

To: Ben Rosenfield, Rebecca Rhine, and Corey Marshall

From: Jerry S. B. Dratler

Date November 11, 2014

Subject: CGOBOC CSA liaison assessment of City Services Auditor (CSA) compliance with the Audit Unit requirements of Appendix F of the City Charter.

CGOBOC is the Citizens Audit Review Board (CARB) for the CSA. There are four specific requirements of the Citizens Audit Review Board enumerated in Section F1.111 of Appendix F of the City Charter. The purpose of this memo is to assess CGOBOC's compliance with the second CARB requirement, review all audits to ensure that they meet the requirements of Appendix F.

The method used to assess CSA's compliance with Appendix F of the City Charter is to classify each of the ninety-one internal audit reports issued by the CSA in calendar years 2013 and 2012 (schedule B) by type of audit and compare the audit reports that were issued with the specific CSA Audit Unit requirements of Appendix F of the City Charter which is abstracted in schedule A.

F1.111. CITIZENS AUDIT REVIEW BOARD.

In addition to its duties under Article V of Chapter 5 of the Administrative Code, the Citizens' General Obligation Bond Oversight Committee shall serve as a Citizens Audit Review Board. In its role as the Review Board, the Oversight Committee shall provide advisory input to the Controller on matters pertaining to the functions set forth in this Appendix, and, in particular, shall:

- (1) Review the Controller's service standards and benchmarks to ensure their accuracy and usefulness;*
- (2) Review all audits to ensure that they meet the requirements set forth above;*
- (3) Subject to appropriate rules ensuring the confidentiality of complainants, as well as the confidentiality of complaints referred to and handled by the District Attorney, the City Attorney, and the Ethics Commission, review citizen and employee complaints received through the whistleblower/complaint hotline and website and the Controller's disposition of those complaints; and*
- (4) Where it deems appropriate, hold public hearings regarding the results of benchmark studies and audits to encourage the adoption of "best practices" consistent with the conclusions of the studies and audits. An audio or video recording of such hearings shall be made available for public inspection free of charge.*

(Added November 2003)

Five specific CSA Audit Unit requirements in Appendix F of the City Charter.

1. The requirement for CSA to perform comprehensive financial and performance audits.
2. The requirement for the Controller/City Services Audit Unit to review standards for street and park maintenance in consultation with responsible City departments and perform an annual Clean Streets/Clean Parks audit to track whether these standards are met.
 - a. The Service audit unit shall conduct annually a performance audit of the City's street, sidewalk, and public park maintenance and cleaning operation.
 - i. Include quantifiable, measureable, objective standards for sidewalk, and park maintenance to be developed in cooperation and consultation with the Department of Public Works and the Recreation and Parks Department.
 1. Based upon such measures report on the condition of each geographic portion of the City.
 2. To the extent that standards are not met, assess the causes of such failure and make recommendations of actions that will enhance the achievement of those standards in the future.
 - ii. In addition all City agencies engaged in street, sidewalk, or park maintenance shall establish regular maintenance schedules for streets, sidewalks, parks and park facilities, which shall be available to the public and on the department's website.
 - i. Each such department shall monitor compliance with these schedules.
 - ii. The City Services Audit Unit shall audit each department's compliance with these requirements annually, and shall furnish recommendations for meaningful ways in which information regarding the timing, amount and kind of services provided may be gathered and furnished to the public.
 - b. In addition all City agencies engaged in street, sidewalk, or park maintenance shall establish regular maintenance schedules for streets, sidewalks, parks and park facilities, which shall be available to the public and on the department's website.
 - i. Each such department shall monitor compliance with these schedules.
 - ii. The City Services Audit Unit shall audit each department's compliance with these requirements annually, and shall furnish recommendations for meaningful ways in which information regarding the timing, amount and kind of services provided may be gathered and furnished to the public.
3. The Controller shall have the duty to perform regular oversight of the City's contracting procedures, including developing model criteria and terms for City Requests for Proposals (RFPs) auditing compliance with contracting rules and procedures, and where appropriate investigating cases of alleged abuse or conflict of interest.
4. Ensure that all bond funds related to streets, parks and open spaces are spent in strict accordance with the stated purposes and permissible uses of such bonds, as approved by the voters.
5. The requirement that the Controller's Audit Fund (CSA annual budget) shall be used exclusively to implement duties and requirements of this appendix and shall not be used to displace funding for non-audit related functions performed by the Controller's Office existing prior to the date this provision was enacted.

