent. In one case a change order included costs removed for a future credit that was never applied, and in another case a credit was deducted without applying the additional 10 percent. Failure to properly apply credits for deductive change order work resulted in additional costs to the project paid by SFPUC.

According to SFPUC staff, about midway through the project it began using CMIS to scan the change order documents, which include information on the credits. SFPUC staff stated that, because some of the change order documents early in the project were not scanned, it was difficult to track all of the credits near the conclusion of the project. Properly tracking all change order documentation and credits for deductive change order work would enable SFPUC to ensure that all credits are applied properly.

Recommendation

7. The San Francisco Public Utilities Commission should ensure that all change order documentation is properly tracked in its Construction Management Information System and that all credits for deductive change order work are applied according to contract terms.

SFPUC's response is attached. CSA will work with the department to follow up on the status of the recommendations in this memorandum. CSA appreciates the assistance and cooperation that SFPUC staff provided during the assessment. For questions regarding this memorandum, please contact me at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

cc: SFPUC

Michael Carlin

Eric Sandler

Kathy How

Dan Wade

Alan Johanson

Nancy Hom

Christina Andersson

Controller

Ben Rosenfield

Todd Rydstrom

Mark de la Rosa

Michael Williams

Deric Licko

Board of Supervisors

Budget Analyst

Citizens Audit Review Board

City Attorney

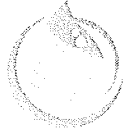
Civil Grand Jury

Mayor

Public Library

March 8, 2016

ATTACHMENT: DEPARTMENT RESPONSE



San Francisco
Water
Services of the San Francisco Public Utilities Commission

Assurance and Internal Controls Bureau
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102
T 415.554.3155
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February 22, 2016

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

Subject: Management's Response to San Francisco Public Utilities
Commission: The Department Inadequately Monitored Changes
Orders for the Sunol Valley Water Treatment Plan Improvement
Project


Dear Ms. Lediju,

Thank you for the opportunity to review, and respond to, your memorandum regarding your assessment of project change orders related to the Sunol Valley Water Treatment Plant Improvement Project, as prepared by the Controller's Office, City Services Auditor. We have reviewed the recommendations and generally concurred with some comments.

We appreciate the issues raised in the audit and they will inform our work as we move forward. As part of our long-standing commitment to safeguarding public resources and ratepayer assurance, we would like to affirm that we continue to perform our due diligence when monitoring documentation submitted by contractors, inclusive of vehicle charges. We thank you and your staff for the extensive time taken on this review.

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

Sincerely,


for Harlan L. Kelly, Jr.
General Manager

cc: Michael Carlin, Deputy General Manager
Kathy How, AGM Infrastructure
Eric Sandler, AGM Business Services & Chief Financial Officer
Nancy L. Hom, Director, Assurance and Internal Controls

Elizabeth M. Lee
Director
Francisca Victor
Director
Angus Moran
City Engineer
Ann Doherty
City Engineer
Vince Courtney
City Engineer
Hee Ryan
City Engineer
Harlan L. Kelly, Jr.
General Manager



For each recommendation, the responsible agency should indicate whether it concurs, does not concur, or partially concurs. 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.

RECOMMENDATIONS AND RESPONSES

Recommendation	Response
The San Francisco Public Utilities Commission should:	
1. Maintain all significant supporting documentation for change orders, including but not limited to: requests for information, proposed change orders and change order requests, and all cost control documentation.	<input checked="" type="checkbox"/> Concur * <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur
2. Enter in a timely manner all required change order file documentation in its Construction Management Information System to adequately track communication flow and streamline documentation requests.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur As it applies to larger contracts, generally greater than \$10 million, that currently utilize a Construction Management Information System (CMIS), concur. Since the current software is no longer supported the SFPUC is currently moving to another system. During the implementation phase for the new software, CMIS will not be available.
3. Ensure that contractors clearly document and differentiate job vehicle costs that should not be compensated through the contractor's markup for overhead.	<input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur In the evaluation of the contractor's cost proposal the SFPUC ensured that the final negotiated agreement differentiated between trucks which were used in the performance of change order scope (trucks loaded with tools, generators and diesel fuel tanks) and commute vehicles for superintendents and foremen. We would also like to note that we do actively monitor vehicle charges and will continue to do so.

