
PERFORMANCE AUDIT OF CITYWIDE OTHER/SPECIAL FUNDS

Opportunities Exist
to Enhance Use of Funds
for Capital Improvement,
Maintenance, and
Public Safety

Office of the City
Auditor

City of San Diego



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THE CITY OF SAN DIEGO

July 15, 2015

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is an audit report on the City of San Diego's Citywide Other/Special Funds. This report was conducted in accordance with the City Auditor's Fiscal Year 2015 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations can be found after page 35 of the report.

We would like to thank staff from the City Comptroller, Financial Management, Transportation & Storm Water, and Real Estate Asset departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information are greatly appreciated. The audit staff responsible for this audit report are Rebecca Takahashi, Nathan Otto, Chris Kime, and Kyle Elser.

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Results in Brief

Within the City of San Diego (City), Citywide Other/Special Funds (Other/Special Funds) are a specific business area grouping in the Citywide budget. For this audit, we selected four funds from the Other/Special Funds business area for further review: TransNet Extension (TransNet), Capital Outlay, Gas Tax (including Proposition 42 Replacement funds), and Public Safety Needs & Debt Service.

We found that the Other/Special Funds related to capital improvement and maintenance – TransNet, Gas Tax, and Capital Outlay funds – have not been spent in a timely manner, which has resulted in consistent annual carryover in the form of continuing appropriations and unspent revenues. In response to the accumulation of revenues in funds like TransNet, Gas Tax, and Capital Outlay, the Financial Management Department (Financial Management) and departments that use funding for Capital Improvement projects have developed plans to mitigate these balances through changes to cash management policies. In order to address the issues of consistent carryover and unused funds, Financial Management (in consultation with departments that use TransNet, Gas Tax, and Capital Outlay funds) should continue to formally report on the results of the proposed cash management policies designed to significantly reduce carryover associated with TransNet, Gas Tax, and Capital Outlay funds during the next budget cycle.

Additionally, the City Council (Council) policies for these funds are outdated, and contain provisions for the use of the funds that exceed the requirements in California state law. For example, we found that the current California Streets and Highways Code does not contain any specific requirements to expend gas tax revenues in the proportions for capital improvement and maintenance as outlined in Council Policy 200-02. Council Policy 500-07 contains provisions for spending Public Safety Needs & Debt Service revenues that go beyond what is required in state law. While current practices for budgeting and expending these funds are in accordance with state law, these practices are not in alignment with Council policies. Departments responsible for administering these funds should review the current Council policies and present recommended changes to Council.

Finally, we found that the Office of the City Comptroller (City Comptroller) and the Real Estate Assets Department (READ) can strengthen controls over deposits made into the Capital Outlay Fund. As part of the land asset reconciliation process, the City Comptroller should formally document the process for reconciling land sale proceeds to Capital Outlay Fund deposits. The process should incorporate the sale of easements in addition to the information READ already provides the City Comptroller on other land sales.

We made a total of four recommendations, and management agreed to implement all four.

Background

The City of San Diego's (City) Financial Management Department develops and monitors the City's annual budget. The City budget is presented by both department detail and by the entire Capital Improvement Program. According to the City Comptroller, Citywide Other/Special Funds (Other/Special Funds) exist to capture monies that can support two or more departments. Within the Other/Special Funds business area of SAP, funds are classified as special, capital, and/or debt fund types.

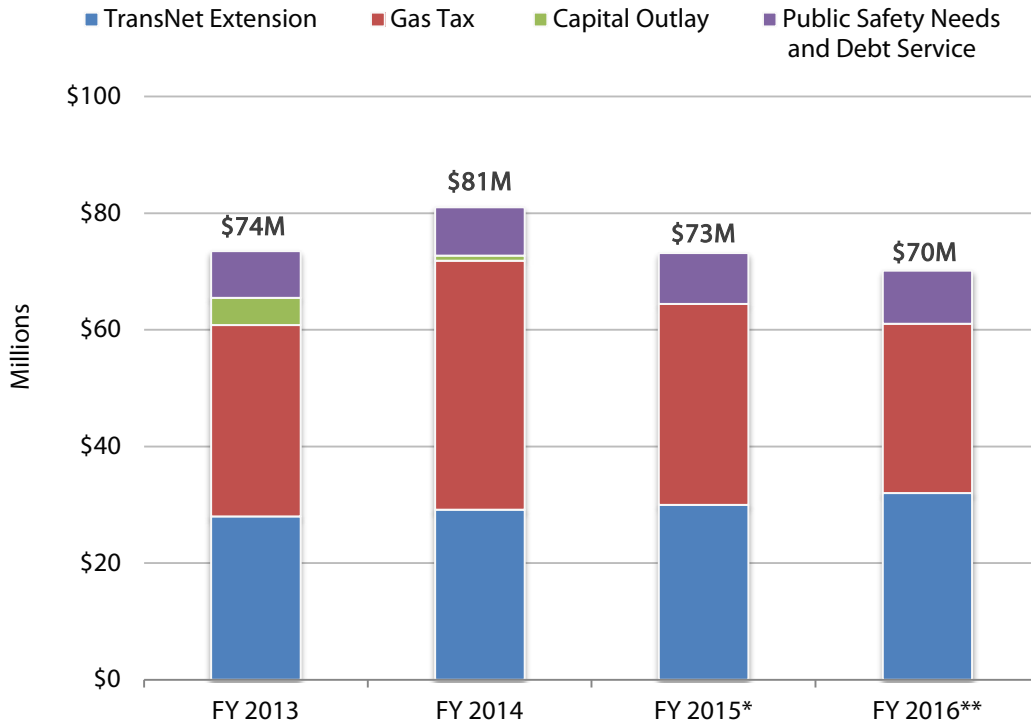
There are 14 funds classified under Other/Special Funds. Of these funds, we audited TransNet, Gas Tax (including Proposition 42), Capital Outlay, and Public Safety Needs & Debt Service funds.¹ In FY 2016, these four funds comprised a total of about \$70 million.

Exhibit 1 shows the amount of funds received or projected by fund from FY 2013 - FY 2016.

¹ See Objective, Scope, and Methodology in Appendix B for a description of how these funds were selected for auditing.

Exhibit 1

Annual Revenues Received/Budgeted for Each Fund



* FY 2015 Adopted Budget

** FY 2016 Proposed Budget. All other amounts are actual amounts for the fiscal year.

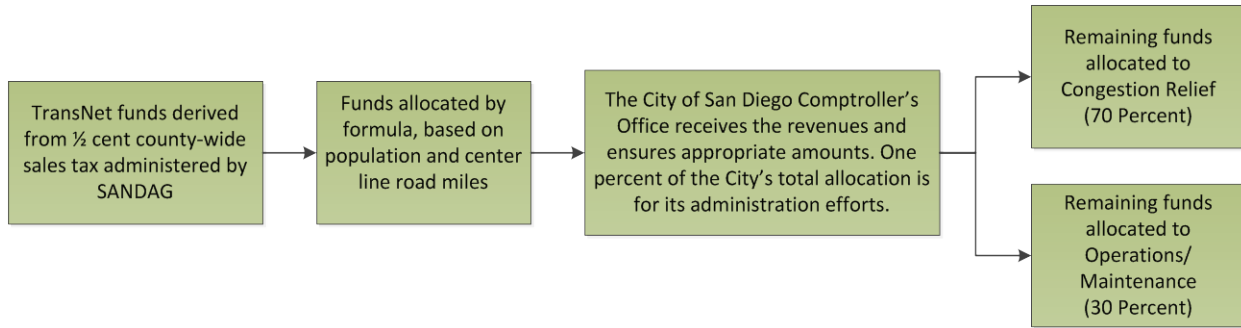
Source: OCA generated, using FY 2013 - 2016 City budgets.

TransNet In 1987, San Diego County voters approved the enactment of the initial San Diego Transportation Improvement Program (now known as TransNet) that created a half-cent increase to the local sales tax.² The purposes of the TransNet funds are to support essential transportation improvements that relieve traffic congestion, increase safety, and improve air quality. These improvements include performing repairs, restoring existing roadways, and constructing assets within the public right-of-way. At present, the City receives TransNet funding for congestion relief projects and maintenance/operations uses. Through a cooperative agreement, the San Diego Association of Governments (SANDAG) is tasked with the responsibility for developing the Regional Transportation Improvement Program (RTIP) which outlines projects that will use TransNet funds. The City’s allocation of funds is described in **Exhibit 2**.

