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# PERFORMANCE AUDIT OF THE CITY'S GENERAL FUND USER FEES

Finding 1: The City's current user fee reports provide some helpful information but leave out key data on program usage and subsidization costs that are necessary for more effective oversight and policymaking.

Finding 2: Most of the City's user fees other than Parks and Recreation's have been updated and adjusted in accordance with best practices; however, the process should be strengthened and formalized to ensure its continuation.

Finding 3: More consistent benchmarking of user fees could lead to increased operational efficiencies and more equitable and effective service provision.

**Office of the  
City Auditor**

**City of San Diego**



# Performance Audit of the City’s General Fund User Fees

## Why OCA did this study

Like other local agencies, the City of San Diego charges fees for a variety of services it provides. The City collects approximately \$22 million per year in user fees for over 500 General Fund programs and activities, ranging from permit fees for police-regulated businesses to fees for recreational activities. The objectives of this audit were to determine whether the City’s General Fund user fees have been regularly and appropriately adjusted as required by Council Policy 100-05, as well as to determine whether the City consistently and accurately identifies City services that require establishment of a user fee.

## What OCA found

**Finding 1: The City’s current user fee reports provide some helpful information but leave out key data on program usage and subsidization costs that are necessary for more effective oversight and policymaking.**

Council Policy 100-05 and Government Finance Officers Association (GFOA) best practices emphasize the importance of providing detailed information on charges and fees to the public to promote transparency and oversight.

As part of the City’s user fee review process, the Department of Finance (DoF) consolidates reports and materials from multiple departments for City leadership and the public in the City’s review of its General Fund user fees. Additionally, the Parks and Recreation Department (Parks & Rec) issues a separate consultant-driven user fee study that includes several additional useful details. However, the City’s user fee study reports should be presented together and include additional information to enhance the efficiency of oversight and increase public transparency.

**Exhibit 5:**

**While Both the Citywide and Parks & Rec User Fee Reports Provide Important User Fee Information, They Do Not Provide Some Additional Elements that Should Be Included**

	Included in Comprehensive User Fee Study	Included in Parks & Rec User Fee Study
Fee Title	✓	✓
Department	✓	✓
Current Fee Amount	✓	✓
Proposed Fee	✓	✓
Proposed Cost Recovery %	✓	✓
User Fee Volume	✗	✓
User Fee Revenue	✗	✓
Total Annual Cost of Service	✗	✗
Total General Fund Subsidy	✗	✗

Source: OCA generated using DoF’s FY2019 User Fee Database and Parks & Rec’s FY2020 User Fee Study.

For example, at the individual fee level, DoF’s user fee reports leave out the total number of users as well as annual service costs, revenues, and subsidies.

Additionally, while DoF had included total user fee revenues in previous Comprehensive User Fee Study reports, the reports did not include total user fee costs. We found that total service provision costs totaled approximately \$49 million in FY2019. Since total user fee revenues for those services recovered approximately \$22 million, the overall cost recovery level was 45 percent for user fees across the City, for a total annual subsidy from the General Fund of approximately \$27 million.

**Exhibit 3:**

**Current User Fee Reports Do Not Include Some Elements that Would Assist City Leadership in their Oversight and Policymaking**

Questions that Currently Cannot Be Answered Using the Comprehensive User Fee Study



**Finding 1 (continued)**

Because these figures vary widely between user fee-supported programs, it is essential to provide City leadership and stakeholders with more comprehensive user fee information, both at a high-level and a granular level, to determine what impacts rate changes will have on service provision levels, the number of users affected, and the City's General Fund finances.

Even though DoF does not currently include additional fee details discussed above in its Comprehensive User Fee Study reports and materials, the department does maintain a User Fee Database that could produce such fee details.

**Finding 2: Most of the City's user fees other than Parks and Recreation's have been updated and adjusted in accordance with best practices; however, the process should be strengthened and formalized to ensure its continuation.**

GFOA best practices emphasize updating fees periodically to help smooth charges and fee increases over several years rather than implementing abrupt increases. Council Policy 100-05 also provides guidance to periodically revise fees based on updated costs.

Parks & Rec's user fees have not been adjusted since FY2016 and are due for updating. Although the department did participate in the FY2016 Comprehensive User Fee Study, it did not participate in the City's FY2019 study. We estimate that missing the FY2019 user fee adjustments may have led to approximately \$1 million in foregone fee revenue for the City over the FY2020 to FY2022 period. Likewise, the City may have missed opportunities to reduce fee rates to increase access, consolidate similar user fees into a single fee, or eliminate some fees all together.

Our analysis of the City's user fees throughout other General Fund user fee departments found that most fee rates (72 percent) have been updated from FY2016 to FY2021. We also found that DoF efficiently targeted its review of those fees that had remained unadjusted to ensure the departments had justifiable reasons to leave such fee rates unchanged.

However, the user fee review process is not formally documented and relies on individual efforts of several critical personnel within DoF, as well as analysts within each of the General Fund user fee departments. As such, DoF's review process should be strengthened and formalized to ensure the City continues adjusting its user fees as necessary.

**Finding 3: More consistent benchmarking of user fees could lead to increased operational efficiencies and more equitable and effective service provision.**

We found that most of the City's General Fund user fee departments do not consistently benchmark user fee rates with comparable or neighboring jurisdictions as required by Council Policy 100-05 and recommended by the GFOA.

Though benchmarking difficulties raised by departmental analysts should be acknowledged, the practice is required by Council Policy 100-05 and is considered a user fee best practice by the GFOA.

Benchmarking is an important exercise for General Fund user fee departments to utilize during the Comprehensive User Fee Study as it helps ensure the City is identifying and charging comparable fees to other municipalities, is charging fees for comparable operational services, and is made aware of potential efficiency gains and opportunities to improve equity identified by other cities. In addition to these benefits, benchmarking services provided by General Fund user fee departments may lead to the identification and establishment of additional user fees for services and alignment with other municipalities' fees and practices.

For example, the Library Department eliminated most of its late fines during the City's FY2019 Comprehensive User Fee Study due to benchmarking efforts performed by the department's user fee analysts.

## What OCA recommends

We make 3 recommendations to ensure City leadership and the public are provided more comprehensive user fee information to allow for more effective oversight and policymaking, to improve compliance with Council Policy 100-05 benchmarking requirements, and formalize DoF's user fee review process.

Key recommendation elements include:

- Updating and complying with Council Policy 100-05 requiring DoF to consolidate all General Fund user fee reports and materials into a single report/presentation for City leadership, and providing specific user fee details in its user fee reports/presentations;
- Updating and complying with Administrative Regulation 95.25 to include a requirement for DoF to ensure monitoring and identification of all user fees that have not been revised/updated in the last 5 years or longer; and
- Updating and complying with Administrative Regulation 95.25 to require General Fund user fee departments to provide written confirmation to DoF that user fee benchmarking was performed as part of the City's Comprehensive User Fee Study.

City Management agreed to all 3 recommendations.

For more information, contact Andy Hanau, City Auditor at (619) 533-3165 or [CityAuditor@sandiego.gov](mailto:CityAuditor@sandiego.gov)



## THE CITY OF SAN DIEGO

October 20, 2021

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

Transmitted herewith is a performance audit report of the City's General Fund User Fees. This report was conducted in accordance with the City Auditor's Fiscal Year 2021 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations are presented after page 32 of this report.

We would like to thank staff from the Department of Finance and the Parks and Recreation Department for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Geoffrey Teal, Danielle Novokolsky, Nathan Otto, and Kyle Elser.

Respectfully submitted,

Andy Hanau  
City Auditor

cc: Honorable City Attorney, Mara Elliot  
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# Background

User fees are fees charged by a government agency to recipients of its services and are designed to recover the appropriate costs of providing a service. State and local governments charge user fees to fund the provision of goods and services for a specific benefit, government service conferred, or privilege granted, directly to the recipient of that specific benefit. Fee amounts are usually related to the cost to the agency to provide the service. As shown in **Exhibit 1**, some examples of user fees are pool fees, park room rental fees, fire inspection fees, and election filing fees. According to the City's Fiscal Year (FY) 2021 User Fee Schedule, the City charges 547 individual General Fund user fees across 13 departments.

**Exhibit 1:**

**The City Charges Various User Fees for Services Such as Election Filings, Room Rentals, Fire Inspections, and Swimming Pools**



Source: Images from the City of San Diego's website and NBC website.