Recommendation	Response
4. Comply with the provision in its construction contracts related to allowable labor surcharges or revise the contract(s) accordingly to allow for a higher labor surcharge in specific cases.	<input checked="" type="checkbox"/> Concur * <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur
5. Ensure that it follows its procedure that requires the construction management consultant to review change order costs and compare them to allowable costs per the contract.	<input checked="" type="checkbox"/> Concur * <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur
6. Comply with the relevant sections of its construction contracts related to allowable equipment costs.	<input checked="" type="checkbox"/> Concur * <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur
7. Ensure that all change order documentation is properly tracked in its Construction Management Information System and that all credits for deductive change order work are applied according to contract terms.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur Please refer to the response to Recommendation 2 as it relates to the use of Construction Management Information System on SFPUC contracts.

* SFPUC did not provide response text to this recommendation.



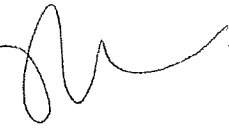
CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

MEMORANDUM

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

FROM: Tonia Lediju, Director of City Audits
City Services Auditor Division 

DATE: May 13, 2013

SUBJECT: The San Francisco Public Utilities Commission Did Not Issue a Certificate of Completion for the Harry Tracy Water Treatment Plant Short-Term Improvement Project

EXECUTIVE SUMMARY

The San Francisco Public Utilities Commission (SFPUC) generally complied with all applicable close-out procedures in the contract for short-term improvements to the Harry Tracy Water Treatment Plant (Tracy Plant project), part of phases 2 and 3 of the Water System Improvement Program (WSIP).¹ However, SFPUC did not issue an actual Certificate of Completion, as required by the contract close-out provisions. SFPUC concurs with this finding and agrees to implement the related recommendation.

BACKGROUND, OBJECTIVES & METHODOLOGY

Background

In accordance with the Office of the Controller's City Services Auditor Division (CSA) work plan for fiscal year 2012-13, CSA assessed SFPUC's compliance with contract close-out procedures for the Tracy Plant project. This assessment is part of CSA's ongoing program of assessing compliance with contract close-out procedures in various city departments each quarter.

The SFPUC's Construction Management Bureau (CMB) is the subject of this assessment. The CMB manages the construction of water, wastewater, and power projects to ensure successful delivery of these facilities, and CMB staff participates in all project development phases from

¹ SFPUC provides retail drinking water and wastewater services to San Francisco, wholesale water to three Bay Area counties, and green hydroelectric and solar power to municipal departments in the City and County of San Francisco. In November 2002 San Francisco voters approved a comprehensive plan for updating the system and authorized the \$4.6 billion WSIP to repair, replace, and seismically upgrade components of the system.

inception through project completion and close-out. The Tracy Plant project included process and seismic improvements to the existing systems to facilitate the ability to reliably deliver treated water. The work was divided into three phases to facilitate full-scale performance testing and subsequent construction of the improvements.

The contractor selected for the Tracy Plant project (Contract No. WD-2564) was NTK Construction, Inc. The project began on July 10, 2008, and was originally intended to be completed by November 16, 2009. However, as a result of approved contract modifications 5 and 7, which extended the project by 25 days and 10 days, respectively, for a total of 35 days, the project was completed on December 21, 2009. On February 4, 2010, SFPUC project staff concluded that the project was complete and recommended final payment to the contractor. The original contract bid amount was \$13,824,000 but net modifications of \$1,136,315 brought the final contract amount to \$14,960,315.

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. Ensuring compliance with all close-out procedures provides assurance that the contractor has used city resources appropriately and that the contractor has completed the work in accordance with contract terms.

Objectives

The objectives of the assessment were to determine for the Tracy Plant project whether:

- The SFPUC adequately oversaw compliance with the close-out procedures in the contract.
- The general contractor complied with the contract's close-out procedures.

Methodology

To achieve the objectives, CSA:

- Reviewed the contract close-out procedures in SFPUC Contract No. WD-2564, Section 01700.
- Developed a checklist of the contract close-out procedures in Section 01700.
- Obtained the resident engineer's statement on whether each applicable close-out procedure was performed.
- Reviewed supporting documentation for evidence of compliance with the contract's close-out procedures.
- Determined whether each applicable requirement was met.
- Reviewed relevant best practices documents.