² This program was extended for another 40 years in 2008 by voters, under the name “TransNet Extension.”

Exhibit 2

TransNet Revenue Flowchart



Source: OCA generated, based on SANDAG TransNet Ordinance.

According to the City Comptroller, the City receives its funding from SANDAG on a quasi-reimbursement basis, requiring the City to first expend funds based on a project and budget approved in the RTIP plan. Per SANDAG Board Policy, the City may not maintain a balance of more than 30 percent of its total annual apportionment, and must use any remaining balance to fund projects. SANDAG will defer payment until the City's balance is below 30 percent.

The TransNet program is governed by an Independent Taxpayer's Oversight Committee (ITOC). The ITOC is comprised of citizens that represent seven specific areas of professional expertise, including transportation engineering, construction management, and environmental science. In addition to the oversight provided by the ITOC, the TransNet Ordinance requires a third-party firm to perform agreed-upon procedures reviews of TransNet allocations to the City.

Exhibit 3

TransNet Fund Revenues

FY 2013	FY 2014	FY 2015*	FY 2016**
\$28,042,485	\$29,193,785	\$30,010,000	\$32,007,000

* FY 2015 Adopted Budget

** FY 2016 Proposed Budget. All other amounts are actual amounts for the fiscal year.

Source: OCA generated, using FY 2013 - 2016 City Budgets.

Gas Tax Funds *History and Purpose*

The Gas Tax Fund collects revenue resulting from an excise tax on the sale of gasoline, which is maintained in the Highway Users Tax Account (HUTA). The HUTA is governed by California Streets and Highways Code Sections 2100-2127. The state gas tax is currently assessed as a variable-rate excise tax, which is calculated by the State Board of Equalization annually to account for the revenues that would have been received in the prior year under Proposition 42 sales tax funds. As of FY 2016, the total state tax on gasoline is 30 cents per gallon. The City's budget notes that the Gas Tax Fund primarily funds the maintenance of street lighting, traffic signals, traffic signs, and markings, including the City's share of the Gaslamp Quarter Lighting and the San Diego Street Lighting District Number One. The Gas Tax Fund also funds street maintenance, median landscaping, tree trimming, and waste removal in the right-of-way.

Inclusion of Proposition 42 Replacement Fund/Section 2103

Beginning with the 2010 - 2011 fiscal years, Section 2103 was added to the California Streets and Highways Code to allocate the excise tax funds that replace previous city and county allocations from the Proposition 42 sales tax on gasoline.³ In order to account for the funding mechanism change to gas tax revenues, the City Comptroller established a separate revenue fund that is allocated to the Transportation & Storm Water Division. Although this particular fund group is not classified under the Citywide Special/Other Funds business area (SAP business area #9913), the funding is used to support street and road maintenance projects in the same manner that Gas Tax funds can be used.

³ Prior to 2010, California cities and counties received Highway User Tax revenues generated from a per-gallon sales tax on gasoline. In March 2010, the legislature enacted a "swap" of gasoline sales tax for a gasoline excise tax. This swap repealed the sales tax on gasoline, increased the excise tax on gasoline, and added an annual index to ensure the new excise tax keeps on pace with revenues expected from the sales tax on gas. It also provided for a specific allocation of the funds among state and local transportation needs.

How Funds Are Calculated and Allocated

The City's share of Gas Tax revenue is based on a formula for each section of the California Streets and Highways Code. Criteria used to determine an apportionment is noted in **Exhibit 4**.

Exhibit 4

Criteria to Determine Gas Tax Revenues by Section

Name of Fund Revenue Source	Criteria Used to Determine Apportionment
Gas Tax - Section 2103 (Proposition 42)	Population
Gas Tax - Section 2105	Per gallon tax
Gas Tax - Section 2106	Vehicle registration Assessed valuation Population
Gas Tax - Section 2107	Population
Gas Tax - Section 2107.5	Population

Source: State of California Controller's Office, and the California Local Government Finance Almanac found on CaliforniaCityFinance.com.

Gas Tax revenues are subject to audit by the State Controller, with the City of San Diego last audited in FY 2007 for expenditures made from FY 2000 to FY 2005.

Exhibit 5 below details recent gas tax revenues.

Exhibit 5

Gas Tax Fund Revenues

FY 2013	FY 2014	FY 2015*	FY 2016**
\$32,805,602	\$42,655,813	\$34,464,395	\$29,038,455

* FY 2015 Adopted Budget

** FY 2016 Proposed Budget. All other amounts are actual amounts for the fiscal year.

Source: OCA generated, using FY 2013 - 2016 City Budgets.

Capital Outlay Fund The Capital Outlay Fund was established per Section 77 of Article VII of the City Charter to hold all monies “derived from taxation required or needed for capital outlay expenditures”, as well as revenue proceeds from the sale of City-owned real property. The Capital Outlay Fund is to be used exclusively for the acquisition, construction, and completion of permanent public improvements. This Charter language was last amended in June 1966.

The Charter states that “[n]o moneys in said fund shall be transferred at the end of a fiscal year, but shall remain therein as trust moneys for the purposes above outlined, and the said fund shall be used and maintained, if possible, as a cash reserve to enable the City to meet public emergencies or acquire needed permanent public improvements without the issuance of bonds.” In other words, revenues not used in the fiscal year are to be maintained in reserve unless needed for the conditions noted in the Charter.

From FY 2013 to FY 2014, revenues received in this fund totaled \$5,551,579. In FY 2015, no new revenue derived from land sales was expected for the Capital Outlay Fund during the course of this audit. As of June 2015, the Real Estate Assets Department (READ) identified and presented a list of recommended properties to be sold by the City to the Smart Growth and Land Use Committee. Proceeds from these sales could generate future revenue for the Capital Outlay Fund.

Public Safety Needs & Debt Service Fund This fund was a response to the statewide passage of Proposition 13 in 1993. The proposition levied a half cent sales tax to partially replenish local public safety services, which had been negatively impacted by prior property tax shifts from general local government to education. Impacted public safety services included police, fire, sheriff, county district attorneys, ocean lifeguards, and corrections. Allocations from this fund are awarded to the County, who allocates a portion of the funds to cities within the County based on specific percentages established by State law. Currently, the City of San Diego receives 3.18 percent of the County allocations, resulting in about \$9.1 million in FY 2016 for the Public Safety Needs & Debt Service Fund.

The City spends this money in three ways:

1. Approximately \$1.38 million is transferred to the Fire and Lifeguard Facilities Fund, which is used for debt service payments;
2. Approximately \$3.88 million is transferred to the Police General Fund; and
3. Approximately \$3.88 million is transferred to the Fire-Rescue General Fund.

Per Council Policy 500-07, revenue received from Proposition 172 should be utilized only to fund new public safety expenditures “over and above current expenditure levels and to fund programs not previously funded, and that no Proposition 172 monies should be used to supplant existing General Fund expenditures.” **Exhibit 6** below shows recent revenues.

Exhibit 6

Public Safety Needs & Debt Service Fund Revenues

FY 2013	FY 2014	FY 2015*	FY 2016**
\$7,996,834	\$8,297,381	\$8,707,775	\$9,144,918

* FY 2015 Adopted Budget

** FY 2016 Proposed Budget. All other amounts are actual amounts for the fiscal year.

Source: OCA generated, using FY 2013 - 2016 City Budgets.

Audit Results

Finding #1 Citywide/Other Special Funds designated for capital improvement and maintenance have not been spent in a timely manner. Unspent funds are carried over from year to year.

We found that Citywide Other/Special Funds related to capital improvement and maintenance have not been spent in a timely manner, resulting in consistent annual carryover in the form of continuing appropriations and unspent revenues. These funds include TransNet Extension (TransNet), Gas Tax (including revenues from the Proposition 42 Replacement Fund), and Capital Outlay. In FY 2016, a total of \$64 million is projected as carryover into FY 2017 for these funds.

