

**Board of Supervisors**  
**Government Audit & Oversight**  
**Committee**  
**July 13, 2023**

# Agenda

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- I. Overview
- II. Governance & Audit
- III. Financial Policies, Rate Setting, and Controls
- IV. SFPUC Investment in Governance

# Governance and Audits



# SFPUC Audit Bureau

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The SFPUC Audit Bureau is responsible for leading department oversight and governance activities.

- Disciplined approach to evaluating and improving governance, control, and risk management.
- Ensure adherence to CCSF and SFPUC policies and procedures, external regulations, adoption of best practices, and effective risk management strategies.
- Promote and support the protection of resources and assets entrusted to our care.
- Promote strong workplace ethics and ensure compliance with CCSF and SFPUC Statement of Incompatible Activities.

# SFPUC's Excellent Stewardship

## Transparency and Accountability

- Quarterly Audit and Performance Review Report is presented to the Commission each quarter.
- SFPUC partners closely with the Controller's City Service Auditor (CSA) to develop the CSA Annual Audit Plan focused on internal controls and good governance.
- Audit works closely with SFPUC Executive and Senior Staff to determine audit needs in development of SFPUC Annual Audit Plan.



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

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**Date:** May 9, 2023

**To:** Commissioner Newsha K. Ajami, President  
Commissioner Sophie Maxwell Vice President  
Commissioner Tim Paulson  
Commissioner Anthony Rivera  
Commissioner Kate H. Stacy

**Through:** Dennis J. Herrera, General Manager

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

**Subject:** FY 2022-23 Q3 Audit and Performance Review Report

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This memorandum summarizes the San Francisco Public Utilities Commission (SFPUC) Quarterly Audit and Performance Review (QAPR) report for the third quarter of FY 2022-23 Q3, ending March 31<sup>st</sup>, 2023.

**I. Completed Audits**

There were eight completed audits during the third quarter of FY 2022-23:

1. Enterprise Risk Management: Cyber Risk Assessment | January 24, 2023  
**Report Summary:** The SFPUC's Cyber ERM Assessment is an annual iterative review of risks, risk components, and treatments. It serves as a continuous monitoring, tracking, and identification of new and emerging risks. Due to the sensitive nature of cybersecurity, the contents of this report are confidential.
- 2.-4. FY 2021-22 Audited Financial Statements (3 Reports) | January 27, 2023  
Report Link: <https://tinyurl.com/mj3yce4s>  
**Report Summary:** Third-party auditor KPMG LLP issued clean, or unqualified opinions, of the financial statements of all three enterprises. It was the auditor's independent opinion that the financial statements are accurate and free from material misstatements, and additionally noted no internal control weaknesses.
5. SSIP CS-165 Program Management Contract Audit | February 16, 2023  
Report Link: <https://tinyurl.com/3eibzubb>  
**Report Summary:** Sjoberg Evashenk Consulting, Inc., was engaged by the Controller's Audit Division to conduct a performance audit of SFPUC's Program Management Consultant professional service contract for the Sewer System Improvement Program (Agreement Number CS-165) and evaluate whether

**London N. Breed**  
Mayor

**Newsha K. Ajami**  
President

**Sophie Maxwell**  
Vice President

**Tim Paulson**  
Commissioner

**Anthony Rivera**  
Commissioner

**Kate H. Stacy**  
Commissioner

**Dennis J. Herrera**  
General Manager



# SFPUC's Oversight Bodies

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**SFPUC supports all financial and performance audits and assessments. We are proud of our timely responsiveness to close audit recommendations and reviews.**

Governing and Oversight Entities include:

- Controller's Office
- Board of Supervisor's Budget & Legislative Analyst
- California Department of Finance
- California Department of Tax & Fee Administration
- Revenue Bond Oversight Committee
- SFPUC Business & Financial Services
- Other regulatory and oversight bodies

# SFPUC: 75+ audits since 2020

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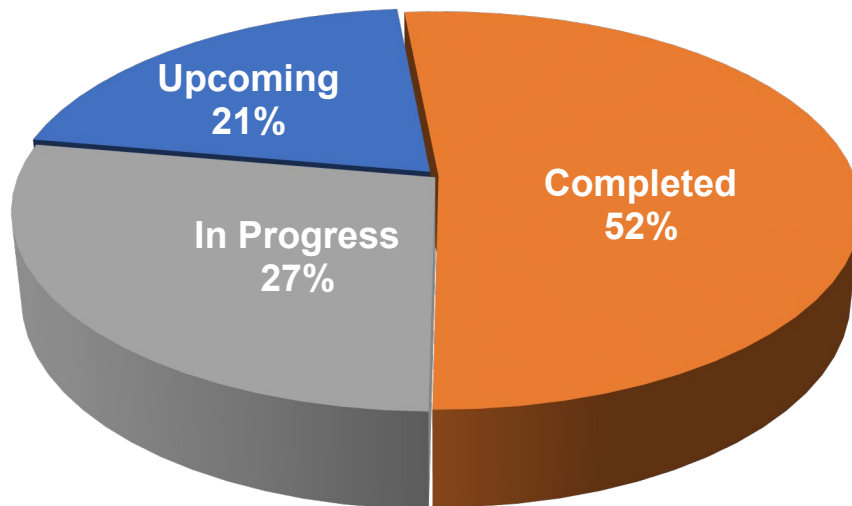
## Audits/Assessments by Enterprise, Bureau or Function

