



Transmitted via e-mail

June 16, 2016

Mr. Mark Cowin, Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

Mr. Samuel P. Schuchat, Executive Officer
State Coastal Conservancy
1330 Broadway, 13th Floor
Oakland, CA 94612-2530

Dear Mr. Cowin and Mr. Schuchat:

Final Report—San Francisco Public Utilities Commission, Propositions 1E and 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the San Francisco Public Utilities Commission's (SFPUC) grants 4600009639 and 09-045, issued by the California Department of Water Resources and the State Coastal Conservancy, respectively.

The enclosed report is for your information and use. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of the SFPUC. If you have any questions regarding this report, please contact Jon Chapple, Manager, or Rebecca McAllister, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Carl Torgersen, Chief Deputy Director, California Department of Water Resources
Ms. Katherine Kishaba, Deputy Director of Business Operations, California Department of Water Resources
Ms. Gail Chong, Deputy Assistant DWR Executive, Bond Accountability, California Department of Water Resources
Mr. Jeff Ingles, Chief Auditor, California Department of Water Resources
Ms. Mary Small, Deputy Executive Officer, State Coastal Conservancy
Ms. Amy Hutzler, Deputy Executive Officer, State Coastal Conservancy
Ms. Regine Serrano, Chief of Administrative Services, State Coastal Conservancy
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Francesca Vietor, President of the Commission, San Francisco Public Utilities Commission
Mr. Harlan L. Kelly, Jr., General Manager, San Francisco Public Utilities Commission
Mr. Eric Sandler, Assistant General Manager, Business Services and Chief Financial Officer, San Francisco Public Utilities Commission
Ms. Anna Roche, Climate Change and Special Projects Manager, San Francisco Public Utilities Commission
Mr. John Fournet, Community Liaison, Hetch Hetchy Water System, San Francisco Public Utilities Commission
Ms. Christina Andersson, Audit and Compliance Manager, San Francisco Public Utilities Commission

San Francisco Public Utilities Commission
Propositions 1E and 84 Bond Programs
Grant Agreements 4600009639 and 09-045



San Francisco Stormwater & Flood Management Priority Projects
Source: San Francisco Public Utilities Commission website

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Jon G. Chapple, CPA
Manager

Rebecca McAllister, CPA
Supervisor

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Randy McClendon, CISA

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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Office of State Audits and Evaluations
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BACKGROUND, SCOPE, METHODOLOGY AND RESULTS

BACKGROUND

California voters approved the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E), and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84), for \$4.09 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The San Francisco Public Utilities Commission (SFPUC) is a department within the City and County of San Francisco that provides retail drinking water and wastewater services to the San Francisco area, wholesale water to three Bay Area counties, and green hydroelectric and solar power to San Francisco's municipal departments.¹

SFPUC was awarded the following grants:

- **San Francisco Stormwater & Flood Management Priority Projects (4600009639)** – The California Department of Water Resources (DWR) awarded \$24,147,000 to assist in financing the Sunnydale Flood and Stormwater Management Sewer Improvement Project (“Sunnydale”) and the Cesar Chavez Street Flood and Stormwater Management Sewer Improvement Project (“Cesar Chavez”). The Sunnydale project will operate primarily during wet weather to supplement the stormwater drainage of the existing systems. The Cesar Chavez project includes installing new auxiliary sewers, replacing existing sewers, and constructing new junction structures. As part of these priority projects, SFPUC is providing an additional \$59,868,000 in match and cost share funding.
- **Southern Skyline Boulevard Extension, Upper Crystal Springs Watershed (09-045)** – State Coastal Conservancy (SCC) awarded \$185,000 to assist in financing the development of detailed plans, engineering designs, and compliance documents for the Skyline Trail segment of the Bay Area Ridge Trail. The designs and documents shall assist SFPUC in preparing to install a 4.7-mile trail that will traverse ridge lands east of Highway 35 within the upper Crystal Springs Watershed in San Mateo County, which is owned and managed by the City and County of San Francisco for water supply purposes. SFPUC is providing \$207,500 in match funding for this project.

¹ Source: <http://www.sfwater.org>

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited the following grants:

<u>Grant Agreement</u>	<u>Audit Period</u>
4600009639 09-045	October 1, 2008 through December 31, 2014 ² March 3, 2010 through March 30, 2015

The audit objectives were to determine whether the SFPUC's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. We did not assess the efficiency or effectiveness of program operations.

SFPUC's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DWR, SCC, and the California Natural Resources Agency are responsible for the state-level administration of the bond programs.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements; and if the grant deliverables were completed as required, we performed the following procedures:

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed the SFPUC's accounting records, vendor invoices, and bank statements.
- Selected a sample of claimed expenditures and determined whether they were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant agreements.
- Evaluated whether a sample of grant deliverables were met by reviewing quarterly progress reports including design and engineering plans, construction reports, and environmental documentation.

In conducting our audits, we obtained an understanding of the SFPUC's internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during our audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

² An interim audit was conducted for DWR grant 4600009639 because the grant term ends December 1, 2016.

RESULTS

The grant expenditures claimed complied with the grant agreements' requirements. Additionally, the grant deliverables available for review at the time of our site visit in February 2016 were completed as specified in the grant agreements. The Schedules of Claimed Amounts are presented below.

Schedules of Claimed Amounts

Grant Agreement 4600009639	
Task	Claimed³
Direct Project Administrative Costs	\$ 894,665
Planning / Design / Engineering / Environmental Documentation	1,293,200
Construction / Implementation	18,102,886
Construction Administration / Outreach	347,556
Total Grant Funds	\$ 20,638,307
Match Funds	\$ 40,943,746
Total Project Expenditures	\$ 61,582,053

Grant Agreement 09-045	
Task	Claimed
Review Conceptual Design / Reports	\$ 3,120
Initial Site Visit	520
Prepare / Review Design Drawings	48,400
Prepare Design Specifications	17,771
Site Investigations / Site Visits	15,400
Client Coordination Meetings	4,197
ADA Review Meetings	780
Project Documentation	3,705
DPW Survey Work	5,800
Geotechnical Study – Spring 2013	68,322
SFPUC Engineering and Work Plan	16,985
Total Grant Funds	\$ 185,000
Match Funds	\$ 207,500
Total Project Expenditures	\$ 392,500

³ DWR awarded \$24,147,000 and SFPUC has claimed \$20,638,307 as of December 31, 2014.