Financial Management and the City Comptroller's office have characterized these three funds as less restrictive in their use (as compared to Federal funding or other grants) to support capital improvement and maintenance projects. Specific to TransNet, Financial Management staff stated that a past practice was to allocate small amounts of funding to a large number of projects. Additionally, the current encumbrance process in place requires that the full amount of a contract be appropriated to a project. This has resulted in a large amount of cash encumbered, but not spent. These three factors have contributed to the build-up of unspent balances.

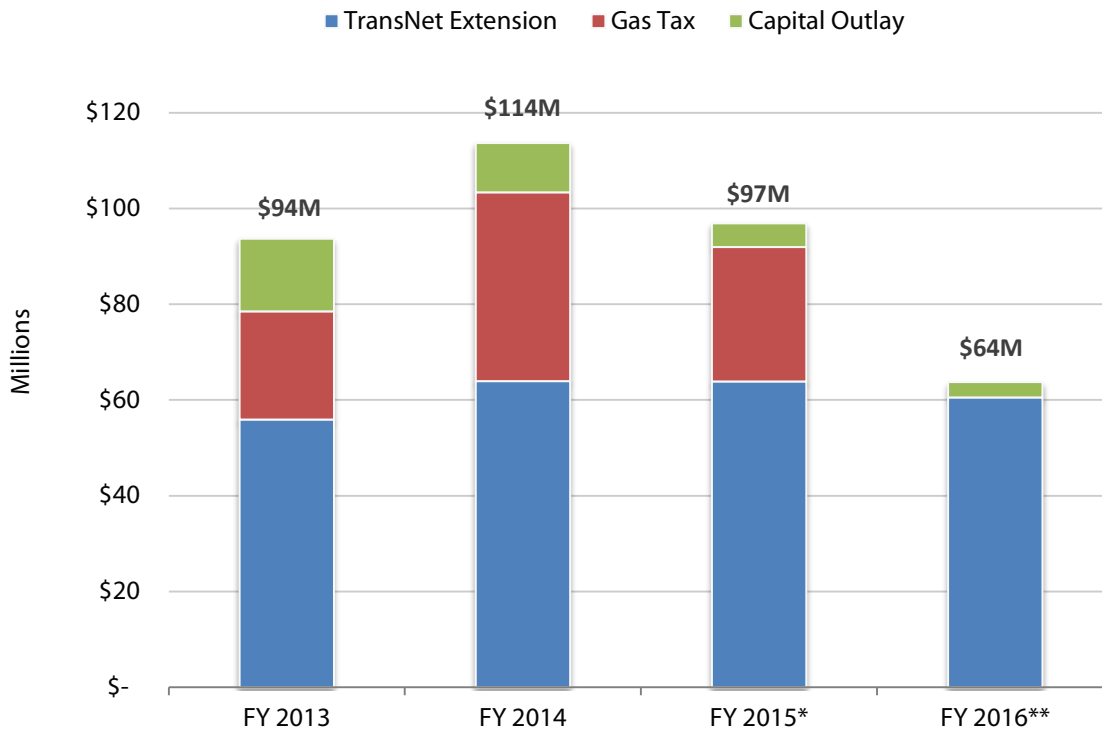
In order to address the issues of consistent carryover and unused funds, Financial Management (in consultation with departments that use TransNet, Gas Tax, and Capital Outlay funds) should continue to formally report on the results of the proposed cash management policies designed to significantly reduce carryover associated with TransNet, Gas Tax, and Capital Outlay funds during the next budget cycle.

TransNet, Gas Tax, and Capital Outlay Funds Have Consistent Carryover

In our analysis of Fund Balances⁴ for TransNet, Gas Tax, and Capital Outlay Funds, we found that there is a carryover of funds from FY 2013 to FY 2016. As shown in the graph below, the carryover for all funds increased from \$94 million to \$114 million from FY 2013 to FY 2014. By FY 2015, carryover decreased to \$97 million. According to the Transportation & Storm Water Department (TSWD) for FY 2016, carryover into FY 2017 is expected to further decrease to approximately \$64 million due to a planned spend-down of the entirety of available gas tax revenues. **Exhibit 7** below depicts the fund balance carried over each fiscal year.

Exhibit 7

Ending Fund Balances for Selected Funds



* FY 2015 Adopted Budget

** FY 2016 Proposed Budget. All other amounts are actual amounts for the fiscal year.

Source: OCA generated, using Personnel Department data.

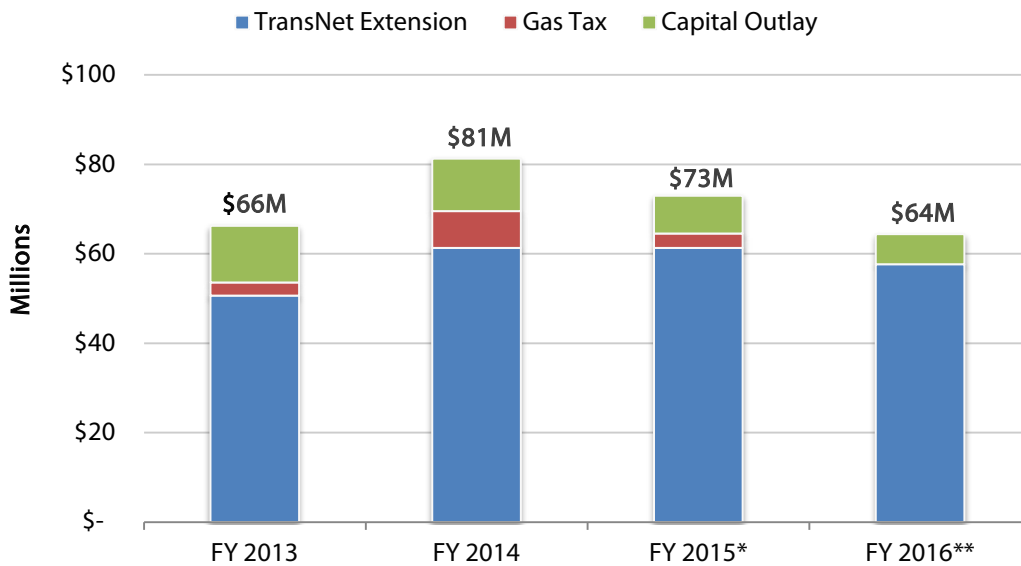
⁴ Fund Balances include Continuing Appropriations for CIP and Continuing Appropriations for Operations, plus any cash balances that have not yet been mentioned.

A significant portion of these fund balances is made up of Continuing Appropriations for the Capital Improvements Program (CIP). According to the City Budget, continuing appropriations are defined as funding approved in prior fiscal years, but not expended within the respective fiscal year, and are carried forward into subsequent fiscal years for their intended purpose.

As shown in **Exhibit 8** below, there have been continuing appropriations for all three funds budgeted for CIP purposes from FY 2013 to FY 2016's proposed budget. However, continuing appropriations for TransNet in all four years represent the most significant portion of CIP carryover. As shown in **Exhibit 3** on page 5, new revenues received from TransNet are relatively consistent year-to-year. The graph in **Exhibit 8** depicts the carryover trend of Continuing Appropriations for CIP allocated for each fund from FY 2013 - FY 2016.

Exhibit 8

Continuing Appropriations for CIP by Selected Fund



* FY 2015 Adopted Budget

** FY 2016 Proposed Budget. All other amounts are actual amounts for the fiscal year.

Source: OCA generated, using FY 2013 - FY 2016 City Budgets.

Financial Management and the City Comptroller have characterized these three funds as less restrictive in their use (as compared to Federal funding or other grants) to support capital improvement and maintenance projects. Specific to TransNet, Financial Management staff stated that a past practice was to allocate small amounts of funding to a large number of projects. Additionally, the current encumbrance process in place requires that the full amount of a contract be appropriated to a project. This has resulted in a large amount of cash encumbered, but not spent. These three factors have contributed to the build-up of unspent balances.

Financial Management is Developing Plans to Expedite the Use of the TransNet, Gas Tax, and Capital Outlay Funds

As a result of the accumulation of revenues in funds like TransNet, Gas Tax, and Capital Outlay, Financial Management and departments that use funding for Capital Improvement projects have developed plans to mitigate these balances.

