THE CITY OF SAN DIEGO

DATE: July 30, 2008

TO: Honorable Mayor and Members of the City Council

FROM: Eduardo Luna, City Auditor

SUBJECT: **Prior City Audits of Outside City Agencies**

In response to the July 25, 2008 memorandum issued by Mayor Jerry Sanders and Councilmember Kevin Faulconer related to the initiation of performance audits of Outside City Agencies, City Auditor staff reviewed prior audit files to determine what relevant audit reports have been issued regarding these outside agencies. Below is a summary of the prior audit reports issued (see reports attached):

Agency	Audit Report Date	Audit Subject	Audit Hours	No. of Findings
San Diego Data Processing Corporation	01/09/04 06/09/04	Meals, travel, and expenditures review Procurement, billing, and credit card expense review	2,200	16
San Diego Convention Center Corporation	03/24/92	Policies and procedures review	Unknown	19

I will discuss the various options for future audits of outside City agencies at the special audit committee meeting on July 31, 2008.

cc: Jay M. Goldstone, Chief Operating Officer
Michael Aguirre, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stan Keller, SEC Consultant

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INTERIM AUDIT REPORT

AUDIT OF SAN DIEGO DATA PROCESSING CORPORATION MEALS, TRAVEL, AND MISCELLANEOUS EXPENDITURES REVIEW

PERFORMED BY

THE AUDIT DIVISION

OF THE

OFFICE OF THE CITY AUDITOR AND COMPTROLLER

DARLENE MORROW-TRUVER
AUDIT MANAGER

Friday, January 9, 2004

THE CITY OF SAN DIEGO

INTERIM AUDIT REPORT

Friday, January 9, 2004

Board of Directors
San Diego Data Processing Corporation

SUBJECT: MEALS, TRAVEL, AND MISCELLANEOUS EXPENDITURES REVIEW

AUDIT PERIOD: PRIMARILY FISCAL YEARS 2002 AND 2003

PURPOSE:

To review San Diego Data Processing Corporation (SDDPC) policies, expenses, and documentation of meal, travel, and miscellaneous expenditures based on allegations received.

METHODOLOGY:

- Obtained records of budgeted and actual expenditures recorded in the general ledger for travel and meal accounts.
  On a test basis, reviewed documentation of the expenses for 2 months in fiscal year 2002, 1 month in fiscal year 2003, and selected transactions in fiscal year 2004.
  Based on initial testing, we expanded the scope to review all documentation supporting credit card transactions, including transactions other than meals and travel, for fiscal year 2003. This testing is in progress.
- Summarized testing completed through January 8, 2004.

BACKGROUND:

San Diego Data Processing Corporation is a non-profit corporation providing data processing services to the City in accordance with an Operating Agreement. The City is the primary 'customer of SDDPC; however, the City does not directly reimburse the expenses of the Corporation. Based on agreed upon rates, the City departments are billed for SDDPC actual services. Through this process, the City pays for the majority of the expenses of SDDPC.

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SUMMARY:

Based on the general ledger information, expenditures for in-town meals and entertainment decreased approximately 24% from $144,093 in fiscal year 2002 to $110,539 in fiscal year 2003. Generally, attendees at meals included SDDPC executive staff, SDDPC Board Members, City employees, and contractors. We estimated the average cost of in-town meals per attendee is approximately $26.94. Our calculation was based on a sample of 91 credit card transactions listing the number of attendees at meals.

Based on our testing through January 8,2004, we found that alcohol was purchased for meetings, expenditures have been made that are not clearly related to providing computer services to the City, such as membership fees and donations to charitable organizations, control weaknesses exist related to credit card usage, and new policies should be implemented by SDDPC such as establishing a maximum dollar amount allowable for service awards and meals. SDDPC has advised that new polices will be presented in January 2004 to the full Board that will address these issues.

Due to the nature of our preliminary findings an interim report is being issued to bring these findings to the immediate attention of the Board. Our findings and recommendations are as follows:

Finding Number 1:

SDDPC held senior management off-site meetings, a holiday reception, and other meetings in which alcohol was purchased. Generally, SDDPC practices have not required itemized receipts be submitted for meal expenditures paid by credit card; therefore, we could not determine how often alcoholic beverages were included in meal costs paid by SDDPC. However, in the following instances there were itemized receipts on file, and we found alcohol purchases totaling $3,108.74.

- A senior management off-site meeting was held in March of 2003 at The Inn at Rancho Santa Fe. The total costs for food, beverages, guest rooms and conference rooms for the 2 day event were $6,740, or $518.46 per person. There were 13 senior management attendees. The alcoholic beverage costs for this event totaled $1,210.80, an average of $93 per person. Included in this amount was a bill from the hotel for alcoholic beverages totaling $998.25 (excluding sales tax and service charges) and $212.55 in alcohol purchases from liquor stores. Some of the alcohol purchases included the following:

- 13 drinks of tequila costing $325 or $25 per drink
- 2 bottles of 200 Souverain costing $84 ($42 per bottle)
- 2 bottles of 409 Caymus costing $242 ($121 per bottle)
- $53.50 for tequila purchased in Mexico

In March of 2002, a similar senior management offsite meeting was held for 12 attendees. The hotel bill totaled $5,403.14. Alcoholic beverages purchased at dinner on March 14, 2002, totaled $231.25. Golf fees paid for March 15, 2002, were $225.