The Department of Finance (DoF) coordinates the City's Comprehensive User Fee Study, which takes place every three years. The purpose of the study is to identify the full cost of services for activities that charge user fees in order to develop target cost recovery rates and bring existing fee levels in line with current costs of service. DoF analysts review General Fund user fee departments' cost recovery calculations to ensure departments are following the City's user fee policies and Government Finance Officers Association (GFOA) best practices recommendations. Currently, 13 City departments whose user fees generate revenue for the City's General Fund (we refer to the departments that administer these fees as General Fund user fee departments) participate in this study.<sup>1</sup> DoF and General Fund user fee departments present the results of the Comprehensive User Fee Study to City Council for approval of new and adjusted user fees. General Fund user fees recover approximately \$21.8 million in revenues for the City annually.<sup>2</sup>

When the City does not charge fees in line with service costs for a General Fund user fee service, the City is not obtaining full cost recovery and is thereby subsidizing the service, which diverts resources from other General Fund priorities. Alternatively, overcharging is unfair to customers, potentially reduces access to services, and can even be illegal in some cases.<sup>3</sup>

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<sup>1</sup> The Parks and Recreation Department (Parks & Rec) undertakes a consultant-driven user fee analysis. While Parks & Rec participated in the FY2016 update, it did not present its User Fee Study results with DoF or the other General Fund user fee departments during the City's FY2019 Comprehensive User Fee Study. This issue is discussed further in Finding 1 and Finding 2. In FY2021, Parks & Rec had 263 user fees listed on the City's User Fee Schedule, which constitutes approximately 50 percent of the City's total General Fund user fees.

<sup>2</sup> This figure excludes Category III user fees which consist of fines and penalties generating approximately \$1.9 million in revenue. The City collects approximately \$23.6 million in user fee revenues when including Category III user fees.

<sup>3</sup> On November 2, 2010, California voters approved Proposition 26, a ballot initiative that limits the ability of local government agencies to impose certain fees and charges. This resulted in many local

## Performance Audit of the City's General Fund User Fees

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Council Policy 100-05 (CP 100-05) governs how the City establishes its user fees and the extent to which they cover the cost of the service provided. The City's policy incorporates standards and best practice guidelines established by the GFOA for analyzing fee cost recovery. The policy provides specific requirements for frequency of fee reviews, identifies how fees are set and what factors are considered, and outlines circumstances in which a fee can be set lower than the full cost of a service.

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government fees being considered a "tax" and thereby requiring a two-thirds approval by the voters. Per a City Attorney Memorandum of Law dated March 4, 2011, user fees, or charges for services, which do not exceed reasonable costs by the City in conferring a benefit or privilege, are exempt from Proposition 26 as they relate to a charge for a specific benefit conferred or privilege granted directly to the payer that is not provided to those not charged. Therefore, user fee rates that *exceed* reasonable costs by the City in providing such services would be in violation of Proposition 26.



## Audit Results

***Finding 1: The City's current user fee reports provide some helpful information but leave out key data on program usage and subsidization costs that are necessary for more effective oversight and policymaking.***

Council Policy 100-05 and Government Finance Officers Association (GFOA) best practices emphasize the importance of providing detailed information on charges and fees to the City leadership (i.e., City Council, Mayor's Office, etc.) and the public to promote transparency and oversight.

We found that while the Department of Finance (DoF) reports some information about each user fee, such as current and proposed fee rates and cost recovery percentages, DoF's Comprehensive User Fee Study reports and materials should also include important elements such as the number of times each user fee is charged per year, the total revenue from each fee, and the total annual cost of providing each user fee-related service. DoF collects this additional user fee information and details, but not all of that information is reported out to the City Council, the Budget and Government Efficiency Committee, or to the general public in its user fee reports and materials. **Exhibit 2** below shows an example of user fee information DoF provides City leadership during the City's Comprehensive User Fee Study, as well as fee details that are not included.

## Performance Audit of the City's General Fund User Fees

### **Exhibit 2:**

### **DoF's Comprehensive User Fee Study Reports Presented to City Leadership Do Not Contain Fee Volume, Fee Revenue, Total Annual Service Cost, or Fee Subsidization Costs**

Fee Title	Department	Included in Comprehensive User Fee Study				NOT Included in Comprehensive User Fee Study			
		FY2018 Fee Amount	FY2019 Proposed Fee	FY2019 Proposed Cost Recovery	Fee Variance	User Fee Volume	User Fee Revenue	Total Annual Service Cost	User Fee Subsidized Cost (Total Cost - Revenue)
Special Events Sworn - Non-profit	SDPD	\$55	\$55	55%	\$0	---	---	---	---
Special Events Civilian - Non-profit	SDPD	\$22	\$22	70%	\$0	---	---	---	---
Boating & Fishing Program: Fishing Permits - Adults	Public Utilities	\$8	\$8	78%	\$0	---	---	---	---
Boating & Fishing Program: Launch Fees - Public Utilities Fishing/Water Contact	Public Utilities	\$7	\$7	78%	\$0	---	---	---	---
High Rise Inspections	Fire-Rescue	\$15	\$16	96%	\$1	---	---	---	---

Source: OCA generated using DoF's FY2019 User Fee Database.

While Council Policy 100-05 does not specifically cite the need to report each of the fields identified in **Exhibit 2** above, it does require several of the fields to be included when fees are revised. For example, Council Policy 100-05 states that revised fee proposals “shall include... annual revenue; annual cost;...the level of cost recovery...and other relevant information.” It also states more generally that “[w]hen fees are revised, data indicating the proposed fee, the estimated cost required for providing the service, and the estimated amount of revenue shall be available to the public...through the docketing of the report for the Council agenda.” In addition, it requires General Fund user fee departments to consider impacts on user fee demand due to user fee rate increases and/or decreases.

The total number of users, costs, and subsidies varies widely between user fee-supported programs. Thus, the number of

## Performance Audit of the City's General Fund User Fees

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people affected by an increase or decrease to a specific fee, or the impact such changes would have on the General Fund, also vary widely. Given that the City charges more than 540 user fees, it is essential that City leadership and the public are given comprehensive user fee information to improve oversight of all General Fund user fees.

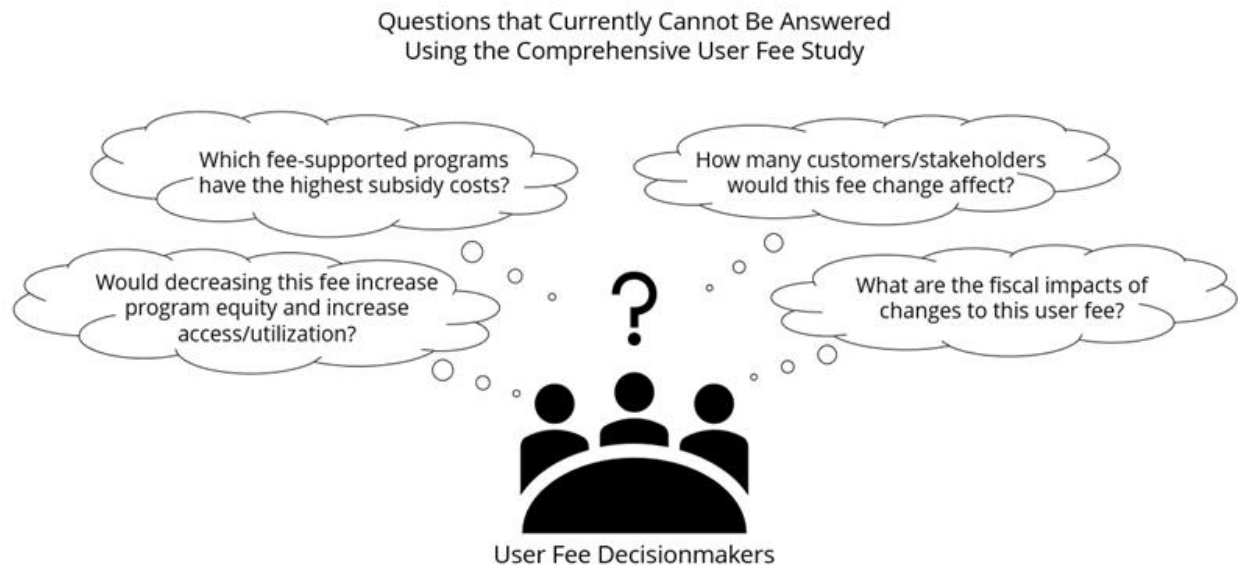
However, the current user fee reports do not provide key information to City leadership to assist them in identifying and incorporating these factors into their decision-making. This creates the risk that fees are set at levels either too high or too low relative to City leadership's policy intentions, and/or policymakers lack sufficient information to identify the fees that are of the most relevance and interest to them.

**Exhibit 3** below displays some examples of questions that City leadership cannot answer based on the current information included in these user fee reports.

### **Exhibit 3:**

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#### **Current User Fee Reports Do Not Include Some Elements that Would Assist City Leadership in their Oversight and Policymaking**



Source: OCA generated based on Exhibit 2 above and Exhibits 4–9 below.