CSA selected the Tracy Plant project from among a random sample of SFPUC projects costing more than \$5 million completed in fiscal years 2010 and 2011. This threshold was selected because close-out assessments performed in the fourth quarter of fiscal year 2011-12 were for

less expensive projects, and that the goal of the CSA work plan for close-out assessments in fiscal year 2012-13 is to review projects of progressively greater value.

RESULTS

Finding 1 –SFPUC did not issue a Certificate of Completion for the project.

SFPUC did not issue a Certificate of Completion to NTK Construction, as required by the contract. A Certificate of Completion is prepared when the resident engineer determines that the work is acceptable and the contractor has made all required close-out submittals. SFPUC project staff noted that the contract close-out package for the Tracy Plant project contains SFPUC Resolution No. 10-0089, which, according to project staff, included language that is equivalent to that of a Certificate of Completion. Although CSA concurs with the project team's assertion that the resolution language substantively serves the same purpose as a Certificate of Completion, the contract for the Tracy Plant project specifically requires the issuance of a Certificate of Completion. Failure to adhere to contract terms could result in disputes with contractors and confusion regarding contract close-out compliance.

Recommendation

SFPUC should issue a Certificate of Completion for each future project that has been accepted as complete OR revise the language in its future contracts to reflect how the department acknowledges that a project has been accepted as complete.

SFPUC's response is attached. CSA will work with SFPUC to follow up on the status of the recommendation made in this memorandum. CSA extends its appreciation to you and your staff who assisted with this project. If you have any questions or concerns, please contact me at (415) 554-5393 or tonia.lediju@sfgov.org.

cc: SFPUC

Alan Johanson
Calvin Huey
Jeanne Sum
Nancy Hom
Matthew Lum
Ricardo Cordero
Rosie Angel

Controller

Ben Rosenfield
Monique Zmuda
Mark de la Rosa
Edvida Moore

ATTACHMENT: DEPARTMENT RESPONSE



San Francisco
Water Power Sewer
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April 26, 2013

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

Subject: Management's Response to CSA Audit Report:
The San Francisco Public Utilities Commission Did Not Issue a Certificate of Completion for the Harry Tracy Water Treatment Plant Short-term Improvement Project and Must Improve Its Documentation of Contract Closeout Compliance

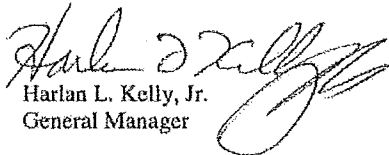
Dear Ms. Lediju,

Thank you for providing us the opportunity to review the results of *'The San Francisco Public Utilities Commission Did Not Issue a Certificate of Completion for the Harry Tracy Water Treatment Plant Short-term Improvement Project and Must Improve Its Documentation of Contract Closeout Compliance'* report, prepared by the Controller's Office, City Services Auditor.

Attached for your review and consideration are SFPUC Management's responses to the recommendations detailed in the audit report.

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

Sincerely,


Harlan L. Kelly, Jr.
General Manager

cc: Michael Carlin, Deputy General Manager
Todd L. Rydstrom, AGM Business Services & Chief Financial Officer
Emilio Cruz, AGM, Infrastructure
Nancy L. Hom, Director, Assurance & Internal Controls

Edwin M. Lee
Mayor

Art Torres
President

Vinco Courtney
Vice President

Ann Moller Caen
Commissioner

Francesca Viefer
Commissioner

Anson Moran
Commissioner

Harlan L. Kelly, Jr.
General Manager



RECOMMENDATION AND RESPONSE

Recommendation	Response
The San Francisco Public Utilities should issue a Certificate of Completion for each future project that has been accepted as complete OR revise the language in its future contracts to reflect how the department acknowledges that a project has been accepted as complete.	Concur: Section 6.22(K) of the SF Administrative Code and Specification 00700 General Conditions requires a written "Certificate of Acceptance". SFPUC will revise WSIP Procedure 032 to clarify the requirement to issue a written certificate of acceptance. CMB will also review procedures for non-WSIP contracts and make changes and modify accordingly. Expected completion date 2 months.