- SDDPC provided detailed billings from the University Club where meetings were held, and alcohol purchases totaled $1,284.48 during fiscal years 2002 and 2003.
- The cost of a SDDPC Board-hosted holiday reception held on December 20, 2001, at the U.S. Grant Hotel was $82 per person. The cost of the reception totaled $1,799.27. Attendees were 8 Board members and 14 SDDPC or City employees. The alcoholic beverages totaled $382.21 and the food and other charges were $1,417.06. Board-hosted holiday receptions were not held in 2002 or 2003.

We inquired with SDDPC if their policies permitted the payment of alcoholic beverages. They advised in the past there was no written policy and the practice has been to pay business meeting expenses that included alcoholic beverages. Currently, the CEO has discontinued reimbursements of alcoholic beverages.

SDDPC advised Board members receive $50 per meeting attended as compensation or reimbursement of travel expenditures if related to SDDPC business. A policy is not in place providing guidelines on Board events; however, SDDPC has included this in the list of policies to be presented to the full Board in January 2004.

Recommendations: Consider reimbursing the City of San Diego $3,108.74 for costs of alcoholic beverages purchased and $225.00 for golf fees paid.

Establish policy revisions to include prohibiting payment for alcoholic beverages.

Ensure policies related to payment of meals for business purposes include guidelines establishing reasonable costs for meals per person.

Ensure policies establish appropriate expenditure guidelines for Board events.

Require itemized receipts describing items purchased be submitted for all expenses, including meal receipts which have a line item detail of what was ordered.

Finding Number 2:

Various expenses were paid by SDDPC that do not appear related to providing computer services to the City.

The agreement between SDDPC and the City is for SDDPC to provide computer services. Since the City is the primary customer of SDDPC it is unclear how the following expenses relate to the agreement of providing computer services.

- Monthly membership payments of $127 to the University Club. SDDPC advised that the University Club membership was allowable in accordance with an employment agreement; however, as of this date dues will not be paid for memberships such as the University Club that are not related to a professional organization.

- Payments to charitable events, such as the $2,000 paid to the Barrio Station for 10 people to attend a dinner benefiting youth programs. Total donations for a 25 month period ending July 2003 were $16,500.

- Purchase of airfare of $1,075 for a spouse to attend the March 2002 Metropolitan Information Exchange Conference held in Philadelphia. The airfare has been reimbursed and this practice has been discontinued.

SDDPC has advised that new polices will be presented in January 2004 to the full Board that will address these issues.

Recommendations: Establish policies to require documentation and justification for any expenses paid that are not clearly related to providing computer services.

SDDPC should provide justification for the expenses above or consider reimbursement to the City.

Finding Number 3:

We have started our review of credit card usage and we are finding internal control weaknesses exist. We have not finished our review of credit cards; however, there are two preliminary issues we want to bring to the attention of the Board. Credit cards have been used to purchase personal items which are reimbursed to SDDPC, and we have received information that a cardholder had provided a credit card number to another person for business use.

In some instances, employees have used SDDPC credit card for personal use and then reimbursed SDDPC. SDDPC advised this is monitored and the use is occasional and reimbursements are made promptly.

SDDPC's Credit Card Policy does state "The requester and/or card holder agrees to not misuse the credit card in any way or use it for personal reasons. If the credit card is misused or used for personal reasons, the credit card will be canceled and all rights will be terminated".

SDDPC has advised that new polices will be presented in January 2004 to the full Board that will address'these issues.

Recommendations: Ensure the credit card policy regarding personal use is strictly enforced.

Revise the credit card policy to prohibit cardholders from lending their credit cards to others for any reason.

Finding Number 4

Current policies do not establish' guidelines for amounts spent on employee events, employee recognition, or service awards. Costs of corporate-wide events such as All Hands meetings and picnics during the period July 2001 through April 2003 were $58,483. Individual employee recognitionlaward expenses included a lunch for a staff member and the CEO at a cost of $207.60. Also, 20 year service awards (14 watches) were purchased at a total cost of $2,285.38, an average cost of $163.24.

SDDPC advised the corporate-wide All Hands meetings are used to inform staff of performance in the prior year and goals for the future. At All Hands meetings there were agendas, and no alcohol was sewed. Costs include a breakfast buffet, meeting room expense, and equipment.

The $207.60 lunch was for both a birthday celebration and a discussion of training others if the staff member retired.

The awards policy addresses exceptional performance pay but not years of service awards. SDDPC advised it has been their standard practice to award watches for 20 years of service and the Human Resources staff administers the distribution of awards.

SDDPC has advised that new polices will be presented in January 2004 to the full Board that will address these issues.

Recommendations: Ensure SDDPC establishes a policy with a maximum allowable dollar value for service awards and meals.

Ensure the policies apply to all SDDPC employees, including executives.

We thank SDDPC staff and the Board members for their responsiveness to our inquiries. Information requested has been received promptly and Board members are proactively taking steps to resolve issues identified. I would appreciate a written response to this report within sixty days If you have any questions, please contact me.