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Including additional information in DoF's Comprehensive User Fee Study reports and materials would help in evaluating the

impact of any policy and/or rate changes. For example, this information could help determine how many users would be affected by increasing or decreasing a particular fee, and the associated financial impact on the City's General Fund. It would also help inform City leadership and the public of the overall costs of providing these City services, the amounts recovered from each of the 547 General Fund user fees the City charges, and the overall cost to the General Fund to subsidize them.<sup>4</sup>

**Parks & Rec's User Fee Report provides additional useful user fee information but does not include a few important fee details.**

In comparison to DoF's Comprehensive User Fee Study, as shown in **Exhibit 4** below, the Parks and Recreation Department's (Parks & Rec) consultant-driven User Fee Report includes several additional useful fee details, such as individual user fee revenue, cost per user fee activity (i.e., individual fee cost), and fee volume (i.e., the total number of users of the fee-supported activity), which are presented to City leadership. As discussed above, Council Policy 100-05 requires user fee departments to report estimated individual service costs and fee revenue for revised user fees. Though Parks & Rec deserves recognition for its more detailed report, there are still some additional user fee elements that should be reported. As shown in **Exhibit 4** below, Parks & Rec's User Fee Report does not include total annual service costs (cost per activity x fee volume), nor does it include total subsidization costs (total costs – fee revenue).

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<sup>4</sup> The terms "subsidize" and "subsidization/subsidized costs" are not intended to imply that the City is providing a gift of public funds, which would be in violation of the California Constitution and City Charter Section 93. These terms merely refer to the costs the City incurs when General Fund user fee departments designate specific user fees as Category II fees, which allows a fee rate to be set below full-cost recovery. Departments must provide a rationale for why the fee/service does not intend to recover all service costs. Proposals for new or revised user fees, which include Category II fees, must be approved by City Council.

**Exhibit 4:**

**Parks & Rec's User Fee Report Contains Individual User Fee Revenue, Individual Service Costs, and Fee Volume, But Does Not Include Total Annual Service Costs or Subsidized Costs**

Fee Title	Department	Included in Parks & Rec's User Fee Study					NOT Included in Parks & Rec's User Fee Study	
		Current Fee Amount	User Fee Volume	User Fee Revenue	Cost per Activity	Cost Recovery	Total Annual Service Cost	User Fee Subsidized Cost (Total Cost - Revenue)
Swimming Facility Admissions (swim pass)	Parks & Rec	\$3	42,781	\$128,343	\$48	6%	---	---
Ground Use Permitting Fee (Non-Profit Adult) - Over 1,000 persons	Parks & Rec	\$861	237	\$204,057	\$1,459	59%	---	---
Film Permits	Parks & Rec	\$0	241	\$0	\$293	0%	---	---
Mooring Permits - Annual	Parks & Rec	\$729	108	\$78,732	\$1,244	59%	---	---

Source: OCA generated using Parks & Rec's FY2020 User Fee Study.

Including this additional information would provide City leadership with a more comprehensive overview of the fiscal impact of Parks & Rec's user fees on the City's General Fund. For instance, City leadership could focus their attention on user fees with the highest total annual cost of service or total subsidization costs. Moreover, including such information could further assist City leadership in considering the socioeconomic and fiscal impacts of approving changes to Parks & Rec's user fee universe.

**The City should provide City leadership and the public more detailed fee information in its User Fee Reports.**

As discussed above and as displayed in **Exhibit 5** below, the user fee reports provided to City leadership by both DoF and Parks & Rec lack several important user fee elements that are necessary for more effective oversight and policymaking.

**Exhibit 5:**

**While Both the Citywide and Parks & Rec User Fee Reports Provide Important User Fee Information, They Do Not Provide Some Additional Elements that Should Be Included**

	Included in Comprehensive User Fee Study	Included in Parks & Rec User Fee Study
Fee Title	✓	✓
Department	✓	✓
Current Fee Amount	✓	✓
Proposed Fee	✓	✓
Proposed Cost Recovery %	✓	✓
User Fee Volume	✗	✓
User Fee Revenue	✗	✓
Total Annual Cost of Service	✗	✗
Total General Fund Subsidy	✗	✗

Source: OCA generated using DoF's FY2019 User Fee Database and Parks & Rec's FY2020 User Fee Study.

By including these user fee details in the City's user fee reports, the City can provide stakeholders with sufficient user fee information, both at a high-level and a granular level, to determine what impacts rate changes will have on service provision levels and the City's finances. For example, we found that the City of Anaheim provides such user fee information in its user fee reports. As shown in **Exhibit 6** below, the City of Anaheim's User Fee Study includes annual volume of fees, annual full cost of service, annual fee revenue, and annual cost of subsidizing services below full cost recovery.

**Exhibit 6:**

**The City of Anaheim's User Fee Study Includes Fee Information Such as Annual Volume of Fees, Full Cost of Service, Annual Revenue per User Fee, and Other Useful Fee Details for Stakeholders**

User Fee Study Summary Sheet

City of Anaheim  
Fire and Rescue  
2018

Ord	Service Name	Fee Description	Annual Volume	Current Fee	Per Unit		Current			Deco
					Full Cost	Current Recovery	Annual Cost	Annual Revenue	Annual Subsidy	
<b>Operational Permits</b>										
1	Group A, Annual Use-Operational	No Fee	2,000	\$ -	\$ 172	0%	\$ 343,335	\$ -	\$ 343,335	
2	Group B, Risk Level 1	every 5 years	780	\$ 36	\$ 342	11%	\$ 266,811	\$ 28,080	\$ 238,731	
3	Group B, Risk Level 2	every 3 years	600	\$ 50	\$ 342	15%	\$ 205,240	\$ 30,000	\$ 175,240	
4	Group B, Risk Level 3	every 2 years	500	\$ 64	\$ 342	19%	\$ 171,033	\$ 32,000	\$ 139,033	
5	Group C, Trade Show Plan Checks, per quarter hour	Fee	100	\$ 16	\$ 36	45%	\$ 3,579	\$ 1,600	\$ 1,979	
6	Group C, Trade Shows, After hours and Weekend Plan Checks	Hourly	100	\$ 64	\$ 143	45%	\$ 14,315	\$ 6,400	\$ 7,915	
7	Group C, Trade Show PC, < 150,000 sq ft	Fee	133	\$ 32	\$ 72	45%	\$ 9,519	\$ 4,256	\$ 5,263	
8	Group C, Trade Show PC, 150,001 - 300,000	Fee	50	\$ 64	\$ 143	45%	\$ 7,157	\$ 3,200	\$ 3,957	
9	Group C, Trade Show PC, 300,001 - 450,000	Fee	16	\$ 128	\$ 286	45%	\$ 4,581	\$ 2,048	\$ 2,533	
10	Group C, Trade Show PC, 450,001 - 600,000	Fee	12	\$ 160	\$ 358	45%	\$ 4,294	\$ 1,920	\$ 2,374	
11	Group C, Trade Show PC, 600,001 - 820,000	Fee	9	\$ 256	\$ 573	45%	\$ 5,153	\$ 2,304	\$ 2,849	
12	Group C, Trade Show PC, 820,001 - 850,000	Fee	20	\$ 288	\$ 644	45%	\$ 12,883	\$ 5,760	\$ 7,123	
13	Group C, Trade Show PC, Over 850,001	Fee	10	\$ 512	\$ 1,145	45%	\$ 11,452	\$ 5,120	\$ 6,332	
14	Group C, Trade Show Inspections, per quarter hour	Fee	100	\$ 16	\$ 36	45%	\$ 3,579	\$ 1,600	\$ 1,979	
15	Group C, Trade Shows, After hours and Weekend Inspections	Hourly	100	\$ 64	\$ 143	45%	\$ 14,315	\$ 6,400	\$ 7,915	
16	Group C, Trade Show Insp, < 30,000 sq ft	Fee	80	\$ 256	\$ 573	45%	\$ 45,807	\$ 20,480	\$ 25,327	
17	Group C, Trade Show Insp, 30,001 - 150,000	Fee	53	\$ 320	\$ 716	45%	\$ 37,934	\$ 16,960	\$ 20,974	
18	Group C, Trade Show Insp, 150,001 - 300,000	Fee	50	\$ 512	\$ 1,145	45%	\$ 57,259	\$ 25,600	\$ 31,659	
19	Group C, Trade Show Insp, 300,001 - 450,000	Fee	16	\$ 704	\$ 1,575	45%	\$ 25,194	\$ 11,264	\$ 13,930	
20	Group C, Trade Show Insp, 450,001 - 600,000	Fee	12	\$ 896	\$ 2,004	45%	\$ 24,049	\$ 10,752	\$ 13,297	
21	Group C, Trade Show Insp, 600,001 - 820,000	Fee	9	\$ 1,024	\$ 2,290	45%	\$ 20,613	\$ 9,216	\$ 11,397	
22	Group C, Trade Show Insp, 820,001 - 850,000	Fee	20	\$ 1,152	\$ 2,577	45%	\$ 51,533	\$ 23,040	\$ 28,493	
23	Group C, Trade Show Insp, Over 850,001	Fee	10	\$ 1,536	\$ 3,436	45%	\$ 34,356	\$ 15,360	\$ 18,996	
24	Group D, One-Time Permit, Processing fee	Fee	40	\$ 32	\$ 44	73%	\$ 1,750	\$ 1,280	\$ 470	

Source: City of Anaheim's 2018 User Fee Report.

