File No. 110063 Committee Item No. 1
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight **Date** May 10, 2012

Board of Supervisors Meeting **Date** _____

Cmte	Board	
☐	☐	**Motion**
☐	☐	**Resolution**
☐	☐	**Ordinance**
☐	☐	**Legislative Digest**
☐	☐	**Budget and Legislative Analyst Report**
☐	☐	**Legislative Analyst Report**
☐	☐	**Youth Commission Report**
☒	☐	**Introduction Form (for hearings)**
☐	☐	**Department/Agency Cover Letter and/or Report**
☐	☐	**MOU**
☐	☐	**Grant Information Form**
☐	☐	**Grant Budget**
☐	☐	**Subcontract Budget**
☐	☐	**Contract/Agreement**
☐	☐	**Form 126 – Ethics Commission**
☐	☐	**Award Letter**
☐	☐	**Application**
☐	☐	**Public Correspondence**

OTHER **(Use back side if additional space is needed)**

☒	☐	Controller's Summary of Audits to Be Discussed
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
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Completed by: Alisa Miller **Date** May 4, 2012
Completed by: _____ **Date** _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages.
The complete document can be found in the file.

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

Board of Supervisors Government Audit and Oversight Committee Meeting
May 10, 2012
Summary of Audits to Be Discussed

The City Services Auditor Division (CSA) of the Office of the Controller follows up on all recommendations it issues in audit reports and memorandums at six months, one year, and two years. This follow-up consists of sending a questionnaire to the responsible department requesting an update on the implementation status of each recommendation. CSA assigns a summary follow-up status to each report or memorandum according to whether or not the department responded to the questionnaire and the audit determination status of each recommendation. The summary follow-up statuses are described in the table below.

Summary Follow-Up Statuses			
Status	**Department Responsiveness**	**Audit Determination Status of Recommendations**	**Further Regular Follow-Up**
Closed	Responded	All closed	No
Open	Responded	At least one open or contested	Yes
Elapsed	Responded	At least one open or contested	No, CSA's regular two-year cycle has elapsed. Open and contested recommendations will be considered when planning future audits.
Active	No Response	At least one open or contested	Yes, even if CSA's regular two-year cycle has elapsed.

CSA assigns an audit determination status to each recommendation based on its review of each department's response. A status of:

- **Open** indicates that the recommendation has not yet been fully implemented.
- **Contested** indicates that the department has chosen not to implement the recommendation for some reason.
- **Closed** indicates that the response described sufficient action to fully implement the recommendation or an acceptable alternative, or that some change occurred to make the recommendation no longer applicable.

Any audit report or memorandum may be selected for a more in-depth field follow-up review regardless of summary status. Field follow-up reviews result in memorandums that are also subject to CSA's two-year regular follow-up cycle.

The following table summarizes CSA's follow-up activity for the previous quarter by city department. Further details about the reports and memorandums that will be the focus of CSA's presentation to the Government Audit and Oversight Committee (GAO) meeting follow the summary tables. Audits that will be highlighted in CSA's presentation to the committee are marked with an asterisk.

Overall Summary of Follow-Up Activity by Department				
Department	**Active**	**Open**	**Elapsed**	**Closed**
Airport Commission		2		
Department of Public Works				1
Human Rights Commission		1		
Arts Commission		1		
Fire Department		1		
Public Utilities Commission	2			2
Total	**2**	**5**	**0**	**3**

Airport Commission

*Title: Airport Commission: Fox Rent A Car, Inc., Has Unreliable Records and May Owe at Least $532,451 in Fees, Fines, and Penalties		Date Issued: 7/26/11	Summary Status: Open
Recommendation Status	**No. of Recommendations**	**Recommendation No. in Report**	
Open	15	3, 4, 6, 7, 10, 11, 13, 14, 15, 16, 17, 18, 20, 22, 23	
Contested	1	8	
Closed	7	1, 2, 5, 9, 12, 19, 21	
Total	**23**		

Overall Risk of Open and Contested Recommendations: High. The Airport invoiced, but has not yet collected $324,747 in fees, fines, and penalties. The Airport decided not to collect $219,000 in penalties. Although the Airport is in the process of implementing recommendations to ensure that Fox Rent a Car, Inc., (Fox) complies with the terms of its agreement, in some instances the Airport has not indicated to CSA how it intends to monitor compliance.

