



KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Mayor and Board of Supervisors:
City and County of San Francisco, California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of San Francisco Wastewater Enterprise (the Enterprise), an enterprise fund of the City and County of San Francisco, California (the City), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Enterprise's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Enterprise's internal control. Accordingly, we do not express an opinion on the effectiveness of the Enterprise's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we did identify a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency below as item 2020-001 to be a material weakness.

2020-001: Inappropriate Tone at the Top

An entity must establish and maintain an effective control environment (tone at the top) over compliance with laws, regulations, contracts and grant agreements that have a material effect on the financial statements. The control environment, which is the responsibility of executive management, helps set the tone of the organization and includes commitment towards openness, honesty, integrity, and ethical behavior, and may influence its management and employees. Enterprise management and employees are required to adhere to the ethical standards as governed in the City's code of conduct. Subsequent to the Enterprise's June 30, 2020 fiscal year-end, but prior to the date of our report, a criminal Federal complaint was filed against the Enterprise's general manager for honest services wire fraud. These alleged criminal actions against an individual responsible for compliance with laws and regulations constituted a deficiency in the control environment because they failed to set an appropriate tone at the top and demonstrated a lack commitment to integrity and ethical values as set



forth in the City's code of conduct. Although management has deemed no financial statement impact resulting from these actions, because the alleged criminal actions occurred at the executive management level, the potential for a material misstatement is more than remote. Accordingly, this deficiency constitutes a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Enterprise's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described above as item 2020-001.

The Enterprise's Response to Findings

Management acknowledges the identified internal control deficiency. The former general manager of the Enterprise is no longer employed with the entity or City. The Office of the City Attorney and Controller's Office have set forth a series of investigations and audits related to Public Integrity, addressing organizational functions and processes identified in the alleged criminal actions of the individual. The Enterprise has also planned a near-term series of internal assessments for organizational areas, programs and processes related to the investigations to identify areas requiring further improvements over internal control.

The Enterprise's response to the findings identified in our audit is described previously. The Enterprise's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Enterprise's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
January 22, 2021