CSA Audit Unit compliance with Appendix F requirements.

1. The CSA issued comprehensive financial and performance audits in calendar years 2013 and 2012 as required in Appendix F of the City Charter. Ninety- one internal audit reports are listed on the Controller's website as issued in 2013 and 2012.
2. The CSA did not perform an annual performance audit of the City's street, sidewalk, and public park maintenance and cleaning operation in calendar years 2013 and 2012. If the CSA had issued a performance audit of the City's street, sidewalk and public park maintenance and cleaning operation in calendar years 2013 and 2012 the report would have been published on the Controller's website.
 - a. The City Services Audit Unit did not audit the regular maintenance schedules for streets, sidewalks, parks and park facilities, which shall be available to the public and on the department's website. If the CSA had audited the regular maintenance schedules for streets, parks and park facilities that audit report would have been published on the Controller's website.
 - b. The CSA performance management unit did issue a report on Park Maintenance standards that was based principally on the observations of Recreation and Parks employees. The CSA Park and Maintenance Standards Report does not meet professional audit standards. The report is a compilation of the average of up to four Recreation and Parks employee assessments and one CSA employee assessment of each park. A Recreation and Parks "self assessment" of maintenance of the City's parks is useful but does not meet Generally Accepted Governmental Auditing Standards (Yellow Book).
 - c. A Streets and Sidewalks Maintenance Standards performance audit was not issued in calendar years 2013 and 2012. The last complete Streets and Sidewalks Maintenance Standards report posted on the Controller's website was issued four years ago in October of 2010. The October 2010 Streets and Sidewalks Maintenance Standards report does not meet Generally Accepted Governmental Audit Standards (Yellow Book).
 - i. The report does not meet Generally Accepted Governmental Auditing Standards (Yellow Book). The report is based on 383 observations of maintenance standards jointly developed by the Department of Public Works and the CSA. The report summarizes 383 park observations. 65 Observations were conducted by the CSA and 318 observations were contracted out by the Department of Public Works to the Mission Neighborhood Centers.
3. The CSA did not fulfill its "duty to perform regular oversight of the City's contracting procedures" by "auditing compliance with City contracting rules and procedures" in calendar years 2013 and 2012. If the CSA had issued an audit of the City's contracting procedures in calendar years 2013 and 2012 the report would have been published on the Controller's website.

4. In calendar years 2013 and 2012 there are no audits, reports or analysis of general obligation bond funded street, park and open space projects where the scope of work of the audit, report or analysis was an examination of general obligation bond funded expenditures for the purpose of determining if the expenditures were made in strict accordance with the stated purposes and permissible uses of such bond proceeds.
 - a. Best practices for ensuring that general obligation bond proceeds are expended in accordance with a ballot measure requires a review of bond expenditures (transaction testing). Transaction testing involves a random statistical sampling of a bond's expenditure transactions and examining the selected transactions to ensure that the transactions are for allowable expenditures. Transaction testing is the evidentiary basis for opining that general obligation bond expenditures were made in accordance with the permissible use of bond proceeds.

5. I did not find any audit reports issued by the CSA Audit Services Unit that would be an improper expenditure of Controller's Audit Funds.

Summary of the classification of the ninety-one audit reports issued by the CSA Audit Unit in calendar years 2013 and 2012 (Schedule A).

- **Audit reports by department.**
 - Half of the audit reports issued in calendar years 2013 and 2012 focused on four of the 55 City departments.
 - The department with the greatest number of reports (15 reports) is the Airport Commission. 87% of the 15 reports issued were concession audits (10) or contract compliance audits (3). Why were 16.5% of all audit reports issued to the Airport Commission? Did the risk assessment detect a high level of risk at the Airport?
 - The Controller department had the second greatest number of audit reports issued (11 or 12.1%). Six of the eleven audit reports were follow-up audits.
 - S. F. Municipal Transportation Agency had the third largest number of audit reports (11 reports). Seven of the reports were construction audits and two were performance audits.
- **Audit reports by report type.**
 - Four audit report types account for 58 or 65% of the 91 audit reports issued in calendar years 2013 and 2012.
 - Construction audits were the most frequent, 19 reports or 20.9% of all reports issued.
 - Concession audits of Airport and Port facilities accounted for 17 or 18.7% of the audit reports issued.