Contested Recommendation:

Recommendation 8 has a status of contested because the Airport states that it will not collect $219,000 in penalties, citing "no economical impact." The recommended penalties are for failure to meet a requirement of the agreement that Fox be open 24 hours a day. (Fox was closed between 1:00 a.m. and 4:00 a.m. during the audit period.) The Airport's reference to economical impact appears to be an assertion that Fox would not have generated a significant amount of revenue during the hours it was closed, so this did not materially reduce the revenue-based payments Fox made to the Airport. However, foregoing the $219,000 in penalties due the Airport per the agreement is a significant economic impact.

Open Recommendations:

Recommendations 1, 4, 6, 10, 11, and 13 asked the Airport to collect various fines, underpaid fees, late charges, and reimbursements for audit costs from Fox. These recommendations will remain open until the Airport collects the invoiced amounts totaling $305,751.

Recommendations 3, 7, 9, 14, 15, 16, 17, 18, 20, 22, 23 are open because the implementation of these recommendations is in progress.

**Audit will be highlighted in CSA's presentation and a representative of the department will be in attendance.*

Title: Human Rights Commission: Local Business Enterprise (LBE) Compliance Audit		**Date Issued**: 9/29/11	**Summary Status**: Open
Recommendation Status	**No. of Recommendations**	**Recommendation No. in Report**	
Open	1	13	
Contested	0		
Closed	4	5, 6, 7, 8	
Total	**5**		

Overall Risk of Open and Contested Recommendations: Very Low

This audit report was addressed to the Human Rights Commission (HRC), but included five recommendations that were at least partially the responsibility of the Airport to implement.

Open Recommendation:

Recommendation 13 asks the Airport to enter all required contracting information in to the Diversity Tracking System as required by HRC's rules and regulations. However, HRC is in the process of implementing a new system. This recommendation will remain open until the Airport has either implemented it as stated, or the recommendation is rendered not applicable by HRC's new system.

Fire Department

***Title**: Fire Department Payroll Audit: Undefined Pay Practices Increased Department Expenditures		**Date Issued**: 3/16/11	**Summary Status**: Open
Recommendation Status	**No. of Recommendations**	**Recommendation No. in Report**	
Open	8	1, 2, 5, 7, 9, 19, 24, 25	
Contested	3	3, 4, 17	
Closed	20	6, 8, 10, 11, 12, 13, 14, 15, 16, 18, 20, 21, 22, 23, 26, 27, 28, 29, 30, 31	
Total	**31**		

Overall Risk of Open and Contested Recommendations: High. The department indicates that it will not implement three recommendations, one of which is to mitigate the risk of inconsistent and unfair calculation of employees' retirement payouts for accrued leave.

Contested Recommendations:

Recommendation 3 relates to instances where the sick leave cap for retirement payments was not applied correctly. The Fire Department asserts that these instances were part of a settlement agreement with the firefighters' labor union, but cannot produce any documentation regarding the settlement. This issue was brought before GAO in October 2011, when then-chair Supervisor Campos instructed the department to find the settlement documentation internally or obtain it from the City Attorney's Office.

**Audit will be highlighted in CSA's presentation and a representative of the department will be in attendance.*

Recommendation 4 asks the Fire Department to work with the union to better define sick leave hours and the wellness eligibility calculation in its labor agreement. The department asserts that they are clearly defined. The agreement does not clearly indicate at what point the sick leave cap should be applied in the formula for calculating the wellness incentive, which is a bonus based on accrued sick leave and years of service. During the audit, the department asserted that it had applied the cap at different steps in the calculation, resulting in inconsistent treatment of retiring employees. If the labor agreement specified at what step to apply the cap, this inconsistency could be avoided.