City and County of San Francisco

Office of the Controller – City Services Auditor

SAN FRANCISCO PUBLIC UTILITIES COMMISSION:

The PUC Followed Best Practices in Managing Its Water System Improvement Program Construction Contracts for the Tesla Water Treatment Facility and the East/West Transmission Main and the Contractors Complied With Contract Terms



January 27, 2011



City and County of San Francisco

Office of the Controller - City Services Auditor

Public Utilities Commission:

January 27, 2011

The PUC Followed Best Practices In Managing Its Water System Improvement Program Construction Contracts for the Tesla Water Treatment Facility & East/West Transmission Main and the Contractors Complied with Contract Terms.

Purpose of the Audit

The City Services Auditor (CSA) engaged Sjoberg Evashenk Consulting, Inc (SEC) to assess whether two contractors, PCL Civil Constructors, Inc., (PCL) and Ranger Pipelines, Inc., (Ranger) have complied with their WSIP construction contracts with the San Francisco Public Utilities Commission (SFPUC). PCL was awarded the contract to build the Tesla Water Treatment Facility (Tesla) and Ranger was awarded the contract to build the East/West Transmission Main (East/West). The auditors evaluated whether SFPUC followed best practices in their project and construction management and contract administration, as well as assessed the functionality and impact of SFPUC's new Construction Management Information System (CMIS) on the management of Tesla.

Highlights

The contractors for the two San Francisco Public Utilities Commission (SFPUC) Water System Improvement Program (WSIP) construction projects reviewed, PCL Civil Constructors, Inc. for the Tesla Water Treatment Facility (Tesla) and Ranger Pipelines, Inc. for the East/West Transmission Main (East/West), were compliant with contract provisions, requirements, and cost terms. The SFPUC's project management and delivery processes followed industry best practices and staff appeared committed and diligent in delivering projects in accordance with SFPUC policies and procedures. For example:

- Progress payments and change orders were supported and well documented.
- Project schedules and progress were formally tracked.
- SFPUC followed industry best practices regarding well documented processes, clear project history, change management controls, project manager continuity, and transparency and accountability.

To assist in its construction management, SFPUC has developed a Construction Management Information System (CMIS) that provides a number of valuable management tools to enhance project and contract oversight. However, several concerns by a limited number of users were raised regarding the functionality of CMIS, including the following:

- CMIS appears to be labor and time intensive for contractors, has limited functionality due to the number of licenses assigned, and requires the dedication of a computer terminal solely to CMIS.
- SFPUC could do a better job of responding to CMIS user concerns, including reporting capabilities.

Recommendations

Although no significant issues were found regarding the management of the Tesla and East/West projects, the audit report includes two recommendations that could help improve SFPUC's management of the remaining WSIP construction projects.

The PUC should:

- In general, not use change orders in lieu of issuing Requests For Bids (RFBs). Although the East/West Phase II change order decision was openly conveyed and appropriately approved, in other instances SFPUC may achieve greater benefits through a competitive procurement.
- Determine whether the CMIS operational concerns expressed by SFPUC and contractor staff are applicable to the other 20 WSIP construction projects underway. If similar issues are identified, SFPUC should remediate the CMIS system deficiencies or increase training if the problems are user-related.

Copies of the full report may be obtained at: Controller's Office • City Hall, Room 316

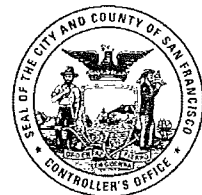
• 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500 or at <http://www.sfgov.org/controller>

City and County of San Francisco

Office of the Controller – City Services Auditor

SAN FRANCISCO PUBLIC UTILITIES COMMISSION:

**Alameda Siphon No. 4 Construction
Management — The Change
Management Process Generally
Complied With Contract Provisions
but Requires Some Improvements**



April 9, 2013

1

EXECUTIVE SUMMARY

The execution of the change management process on the Alameda Siphon No. 4 Project (Project) generally complies with the construction contract (Contract) provisions for changes to the construction works and the San Francisco Public Utilities Commission (SFPUC) Water System Improvement Program (WSIP) procedures related to change management. In the few instances of noncompliance identified, the resultant risks were minimal and estimated excess costs were insignificant. The audit findings generally demonstrate a well-managed change control process in accordance with both the relevant change management procedures and standards of industry best practice. For example, the audit found:

- That change orders were reasonable in cause and pricing and were properly negotiated and approved in accordance with Contract requirements and WSIP procedures.
- That the identification, resolution, and approval of change orders did not impact the project schedule.
- No evidence of fraud, waste, or abuse.
- That the written change order procedures and contract requirements comply with industry best practices.