- Contract compliance audits accounted for 12 or 13.2% of the audit reports issued.
- Ten follow up audit reports were issued and they accounted for 11% of all audit reports issued.
- 32% of the audit reports issued (concession and contract audits) have very narrow audit scope and provide very little utility to City management and citizens of San Francisco.
- Of the 91 audit reports issued in the two years only 4 or 4.4% of all audit reports issued were performance audits.

Recommendations for CGOBOC to fulfill its review all audits requirement in Appendix F.

- CGOBOC’s participation in the development and approval of the annual CSA Audit Unit work plan needs to be more hands on and CGOBOC and the CSA need to develop an annual work plan calendar to ensure adequate time is available for CGOBOC participation.
 - All proposed CSA Audit Unit work on general obligation bond funded projects should be reviewed with the appropriate CGOBOC liaison committee members prior to inclusion in the CSA Audit Unit proposed next year work plan presented to CGOBOC.
 - Annually the CSA Audit Unit should present a comprehensive schedule of next year’s proposed internal audits to CGOBOC. The schedule should include the following information for each proposed audit:
 - The audit objective, scope of work and the specific risk the audit is addressing.
 - The total payroll and non-payroll cost of the proposed audit.
 - Where there are citywide audits (for example, payroll, cash) the audits should be summarized and a list of departments to be audited provided.
 - The CSA should present its most current risk assessment of the City to CGOBOC annually.
 - Annually the CSA Audit Unit should report the total cost and dollar value of audit findings for all concession and contract compliance audits issued in the prior year and their recommendation for concession and contract compliance audits in the next fiscal year with the proposed next year CSA Audit Unit work plan.
 - CGOBOC should review the report to ensure that the five year audit frequency of concessionaires and contract services providers reflects the audit findings or lack of findings in prior audits. The audit frequency of areas with substantial findings should be increased and the frequency reduced for areas with minimal findings.
 - The CGOBOC CSA liaisons should review CSA’s proposed annual work plan prior to the plan being posted on the Controller’s website and prior to the annual work plan being presented at a CGOBOC meeting.

- Only 4 or 4.4% of the audit reports issued by the CSA Audit Unit in calendar 2013 and 2012 were performance audits. CGOBOC should increase the number of performance audit reports issued annually.
- CGOBOC should review the CSA proposed annual audit work plan to ensure the four specific audits required in Appendix F of the City Charter are included in the proposed annual work plan.
 - The annual performance audit of the City's street, sidewalk, and public park maintenance and cleaning operations.
 - The annual audit of streets, sidewalks, parks and park facilities requirement to establish regular maintenance standards which shall be available to the public and on the department's website.
 - The Controller's requirement to "perform regular oversight" of the City's contracting procedures, including developing model criteria and terms for City Requests for Proposals (RFPs) and auditing compliance with contracting rules and procedures.
 - CSA's annual work to ensure that all bond funds related to streets, parks and open spaces are spent in strict accordance with the stated purposes and permissible uses of such bond funds as approved by the voters.
- Annually the CGOBOC CSA liaisons should review the four "required" audit reports issued by the CSA to determine if the CSA has fulfilled the requirements of Appendix F of the City Charter. The results of the CGOBOC CSA liaison's review should be included in the CGOBOC annual report. .
- Annually the CSA Audit Unit should review a summary of all open internal audit recommendations by department with CGOBOC. CGOBOC needs to understand internal control weaknesses in the City that have not been addressed.
- CGOBOC and the CSA should review the current format of internal audit reports to ensure that audit reports are easily understood by City employees and San Francisco Citizens.
 - CGOBOC members should be required to read all performance audits and the CSA Audit Unit should present each performance audit in a CGOBOC meeting. This will allow citizens to participate in the evaluation of performance audits findings.
 - CGOBOC liaisons for specific general obligation bonds should be required to read audit reports that pertain to their liaison responsibility.
 - Currently audit reports focus on communicating specific audit findings and do not tell the report reader if the individual or cumulative audit report findings indicate a significant control weakness. Grading or scoring each audit using a pass or fail score would enable City employee and Citizens to focus on departments with failing scores.