- **Water and Wastewater Enterprises** 6
- **Hetch Hetchy Water and Power** 8
- **Power Enterprise** 9
- **Infrastructure Bureau** 4
- **Contracting & Procurement** 7
- **Audited Annual Financial Statements** 17
- **Information Technology Services** 5



# SFPUC FY 2023 Audit Updates

SFPUC actively tracks all audits and provides timely responses



Status	Count
Completed	15
In Progress	8
Upcoming	6
Total	29



# SFPUC Implements All Audit Recommendations

- SFPUC demonstrates timely implementation of all audit recommendations and closes all audits.
- Target metric: Close within 6 months.

Year	Total Recommendations	% Complete
2019	6	100%
2020	N/A	N/A
2021	8	100%
2022	2	100%
2023	23	In process
<b>Total:</b>	<b>39</b>	



# Financial Policies, Rate Setting, and Cost Controls



# Ratepayer Assurance Policy

## Revenue Sufficiency

The Commission will aim to establish rates sufficient to cover the full cost of all SFPUC activities.

## Customer Equity

The Commission will establish rates based on cost of service in compliance with the San Francisco Charter and California Proposition 218.

## Environmental Sustainability

The Commission will aim to establish rates in a manner that values environmental sustainability and preserves the natural resources entrusted to the SFPUC's care.



# Ratepayer Assurance Policy

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## Affordability

The Commission will consider SFPUC service affordability for all its customers.