Darlene Morrow-Truver
Audit Manager

pc: Mayor and City Council Members
Michael T. Uberuaga, City Manager
P. Lamont Ewell, Assistant City Manager
Rey Arellano, Deputy City Manager
Pat Frazier, Deputy City Manager
Lisa Irvine, Financial Management Director
Les Girard, Assistant City Attorney

SAN DIEGO DATA PROCESSING CORPORATION
RESPONSE TO
INTERIM AUDIT REPORT

Friday, March 12, 2004

Darlene Morrow-Truver
Audit Manager
City of San Diego

SUBJECT: SDDPC Response to City of San Diego Interim Audit Report dated January 9, 2004 Regarding Meals, Travel, and Miscellaneous Expenditures Review Primarily for Fiscal Years 2002 and 2003

SUMMARY:

The Board of Directors of San Diego Data Processing Corporation (SDDPC) approved ten (10) new Finance and Accounting Policies at its January 22, 2004 Board Meeting. The purpose of these policies is to guide the actions of employees in achieving the missions, goals, and objectives of the organization. The objectives of the policies are:

- To ensure that employees operate at the highest standards and avoid any potential conflicts of interest;
- To establish the approval levels for the different types of business transactions within the Company;
- To define and set guidelines as to what expenditures are considered appropriate, reasonable and reimbursable;
- To ensure that SDDPC expenses are cost effective and appropriate in the conduct of the Company's business;
- To establish guidelines for the timeliness of reporting, processing, and reimbursement of appropriate business expenses; and
- To ensure that SDDPC business activities are appropriately documented, reviewed, and approved.

The following new policies became effective January 23, 2004:

- Board of Director Events Policy
  Business Meeting Policy
- Credit Card Policy
- Donations and Sponsorships Policy
- Employee Events Policy
- Finance and Accounting Policies
- Mileage Expense Policy

- Out-of-Town Travel Policy
- Parking Policy
- Professional Dues and Memberships Policy

On February 26, 2004, the Board adopted a Code of Ethics governing employee conduct to address potential conflicts of interest. Moreover, an Ad Hoc Committee on Procurement was established and will be reviewing and proposing amendments to Procurement and Contract policies for approval at the March 25, 2004 Board Meeting.

The key changes that have been implemented as a result of these policies are:

- Requirements for expense reimbursement defined as:
  - Original, detailed, itemized receipt showing each item purchased.
  - Type of expense.
  - Date and location of meeting.
  - Attendees at the meeting and their relationship to the Company.
  - Business purpose of the meeting.
- Maximum per person limits for business meals established at:
  - Breakfast - $15.00
  - Lunch - $20.00
  - Dinner - $30.00
- Reimbursement requests must be submitted within 60 days of incurring the expense.
- Alcohol is not reimbursable.
- Recreational activities, such as golf and sporting events, are not reimbursable.
- Employee only meals require prior written approval.
- Business is to be conducted, as much as possible, during regular working hours on Company premises.
- Offsite meetings require prior written approval on an Expenditure Request Form.
- Employee Event limitation of $25.00 per person per event, up to a maximum of three events per year.
- A maximum expense of $50.00 per person per meeting for Board of Director events.
- Corporate Credit Policy Summary:
  - Company will issue a limited number of Company credit cards to eligible employees who meet the following criteria:

    Must demonstrate the purchase, over a 6 month period, of a minimum of $1,000 per month of business related goods and services on an ad-hoc basis in instances where the regular procurement process is not feasible.
  - Chief Financial Officer will establish the credit limit for each cardholder based on estimated usage.
  - Employees receiving a Company Credit Card are required to read and sign a Credit Card Use Agreement.

- Credit Cards are to be used only by the employee to whom the card is issued.
  - Exception: Procurement is issued a Credit Card for internet purchases.
- Credit Cards are to be used for business purposes only and personal use is not allowed.
- Employees are required to prepare a Credit Card Use Form for each item purchased and provide required documentation.

- Donation and Sponsorship Policy Highlights:
  - Board of Directors will establish a donation and events sponsorship schedule as part of the annual budgeting process.
  - Qualifying donations and sponsorships would include community based organizations that are currently using information technologies or would benefit from the future use of technologies as a means of increasing quality of life, improve the delivery of services from the City of San Diego or improve the communications and experience between the citizen and the City of San Diego and its elected officials.
  - Quarterly report of current Donations and Sponsorships will be provided to the Board of Directors.
- Professional Membership Dues are reimbursable only if there is a direct business requirement and/or benefit being derived by the Company as a result of such membership.

We believe that the above referenced policies establish strict guidelines for SDDPC staff to follow in conducting Company business, more closely align with the City of San Diego standards, and address the recommendations identified below.

Findina Number 1:

SDDPC held senior management off-site meetings, a holiday reception, and other meetings in which alcohol was purchased. Generally, SDDPC practices have not required itemized receipts be submitted for meal expenditures paid by credit card; therefore, we could not determine how often alcoholic beverages were included in meal costs paid by SDDPC. However, in the following instances there were itemized receipts on file, and we found alcohol purchases totaling **$3,108.74.**

Recommendations: Consider reimbursing the City of San **Diego $3,108.74** for costs of alcoholic beverages purchased and **$225.00** for **golf** fees paid.

Establish policy revisions to include prohibiting payment for alcoholic beverages.

Ensure policies related to payment of meals for business purposes include guidelines establishing reasonable costs for meals per person.

Ensure policies establish appropriate expenditure guidelines for Board events.