While the audit findings generally indicate compliance with the Contract and relevant procedures, certain areas of exception and noncompliance with the Contract were identified. These items of noncompliance do not represent significant material impacts, but represent a risk to the project and, if not mitigated by experienced management personnel, could potentially have a more significant impact on future construction projects.

The audit identified examples of noncompliance with the contractual requirements, WSIP procedures, and/or industry best practices including:

- A significant number of change orders, including a request for time extension, were approved after Substantial Completion of the Project.

- The contractor's markup on subcontractor work included the bond rate (excess amount charged approximately \$2,600 for selected change orders).
- Some of the change orders do not include back-up for all material, rental equipment, and/or subcontractors used. While the unsupported amount was calculated to be an insignificant relative to the total amount of change order work (approximately \$134,000 for selected change orders), this deviation from Contract requirements presents a risk to the Project.
- Not all labor rates charged for change order work correspond with the actual certified payroll.
- Most of the subcontractor's proposals were lump sum, therefore lacking detailed pricing to determine whether the subcontractor charged labor rates and applied markup in compliance with the Contract.

As noted in detail in this report, the findings do not represent a significant material excess amount, but from a lessons learned perspective, an emphasis on certain contract provisions and change management procedures with focused training is recommended. Based on the audit findings, the following recommendations are made for continued improvement to SFPUC's change management procedures and practices:

- For future projects, the contractor should provide backup for all material used, and both the contractor and the WSIP team should request a detailed cost estimate for subcontractor work. This would allow SFPUC to verify that the subcontractor complied with the contract and ensure that the correct markups are applied, the labor rates match the actual wages paid, and material and equipment used for the change order work have supporting documentation. Full compliance with the contract will limit any potential fraud and abuse of project funds.
- For future projects, the SFPUC team should minimize the number of change orders negotiated and approved after Substantial Completion. The audit found that 85 (40 percent of all issued change orders) were issued and 94 (47 percent) were approved after Project Substantial Completion. While there might be mitigating factors and reasons for these change orders not to be approved before Project Substantial Completion, performing work before agreed negotiations between the parties (approved change orders) adds an element of risk to the Project and limited the control by the WSIP project team.
- SFPUC should address the potential issues in performing work "at risk" before the development of cost estimates through risk management and claims avoidance training. The audit found that for approximately 75 percent of the selected change orders which were initiated by a PCO (Proposed Change Order), the submission of the contractor's

cost proposal was delayed beyond the Contract requirement. Therefore, it is advisable to include this as topic of training as a lesson learned and to promote system improvement.

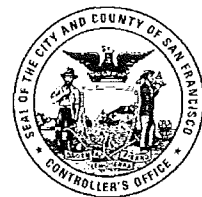
- SFPUC should consider including in both the change management procedures and in its contracts with construction contractors that the contractor must substantiate its overhead and profit, as is typical for publicly funded projects. The audit's review of the selected change orders revealed that the construction contractor, Steve P. Rados, Inc., (SPR) applied the maximum markup percentage for labor, equipment and material without providing supporting documents to substantiate its actual percentage for overhead and profit.
- To enable the project team to easily verify if the equipment rates charged by the contractor comply with the referenced publication, the contractor should be required to provide detailed information for all equipment used (make, model, and year). The audit's review of the Caltrans publication found that it only lists hourly rates for equipment rental pricing, thus conflicting with the Contract requirement not to use hourly rates. Therefore, WSIP should coordinate its contract requirements with the standard reference for equipment rates.