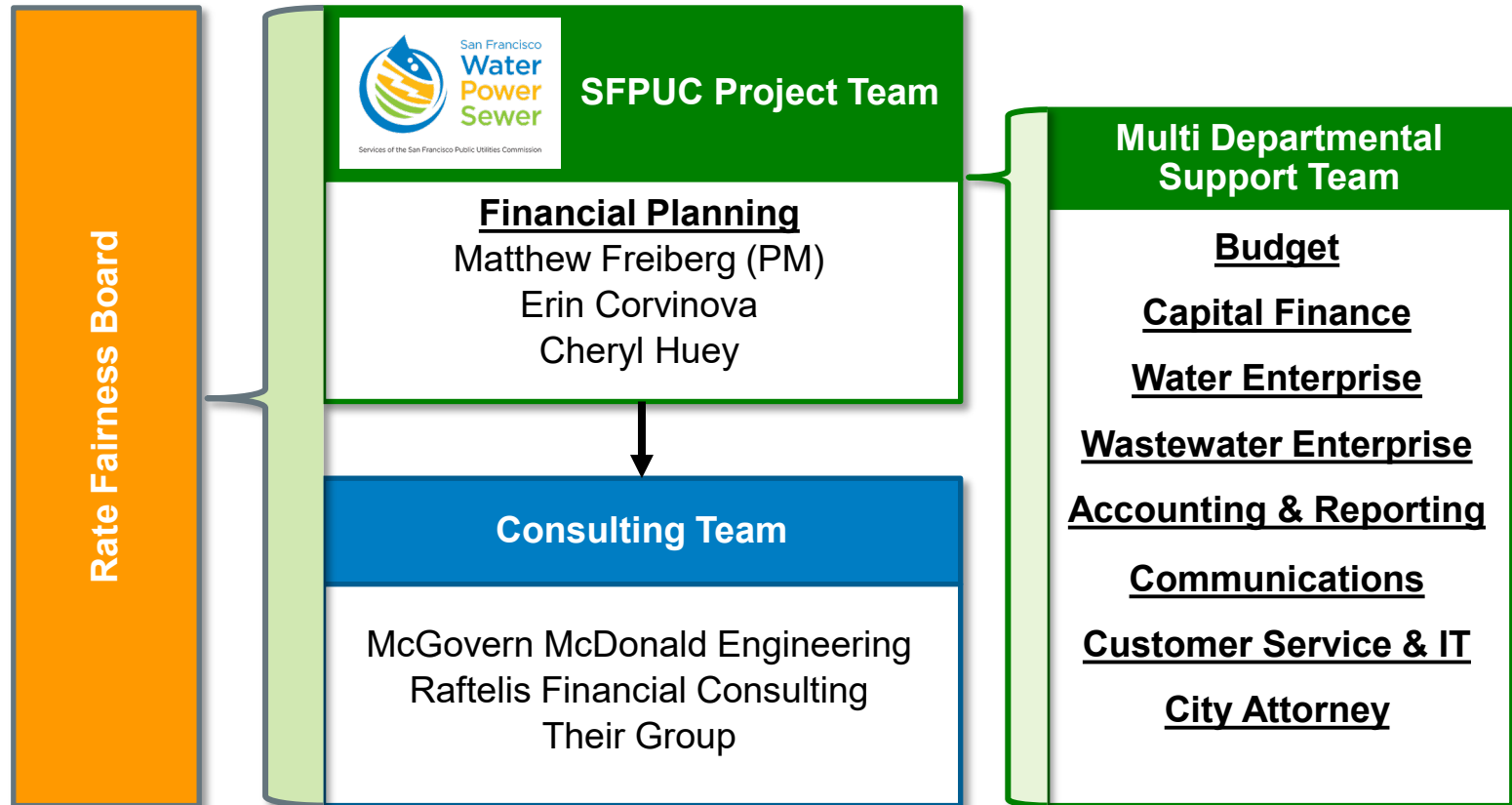
## Predictability

The Commission will aim to establish rates designed to minimize bill fluctuations, enabling ratepayers to plan ahead for their personal finances.

## Simplicity

The Commission will aim to establish rates that are easy for ratepayers to understand

# Water and Sewer Rate Study Team



*SFPUC Charter Requires Rates to be Reviewed by a 3<sup>rd</sup> Party Every 5 Years*

# What is a Rate Study: Basic Tasks

## Revenue Requirement

- Calculate percent rate revenue adjustments
- Determined by current revenues and the costs to operate and maintain facilities plus capital expenses
- Scenario planning to balance capital investment scenarios and rate impact



## Cost of Service Analysis

- Allocates revenue requirement to customer classes based on cost drivers
- Key step to achieving compliance with Prop. 218



## Rate Design

- Develops specific rates and charges for customer classes

# Cost of Service Overview

## Expense Type

- Operating, Debt, and Capital Expenditures

Example    Water Quality Lab Salaries

## Functionalization

- Costs are spread across various functions
- Supply, Pumping, Transmission, Treatment, Customer Service, etc.

Assigned to Water Quality Function

## Allocation

- Functionalized costs are allocated to Cost Components
- Base Demand, Peak Demand, Customer Service, Meters, etc.

Allocated to Base Demand

## Unit Cost of Demand

- Unit costs are calculated for each Cost Component
- Total cost assigned to each cost component is divided by the system wide factors for each component.

Base Demand is divided by Potable Water Sales

## Distribution

- Costs are distributed to customer classes based on the demand units for each cost component

Unit Cost is multiplied by Potable Water Sales from Each Class



# Affordability of Water and Sewer Rates

## Rate Affordability Policy

- Combined Water / Sewer Bills to remain below 2.5% of median household income (MHI)

## Enhanced Customer Assistance Program

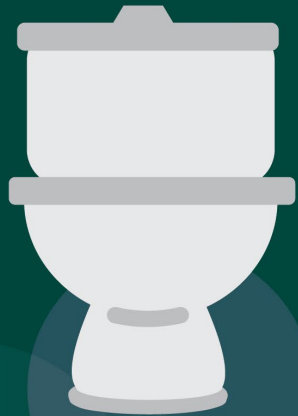
- 40% for households earning up to 30% of Area Median Income
- 25% for households earning 31 to 50% of Area Median Income

## Incentives

- Stormwater Credit
- Low-flow appliance rebates
- Green infrastructure grants

# SFPUC Services are a Great Value

## Cost Comparison of Everyday Items



**1 Gallon**  
Treated Wastewater

**\$0.03**



**1 Gallon**  
Tap Water

**\$0.02**



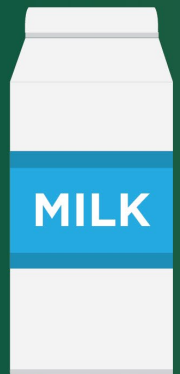
**1 Gallon**  
Bottled Water

**\$1.79**



**1 Gallon**  
Gas

**\$4.58**



**1 Gallon**  
Milk

**\$4.85**



# Annual Investment towards Governance and Internal Control

**FY 2022-23 governance and audit costs, ~\$5.7 million**

Audit Area	Amount
Controller, City Services Auditor	1,081,117
SFPUC Audit Bureau	604,540
Audited Financial Statements	761,889
Informational Technology	517,845
NERC Compliance Program	2,546,000
Water, Sewer, and Power Rate & Cost of Service Studies	206,000
<b>Total *</b>	<b>\$ 5,717,391</b>

\* Does not include Revenue Bond Oversight Committee, Rate Fairness Board, Board of Supervisors Budget & Legislative Analyst, and internal personnel staff time responding to audits and assessments.

# THANK YOU

Feedback & Questions?