As shown in **Exhibit 7** below, Anaheim's User Fee Report also breaks down this information by user fee department.

**Exhibit 7:**

**The City of Anaheim Reports Total User Fee Revenues, Total Annual Service Costs, and Total Subsidization of Services by Department in Its User Fee Report**

City of Anaheim User Fee Revenue Analysis				
Department/Division	Current			
	Costs, User Fee Services (A)	Current Revenue (B )		Subsidy (C )
City Attorney	\$72,441	\$15,210	21%	\$57,231
Building	\$7,161,657	\$4,649,513	65%	\$2,512,144
City Clerk	\$99,478	\$88,235	89%	\$11,243
Recreation	\$14,063,355	\$2,462,878	18%	\$11,600,477
Fire and Rescue	\$7,474,520	\$1,745,359	23%	\$5,729,161
Planning	\$5,747,296	\$5,282,361	92%	\$464,935
Police	\$2,135,667	\$1,443,939	68%	\$691,728
Public Works	\$3,796,579	\$2,811,790	74%	\$984,789
<b>Total</b>	<b>\$40,550,993</b>	<b>\$18,500,285</b>	<b>46%</b>	<b>\$22,051,708</b>

Source: City of Anaheim's 2018 User Fees Report.

**DoF maintains a User Fee Database that could produce such fee details for the City.**

Even though DoF does not currently include the additional fee details discussed above in its Comprehensive User Fee Study reports and materials, DoF does maintain a User Fee Database that could produce such fee details. For example, DoF's User Fee Database lists individual user fee revenues and service costs. DoF should utilize this additional fee information to calculate user fee volume and subsidization costs for total and individual user fees, which would provide enhanced user fee transparency for City leadership and the public.

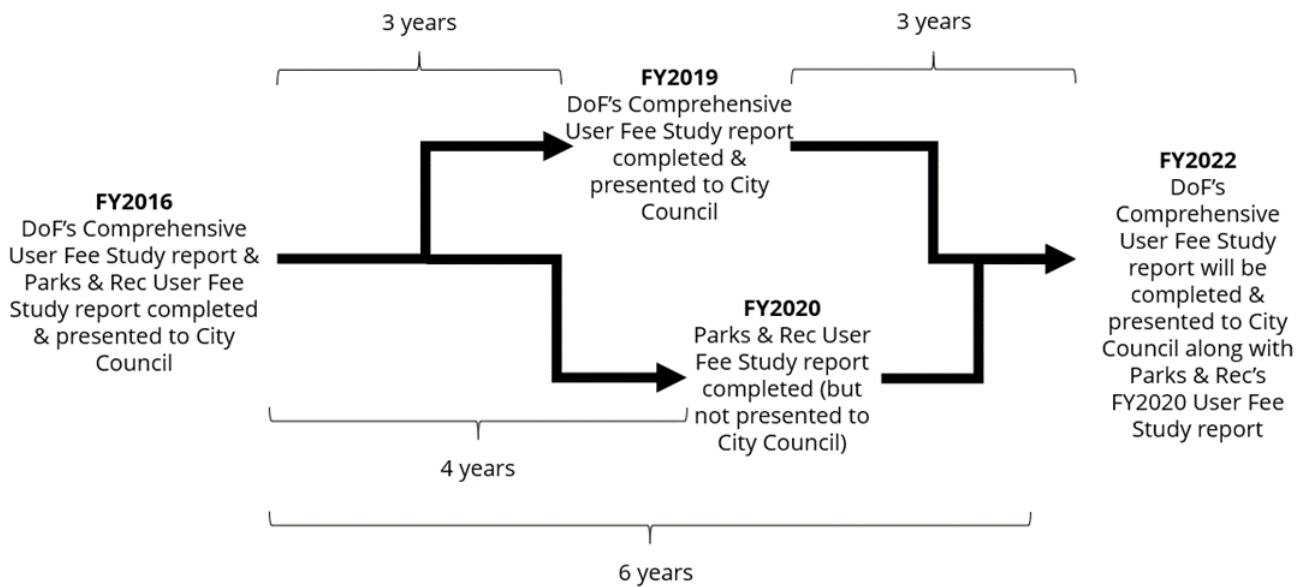
**DoF and Parks & Rec should consolidate their User Fee Reports to City leadership.**

DoF coordinated and assembled information for its FY2019 Comprehensive User Fee Report from all departments with General Fund user fees that participated in the study except for Parks & Rec. Though Parks & Rec presented its User Fee Study jointly with DoF and the other user fee departments during the FY2016 Comprehensive User Fee Study, as shown in **Exhibit 8**, Parks & Rec did not do so for the FY2019 study. This resulted in Parks and Rec's user fees not being adjusted since FY2016, and the department is now considering an 11 percent fee increase to align them with increased service provision costs; this issue is discussed further in Finding 2.



**Exhibit 8:**

**Parks & Rec's User Fees Have Not Been Adjusted Since the City's FY2016 Comprehensive User Study**



Source: OCA generated based on interviews with Parks & Rec and DoF user fee analysts, FY2016 and FY2019 Comprehensive User Fee Study reports/presentations, and Parks & Rec's FY2020 User Fee Study.

The efficiency and transparency of oversight is reduced when all user fee studies are not presented together by preventing City leadership and the public from being able to compare user fee information as part of a comprehensive report. Instead, the City's Comprehensive User Fee Study reports should include information on all departments in order to enhance the efficiency of oversight and increase public transparency. Specifically, DoF should include Park & Rec's most recent User Fee Report in its Comprehensive User Fee Study reports to ensure the City's entire General Fund user fee universe is accurately represented in these reports and materials.

**Presenting detailed and summarized fee information can better inform City leadership**

Providing more detailed and comprehensive information can better inform City leadership of fiscal and socioeconomic impacts stemming from current and proposed rates for each user fee. **Exhibit 9** below is an example of the kind of user fee

## Performance Audit of the City's General Fund User Fees

**of the City's overall user fee costs, revenues, and subsidies.**

information DoF's Comprehensive User Fee Study reports should contain.

**Exhibit 9:**

**A Complete Comprehensive User Fee Study Report Would Include Key Elements Such as Individual User Fee Volume, Revenue, Fee Cost, and Subsidization Cost**

Fee Title	Department	FY2018 Fee Amount	FY2019 Proposed Fee	FY2019 Proposed Cost Recovery	Fee Variance	Included in a Complete Comprehensive User Fee Study			
						User Fee Volume	User Fee Revenue	User Fee Total Cost	User Fee Subsidized cost
Swimming Facility Admissions (swim pass)	Parks & Rec	\$3	\$3	6%	\$0	42,781	128,343	\$2,053,488	\$1,925,145
Special Events Sworn - Non-profit	SDPD	\$55	\$55	55%	\$0	8,437	\$464,008	\$843,651	\$379,643
Special Events Civilian - Non-profit	SDPD	\$22	\$22	70%	\$0	37,984	\$835,643	\$1,177,497	\$341,854
Boating & Fishing Program: Fishing permits - Adults	Public Utilities	\$8	\$8	78%	\$0	76,771	\$614,168	\$790,481	\$176,313
Ground Use Permitting Fee (Non-Profit Ault) - Over 1,000 Persons	Parks & Rec	\$861	\$861	59%	\$0	237	\$204,057	\$345,783	\$141,726

Source: OCA generated using data from DoF's FY2019 User Fee Database and Park & Rec's FY2020 User Fee Study.

DoF should provide City leadership and the public with a comprehensive fiscal overview of the City's General Fund user fees to better inform stakeholders of user fee impacts on the City's fiscal condition. Including summary information by department, as displayed in **Exhibit 10** below, is necessary for City leadership and the public to examine which types of user fees are the most subsidized and by how much. For example, Parks & Rec has the lowest cost recovery rate, followed by the Real Estate Assets Department, the Library Department, and Public Utilities – Lakes Recreation.