Require itemized receipts describing items purchased be submitted for all expenses, including meal receipts which have a line item detail of what was ordered.

SDDPC Response:

SDDPC past practices regarding off-site meeting expenses and documentation were consistent with policies in place at that time. Reimbursement to the City will be determined by the Board upon completion of the audit.

As noted in the summary section above, the new Finance and Accounting Policies that went into effect on January 23, 2004 address the findings as follows:

- Prohibit payment for alcoholic beverages;
- Establish maximum per person limits for business meals at:
  - Breakfast - $15.00
  - Lunch - $20.00
  - Dinner - $30.00
- Establish guidelines for Board events;
- Require the following for expense reimbursement:
  - Original, detailed, itemized receipt showing each item purchased.
  - Type of expense.
  - Date and location of meeting.
  - Attendees at the meeting and their relationship to the Company.
  - Business purpose of the meeting.

Finding Number 2:

Various expenses were paid by SDDPC that do not appear related to providing computer services to the City.

Recommendations: Establish policies to require documentation and justification for any expenses paid that are not clearly related to providing computer services.

SDDPC should provide justification for the expenses above or consider reimbursement to the City.

SDDPC Response:

As noted in the summary section above, the new Finance and Accounting Policies that went into effect on January 23, 2004, require detailed documentation and business justification for expenses.

Regarding the various expenses referenced, as part of the overall San Diego business community, SDDPC participates in limited sponsorships and networking activities- to explore potential business opportunities and to keep abreast of local initiatives that may impact future service needs within the City. New policies regarding Business Meetings, Donations and Sponsorships, Employee Events, and Professional Dues and Memberships were adopted on January **22,2004.**

Finding Number 3:

We have started our review of credit card usage and we are finding internal control weaknesses exist. We have not finished our review of credit cards; however, there are two preliminary issues we want to bring to the attention of the Board. Credit cards have been used to purchase personal items which are reimbursed to SDDPC, and we have received information that a cardholder had provided a credit card number to another person for business use.

Recommendations: Ensure the credit card policy regarding personal use is strictly enforced.

Revise the credit card policy to prohibit cardholders from lending their credit cards to others for any reason.

SDDPC Response:

As stated in the summary section above, a new Credit Card Policy became effective January **23, 2004.** The new policy includes the following provisions related to Finding Number **3:**

- Credit Cards are to be used only by the employee to whom the card is issued.
  - Exception: Procurement is issued a Credit Card for internet purchases.
- Credit Cards are to be used for business purposes only and personal use is not allowed.
- Employees are required to prepare a Credit Card Use Form for each item purchased and provide required documentation.

Finding Number **4**

Current policies do not establish guidelines for amounts spent on employee events, employee recognition, or service awards. Costs of corporate-wide events such as All Hands meetings and picnics during the period July **2001** through April **2003** were **$58,483.** Individual employee recognitionlaward expenses included a lunch for a staff member and the CEO at a cost of **$207.60.** Also, **20** year service awards **(14** watches) were purchased at a total cost of **$2,285.38,** an average cost of **$163.24.**

Recommendations: Ensure SDDPC establishes a policy with a maximum allowable dollar value for service awards and meals.

Ensure the policies apply to all SDDPC employees, including executives.

SDDPC Response:

A new service awards policy is being drafted. In addition, maximum per person business meal limits have already been established as follows:

- Breakfast - $15.00
- Lunch - $20.00
- Dinner - $30.00

In addition, guidelines have been established for Employee Events at $25.00 per employee per event to a maximum of three events per year. The Employee Events Policy applies to all SDDPC employees, including executives.

The Board has adopted a Code of Ethics that extends to all employees to prevent any potential conflict of interest.

We thank the City Audit Team for bringing the above findings to our attention. The Board and SDDPC staff have implemented the above referenced policies and will review the policies in July, 2004.

If you have any questions, please contact us.

Board of Directors
San Diego Data Processing Corporation

pc: Mayor and City Council Members
Michael T. Uberuaga, City Manager
P. Lamont Ewell, Assistant City Manager
Rey Arellano, Deputy City Manager
Pat Frazier, Deputy City Manager
Lisa Irvine, Financial Management Director
Les Girard, Assistant City Attorney

AUDIT REPORT

AUDIT OF SAN DIEGO DATA PROCESSING CORPORATION PROCUREMENT, BILLING, AND CREDIT CARD EXPENSE REVIEW

PERFORMED BY

THE AUDIT DIVISION

OF THE

OFFICE OF THE CITY AUDITOR AND COMPTROLLER

DARLENE MORROW-TRUVER
AUDIT MANAGER

Wednesday, June 9,2004

THE CITY OF SAN DIEGO

AUDIT REPORT

Wednesday, June 9,2004

P. Lamont Ewell
City Manager

Board of Directors
San Diego Data Processing Corporation

SUBJECT: PROCUREMENT, BILLING, AND CREDIT CARD EXPENSE REVIEW

AUDIT PERIOD: PROCUREMENT & BILLING FISCAL YEAR 2003
CREDIT CARD EXPENSES – JANUARY 2002 THROUGH JUNE 2003

PURPOSE:

To review the San Diego Data Processing Corporation (SDDPC) policies, expenses, and documentation related to procurement, billings to the City, and credit card and other administrative costs based on allegations received.