Recommendation 17 is considered contested because the department's response implied that it believed that the issue would be resolved by the pending implementation of the new citywide payroll system (eMerge) and that the department did not intend to address the issue until then. The recommendation asks the department to monitor total pay of officers given acting assignments and is specifically intended to address the monitoring of total pay of employees on acting assignments *before the update of the citywide payroll system.*

Open Recommendations:

Recommendations 1 and 2 are related to issues that must be negotiated between the labor union and the Department of Human Resources (DHR). Negotiations for the labor agreement are under way and will be completed before the one-year follow-up of this audit.

Recommendations 5, 7, 9, 19, and 24 are open because the Fire Department is in the process of implementing them.

Recommendation 25 has a status of open. However, the Fire Department's response indicates that it does not consider the implementation of this recommendation to be under its purview. The recommendation asks the department to reduce overhead costs by incorporating premium pays that are received by nearly all employees into base pay. While the firefighters union and DHR's Labor Relations unit negotiate premium pay in the labor agreement, the Fire Department can and should request DHR Labor Relations to bring the issue to the table for discussion.

Other Notes:

Recommendations 6, 8, 16, 20, 22, 23, 26, 27 and 29 are closed. Although the recommendations have not been fully implemented, the Fire Department's response indicates that it has implemented what it could. CSA expects the department to continue to work with the Office of the Controller's eMerge unit and Payroll and Personnel Services Division (PPSD) to ensure that the recommendations are fully implemented. CSA will continue to follow up with eMerge and PPSD.

Public Utilities Commission

Audits Closed		
Title	**Issue Date**	**No. of Recommendations**
Human Rights Commission: Local Business Enterprise (LBE) Compliance Audit	9/29/11	1
Board of Supervisors: Franchise Fee Audit of Pacific Gas & Electric Company	10/29/09	3

**Audit will be highlighted in CSA's presentation and a representative of the department will be in attendance.*

Other Audits		
***Title**: San Francisco Public Utilities Commision: Hanson Aggregates Mid-Pacific, Inc., Did Not Make All Required Lease Payments, Resulting in up to $634,511 in Underpayments, Potential Underpayments and Other Recoveries; and the PUC Did Not Properly Manage Its Leases	**Date Issued**: 11/23/10	**Summary Status**: Active

CSA did not receive a response to either the six-month or one-year follow-up request it sent to the San Francisco Public Utilities Commission (SFPUC) despite several reminders. The director of the Real Estate Section completed a response some time before March 14, 2012, but that response was still under review by the department's general manager as of April 25, 2012.

Title: San Francisco Public Utilities Commision: Audit of Crystal Springs Golf Parnters, L.P.		**Date Issued**: 12/1/10	**Summary Status**: Open
Recommendation Status	**No. of Recommendations**	**Recommendation No. in Report**	
Open	9	2, 3, 6, 9, 10, 15, 19, 20, 21	
Contested	0		
Closed	13	1, 4, 5, 7, 8, 11, 12, 13, 14, 16, 17, 18, 22	
Total	**22**		

Overall Risk of Open and Contested Recommendations: Medium. SFPUC has not yet been able to recover over $96,000 in base rent and other charges from the contractor. One open recommendation (19) asks for a year-end reconciliation of rent due to rent paid because it was not performed for fiscal year 2010-11. However, the department appears to be making strong progress toward implementing these and other recommendations that were simultaneously issued to the Real Estate Section of SFPUC.

Open Recommendations:

Recommendations 2, 6, 9, and 10 ask the department to recover money owed by Crystal Springs Golf Partners, L.P., but the company disputes the issue in question. SFPUC is working with the City Attorney's Office and the contractor to try and resolve the dispute. The amounts for recommendations 2 and 10 totaled $96,003 in base rent and late charges, but the amounts due for recommendations 6 and 9 were not determined.

Recommendation 3 is related to controls over tracking and monitoring rent due. The Real Estate Section of SFPUC is in the process of purchasing a new lease administration software system that, it believes, will resolve these issues. Until then, the section reports having trained its staff to be aware of the issues and monitor them appropriately.

Recommendations 15 and 19 are time-dependent. Recommendation 15 asks the department to review lease terms before approving any replacement food and beverage operators used by the contractor. Recommendation 19 asks the department to annually reconcile rent due and rent paid. The department indicates that it will comply with these recommendations. CSA will continue to follow up.