**Exhibit 10:**

**Presenting a User Fee Overview that Includes Information Summarized by Department Can Better Inform City Leadership in Terms of the Magnitude and Distribution of the City's Overall User Fee Costs, Revenues, and Subsidies**

**Estimated Cost Recovery Percentages by Department (FY2019)**

Department	User Fee Revenue	User Fee Costs	Subsidization Costs	Cost Recovery %
Parks & Rec	\$3,845,155	\$28,248,716	\$24,403,561	14%
Library	\$862,706	\$1,460,223	\$597,517	59%
Real Estate Assets	\$55,000	\$78,385	\$23,385	70%
Public Utilities - Lakes	\$1,166,146	\$1,569,526	\$403,380	74%
City Treasurer	\$3,013,062	\$3,740,973	\$727,911	81%
SDPD	\$7,225,429	\$8,002,565	\$777,136	90%
DSD	\$335,140	\$339,273	\$4,133	99%
Fire-Rescue	\$4,932,337	\$4,962,346	\$30,009	99%
ESD	\$132,899	\$132,940	\$41	100%
City Clerk	\$157,563	\$157,613	\$50	100%
TSW	\$54,863	\$54,948	\$85	100%
Personnel	\$6,200	\$6,214	\$14	100%
<b>Grand Total</b>	<b>\$21,786,500</b>	<b>\$48,753,723</b>	<b>\$26,967,222</b>	<b>45%</b>

Note: OCA made some methodological assumptions based on professional judgment to calculate the user fee figures above for all City departments except for Parks & Rec. Since neither DoF nor the departments listed above (except Parks & Rec) present these user fee details in their reports/materials to City leadership, we had to calculate these figures using user fee data from DoF's FY2019 User Fee Database and from Park & Rec's FY2020 User Fee Study. Therefore, the figures listed above should be considered estimates of these fee details.

Note: The table above includes Category I (full-cost recovery) and Category II (partial recovery) user fees. Category III user fees, which consist of fines and penalties, were excluded from the table as there are no service costs associated with these fees.

Source: OCA generated using data from DoF's FY2019 User Fee Database and Park & Rec's FY2020 User Fee Study.

As shown in **Exhibit 10** above, the cost to the City's General Fund of subsidizing user fees Citywide is approximately \$27 million per year; Parks & Rec fees are the area that is the most subsidized, recovering around 14 percent of its total annual service costs in aggregate.

For instance, as shown in **Exhibit 11** below, the Parks & Rec Swimming Facility Admissions Swim Passes have an average user fee rate of \$3; however, according to the department's

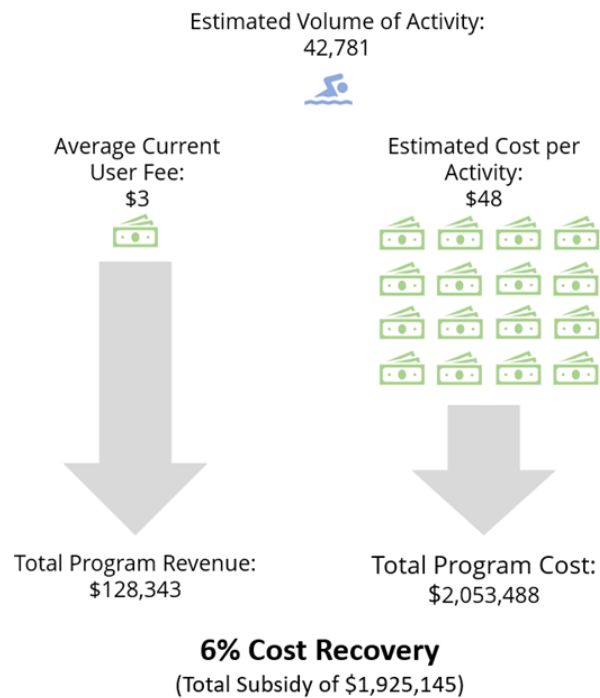
## Performance Audit of the City's General Fund User Fees

FY2020 User Fee Study, the true cost for this service is \$48. Moreover, total revenue for this fee in the most recent fiscal year was \$128,343 and total subsidization costs for this fee totaled \$1,925,145. Currently, Parks & Rec's User Fee Study does not display the total cost of providing this service, nor does it include the total subsidization costs.

Though City leadership may or may not want to change this fee due to concerns about equity or public access, including this kind of information in DoF's Comprehensive User Fee Study reports and materials to City leadership and the public would provide additional transparency for the subsidization costs of this particular fee, and the number of community members that benefit from this service.

### Exhibit 11:

#### Park & Rec's Swimming Facility Admissions Swim Passes Average Fee Rate is \$3 and Had a Subsidy of \$1,925,145 in FY2020



Source: OCA generated based on information provided by Parks & Rec.

Including more detailed fee information is necessary for City leadership and stakeholders to consider questions such as why service costs are at their current levels, whether there should even be a fee, etc. These are all legitimate lines of

inquiry which can be facilitated by providing this information, but which are not evident from the limited information currently provided in the fee reports.

To ensure that City leadership is given appropriate and comprehensive user fee information to facilitate more effective policymaking, we recommend the following:

### **Recommendation 1**

The Department of Finance (DoF) should work with City leadership to present a new or updated Council Policy 100-05 for City Council's approval. The Council Policy should require that the relevant materials are consolidated into a single Comprehensive User Fee Study report/presentation, and should include the following information for each individual user fee among all department with General Fund-supported user fees:

- a. Date of last fee adjustment;
- b. Service costs per fee/unit;
- c. Target cost recovery rate;
- d. DoF-recommended cost recovery rate;
- e. Fee revenue from most recent fiscal year;
- f. Subsidization costs for service provision;
- g. User fee category;
- h. Number of times fee was charged; and
- i. Summary totals by department of the cost of providing all user fee-supported services, the total revenues received from user fees for these services, and the overall cost-recovery percentage.

(Priority 2)

***Finding 2: Most of the City's user fees other than Parks and Recreation's have been updated and adjusted in accordance with best practices; however, the process should be strengthened and formalized to ensure its continuation.***

Government Finance Officers Association (GFOA) best practices emphasize updating fees periodically to help smooth charges and fee increases over several years rather than implementing abrupt increases. GFOA also recommends user fee entities provide justification for setting rates below full cost recovery, which is likely to occur if rates are not adjusted over time. In addition, Council Policy 100-05 requires General Fund user fee departments to periodically revise fees based on updated costs.

**Parks and Rec's user fees have not been adjusted since FY2016 and are due for updating.**

As discussed in Finding 1, in FY2019, 12 City departments charged General Fund user fees and thus were required to participate in the City's FY2019 Comprehensive User Fee Study. However, the Parks and Recreation Department (Parks & Rec) did not participate in the City's FY2019 User Fee Study; according to the department, this was due to operational constraints during that period caused by the redeployment of department staff to help comply with Council-mandated changes to revenue collection for recreation center program fees.<sup>5</sup> As a result, Parks & Rec's 263 user fees, which make up approximately half of the City's total General Fund user fees, have not been adjusted since FY2016.

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<sup>5</sup> In December 2017, City Council approved requirements to amend Parks & Rec's fee schedule to remove references to "recreation council" and replace them with "City of San Diego," and authorize the City's Chief Financial Officer to appropriate and expend all recreation center area funds, including recreational program and permit revenue. These changes stemmed from a legal opinion from the City Attorney's Office that money generated by programs and special classes at individual recreation centers should be handled by the City rather than volunteer members of the 52 recreation councils that, up until that time, had control over these funds.

Parks & Rec released its most recent User Fee Report in April 2020. Prior to this, the department's last consultant-driven user fee analysis was completed in March 2015. Though GFOA best practices recommend conducting comprehensive user fee studies at least every five years, Council Policy 100-05 requires General Fund user fee departments to conduct such studies every three years. Although Parks & Rec did not complete its most recent fee study within three years as required, according to the department, it is currently on track to meet the deadline for including its most recent fee study (April 2020 study) and fee proposal into the Department of Finance's (DoF) next Comprehensive User Fee Study, which is anticipated to occur sometime in FY2022.

We estimate that missing the FY2019 user fee adjustments may have led to approximately \$1 million in foregone fee revenue for the City over the FY2020 to FY2022 period.<sup>6</sup> Likewise, the City may have missed opportunities to reduce fee rates to increase access, consolidate similar user fees into a single fee, or eliminate some fees all together. According to Parks & Rec's fee analysts, the department is now considering an 11 percent fee increase for most of its user fees to align them with increased service provision costs since FY2016. Since Parks & Rec's user fees are such a large part of the City's general fund user fee universe—generating approximately \$3.8 million in revenues and incurring annual service costs of more than \$28 million—the City should assist Parks & Rec in resynchronizing with the City's Comprehensive User Fee Study cycle as discussed in Finding 1 to ensure the department's user fees are updated and adjusted per Council Policy 100-05 requirements.

