



Highlights

Why OCA Did This Study

In accordance with the Office of the City Auditor's Fiscal Year 2017 Audit Work Plan, we conducted a performance audit of the Economic Development Department's Business and Industry Incentive Program.

The objective of our audit was to determine the effectiveness of outreach, incentives offered, and opportunities to improve incentives provided by the Economic Development Department's Business Cooperation Program.

What OCA Recommends

OCA made [4 recommendations](#) to improve the program, all of which management agreed to implement. Key recommendations include:

- The City should use the BCP to target construction activity by systematically identifying, recruiting and enrolling large public and private construction projects.
- Public Works should require BCP enrollment for contractors on certain large public projects, if significant City revenues will be generated.
- The department targeting BCP construction activity should work with the Public Works Department, the Development Services Department, and Civic San Diego to become aware when large construction projects are being proposed.
- The Economic Development Department should work with the City Comptroller to establish and document policies and procedures for issuing payments through the Business Cooperation Program (BCP), including segregating key functions.

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City of San Diego
Office of the City Auditor

Economic Development's Business Cooperation Program

The Business Cooperation Program Should Increase City Revenues by Targeting Large Construction Projects, and Improve Internal Controls over Payment Processing

What OCA Found

The City of San Diego has recently experienced budget shortfalls resulting in the potential elimination of City jobs, changes in reserve policies, and cuts to arts funding and other popular City programs. The City also has approximately \$1.3 billion in unfunded infrastructure needs over the next five years. Therefore, it is crucial that the City seek to maximize the effectiveness of revenue-generating programs where opportunities exist.

Finding 1: [The Business Cooperation Program Should Target Large Construction Projects in Order to Maximize City Revenues](#)

We found that the Economic Development Department (EDD) should take advantage of the Business Cooperation Program and target large construction projects to maximize the amount of sales and use tax revenues that are deposited in City coffers. The City is in the midst of a construction boom, with numerous projects of \$50 million or more being constructed in recent years. Given this, the City has likely missed out on additional revenues—potentially hundreds of thousands to more than \$1 million—from additional tax monies that could have been captured in the last two years alone. Instead, these revenues have been distributed to other taxing jurisdictions. We recommend that the Chief Operating Officer direct EDD, or another appropriate department, to utilize the BCP to systematically target large public and private construction projects in order to maximize City revenues from the program.



Finding 2: [Economic Development Should Document Procedures for Calculating Business Cooperation Program Reimbursement and Establish Appropriate Segregation of Duties](#)

We found that because the Business Cooperation Program relies on voluntary company enrollment, the City has provided \$3.5 million in tax rebates to companies in order to incentivize participation. However, EDD has not developed internal controls over rebate processing and payments. By consulting with the Comptroller's Office to design and implement internal controls over rebate processing and establishing appropriate separation of duties, EDD can ensure accurate calculations and quality control over rebate payments made to BCP enrollees.