At the March 2015 City Council Infrastructure Committee, Financial Management released their plans to assist in the expediting of CIP projects through changes to their CIP cash management policies. These plans were announced alongside the release of the Multi-Year Capital Planning report by the Public Works Department. The funds that were discussed included TransNet, Gas Tax, and Capital Outlay. At that meeting, Financial Management noted the following proposed cash management improvements, including:

- Formalized, quarterly monitoring of project progress and TransNet cash flows by Financial Management and the asset-owning departments.
- Amendments to the Appropriations Ordinance to allow the Chief Financial Officer to transfer excess funds budgeted to technically complete projects for reallocation to underfunded, priority projects.
- Contingency funds for projects will be pooled in a central place for specific funding sources, lowering the overall project contingency to one or two percent versus five percent at present.
- The creation of a new "Control Fund" in the accounting system to record estimated future revenue, which the Comptroller's Office would certify against future revenues for stable funding sources like TransNet.

To spend down fund balances in TransNet, Financial Management's plan is to fully utilize all available resources, including funds budgeted for current and future use. Also, as noted above, Financial Management will be meeting regularly with Public Works and other asset-owning departments to determine which funds would be available for reallocation to projects that are nearer to completion. The goal of this strategy is to put collected TransNet funds to work and to help identify where projects may be stalled.

Additionally, the Transportation & Storm Water Department will use gas tax carryover revenues as well as current year operating funds to support street resurfacing, including overlay and slurry seal projects in FY 2016. According to the department, there are contracts in place to perform this work, as well as upcoming new contracts and renewals of current contracts. In the department's FY 2016 proposed budget, there are additions of seven FTE positions to support the implementation of the Mayor's goal to repair 1,000 miles in five years, as well as an addition of a Program Manager FTE to support the citywide CIP Program.

According to Financial Management, the same cash management strategies described above would also be applied to the use of Capital Outlay funds, noting that they will be used to support ADA improvement projects.

Recommendation #1 To determine that funds will be spent down as planned, Financial Management should continue to formally report on the results of the proposed cash management policies designed to significantly reduce carryover associated with TransNet, Gas Tax, and Capital Outlay funds during the next budget cycle. (Priority 3)

Finding #2 Gas Tax and Public Safety Needs & Debt Service Fund expenditures comply with California state requirements. However, Council policies that govern these funds are outdated.

We found the City Council (Council) policies for the Gas Tax and Public Safety Needs & Debt Service Funds are not up to date with current state requirements, and contain provisions for the use of the funds that exceed the requirements in state law. For example, we found that the current California Streets and Highways Code does not contain any specific requirements to expend gas tax revenues in the proportions for capital improvement and maintenance as outlined in Council Policy 200-02.

Additionally, Council Policy 200-02 does not contain any references to two specific sections of gas tax revenues received by the City that were added to the California Streets and Highways Code after 1974, when the Council policy was last updated. Staff that manage gas tax revenues were unaware of the Council policy, and do not apply its specific expenditure requirements.

As a result, the City's current practices to manage gas tax revenues are not in alignment with the Council policy. However, staff does use current state requirements to budget and expend gas tax revenues. In order to reconcile the discrepancies between state law and Council Policy, Financial Management and other responsible departments should review Council Policy 200-02 and recommend changes to City Council for the use of gas tax revenues.

Council Policy 500-07, which is applicable to the Public Safety Needs & Debt Service Fund,⁵ does not reflect all current City practices in the administration and expenditure of funds. Similar to the Gas Tax Fund, Public Safety and Financial Management staff were not aware of this Council Policy, and have not incorporated all of its requirements into their current budgeting and expenditure practices. By focusing on the expenditure of funds for new purposes and programs, Council Policy 500-07 contains requirements for spending that exceed state requirements.

⁵ This fund is also referred to as the Proposition 172 fund.

Additionally, the Council Policy does not contain any corresponding tracking or reporting requirements that would demonstrate compliance with Council Policy 500-07. To clarify the intent of how these funds should be governed, Financial Management, Police, and Fire-Rescue should review the current policy for the Public Safety Needs & Debt Service Fund and present recommended changes to City Council for the use of these revenues.

Council Policies Associated with the Gas Tax and Public Safety Needs & Debt Service Fund Expenditures Have Not Been Incorporated in the Administration of Each Fund

The City receives gas tax revenues in accordance with separate sections of the California Streets and Highways Code, as detailed in the Background section of this report. Council Policy 200-02 outlines how gas tax revenues should be expended by sections of the Streets and Highway Code. **Exhibit 9** summarizes the current sections of the Streets and Highways Code, the requirements for each section in Council Policy 200-02, and the revenue expected from each section for FY 2016.

Council Policy 200-02, which established priorities for the use of gas tax revenues by Council in 1974, is not currently considered in the budgeting and expenditure of gas tax revenues. In addition California Streets and Highways Code Section 2103 (Proposition 42 Replacement) and Section 2105 have not been addressed in Council Policy 200-02. Council Policy 200-02 can be found in **Appendix D**.

Exhibit 9

Use of Gas Tax Revenues as Noted in Council Policy 200-02

Gas Tax Revenue Source by Section	Use of Funds as Noted in Council Policy 200-02 (1974)	FY 2016 Proposed Budget Amounts
Proposition 42 Replacement/Gas Tax - Section 2103	No mention in Council Policy	\$6,233,477
Section 2105	No mention in Council Policy	\$7,826,395
Section 2106	80% for right-of-way acquisition and construction 15% for maintenance on select system streets 5% for landscaping maintenance	\$4,058,334
Section 2107	10% for right of way acquisition and construction on any City street 90% for maintenance on any City street	\$10,749,347
Section 2107.5	Annual \$20,000 allocation for engineering and administration expenses used for studies in connection with City streets	\$20,000

Source: Council Policy 200-02, and FY 2016 Proposed Budget.

Practices for Expending Gas Tax Revenues Are in Accordance with the California Streets and Highways Code, but May Not Reflect the Criteria Set Forth in City Council Policy According to Financial Management and staff at the Transportation & Storm Water Department (TSWD), they were not aware of the existence of Council Policy 200-02 and have not been incorporating the guidance provided into the budgeting and expenditure of gas tax revenues. However, Financial Management states that they use current state law for guidance as how to budget and allocate revenues from the Gas Tax Fund.

Per the California Streets and Highways Code, funds for Sections 2103 - 2107 can be used for any street or road purpose. Section 2107.5 is only to be used for engineering costs and administrative expenses. The current California Streets and Highways Code does not contain any specific requirements to expend gas tax revenues in the proportions for capital improvement and maintenance, as they are outlined in Council Policy 200-02.

Currently, gas tax revenues support four departments, with TSWD as the primary recipient of these funds for reimbursement for their street maintenance services and traffic engineering. Section 2103 (Proposition 42 replacement) funds have historically been budgeted under TSWD,⁶ with the majority of the revenues supporting street resurfacing operating expenses. Gas tax revenues have been used for CIP expenditures in the past, but recent budget documents show a shift of use of the funds from CIP to maintenance.

As a condition of receiving gas tax revenues, the City must submit an annual "Streets Report" to the State Controller noting the total revenues, expenditures, and other data related to the gas tax revenues. While the City is required to report the specific amounts of *revenues* received by section of the California Streets and Highways Code, there is no requirement to track or report *expenditures* by section in the Streets Report. Additionally, there is no requirement at the department level to track and report expenditures of gas tax revenues by section. This limits the ability to track compliance with the requirements of Council Policy 200-02.

In our analysis of revenues accounted for in Council Policy 200-02, 51 percent of total revenues for FY 2016 would be captured, while 49 percent of revenues from Sections 2103 and 2105 would be unaccounted for in Council Policy 200-02. Based on the proposed expenditures for FY 2016, there is a disconnect between the expectations for the use of gas tax revenues as outlined in Council Policy and current expenditure of funds.

⁶ In the FY 2016 Proposed Budgeted, the Proposition 42 Replacement - Transportation Relief Fund is now budgeted under the Gas Tax Fund.