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<sup>6</sup> We used Parks & Rec's user fee revenues figures from FY2016 and FY2020 and a Consumer Price Index (CPI) adjustment of 9 percent to estimate cost inflation over the period 2017–2019. This resulted in estimates of approximately \$342,000 in foregone revenues each year since the fees would have been raised. Total Parks & Rec user fee revenues are currently approximately \$3.8 million per year.

**Most of the City's user fees other than Parks & Rec's have been updated and adjusted over the period from FY2016 to FY2021.**

Our analysis of the City's user fees throughout other General Fund user fee departments found that most fee rates (72 percent) have been updated from FY2016 to FY2021; this is in alignment with Council Policy 100-05 and GFOA best practices to periodically revise fees based on updated costs. Additionally, we found that DoF provided review of departments' user fee proposals and changes during the City's FY2019 Comprehensive User Fee Study, and efficiently focused its review on departments (aside from Parks & Rec) who had not adjusted many, or all, of their user fees since FY2016.<sup>7</sup>

**Widespread use of DoF's standardized template has helped General Fund user fee departments to calculate the full cost of user fees and update fees accordingly.**

As shown in **Exhibit 12** below, we found that DoF has developed a strong control in the form of a standardized template to aid General Fund user fee departments throughout the City in calculating the full cost of user fees. Aside from process standardization, the cost-recovery template also helps ensure that service costs capture updated personnel expenditures by allowing analysts to select the job classes of employees providing the service in question (green circle); upon selection, the template automatically populates the corresponding and updated salaries and fringe costs for those employees' time (purple circles). This is important as user fees are designed to recover the appropriate costs of providing a service; by far the largest cost element for most user fees is personnel expenditures. In addition, the template contains pre-populated overhead rates for the 12 departments<sup>8</sup> that utilize the template (blue circle), another important element in correctly calculating appropriate cost recovery.

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<sup>7</sup> Our analysis confirmed that DoF reviewed all 307 General Fund user fee calculations submitted by departments during the FY2019 Comprehensive User Fee Study. The total number of user fees reviewed did not include Parks & Rec's user fees as the department undertakes a separate consultant-driven user fee analysis outside of the City's Comprehensive User Fee Study cycle. Though DoF is not directly involved in Park & Rec's User Fee Study, DoF reviews Park & Rec's user fee analysis and signs off on its findings and conclusions.

<sup>8</sup> Parks & Rec uses a consultant to undertake its User Fee Study and therefore does not utilize DoF's User Fee Template.



Exhibit 12:

DoF Provides General Fund User Fee Departments with a Cost-Recovery Template to Calculate Service Costs

BA #:	1516	Fee Title:	Residential Parking Permit - Annual Permit	Load Rate:	18.3%
BA Name:	City Treasurer	Legal Authority:	R-276232 / SDMC § 86.2001 - 86.2017	Overhead Rate:	56.8%
Contact:		Fee Description:	Cost recoverable fee used to recover costs associated with the application, renewal, and processing fees of the Residential Parking Permits program (annual permits).	CI #:	416110
Date:				CI Name:	Parking Permit Fees-Issuance & Renewal

Job Class	Job Code	Direct Cost					Indirect Cost			Total Cost (Direct Cost + Labor Load + Overhead + Fringe Load)	
		Labor Hours per Service Occurrence (Hours)	Hourly Salary Rate	Labor Cost (Hourly Rate x Hours)	Estimated Hourly Fringe	Fringe Cost (Estimated Hourly Fringe x Hours)	Direct Cost (Labor Cost + Fringe)	Labor Load (Labor Cost x Labor Load)	Dept/City Overhead (Labor Cost + Labor Load) x Department/City Overhead)		Fringe Load (Fringe x Labor Load)
		1 min = 0.01667 1 hr = 1.00		(A x B)	(D x A)	(C + E)	(C x load rate %)	((C + G) x OH %)	(E x load rate %)	(F + G + H + I)	
Collections Investigator 3	1333	0.03	\$ 28.83	\$ 0.86	\$ 28.16	\$ 0.84	\$ 1.70	\$ 0.16	\$ 0.58	\$ 0.15	\$ 2.59
Public Information Clerk	1776	0.20	\$ 17.44	\$ 3.49	\$ 16.72	\$ 3.34	\$ 6.83	\$ 0.64	\$ 2.35	\$ 0.61	\$ 10.42
Senior Clerk/Typist	1879	0.01	\$ 20.67	\$ 0.21	\$ 22.84	\$ 0.23	\$ 0.44	\$ 0.04	\$ 0.14	\$ 0.04	\$ 0.66
		0.24	\$	4.56	\$ 67.72	\$ 4.41	\$ 8.97	\$ 0.83	\$ 3.06	\$ 0.81	\$ 13.68
NPE Description/Methodology: Includes costs for printing, decal, and mailing.										NPE	2.44
Notes:											\$ 16.12

Source: Department of Finance Cost-Recovery Template.

**DoF's review process should be strengthened and formalized to ensure the City continues adjusting its user fees as necessary.**

We found that the user fee review process is not documented and relies on individual efforts of several critical personnel within DoF, as well as analysts within each of the General Fund user fee departments. Many of the analysts we spoke to are new in their roles; for example, both of the main contacts that DoF referred us to for this audit have not presided over an entire cycle of the City's Comprehensive User Fee Report.

Also, we found that the City has an Administrative Regulation that requires user fee departments to submit user fee cost-recovery calculations to DoF for review, but it was last updated in January 1988. Since neither Administrative Regulation 95.25 nor Council Policy 100-05 require DoF to perform in-depth user fee reviews, the process should be strengthened and formalized to support these and other department analysts, as well as to ensure the process

continues in the future. Additionally, formalizing this process in the Administrative Regulation would increase the likelihood of all, or nearly all, unadjusted user fees being reviewed by DoF analysts.

In order to ensure that DoF's user fee review process is formalized and complied with, we recommend:

### **Recommendation 2**

The Department of Finance (DoF), working with the City Administration, should update and comply with Administrative Regulation 95.25 to include a requirement for DoF to ensure monitoring and identification of all user fees that have not been revised/updated in the last five years or longer. Upon identifying such user fees, DoF should require responsible departments to provide documentation showing their intent to revise the user fee(s), or justification as to why the fee(s) will not be revised/updated.

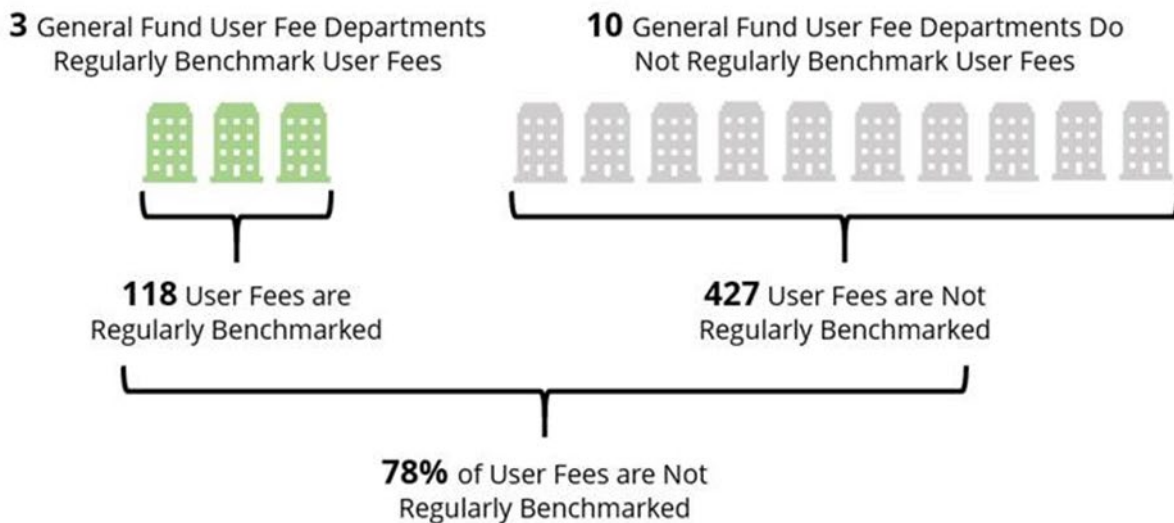
(Priority 2)

**Finding 3: More consistent benchmarking of user fees could lead to increased operational efficiencies and more equitable and effective service provision.**

As shown in **Exhibit 13** below, we found that most General Fund user fee departments do not consistently benchmark their fees with comparable or neighboring jurisdictions, as required by Council Policy 100-05 and recommended by Government Finance Officers Association (GFOA) best practices. Benchmarking user fees with other jurisdictions can lead to operational efficiencies and more equitable service provision access by identifying more effective service provision methods, as well as adapting to current policy developments in other cities and public agencies.