City and County of San Francisco

Office of the Controller – City Services Auditor

**SAN FRANCISCO PUBLIC
UTILITIES COMMISSION:**

**Expenditures of the Bay Division
Pipeline Reliability Upgrade –
Pipeline Project Appear Reasonable**



November 22, 2011



City and County of San Francisco

Office of the Controller - City Services Auditor

San Francisco Public Utilities Commission:
Expenditures of the Bay Division Pipeline Reliability Upgrade – Pipeline Project
Appear Reasonable

November 22, 2011

Purpose of the Audit

The objective of the audit was to determine whether the San Francisco Public Utilities Commission (SFPUC) used bond proceeds in accordance with bond resolutions, legislation, intended uses, and action of the Public Utilities Commission itself for the Water System Improvement Program's (WSIP) Bay Division Pipeline Reliability Upgrade – Pipeline Project (project). The audit period was July 1, 2010, through June 30, 2011.

Highlights

The project, part of SFPUC's WSIP, involves the construction of a 21-mile pipeline from near Mission Boulevard in Fremont, California, to the Pulgas Tunnel near Redwood City, California. The objective of the project is to improve the water delivery and seismic reliability of the water delivery system to meet water supply purchase requests of SFPUC customers. The project will allow SFPUC to maintain the flow of water should any of the existing pipelines become damaged or taken out of service.

The project's expenditures from fiscal years 2006-07 to 2010-11 totaled \$151,792,619.

The audit found that:

- The project's expenditures appear appropriate and in accordance with the bond resolutions. Of a population of 247 expenditure transactions worth \$89,773,935 paid to vendors for the project for fiscal year 2010-11, the audit selected and analyzed 33 (13.4 percent) of the transactions worth \$18,228,689 (20.3 percent). The expenditures reviewed were found to be appropriately used and in compliance with the bond resolutions.
- SFPUC erroneously attributed two expenditures, totaling \$37,769, or 0.2 percent of the amount tested, to the project which should have been attributed to another phase of the WSIP Bay Division Pipeline Reliability Upgrade.
- The project manager does not review certain SFPUC staff expenditures for services, materials, and labor. While expenditures for services, materials, and labor by SFPUC operations staff are reviewed by the operational manager for regional and local water systems, the project manager does not specifically review these types of expenditures.
- SFPUC should more frequently track the depletion of its bond proceeds. The most recent schedules on bond depletion and use of bond proceeds by project were prepared using March 2011 data on transfers of expenditures funded by bond proceeds expenditures, representing a lapse of seven months since the schedules were updated.

Recommendations

The audit report includes five recommendations for SFPUC to improve its monitoring of bond proceeds for the project. Specifically, SFPUC should:

- Eliminate incorrect accounting classifications of \$37,769 that were attributed to the incorrect phase of the WSIP Bay Division Pipeline Reliability Upgrade.
- Properly reflect information in the accounting and project management systems to correctly capture the amount of expenditures for the various phases of WSIP projects.
- Ensure that the project manager reviews all charges for services, materials, and labor by SFPUC operations staff.
- Maintain timely schedules on actual bond proceeds depletion according to SFPUC's formal policy.

Copies of the full report may be obtained at:

Office of the Controller • 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>

City and County of San Francisco

Office of the Controller – City Services Auditor

SAN FRANCISCO PUBLIC UTILITIES COMMISSION:

Expenditures of the Lake Merced Pump Station Essential Upgrade Project Are in Accordance With Bond Resolutions; However SFPUC Should Improve Its Recognition of Costs



February 13, 2012



City and County of San Francisco

Office of the Controller - City Services Auditor

Public Utilities Revenue Bond Oversight Committee:

February 13, 2013

Expenditures of the Lake Merced Pump Station Essential Upgrade Project Are in Accordance With Bond Resolutions; However SFPUC Should Improve Its Recognition of Costs

Purpose of the Audit

The objective of the audit was to determine whether the San Francisco Public Utilities Commission (SFPUC) used bond proceeds in accordance with bond resolutions, legislation, intended uses, and action of the Public Utilities Commission itself for the Water System Improvement Program's (WSIP) Lake Merced Pump Station Essential Upgrade Project (project). The audit period was January 1, 2010, through June 30, 2011.