Recommendation #2 Financial Management and the Transportation & Storm Water Department, in consultation with the Office of the City Attorney, should review Council Policy 200-02 and present recommended changes to City Council for the use of gas tax revenues. In particular, they should consider removing the specific expenditure requirements, and/ or update the Council Policy to include Sections 2103 and 2105 of the Streets and Highway Code with those specific expenditure requirements. (Priority 3)

Council Policy 500-07 Does Not Reflect Current Practice and Policy in the Administration and Expenditure of Public Safety Needs & Debt Service Funds Council Policy 500-07, which is applicable to the Public Safety Needs & Debt Service Fund, does not reflect all current practices in the administration and expenditure of funds. Similar to the Gas Tax Fund, Financial Management and the City's public safety departments were not aware of this Council Policy, and have not incorporated all of its requirements into their current budgeting and expenditure practices. By focusing on the expenditure of funds for new purposes and programs, Council Policy 500-07 contains requirements for spending that exceed state law. Additionally, Council Policy 500-07 does not contain any corresponding tracking or reporting requirements that would allow the responsible departments to demonstrate compliance with Council Policy.

To clarify the intent of how these funds should be governed, the Financial Management, Police, and Fire-Rescue departments should review the current policy for the Public Safety Needs & Debt Service Fund, and present recommended changes to City Council for the use of these funds.

According to Council Policy 500-07, The Use of Proposition 172 (Local Public Safety Protection and Improvement Act of 1993) Funds states (emphasis added):

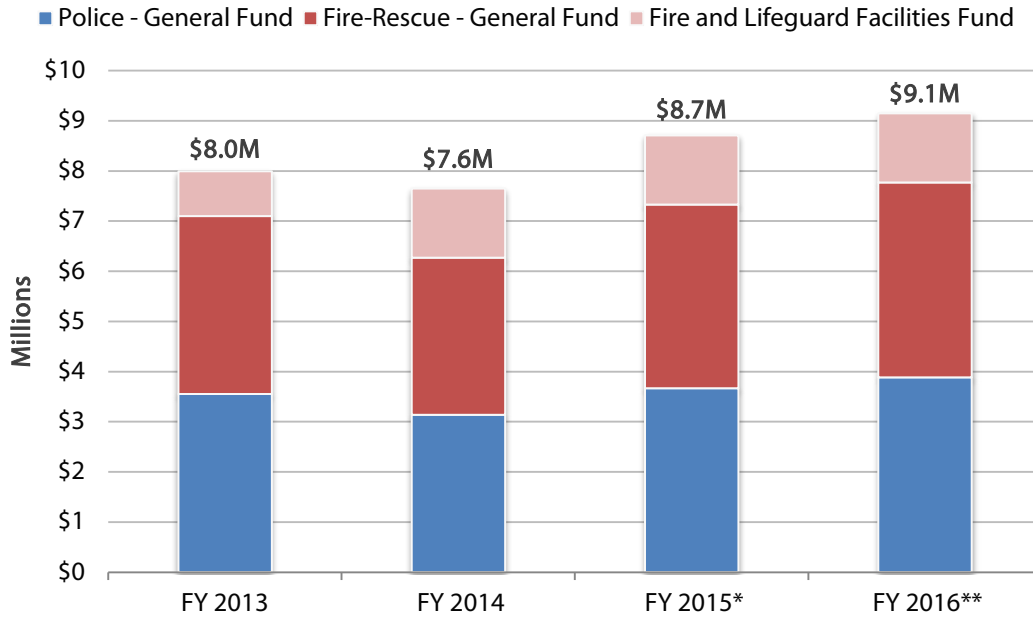
It is the intention of the City Council that the revenue received from Proposition 172 be utilized only to fund new public safety expenditures over and above current expenditure levels **and to fund programs not previously funded**, and that **no Proposition 172 monies should be used to supplant existing General Fund expenditures**. The City Manager is hereby directed to detail how Proposition 172 funds are proposed to be spent annually in the City Manager's proposed budget for the subject fiscal year. This detail shall include the annual allocation of sufficient Proposition 172 funds to be used as the source of payment on the Fire-Rescue Station Reinvestment bond issuances which will fund the reconstruction and rehabilitation of aging Fire-Rescue stations and the purchase of specifically identified equipment.

Council Policy 500-07 is reproduced in **Appendix E**.

We found that the City has only been adhering to part of Council Policy 500-07; a portion of the Public Safety Needs & Debt Service Fund (approximately \$1.4 million in FY 2015) is allocated for debt service payments paid to the Fire and Lifeguard Facilities Fund. This portion is taken off the top of the entire allocation, and the remaining money is split evenly between the Police and Fire-Rescue Departments, totaling \$7.3 million (\$3.65 million each) in FY 2015. This division of the revenues over a four year period is contained in **Exhibit 10**.

Exhibit 10

Allocation of Public Safety Needs & Debt Service Revenues



* FY 2015 Adopted Budget

** FY 2016 Proposed Budget. All other amounts are actual amounts for the fiscal year.

Source: OCA generated, using FY 2013 - 2016 Budget Data.

According to Financial Management staff, there are no requirements from the County of San Diego or State of California to report actual expenditures of allocations from the Public Safety Needs & Debt Service Fund. Revenues are transferred to the Police and Fire-Rescue departments, and categorized as non-personnel expenditures. These types of expenditures include items such as supplies, IT systems, debt, and other operational expenditures. In FY 2015, total non-personnel expenditures were \$67 million for the Police Department, and \$33 million for Fire-Rescue. In FY 2015, the Police and Fire-Rescue departments received \$3.6 million each from the Public Safety Needs & Debt Service Fund.

Although the Public Safety Needs & Debt Service Fund revenues are not allocated specifically for new non-personnel expenditures, the total amount of non-personnel expenditures of each department significantly exceeds the amount of revenues received from the Public Safety Needs & Debt Service allocations on an annual basis.

Council Policy 500-07 Contains Language That Is Not Expressed in State Law As noted above, Council Policy states that the Public Safety Needs & Debt Service Fund should only be used to support new public safety expenditures over and above current expenditure levels, and/or fund programs not previously funded, and further stipulates that no money should be used to supplant existing expenditures. At present, Council Policy 500-07 contains expenditure requirements that exceed the requirements for expenditure in California Government Code.

According to the City Attorney, there is no mandate in the California Government Code which states that Proposition 172 funds must be spent on "new public safety expenditures over and above current expenditure levels and to fund programs not previously funded" as set forth in Council Policy 500-07. The state requirements note that Proposition 172 funds could be used to augment existing public safety expenditures as long as the City met its benchmark for purposes of maintenance-of-effort spending in the base year of FY 1992 - 93. The wording of Council Policy 500-07, at present, implies that the City should be spending these funds specifically on new programs, projects, or other expenditures that were not previously funded. At present, Council Policy 500-07 contains expenditure requirements that exceed the expenditure requirements in California Government Code.

Recommendation #3 **Financial Management, Fire-Rescue and the Police Department, in consultation with the Office of the City Attorney, should review Council Policy 500-07 for the Public Safety Needs & Debt Service Fund and present recommended changes to City Council. Consideration should be given as to: 1) how to more clearly express the City's intent on how to spend these funds; 2) removing the specific expenditure requirements from the Police and Fire-Rescue departments; and/or 3) adding reporting requirements to ensure compliance with current policy. (Priority 3)**

Finding #3 The City Comptroller and the Real Estate Assets Department can strengthen controls over the deposits made into the Capital Outlay Fund.

We found that the Office of the City Comptroller (City Comptroller) can strengthen controls over deposits made into the Capital Outlay Fund by formally documenting the process used to reconcile land sales to the deposits made in the Capital Outlay Fund. Also, the Real Estate Assets Department (READ) can further strengthen controls by providing information to the City Comptroller on the sale of easements, in addition to the information they already provide the Comptroller on other land sales.

City Comptroller Reconciliation of Land Sale Proceeds to Fund Revenue The City Comptroller has a formal process narrative (PN 0063) in place that requires an annual reconciliation of real property characteristics in SAP to account for any changes that may have occurred in the fiscal year using land asset information reported by READ. The process narrative is intended to ensure continuity of land asset information between READ's property management system, REPortfolio, and SAP. We found that the current formal process is focused on reconciling land acreage and other amendments to the land characteristic details, but does not address real property sales or deposit information.