BACKGROUND:

On Friday, January 9, 2004, an interim report **(Attached)** was issued which questioned past practices of SDDPC, including reimbursement of alcohol at meals; payments of membership fees and donations not related to Information Technology (IT) services; and weak controls over credit card usage. We extended the scope of our credit card expense review to include SDDPC procurement practices and billings to the City. Subsequent to our interim report, the Chief Executive Officer, Roger Talamantez, resigned and repaid SDDPC for the cost of alcohol, his spouse's airfare, and other miscellaneous costs. On January 23, 2004, the SDDPC Board adopted finance and accounting policies that were designed to strengthen controls over business expenses.

SUMMARY:

The City contracts with SDDPC, a non-profit public benefit corporation, to obtain IT services in the most cost effective manner possible per the operating agreement between the City and SDDPC. Systems maintained by SDDPC are necessary to provide efficient and effective services for the benefit of the citizens of San Diego. SDDPC services to the City include labor, data processing and storage, procurement of computer equipment and consultant services, maintenance of computer equipment, and telephone and network access. Our interim report focused on a sample of credit card expenses. This final report deals with 2 SDDPC areas: procurement and billing, and a more detailed review of credit card and other administrative costs.

DIVERSITY

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A summary of amounts billed by SDDPC to the City and other agencies is as follows:

Billing Description	Billed to the City Fiscal Year 2003	Billed to Other Agencies	% City
Labor hours and fixed cost projects, excluding consultants	$28,664,709	$1,555,341	94.85%
Data processing and storage	$5,015,530	$1,470,471	77.33%
Network Access	$11,405,010	$621,576	94.83%
Equipment & Consultants	$15,742,386	$224,885	98.59%
Equipment Maintenance	$5,699,239	$155,650	97.34%
Telephone fees & maintenance	$8,030,908	$96,469	98.81%
Total	$74,557,782	$4,124,392	94.76%

The amounts billed by SDDPC are based on an annual Rate Agreement (RA) between the City and SDDPC, which establishes the rates paid for each type of service billed. In fiscal year 2003, the City was billed 317,029 labor hours (183 positions) at an average billed rate of $88.47 per hour which is approximately $152,702 annually per full time equivalent employee, based on SDDPC's standard of 1,726 billed hours per year per employee.

Overall, our testing determined internal controls over SDDPC's procurement process, billings to the City, and monitoring of credit card and administrative expenses could be strengthened to ensure services are provided to the City in a more cost effective manner. In the past, SDDPC has not always complied with their corporate policies. Controls and monitoring are required to ensure this does not occur in the future.

The City's and SDDPC's procedures for requesting purchases need to be evaluated and controls strengthened. Generally, the City was billed in accordance with negotiated RA rates; however, $938 of overpayments related to labor billings and some exceptions related to consultant agreements were found. Our review of credit card payments and administrative costs determined these costs have not always been closely monitored, and some expenses have been paid, although there was either inadequate documentation or the business purpose was unclear.

The following is a summary of the findings and recommendations:

SUMMARY OF FINDINGS:

1. SDDPC made payments of $8,671 to vendors that were not in accordance with contract terms and approximately $3,600 lacked documentation or authorization. (Detailed Finding 1)
2. In some instances, SDDPC has not retained sufficient clear documentation. (Detailed Findings 2 and 4)
   a. Policies have not required staff to document and retain purchasing quotes.
   b. Not all documents necessary to verify the accuracy of payments have been retained.
   c. Policies have not required bid documents to be retained so that SDDPC staff can verify contract prices agree to bid prices.
3. SDDPC policies related to procuring goods and services, monitoring contract payments to vendors, and billings to the City could be improved.
   a. The amount billed to SDDPC by vendors for services ordered by the City could not always be traced to the City billings and some labor descriptions billed were different than the descriptions in the RA. (Detailed Findings 5 and 7)
   b. Items not clearly related to IT services were purchased by SDDPC and, in some instances, billed to the City, such as food. (Detailed Finding 6)

c. SDDPC policies allow for significant changes to the scope and dollar value of a contract without a second bidding of the contract. (Detailed Finding 3)
d. A contractor was reimbursed for purchases of alcohol. (Detailed Finding 1)
e. Labor costs of $938 were not in accordance with the RA. (Detailed Finding 8)

4. Some miscellaneous expenses and administrative costs at SDDPC have' not been closely monitored. Also, not all credit card payments had adequate receipts and purposes stated. (Detailed Finding 10)
a. Meal expenditures paid by credit card between January 2002 and June 2003 (18 months) totaled $40,082. The average meal cost was approximately $26. 14% of the 421 meals exceeded $40 per person. (Detailed Finding 9)
b. SDDPC absorbed costs of $369,391 for a fixed cost project which was approved by the City and SDDPC. In is unclear as to who at the City has the authority to approve project agreements. (Detailed Finding 6)
c. Although this is outside of our audit period, SDDPC brought to our attention that unoccupied rental space costs $45,287 monthly. SDDPC advised they are actively working on this and have notified the City's Real Estate Assets Department regarding this issue. (Detailed Finding 12)
d. Additional donations and membership costs were identified. (Detailed Finding 11)