Recommendations 20 and 21 ask the department to issue a water rate credit to the contractor and determine what credit may be due for prior periods. The department reports that it will resolve these recommendations in the last quarter of fiscal year 2011-12.

**Audit will be highlighted in CSA's presentation and a representative of the department will be in attendance.*

Human Rights Commission

Title: Human Rights Commission: Local Business Enterprise (LBE) Compliance Audit		**Date Issued**: 9/29/11	**Summary Status**: Open
Recommendation Status	**No. of Recommendations**	**Recommendation No. in Report**	
Open	2	3, 4	
Contested	0		
Closed	10	1, 2, 5, 6, 7, 8, 9, 10, 11, 12	
Total	**12**		

Overall Risk of Open and Contested Recommendations: Low.

This audit report was addressed to HRC, but included five recommendations that were at least partially the responsibility of the Airport to implement.

Open Recommendations:

Recommendation 3 asks HRC to investigate selected contracts to determine if sanctions are warranted. HRC has had difficulty obtaining documents from KJ Woods (contractor of SFPUC), but anticipates sanctions against Proven (contractor of Airport) and is in the process of documenting its findings.

Recommendation 4 asks HRC to train compliance officers to review payroll reports. HRC reports that it expects training to be completed by July 2012.

Arts Commission

Title: San Francisco Arts Commission: The Street Artists Program Should Improve Its Internal Controls and Accounting Practices		**Date Issued**: 7/12/11	**Summary Status**: Open
Recommendation Status	**No. of Recommendations**	**Recommendation No. in Report**	
Open	4	4, 5, 8, 11	
Contested	0		
Closed	9	1, 2, 3, 6, 7, 9, 10, 12, 13	
Total	**13**		

Overall Risk of Open and Contested Recommendations: Low.

Open Recommendations:

Recommendations 4 and 5 ask the department to implement procedures to identify and disseminate information on artists whose certificates were paid for with checks that were returned for insufficient funds. The department has written a new policy, which is awaiting review by the City Attorney's Office.

Recommendation 8 asks the department to implement an Internet-based payment system it had been planning. The department is evaluating whether the system is practical to implement.

**Audit will be highlighted in CSA's presentation and a representative of the department will be in attendance.*

Recommendation 11 is timing-dependent and asks the department to perform a reconciliation at the end of the year. The department reports that it has not yet had the opportunity to implement this recommendation.

Department of Public Works

Audits Closed		
Title	**Issue Date**	**No. of Recommendations**
Human Rights Commission: Local Business Enterprise (LBE) Compliance Audit	9/29/11	2

**Audit will be highlighted in CSA's presentation and a representative of the department will be in attendance.*

INTRODUCTION FORM

By a member of the Board of Supervisors or the Mayor

Time Stamp or
Meeting Date

I hereby submit the following item for introduction:

- ☐ 1. For reference to Committee:
  An ordinance, resolution, motion, or charter amendment
- ☐ 2. Request for next printed agenda without reference to Committee
- ☑ 3. Request for Committee hearing on a subject matter
- ☐ 4. Request for letter beginning "Supervisor _____ inquires..."
- ☐ 5. City Attorney request
- ☐ 6. Call file from Committee
- ☐ 7. Budget Analyst request (attach written motion).
- ☐ 8. Substitute Legislation File Nos.
- ☐ 9. Request for Closed Session
- ☐ 10. Board to Sit as A Committee of the Whole
- ☐ 11. Question(s) submitted for Mayoral Appearance before the BOS on _____.

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- ☐ Small Business Commission
- ☐ Ethics Commission
- ☐ Building Inspection Commission
- ☐ Youth Commission
- ☐ Planning Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a different form.]

Sponsor(s): Campos

Subject: Hearing on City departments' progress on implementation of audit recommendations by the Controller/City Services Auditor.

The text is listed below or attached:

I kindly request that this item be referred to the Government Audit and Oversight Committee.

Signature of Sponsoring Supervisor: David Campos

For Clerk's Use Only:

Common/Supervisors Form

Revised 05/19/11

110063