**Exhibit 13:**

**Most General Fund User Fee Departments Do Not Perform Regular User Fee Benchmarking**



Source: OCA generated based on responses from General Fund user fee departments.

**Departments noted that benchmarking**

When we asked departments about the lack of consistent benchmarking, several noted difficulties ensuring that fees and services within the City of San Diego are appropriately

**efforts are hindered by difficulties ensuring fees and services are comparable to other jurisdictions.**

comparable to other cities and jurisdictions. For example, since there is no common naming convention for all user fees across all municipalities, it can be difficult to know if one is comparing “apples to apples” when reviewing established fees for each municipality based upon name alone. Analysts also noted that it can be labor intensive to reach out to municipalities directly for clarification when a comparison to each municipality’s published fees is not clear.<sup>9</sup>

While benchmarking difficulties should be acknowledged, as noted above, the practice is required by Council Policy 100-05 and is considered a user fee best practice by the GFOA. Council Policy 100-05, which was last updated in 2009, states that “the City’s Administrative Regulations related to user fee charges shall be revised by including all the requirements of this User Fee Policy and shall include procedures for implementing new fees or revising existing fees.” We found that the City has an Administrative Regulation that requires user fee departments to submit user fee cost-recovery calculations to the Department of Finance (DoF) for review, but it was last updated in January 1988, and it does not include specific guidance to departments to complete benchmarking as required by the Council Policy.

**Benchmarking is a beneficial exercise that has led to specific**

As shown in **Exhibit 14** below, benchmarking is an important exercise for General Fund user fee departments to utilize during the Comprehensive User Fee Study as it helps ensure

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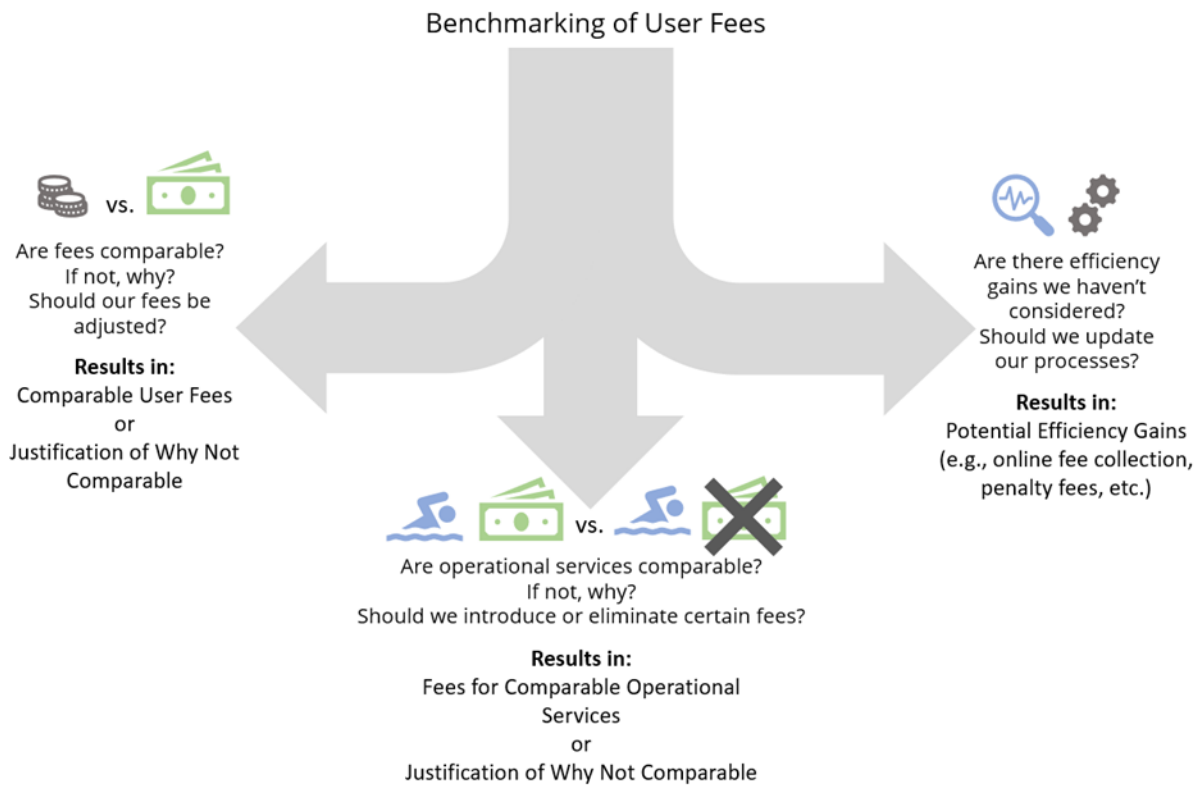
<sup>9</sup> We attempted some analyses comparing user fee rates between the City of San Diego and the cities of San Jose, Sacramento, and Long Beach to determine whether San Diego charged similar services and user fee rates as these benchmark cities. While we generated some initial calculations, due to concerns about ensuring appropriate comparisons to other jurisdictions’ data and our own project limitations, it was not possible to draw a definitive conclusion in response to one of the audit objectives of whether City services that require the establishment of a user fee were being consistently and accurately identified. We surveyed all 13 General Fund user fee departments to determine whether departments consistently adhere to Council Policy 100-05 requirements, including benchmarking requirements, which would aid the process of the City consistently and accurately identifying City services that require the establishment of a user fee; those results and effects are reported in this finding.

**user fee changes in several City departments.**

the City is identifying and charging comparable fees to other municipalities, is charging fees for comparable operational services, and is made aware of potential efficiency gains and opportunities to improve equity identified by other cities. In addition to these benefits, benchmarking services provided by General Fund user fee departments may lead to the identification and establishment of additional user fees for services and alignment with other municipalities' fees and practices.

**Exhibit 14:**

**Benchmarking User Fee Rates and Services with Other Cities Can Lead to Rate Adjustments, Efficiency Gains, and Ensuring the City's User Fee Rates Are More Comparable to Other Jurisdictions' Rates**



Source: OCA generated based on interviews with City departments and GFOA best practices.

For example, according to the Library Department's (Library) analysts, the department's benchmarking efforts identified several library systems around the country that were

eliminating their late fee penalties to address library access equity issues. The analysts also noted that late fee rates were not fully recovering the amount of time library staff spent on these types of fines. Library's benchmarking results led to its decision to eliminate most of its overdue book fines during the City's FY2019 Comprehensive User Fee Study. According to Library, eliminating these types of fines is part of a broader nationwide push for equitable access to libraries.

In addition, the San Diego Police Department's (SDPD) benchmarking efforts resulted in rate restructuring and potential operational efficiency gains. SDPD charges an Alarm Permit user fee which is required for any business or residence that has an alarm system. According to SDPD's user fee analysts, the department's analysis of its Alarm Permit user fee, which included benchmarking with other jurisdictions, concluded that the City should reduce its Alarm Permit fee(s) rate as well as restructure its False Alarm fines to ensure this group of user fees are more comparable to those of similar sized agencies across the nation and jurisdictions in close proximity to San Diego.<sup>10</sup>

This fee restructure now incentivizes alarm system users to avoid false alarms, allowing patrol officers to redirect their time to other calls of equal or higher priority and/or proactive community response policing.

In order to ensure that General Fund user fee departments follow Council Policy 100-05's benchmarking requirement, as well as identify additional services that might require the establishment of a user fee, we recommend:

### **Recommendation 3**

The Department of Finance (DoF) should work with the City Administration to update and comply with Administrative

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<sup>10</sup> SDPD's Alarm Permit user fee had previously included permitting costs and costs associated with responding to at least one false alarm. The department proposed changes to fines and penalties associated with false alarms separately to gain compliance. Therefore, the proposed Alarm Permit user fee would only include direct costs associated with processing the permit, thereby reducing the fee rate from \$100 (for two years) to \$10 (for one year).

## **Performance Audit of the City's General Fund User Fees**

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Regulation 95.25, as outlined in Recommendation #2, to include the following:

- a. Requiring departments with General Fund-supported user fees to provide written confirmation to DoF that user fee benchmarking was performed as part of the departments' Comprehensive User Fee Study every three years, and require written justification from departments that do not perform benchmarking as part of the study. Benchmarking efforts should entail listing the jurisdictions analyzed as well as comparing user fee rates and operational services to determine whether fees should be adjusted or eliminated, whether new user fee services should be established, and/or whether operational efficiencies can be identified and adopted for current services.

(Priority 2)

# Appendix A: Definition of 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 consideration 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 <sup>11</sup>	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>

<sup>11</sup> 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 priority.