5. The City procedures need to be clarified a) to establish a City-wide standard for the level of authority required to authorize purchases or request services from SDDPC and b) to determine what products or services are allowed to be purchased from SDDPC. (Detailed Finding 6)

SUMMARY OF RECOMMENDATIONS:

SDDPC Recommendations:

1. Analyze payments to vendors and request refunds, if any. (Detailed Finding 1)
2. Refund the City labor costs of $938. (Detailed Finding 8)
3. Establish policies requiring retention of documentation to verify contract prices agree to bid prices, and invoice prices agree to contract prices; and to verify quotes obtained for goods and services. (Detailed Findings 2 and 4)
4. Evaluate the billing process to ensure it provides accurate and clear information to the City. (Detailed Findings 5 and 7)
5. In conjunction with the City, determine appropriate steps to be taken when a request from the City is not clearly an IT product or service. (Detailed Finding 6)
6. Evaluate policies related to bidding "follow-on" contracts (amendments contemplated during the initial bid process) in which costs increase significantly from the initial bid. (Detailed Finding 3)
7. Establish a policy prohibiting reimbursing contractors for alcohol. (Detailed Finding 1)
8. Ensure meal costs are carefully documented and reported to the Board annually. (Detailed Finding 9)
9. Ensure strong internal controls over administrative costs are in place. (Detailed Finding 10)
10. Sublet the unoccupied property as soon as possible or consider if the City could use the premises to offset the cost of overhead paid to SDDPC in the City's negotiated rates. (Detailed Finding 12)
11. Ensure donation and membership costs are specifically related to IT services. The SDDPC Board adopted a policy regarding donations following our interim report. Consider revising the policy to require all memberships and donations be presented to and approved by the Board. (Detailed Finding 11)

City Recommendations:

12. Evaluate policies related to the approval of IT projects. (Detailed Finding 6)
13. Clarify the procurement process for items not clearly related to IT, and ensure that approvals are made by authorized City staff. (Detailed Findings 6 and 8)

Following, is our detailed report which is formatted into 2 major areas. Section A addresses the detailed findings related to our review of SDDPC procurement and billings to the City. Procurement generally includes bidding, administration of contracts, payments to vendors, and monitoring of contracts. Section B addresses the detailed findings related to our additional review of credit card, and administrative costs. In most instances, dollar amounts have been rounded to the nearest dollar.' Our detailed findings and recommendations are as follows.

A. SDDPC PROCUREMENT AND BILLING TO THE CITY

PURPOSE:

1. To verify that goods and services are bid in accordance with SDDPC policies, contract prices agree to bid prices, and contractor invoices agree to the contract prices.
2. To verify payments for goods and services are adequately documented and billed correctly to the City.

METHODOLOGY:

1. Obtained electronic files of all payments made to SDDPC vendors, by check, for fiscal years 2002 and 2003, which totaled $60,026,121 and $46,483,458 respectively.
2. Selected 4 out of 12 contracts exceeding $1,000,000 to verify if contracts were bid, if contract terms agreed to the bid, and if payments agreed to the contract terms. Payments to the 12 contractors totaled $20,501,826 in fiscal year 2003. Invoices totaling $2,280,750 (I1%) were compared to contract and bid prices.
3. Selected a sample of 65 items totaling $815,939 (3%) out of $25,981,632 paid to 931 vendors who each received less than $1,000,000 from SDDPC in fiscal year 2003; requested quotes and contracts for the sample items, if appropriate; compared the invoice to the contract or purchase order terms; and reviewed the documentation attached to the checks in SDDPC Accounts Payable records. The sample included purchase orders, contracts, and miscellaneous payments for food, supplies and services.
4. Compared the rates billed to the City for services under the RA to the rates in the RA for fiscal year 2003. Of the $74,557,782 billed to the City in fiscal year 2003, we tested $36,643,612 (49%). This included $28,048,129 of labor billed; $3,007,593 of data processing and storage billed; $1,077,662 of leaselmaintenance billed; and $4,510,228 of telephone charges billed.
5. If the invoices selected for testing were directly billed to the City (not overhead), the amount billed was compared to the amount invoiced.

Finding Number 1

Payments have been made to vendors that were not in accordance with contract terms or without sufficient documentation such as receipts, attendees at meals, and business purposes. 7 of the **65** items tested **(11%)** had written agreements other than a purchase order (contract or MOU). Of these, 2 vendors were overpaid **$8,671** and costs totaling approximately **$3,600** were unclear as to why they were reimbursed. SDDPC billed the City for work performed by the contractor, EMA. The City was notdirectly billed for work performed by the contractor, SA Ventures. SDDPC advised the SA Ventures costs were excluded from budgeted costs when negotiating rates with the City.

a. On 12/13/02, SDDPC issued check number 30439 to EMA, a consultant. The check included $28,612 for reimbursable expenses of which $6,661 (23%) were reimbursed although they were not allowable under the contract terms, which limited reimbursements. This included $3,780 for airfare exceeding $400 per trip without approval documented; $2,022 for meals exceeding the maximum of $50 per day; $682 for rental car expenses exceeding $50 per day; $75 for expenses not listed as reimbursable under the contract; $58 computed incorrectiy; and $44 for hotel expenses exceeding $200 per day. For example, on 9110102, a dinner costing $230 was reimbursed. The expense reports submitted by the consultant did not justify the amounts, which exceeded the allowable contract amounts.