The City Comptroller has internal processes in place to reconcile proceeds from land sales to the revenue detail in the appropriate funds, including the Capital Outlay Fund. However, this process has not been documented or formally adopted in a process narrative or internal policy or procedure.

READ Easement Sales In addition, to further strengthen controls over deposits made into the Capital Outlay Fund, the City Comptroller should ensure that easement sales information is requested from READ and included in the reconciliation of real property sales as part of the City Comptroller's land asset reconciliation process.

City Comptroller staff state that they receive a list from READ of City-acquired easements, but do not request a specific list of easements sold during the year. READ staff also noted that they do not provide any information to the City Comptroller about easements sold as part of the annual land asset reconciliation process.

Proceeds Were Deposited into the Capital Outlay Fund FY 2013 – FY 2015

In our analysis of the Capital Outlay Fund, we identified that there were 17 General Fund properties sold, from FY 2013- 2015.⁷ From FY 2013 - FY 2015, property types sold included residential, commercial, easements, and open space. From these sales, a total of approximately \$5.4 million was deposited into the Capital Outlay Fund. Comparing these deposits to real property sales information provided by READ, as well as information on record at the County Assessor's Office, we were able to account for all the sales reported by READ.

Although no exceptions were found, additional controls are needed to ensure that all proceeds from real property sales are deposited into the Capital Outlay Fund. Without a formal comparison of easements sold as part of the reconciliation of land assets, there is a risk that the City Comptroller may not be aware of all easements' sales if they were not recorded in the land sales account in SAP.

Recommendation #4 As part of the land asset reconciliation process, the City Comptroller should formally document the process for reconciling land sale proceeds to Capital Outlay Fund deposits and receive a list of all easements sold by the Real Estate Assets Department on an annual basis. (Priority 3)

⁷ There were no property sales reported by READ in FY 2015 at the time of analysis.

Conclusion

We found that the Citywide Other/Special Funds' resources related to capital improvement and maintenance have not been spent in a timely manner, which has resulted in a consistent carryover of funds that could be used to implement capital improvement projects and provide ongoing maintenance. Additionally, the Council policies for the Gas Tax and Public Safety Needs & Debt Service funds are outdated and contain provisions for the use of the funds that go beyond what is required by the laws of the State of California. As a result, current practices for budgeting and use of these funds are in accordance with state law, but are not in alignment with Council policies. The Real Estate Assets Department and the City Comptroller could strengthen controls over deposits made into the Capital Outlay Fund.

Recommendations

- Recommendation #1** To determine that funds will be spent down as planned, Financial Management should continue to formally report on the results of the proposed cash management policies designed to significantly reduce carryover associated with TransNet, Gas Tax, and Capital Outlay funds during the next budget cycle. (Priority 3)
- Recommendation #2** Financial Management and the Transportation & Storm Water Department, in consultation with the Office of the City Attorney, should review Council Policy 200-02 and present recommended changes to City Council for the use of gas tax revenues. In particular, they should consider removing the specific expenditure requirements, and/ or update the Council Policy to include Sections 2103 and 2105 of the Streets and Highway Code with those specific expenditure requirements. (Priority 3)
- Recommendation #3** Financial Management, Fire-Rescue and the Police Department, in consultation with the Office of the City Attorney, should review Council Policy 500-07 for the Public Safety Needs & Debt Service Fund and present recommended changes to City Council. Consideration should be given as to: 1) how to more clearly express the City's intent on how to spend these funds; 2) removing the specific expenditure requirements from the Police and Fire-Rescue departments; and/or 3) adding reporting requirements to ensure compliance with current policy. (Priority 3)
- Recommendation #4** As part of the land asset reconciliation process, the City Comptroller should formally document the process for reconciling land sale proceeds to Capital Outlay Fund deposits and receive a list of all easements sold by the Real Estate Assets Department on an annual basis. (Priority 3)

Appendix A: Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3

AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration’s responsibility to establish a target date to implement each recommendation taking into considerations its priority. The City Auditor requests that target dates be included in the Administration’s official response to the audit findings and recommendations.

Priority Class ⁸	Description
1	<p>Fraud or serious violations are being committed.</p> <p>Significant fiscal and/or equivalent non-fiscal losses are occurring.</p> <p>Costly and/or detrimental operational inefficiencies are taking place.</p> <p>A significant internal control weakness has been identified.</p>
2	<p>The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists.</p> <p>The potential for costly and/or detrimental operational inefficiencies exists.</p> <p>The potential for strengthening or improving internal controls exists.</p>
3	<p>Operation or administrative process will be improved.</p>

⁸ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

Appendix B: Objectives, Scope, and Methodology

Objectives The objectives for this audit were to:

1. Identify if the City is receiving all the revenues that it is entitled to for each fund.
2. Determine whether recipient departments are meeting their obligations associated with the relevant funds.
3. Determine if the City is maximizing the use of funds in a strategic manner.

Scope The audit scope included the funds listed below from the Citywide Other/Special Funds Business Area as identified in the City's financial system, SAP. In identifying funds to audit, we removed those from the scope with recent audit coverage by the Office of the City Auditor, current oversight by other City departments, and funds not used to support current and future operations.⁹ Based on these criteria, the following funds were selected for audit:

- TransNet Extension (TransNet)
- Gas Tax (including Proposition 42 Replacement funds)
- Capital Outlay
- Public Safety Needs & Debt Service

The scope of the audit period was from FY 2013 - FY 2016. The Office of the City Auditor has been requested to conduct an audit regarding internal Capital Improvement Program (CIP) project management. Specifically, concerns have been raised regarding the high cost of design and the frequency of change orders leading to cost overruns and delayed projects. A determination of the causes for delay in CIP projects was outside the scope of this audit.

Methodology 1. To identify if the City is receiving all the funds to which it is entitled, we interviewed City staff in Financial Management and the Office of the City Comptroller about revenue verification procedures. We also requested and received supporting documentation from the City Comptroller and Financial Management related to each fund, including: budgets, expenditures, and other supporting financial information. We also evaluated process narratives and draft policy

⁹ Includes funds used primarily for debt service or flowed through other entities (i.e. Convention Center).

manuals in place and used by Financial Management, the City Comptroller, and departments to verify the accuracy of funds received by external agencies.

With the available information, we analyzed revenue projections, and compared these to actual revenues received for reasonableness. We also recalculated formula-based allocations received by the City from external sources, and contacted SANDAG to verify the methodology used to determine the TransNet funding allocations. Lastly, we conducted a search of San Diego County Assessor records to determine property granted by the City of San Diego and compared those records to available property information provided by the Real Estate Assets Department.

2. To determine whether recipient departments are meeting their obligations associated with the relevant funds, we identified and analyzed applicable State laws, County regulations, City charter/ordinance requirements, and other statutes applicable to these funds. We then interviewed City staff in Financial Management, the City Comptroller, and the relevant departments about relevant procedures and processes, and reviewed external and internal audits performed by outside agencies of the funds where applicable.

Additionally, we analyzed required reports submitted to funding agencies, and consulted with the Office of the City Attorney for relevant law interpretation and other guidance. Throughout the audit, we attended stakeholder meetings where applicable.

3. To determine if the City is maximizing the use of funds in a strategic manner, we analyzed revenues, expenditures, and fund balances using data from SAP and the City budget. We also identified and analyzed current plans in place to use select funds for Capital Improvement, as presented by Financial Management to City Council.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit 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.