Highlights

The Lake Merced Pump Station is the major pumping station in the City and County of San Francisco (City), supplying water to the Sunset and Sutro Reservoirs, which, in turn, supply water to other regions of the City. The continual operation of this facility is critical to the delivery of water to approximately 60 percent of San Francisco. Therefore, it is a vital component of the SFPUC's City Distribution Division system.

The project's expenditures from July 1, 2006, to June 30, 2011, were \$38,071,102. To conduct the audit, the audit team:

- Reviewed charter provisions, bond indenture agreements, official statements, and SFPUC 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.
- Tested \$12,604,827 (80 percent) of \$15,677,696 in vendor expenditure transactions by purposefully selecting 15 out of 94 vendor expenditure transactions.
- Purposefully selected 2 non-vendor expenditure transactions for testwork based on their unusual transaction descriptions.

The audit found that the project's expenditures were in accordance with bond resolutions. However, SFPUC recognized program management costs before the costs were incurred, which resulted in the recognition of \$227,991 of future-year program management costs in the current year. The audit also found that:

1. SFPUC does not reconcile its approved budget-based allocations of the project's program management costs when actual costs become available, resulting in overallocations.
2. SFPUC's allocation process caused some program management costs to be recognized in the wrong period, resulting in less accurate reporting.

Recommendations

The audit report includes four recommendations for SFPUC:

1. Reflect program management costs in the accounting and project management systems in proportion to the project's percentage of completion.
2. Cease recognizing program management expenses before they are incurred.
3. Develop a method of adjusting program management costs to reflect actual costs before a project is capitalized.
4. Ensure that WSIP project managers review, at least quarterly, all expenses, including material, service, and labor expenditures charged to the project.

Copies of the full report may be obtained at:

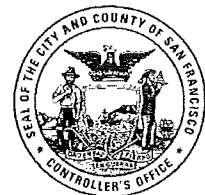
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or on the Internet at <http://www.sfgov.org/controller>*

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



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:

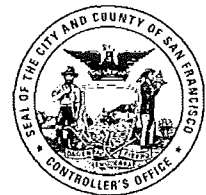
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City and County of San Francisco

Office of the Controller – City Services Auditor

SAN FRANCISCO PUBLIC UTILITIES COMMISSION:

The Department Appropriately Categorized Program Management Costs, but Should Improve Its Method of Allocating Those Costs to Projects



February 13, 2012



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Purpose of the Audit

The objective of the audit was to determine if best practices are being followed in the allocation of program management costs for two projects of the San Francisco Public Utilities Commission's (SFPUC) Water System Improvement Program (WSIP): long-term improvements at the Harry Tracy Water Treatment Plant and modifications to the dechloramination facility at the Pulgas Balancing Reservoir.

Highlights

- SFPUC's categorization of expenditures as program management costs appears appropriate. A high-level review of expenditure data from July 2006 through June 2011 found that the majority of program management costs were paid to construction management consultants. The audit selected \$1.1 million of expenditures for in-depth review and found them to be correctly categorized as program management costs.
- Although SFPUC takes a unique approach to allocating program management costs compared to four other jurisdictions, its decisions to allocate costs to individual WSIP projects and use each project's share of total WSIP costs as a basis for allocations comply with relevant accounting standards and are logically sound.
- SFPUC should improve the way it calculates its annual allocation of program management costs to WSIP projects. The audit found that:
 1. SFPUC does not reconcile its budget-based allocations of program management costs when actual costs become available, resulting in misallocations.
 2. SFPUC's allocation process causes some projects' program management costs to be recognized before they are incurred, resulting in less accurate interim reports.
 3. SFPUC does not have procedures for identifying and correcting significant misallocations of program management costs.
 4. The WSIP quarterly reports do not always reflect program management costs.

Recommendations

The audit report includes four recommendations for SFPUC to improve its allocation of program management costs to WSIP projects. Specifically, SFPUC should:

- Develop a method of adjusting program management costs to reflect actual costs before projects are capitalized.
- Cease recognizing future expenses in the current fiscal year.
- Develop procedures to identify and resolve material misallocations of program management costs to projects.
- Ensure that WSIP quarterly reports reflect program management costs either as part of the expenditures of the individual projects or as a separate expenditure category.

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