   Also, approximately $3,400 (11%) in expenses paid were not addressed under the contract terms, such as parking reimbursements, or lacked documentation such as receipts. In addition, the EMA CEO billed $2,000 for 8 hours ($250/hour). The maximum hourly reimbursement per the contract was $225 an hour. EMA was overpaid $200 for labor.

   SDDPC advised they discussed meal reimbursements requested by EMA, which exceeded the contract amounts, with the City departmentprior to making payment. SDDPC advisedthat they have not reimbursed amounts exceeding the contract limits since June 2003; however, they have not requested that EMA refund prior overpayments.

b. SA Ventures' president submitted monthly requests for reimbursable expenses related to marketing SDDPC technology to other government agencies. Per Exhibit B of the contract, hotel, air expenses, parking, auto rental, phonelfax, and meals ($50 per day maximum) were reimbursable. Additionally, itemized receipts were required for all expenses greater than $25. The first contract amendment signed June 7, 2001, stated that the schedule of reimbursable expenses shall be amended to include "Consultant shall not be reimbursed for expenses exceeding $2,500 per month." The limits on meals reimbursements, etc. were not revised at that time. A review of 2 invoices paid directly to the president and 3 invoices paid to SA Ventures disclosed the following:
   - Expenses of $950 not allowable under the terms of the contract were paid to SA Ventures for the period from June 21, 2002, to August 20, 2002 This amount included meals exceeding $50 per day. Of the $950, $314 (33%) was for alcoholic beverages.
   - In addition, $286 was questionable because itemized receipts were not submitted.
   - In all but 1 instance, the names of attendees at meals and the business purpose/benefit was not stated.

In addition to reimbursable expenses, we noted SA Ventures' president was an attendee at 4 meals paid by a SDDPC credit cardholder. The average meal cost per person at these meals was approximately $79.

Reimbursements of $8,318 were made to SA Ventures for the last 2 months of the contract period. The maximum allowable reimbursement is $2,500 per month. We noted some of the expenses being reimbursed related to prior periods; however, from the documentation attached to the payment we could not determine if prior period reimbursements were within the $2,500 monthly limit. SDDPC advised they have carefully reviewed SA Ventures' reimbursements. This was evident when we reviewed a check dated December 20, 2002, payable to SA Ventures which had expenses disallowed by SDDPC staff. The contract ended January 15, 2003.

$860 was paid to SA Ventures' president for video cameras purchased. These expenses were not reimbursable under the terms of the contract. We asked if the cameras were returned to SDDPC, and staff were unable to verify this.

c. Payments were made by SDDPC without receipts. When asked, SDDPC obtained copies of receipts from the vendor and the amounts invoiced agreed to the amounts paid. However, strong internal controls require all payments be documented with itemized receiptsat the time of payment. Payments in our sample without receipts included the following:
- $1,451 payment for service awards purchased at Things to Remember.
- $565 payment for service awards purchased at Tinder Box.
- $300 to Clairemont Car Wash for SDDPC vans.

Recommendations Related to Finding Number 1

SDDPC Recommendations:

a. Request repayment of $6,661 paid to EMA for disallowed reimbursable expenses and $200 in labor exceeding the contract terms and reimburse these amounts to the City Department.

b. Request repayments of $950 in costs exceeding the reimbursable limits from SA Ventures and the $860 spent on equipment.

c. Analyze all payments to SA Ventures, its president, and to EMA to determine whether labor costs and reimbursements were within the contract terms and contract limits. Request a reimbursement from the vendors for overpayments, if any are found. Provide this schedule with documentation to the City. Submit refunds from EMA, if any, to the City Department.

d. Design appropriate controls to ensure payments are made in accordance with policies and contracts. Also, if requests are received from City staff to make payments not in accordance with contract terms, do not make payments, unless the contract terms are amended or proper support is received.

e. Establish a policy prohibiting reimbursement for alcoholic beverages to contractors.

Finding Number 2

Documentation was not available for bids or sole source status in **1** of **4** contracts reviewed that exceeded **$1,000,000,** and documentation of quotes were unavailable for any other purchases. Retention policies are not in place to ensure documentation is retained for a sufficient period of time.

a. We requested documentation for a current contract that was bid in 1996. SDDPC advised that documentation for the analysis of the respondents to the RFP was not retained due to length of time since the bid. Not all services from the audited contract in place could be traced to the bid document, due to not all documents being available. Some services priced in the contract' were traced and agreed to the bid price.

b. SDDPC procurement policies state that quotes are recommended for items less than $100,000 and required for items between $100,000 and $1,000,000. Checks in our test sample were for items under $100,000, recommending but not requiring quotes. However, 4 of these checks were related to 4 purchases orders, which each exceeded $100,000. Documentation of quotes was unavailable for any of these items. We would have expected some quotes to have been obtained.

Recommendations Related to Finding Number 2

SDDPC Recommendations:

a. Revise procedures to ensure that documentation is retained, that staff verify contracts agree with bids, and that purchases have been made at a reasonable cost.

b. Establish document retention policies and ensure they meet any legal requirements.