# Appendix B: Objectives, Scope, and Methodology

**Objectives** Our objectives for this audit were to:

- Determine whether user fees have been regularly and appropriately adjusted, per Council Policy 100-05; and
- Determine whether the City consistently and accurately identifies City services that require the establishment of a user fee.

**Scope** The scope of this audit involved reviewing policies and procedures and testing information related to user fees that generate revenue for the City's General Fund (we refer to the departments that administer these fees as General Fund user fee departments). We did not include Enterprise Fund user fees in our focus because these fees have mechanisms to ensure full cost-recovery, thereby limiting the risk profile of this particular universe of fees. In fiscal year (FY) 2021, the City charged approximately 547 General Fund user fees across 13 different City departments. Our analyses used user fee data provided by Department of Finance (DoF) and the 13 departments with General Fund user fees during the FY2011–FY2021 period.

Our findings, conclusions, and recommendations are included in this report. Our methodology to evaluate the City's user fee policies and procedures is described as follows:

**Objective      Methodology**

**Determine whether user fees have been regularly and appropriately adjusted, per Council Policy 100-05.**

- Analyzed user fee data from DoF's FY2019 User Fee Database which contained sufficient information to calculate fee volume and fee subsidization costs.
- Reviewed results of the Parks & Recreation Department's (Park & Rec) FY2020 User Fee Study and extracted user fee information from the study to perform data analyses.
- Reviewed City policies and guidance for identifying, calculating, and adjusting user fees, Government Finance Officers Association (GFOA) best practices for establishing, reviewing, and updating user fees, and DoF guidance and training for user fees.
- Interviewed department analysts at several departments that charge large numbers of different General Fund user fees to better understand their processes and procedures for identifying, calculating, and updating user fees per City policy and GFOA best practices.
- Conducted several interviews with DoF analysts to gain additional insight into the City's user fee policies and procedures.
- Surveyed all 13 General Fund user fee departments to determine whether departments consistently adhere to Council Policy 100-05 requirements.

**Determine whether the City consistently and accurately identifies City services that**

- Reviewed City policies and guidance for identifying, calculating, and adjusting user fees, Government Finance Officers

### **require the establishment of a user fee.**

Association (GFOA) best practices for establishing, reviewing, and updating user fees, and Department of Finance guidance and training for user fees.

- Interviewed department analysts at several departments that charge large numbers of different General Fund user fees to better understand their processes and procedures for identifying, calculating, and updating user fees per City policy and GFOA best practices.
- Conducted several interviews with DoF analysts to gain additional insight into the City's user fee policies and procedures.
- Reviewed and calculated Charges for Services expenditure ratios between the City of San Diego and several benchmark cities for comparative purposes.
- We attempted some analyses comparing user fee rates between the City of San Diego and the cities of San Jose, Sacramento, and Long Beach to determine whether San Diego charged similar services and user fee rates as these benchmark cities. While we generated some initial calculations, due to concerns about ensuring appropriate comparisons to other jurisdictions' data and our own project limitations, we were not able to draw a definitive overall conclusion in response to this audit objective of whether City services that require the establishment of a user fee were being consistently and accurately identified.
  - We surveyed all 13 General Fund user fee departments to determine

whether departments consistently adhere to Council Policy 100-05 requirements, including benchmarking requirements, which would aid the process of consistently and accurately identifying City services that require the establishment of a user fee; those results are presented in Finding 3.

### **Internal Controls Statement**

Our internal controls testing was limited to specific controls relevant to our audit objectives, including controls to identify user fee rates that have not been adjusted for several years, verify the accuracy of user fee cost recovery calculations, test feasibility of user fee benchmarking, and determine whether DoF reviews unadjusted user fees. We reviewed all applicable user fees/rates from the City's FY2016 and FY2021 User Fee Schedules and all fees from DoF's FY2019 User Fee Database.<sup>12</sup>

We also reviewed cost-recovery user fee calculation templates from all General Fund user fee departments from the most recent Comprehensive User Fee Study (FY2019) to confirm that all user fee calculations were submitted to DoF for review.

### **Compliance Statement**

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

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<sup>12</sup> Our user fee analysis only included fees that existed both in FY2016 and FY2021; out of the 547 user fees listed on the City's FY2021 User Fee Schedule, 351 of those were also present in the City's FY2016 User Fee Schedule.

obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: October 15, 2021  
TO: Andy Hanau, City Auditor  
FROM: Rolando Charvel, Department of Finance Director & City Comptroller  
SUBJECT: Management Response to the Office of the City Auditor's *Performance Audit of the City's General Fund User Fees*

Management appreciates the opportunity to respond to the recommendations set forth in the Office of the City Auditor's *Performance Audit of the City's General Fund User Fees*.

As a general note, Management appreciates that the audit highlights that the Department of Finance (DoF) has developed strong controls via a standardized process to help departments in calculating user fees. Additionally, the audit also acknowledges that most user fee rates have been updated and are in alignment with Council Policy 100-05 and GFOA best practices.

Management agrees with the City Auditor's recommendations and the specific responses to the recommendations follow below.

**RECOMMENDATION 1:** The DoF should work with City leadership to present a new or updated Council Policy 100-05 for Council's approval. The Council Policy should require that the relevant materials are consolidated into a single Comprehensive User Fee Study report/presentation, and should include the following information for each individual user fee among all department with General Fund-supported user fees (Priority 2):

- a. Date of last fee adjustment;
- b. Service costs per fee/unit;
- c. Target cost recovery rate;
- d. DoF-recommended cost recovery rate;
- e. Fee revenue from most recent fiscal year;
- f. Subsidization costs for service provision;
- g. User fee category;
- h. Number of time fee charged; and
- i. Summary totals by department of the cost of providing all user fee-supported services, the total revenues received from user fees for these services, and the overall cost recovery percentage.

**Management Response:** Agree. DoF is in the process of updating City Council Policy 100-05 to include these recommendations and will bring forward the Policy for City Council consideration in calendar year 2022. Currently, DOF collects much of this information but will work to ensure this information is available in future Comprehensive User Fee Study reports/presentations.

**Target Implementation Date:** By December 31, 2022.

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**RECOMMENDATION 2:** DoF, working with the City Administration, should update and comply with Administrative Regulation 95.25 to include a requirement for DoF to ensure monitoring and identification of all user fees that have not been revised/updated in the last 5 years or longer. Upon identifying such user fees, DoF should require responsible departments to provide documentation showing their intent to revise the user fee(s), or justification as to why the fee(s) will not be revised/updated. (Priority 2)

**Management Response:** Agree. DOF is in the process of updating Administrative Regulation 95.25 and will include these recommendations. Currently, DOF monitors and identifies user fees that have not been revised in prior user fee analysis but will work with Management and departments to provide documentation showing their intent to revise the user fee(s), or justification as to why the fee(s) will not be revised/updated. As part of the upcoming Comprehensive User Fee Study, DOF has requested this information from departments.

**Target Implementation Date:** By December 31, 2022.

**RECOMMENDATION 3:** The Department of Finance (DoF) should work with the City Administration to update and comply with Administrative Regulation 95.25, as outlined in Recommendation #2, to include the following:

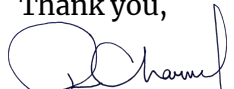
- a) Requiring departments with General Fund-supported user fees to provide written confirmation to DoF that user fee benchmarking was performed as part of the departments' Comprehensive User Fee Study every three years, and require written justification from departments that do not perform benchmarking as part of the study. Benchmarking efforts should entail listing the jurisdictions analyzed as well as comparing user fee rates and operational services to determine whether fees should be adjusted or eliminated, whether new user fee services should be established, and/or whether operational efficiencies can be identified and adopted for current services. (Priority 2)

**Management Response:** Agree. DOF is in the process of updating the Administrative Regulation 95.25 and will include these recommendations. As part of the upcoming Comprehensive User Fee Study, DOF has requested departments to include benchmarking information and requested that they provide justifications for those unable to benchmark.

**Target Implementation Date:** By December 31, 2022.

Thank you again for the opportunity to provide responses to these recommendations. Management appreciates your team's professionalism and collaborative approach throughout this review.

Thank you,



Rolando Charvel

Director of Finance & City Comptroller

RC/adr

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cc: Paola Avila, Chief of Staff, Office of the Mayor  
Jay Goldstone, Chief Operating Officer  
Matthew Vespi, Chief Financial Officer  
Christiana Gauger, Chief Compliance Officer  
Jessica Lawrence, Director of Policy, Office of the Mayor  
Adrian Del Rio, Assistant Director, Department of Finance  
Nicole Chalfant, Financial Operations Manager, Department of Finance  
Jose Mendoza, Principal Accountant, Department of Finance