Appendix C: Summary of Citywide Other/Special Funds Audited

Fund Name	Revenue Source	How Often Funds are Received	Restrictions	Primary Departments	Reporting Requirements
TransNet Extension (TransNet)	½ Cent Sales tax levied in the County and collected and retained by SANDAG	Yearly Allocation – Reimbursed to City when project expenses are incurred	<p><i>Ordinance Language:</i></p> <p>1% of the City's allocation is for administration</p> <p>70% of the remaining is for congestion relief</p> <p>30% of the remaining is for operations/maintenance</p>	<ul style="list-style-type: none"> Transportation & Storm Water Financial Management 	Independent Taxpayer's Oversight Council (ITOC) requires a yearly audit of City's use of funds and program administration
Gas Tax	Excise tax levied on gas sales in the State, determined by population and vehicle registration.	Monthly Apportionment, majority of which is transferred to Transportation & Storm Water Department	<p><i>City Council Policy 200-02:</i> (Section 2103 and 2105 not included)</p> <p>Specific percentage apportionments for the others</p>	<ul style="list-style-type: none"> Transportation & Storm Water Financial Management 	State Controller requires cities to file an Annual Streets Report of total revenues and expenditures
Capital Outlay	Proceeds from the sale of General Fund land assets (including easements)	As land assets are sold	<i>City Charter, Section 77, Article VII:</i> "[S]aid fund shall be used and maintained, if possible, as a cash reserve to enable the City to meet public emergencies or acquire needed permanent public improvements without the issuance of bonds."	<ul style="list-style-type: none"> City Comptroller Real Estate Assets 	No known requirements
Public Safety Needs & Debt Service Fund	Half cent sales tax levied via passage of Proposition 172	Monthly apportionment received from the San Diego County Auditor-Controller	<i>Council Policy 500-07:</i> "...[O]nly to fund new public safety expenditures over and above current expenditure levels and to fund programs not previously funded."	<ul style="list-style-type: none"> Financial Management Police Fire-Rescue 	No known requirements

Source: OCA generated, based on analysis of available program information and governing legislation.

Appendix D: Council Policy 200-02: Gas Tax Revenues – Use of Gas Tax Funds

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

SUBJECT: GAS TAX FUNDS - USE OF
POLICY NO.: 200-02
EFFECTIVE DATE: July 18, 1974

BACKGROUND:

The 1970 session of the State Legislature amended legislation pertaining to taxation and the allocation of gasoline taxes and commercial vehicle registration fees to remove restrictions on the amount of gas tax funds which cities may spend for maintenance of streets. The Streets and Highways Code now provides that money apportioned under Section 2106 may be expended for right of way acquisition, construction or maintenance of the Select Street System, including the installation and maintenance of street landscaping on the Select System, and that money apportioned under Section 2107 may be expended for similar purposes but on any City street. Prior to this change, Section 2106 funds could not be spent for maintenance and only 60% of Section 2107 funds could be utilized for maintenance. No change was made in the use of funds apportioned under Section 2107.5.

Other governmental agencies which are not eligible for allocation of gas tax funds occasionally encounter responsibilities for street improvement costs in accordance with Council Policy No. 200-01 because of their status as property owners. At the same time, some such agencies are unable to finance these improvements because of limitations on their taxing powers and/or failure of the voters to pass tax override and bond proposals. This situation presents a particular problem with respect to school property where the very nature of the activity demands that street improvements be installed in advance of the use of any parcel of property for educational purposes.

POLICY:

It is the policy of the City Council that:

1. Of the monies apportioned under Section 2106 of the California Streets and Highways Code (1.04¢ funds):
 - a. 80% be used for right of way acquisition and construction on Select System streets.
 - b. 15% be used for maintenance on Select System streets.
 - c. 5% be used for landscaping maintenance on Select System streets.
2. Of the monies apportioned under Section 2107 (.725¢ funds):
 - a. 10% be used for acquisition of right of way and construction on any City street.
 - b. The remaining 90% be used for maintenance on the City street system.
3. Monies received under Section 2107.5 (the \$20,000 annual allocation for engineering and administration expenses) be used for studies in connection with City streets.

CP-200-02

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

4. City Gas Tax Funds may be used to pay the share of street improvement costs apportioned under Council Policy No. 200-01 to another governmental agency not eligible to receive gas tax allocations provided that:
 - a. The City Engineer finds that there is an immediate need for the installation of such improvements and so recommends.
 - b. The other governmental agency demonstrates to the satisfaction of the City Council that they do not have funds available to pay for such improvements and cannot anticipate the receipt of funds for this purpose within a reasonable period of time.

HISTORY:

Adopted by Resolution R-179166 03/03/1964
Amended by Resolution R-184470 08/03/1965
Amended by Resolution R-205454 04/27/1972
Amended by Resolution R-207350 02/08/1973
Amended by Resolution R-211124 07/18/1974

CP-200-02

Page 2 of 2

Source: City of San Diego Office of the City Clerk Legal Documents, City Council Policies.

Appendix E: Council Policy 500-07: The Use of Proposition 172 (Local Public Safety Protection and Improvement Act of 1993) Funds

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

SUBJECT: THE USE OF PROPOSITION 172 (LOCAL PUBLIC SAFETY
PROTECTION AND IMPROVEMENT ACT OF 1993) FUNDS
POLICY NO.: 500-07
EFFECTIVE DATE: February 27, 2001

BACKGROUND:

Proposition 172 was adopted by the voters effective November 3, 1993. It amended the California Constitution, adding a new Section 35 to Article XIII in order to collect a one-half cent sales tax and dedicate the revenue to public safety.

The legislation requires that revenue from the additional one-half percent sales tax be used only for local public safety activities, including police and fire protection. The additional sales tax revenue resulting from this measure is intended to partially offset the county and city revenue losses that resulted from the adoption of the state's 1993-94 budget.

PURPOSE:

The purpose of this policy is to provide direction to the City Manager in preparing the annual budget and to provide ongoing guidance to the City Council in reviewing the budget, as to how Proposition 172 revenue should be utilized.

POLICY:

The City Council is committed to improving the level of public safety provided to the citizens of San Diego. Funding for public safety expenditures, including Police and Fire, continues to be the City Council's highest priority.

It is the intention of the City Council that the revenue received from Proposition 172 be utilized only to fund new public safety expenditures over and above current expenditure levels and to fund programs not previously funded, and that no Proposition 172 monies should be used to supplant existing General Fund expenditures. The City Manager is hereby directed to detail how Proposition 172 funds are proposed to be spent annually in the City Manager's proposed budget for the subject fiscal year. This detail shall include the annual allocation of sufficient Proposition 172 funds to be used as the source of payment on the Fire Station Reinvestment bond issuances which will fund the reconstruction and rehabilitation of aging fire stations and the purchase of specifically identified equipment.

HISTORY:

"Establishment or Removal of Jitney Holding Zones"
Adopted by Resolution R-261137 07/09/1984
Repealed by Resolution R-269871 11/30/1987
"The Use of Proposition 172 (Local Public Safety
Protection and Improvement Act of 1993) Funds"
Added by Resolution R-284168 06/27/1994
Amended by Resolution R-294611 02/27/2001

CP-500-07

Appendix F: City of San Diego City Charter, Article VII, Section 77, Capital Outlay Fund

City of San Diego City Charter
Article VII

CURRENT

funds herein provided for the Police and Fire Departments and the City Employees' Retirement Fund. No special tax shall be permitted except as expressly authorized by this Charter. The foregoing limitations shall not apply in the event of any great necessity or emergency, in which case they may be temporarily suspended, provided that no increase over said limits, except as in this Charter prescribed shall be made in any fiscal year unless authorized by ordinance adopted by the vote of two-thirds of the electors of this City voting on the proposition, and provided further that no indebtedness shall ever be incurred by The City of San Diego for public improvements which shall in the aggregate exceed twenty-five per cent (25%) of the assessed value of all real and personal property of such City, anything in this Charter contained to the contrary notwithstanding. This limitation on the part of the City to incur indebtedness shall be construed to include any indebtedness which may be incurred by special taxes or by the voting of bonds by the electors.

Section 76.1: Special Taxes

Notwithstanding any provision of this Charter to the contrary, a special tax, as authorized by Article XIII A of the California Constitution may be levied by the Council only if the proposed levy has been approved by a two-thirds vote of the qualified electors of the City voting on the proposition; or if the special tax is to be levied upon less than the entire City, then the tax may be levied by the Council only if the proposed levy has been approved by a two-thirds vote of the qualified electors voting on the proposition in the area of the City in which the tax is to be levied.

(Amendment voted 11-08-1983; effective 12-30-1983.)

Section 77: Capital Outlay Fund

There is hereby created a fund in the City Treasury, to be known as the Capital Outlay Fund. Into this fund each year there shall be placed all moneys derived from taxation required or needed for capital outlay expenditures and all proceeds received from the sale of city-owned real property.

The moneys in the Capital Outlay Fund shall be used exclusively for the acquisition, construction and completion of permanent public improvements, including public buildings and such initial furnishings, equipment, supplies, inventory and stock as will establish the public improvement as a going concern. This fund may also be used for the acquisition, construction and completion of real property, water and sewer mains and extensions, and other improvements of a permanent character and also the replacement or reconstruction of the same, but not the repair or maintenance thereof, and shall not be used for any other purpose or transferred from said fund, except with the consent of two-thirds of the qualified electors of said City, voting at a general or special election.

No moneys in said fund shall be transferred at the end of a fiscal year, but shall remain therein as trust moneys for the purposes above outlined, and the said fund shall be used and maintained, if possible, as a cash reserve to enable the City to meet public emergencies or acquire needed permanent public improvements without the issuance of bonds.

Each year the Council may appropriate from said fund in the Annual Appropriation Ordinances, except for use of the Harbor Department, sufficient moneys to care for the needs of the various departments of the City for capital outlay expenditures of a permanent character.

(Amendment voted 04-22-1941; effective 05-08-1941.)

(Amendment voted 04-20-1943; effective 05-04-1943.)

(Amendment voted 04-19-1949; effective 05-20-1949.)

(Amendment voted 11-06-1962; effective 01-21-1963.)

(Amendment voted 06-07-1966; effective 06-29-1966.)

[Prior Language](#)

Section 77a: Provisions for Zoological Exhibits

The Council shall levy annually, in addition to all other taxes provided for in this Charter, not less than two cents (\$0.02) on each one hundred dollars (\$100.00) of the assessed valuation of the real and personal property within the City, to be used exclusively for the maintenance in Balboa Park of zoological exhibits.

Whenever the Council deems it to be for the best interests of the City, the Council may enter into a contract, upon such terms and conditions as the Council may prescribe, for the maintenance in Balboa Park of zoological exhibits, with any organization formed primarily for the purposes of maintaining zoological gardens and zoological exhibits and conducting general zoological work; and may make available to such organization the proceeds of the special tax levy provided for in this section.

(Addition voted 11-06-1934; effective 01-21-1935.)

(Amendment voted 04-22-1941; effective 05-08-1941.)

[Prior Language](#)

Section 77b: Public Transportation

The Council may levy, in addition to all other taxes provided for in this Charter, a special tax in an amount not to exceed ten cents (\$0.10) on each one hundred dollars (\$100.00) of the assessed valuation of all real and personal property within the City, to be used for discharging any obligations undertaken by the City to acquire, develop, operate or maintain a public transportation system or to assist a nonprofit corporation to acquire, develop, operate or maintain a public transportation system.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: July 10, 2015

TO: Eduardo Luna, City Auditor

FROM: Mary Lewis, Chief Financial Officer

SUBJECT: Management Response to Performance Audit of Citywide Other/Special Funds

This memorandum is management's response to the four recommendations in the Performance Audit of Citywide Other/Special Funds conducted by the Office of the City Auditor.

Recommendation 1:

To determine that funds will be spent down as planned, Financial Management should continue to formally report on the results of the proposed cash management policies designed to significantly reduce carryover associated with TransNet, Gas Tax, and Capital Outlay funds during the next budget cycle. (Priority 3)

Management Response:

Management Agrees. In March 2014, in conjunction with the Mayor's CIP Program streamlining efforts, the Chief Financial Officer began a coordinated effort with the Public Works Department and Transportation & Storm Water Department (TSW) to document Capital Improvement Programs (CIP) process improvements and streamlining efforts, in conjunction with improving cash management. These efforts have generated formalized processes that are currently underway in various departments. The Finance Branch created a multi-department team to identify areas for improvement in CIP/cash flow projections, document process improvements, create SAP reports to assist the team in monitoring and reporting, and implement new efficiency processes. The process improvements and cash management initiatives have resulted in several actions and informational reports presented to City Council:

- TSW presented these actions to City Council that were approved:
 - re-allocate \$5.0 million in TransNet-funded CIP projects (6/17/2014)
 - re-allocate \$10.4 million in TransNet-funded CIP projects (12/9/2014)
 - re-allocate \$11.5 million in TransNet-funded CIP projects (5/12/2015)

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Eduardo Luna, City Auditor

July 10, 2015

- Financial Management and Public Works departments presented a report on CIP and Cash Management Process Improvements to Infrastructure Committee (03/11/2015)
- Financial Management and Public Works departments presented a report on 03/18/2015 to Budget and Government Efficiency Committee on the CIP and Cash Management Process Improvements and the CIP & TransNet Funds.
- The CFO presented a report to City Council on 04/21/2015 on CIP and Cash Management Process Improvements

Financial Management, in collaboration with the Public Works and the Transportation & Storm Water departments, plan to implement the following by June 30, 2016:

- Quarterly Reporting and Monitoring of TSW CIP projects and TransNet, Gas Tax and Capital Outlay Funds;
- FY 2016 Appropriation Ordinance revision providing authority to close technically completed CIP projects;
- Pooled Contingency process on Public Utilities CIP projects; new encumbrance policy and process; and
- City Council updates twice per fiscal year to reallocate CIP budgets, if necessary, and to report on CIP process improvements and streamlining efforts.

Recommendation 2:

Financial Management and Transportation & Storm Water Department, in consultation with the City Attorney's Office, should review Council Policy 200-02 and present recommended changes to the City Council for the use of gas tax revenues. In particular, they should consider removing the specific expenditure requirements, and/or update the Council Policy to include Sections 2103 and 2105 of the Streets and Highway Code with those specific expenditure requirements. (Priority 3)

Management Response:

Management Agrees. Financial Management and the Transportation & Storm Water Department will work with the City Attorney's Office to determine if Council Policy 200-02 should be modified to align with the California Street and Highways Code and recommend changes to the City Council Policy for approval.

Recommendation 3:

The Financial Management, Fire-Rescue and Police Departments, in consultation with the Office of the City Attorney, should review Council Policy 500-07 for the Public Safety Needs & Debt Service Fund and present recommended changes to City Council. Consideration should be given as to: 1) how to more clearly express the City's intent on how to spend these funds; 2) removing the specific expenditure requirements from the Police and Fire-Rescue departments; and/or 3) adding reporting requirements to ensure compliance with current policy. (Priority 3)

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Eduardo Luna, City Auditor

July 10, 2015

Management Response:

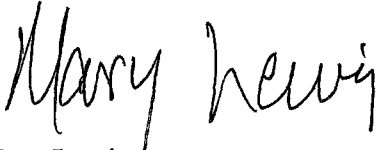
Management Agrees. Financial Management, Fire-Rescue, and the Police Department will work with the City Attorney's Office to determine if Council Policy 500-07 should be modified to align with the California Government Code – Prop 172 and recommend changes to the City Council Policy for approval.

Recommendation 4:

As part of the land asset reconciliation process, the City Comptroller should formally document the process for reconciling land sale proceeds to Capital Outlay Fund deposits and receive a list of all easements sold by READ on an annual basis. (Priority 3)

Management Response:

Management Agrees. The City Comptroller performs an annual reconciliation for proceeds from land sales that ensures revenue is deposited in the appropriate funds, including the Capital Outlay Fund. The sale of easements will be incorporated into this reconciliation process beginning in fiscal year 2016. The Comptroller's Office will formally document the reconciliation process, including the sale of easements, by December 31, 2015.



Mary Lewis
Chief Financial Officer

ML/cb

cc: Scott Chadwick, Chief Operating Officer
Stacey LoMedico, Assistant Chief Operating Officer
Stephen Puetz, Chief of Staff, Office of the Mayor
David Graham, Deputy Chief Operating Officer, Neighborhood Services
Ron Villa, Deputy Chief Operating Officer, Internal Operations
Paz Gomez, Deputy Chief Operating Officer, Public Works
Rolando Charvel, City Comptroller
Tracy McCraner, Director, Financial Management Department
James Nagelvoort, Director, Public Works Department
Kris McFadden, Director, Transportation & Storm Water Department
Shelley Zimmerman, Police Chief
Javier Mainar, Fire-Rescue Chief
Julio Canizal, Deputy Director, Financial Management Department