Finding Number 3

Amendments to a "follow-on" contract (amendments contemplated during the initial bid process) increased the contract amount from **$376,450** to an amount exceeding **$4** million dollars. Documentation provided to the Board for these amendments did not clearly state the justification for not considering additional bids. Also amendments to a contract for **$84,600** increased the contract amount to over **$100,000** without additional quotes. Documentation was not provided in this instance clearly stating the Board had waived the policy.

a. A vendor was awarded a contract for $376,450 in August of 2000 for review of installation, billing and maintenance management consulting services for Water and Metropolitan Wastewater Departments. SDDPC issued an RFP which indicated a "follow-on" contract may result from the initial bid. Two responses to the RFP were submitted to the Board and the contract was awarded to a vendor. Prior to July 2001 two amendments were approved for this contract increasing the total by $469,071. Then in July 2001, a third amendment to the contract increased the total amount to $4,309,155. The amendments substantially increased the scope and dollar amount of the project. SDDPC advised the decision not to rebid the contract was due to the experience gained by the vendor and, due to this, they were considered a sole source. The Board approved the bid and the contract amendments. However, the memo to the Board did not state this was a sole source amendment to the

contract or why the contract was not rebid. Even though this was approved by SDDPC, a review of current policies may be warranted to consider requiring a possible second bid when the contract amendments are over a certain percentage increase.

b. A contract entered into with a vendor dated, March 21, 2001, did not require competitive pricing as the contract maximum compensation was originally $84,600. Subsequent amendments approved by the Board caused the maximum compensation to exceed $100,000. SDDPC advised quotes were not required or obtained from other vendors. However, the SDDPC procurement policies state that "If the combined dollar aggregate for any system or project pushes the awarded dollar value to a single vendor over the dollar threshold maximum, then the solicitation method moves to the next threshold's requirements." anddocumentation' was not provided indicating whether the Board specifically waived the procurement policy.

Recommendations Related to Finding Number 3

SDDPC Recommendations:

a. Evaluate the policy of not requiring new bidding of contracts which significantly increase in percentage.

b. For existing contracts that are subsequently amended, causing the dollar threshold to exceed the amount requiring quotes, a) ensure staff complies with the policy to obtain additional quotes, or b) clearly indicate to the Board that the contract is a sole source, what the criteria is for this, and indicate to the Board that the procurement policy is being waived and why.

Finding Number **4**

In our test sample, we were unable to recompute and verify the accuracy of some of the amounts invoiced by vendors based on the documentation provided by SDDPC Therefore, we concluded that in some instances, SDDPC is not verifying that the amounts invoiced by vendors are accurate.

a. AT&T invoiced SDDPC $234,295 on invoices 4908846, 4908847, and 4908848 in February 2003. A total of $151,502 (65%) was traced satisfactorily to the contract. We were unable to recompute the remaining $82,793 (35%) to verify billing accuracy due to the lack of documentation provided by SDDPC.

b. We compared invoices to the contracts and purchase orders for 3 vendors who provided temporary labor to SDDPC totaling $897,035 in fiscal year 2003. In 1 instance, both the contract compensation schedules were blank and the purchase order did not include the total hours to be worked by each contract employee. Documentation to support the contract hourly rate for one contract employee selected for testing could not be provided. SDDPC staff has advised that SDDPC Human Resources would provide additional information to us to document the rates paid.

c. Within our test sample, an invoice from the City of Inglewood for processing out of state citations did not indicate the quantity of citations processedor the unit cost. A copy of the agreement was requested to verify the unit pricing. Neither SDDPC or City of San Diego staff had the agreement. SDDPC staff stated the service was added after the MOU between the

City of Inglewood and SDDPC was finalized. Also, the invoices were approved by the City of San Diego department prior to payment. Although we were able to obtain a letter from Inglewood documenting their fees for each citation, documentation should be retained at SDDPC to ensure billings can be verified prior to payment.

Recommendation Related to Finding Number **4**

SDDPC Recommendation:

Review payment procedures and ensure there is adequate documentation to verify the invoiced amounts paid by SDDPC agree to the contract amounts, and that the documentation is retained.

Finding Number ***5***

Billings to the City could not always be clearly traced and therefore, we were not always able to verify whether invoices were correctly billed to the City. Some examples are below.

a. SDDPC contracts with a vendor, the City of Inglewood, to provide ownership information for parking citations issued to out of state vehicles. Inglewood invoices SDDPC. SDDPC then bills the City of San Diego at cost plus a 6.7% procurement handling fee. In fiscal year 2003, the City of San Diego was billed a total of $14,783. We selected an invoice dated December 2, 2002 to compare the amount invoiced by the City of Inglewood, plus the surcharge, to the amount billed the City of San Diego. The amount billed by the City of Inglewood to SDDPC was $4,393. The surcharge is $294. There was no billing for $4,687. The billings do not cross reference the invoice paid; therefore, we could not determine which invoices the City of San Diego was billed for.

b. In fiscal year 2003, Tek Systems Consulting billed SDDPC $412,274 for labor (excluding training costs) which included a surcharge of $29,089. Based on the billingfor September 15, 2002, the amount billed was approximately $1,920 greater than the actual invoice and surcharge amount. The billings do not cross reference the vendor's invoice number or check number.

SDDPC advised cross referencing the original invoice number to the billing would require additional staff and system modifications.

Recommendations Related to Finding Number **5**

SDDPC Recommendations:

a. Evaluate, in conjunction with the City, the billing process to ensure billing information is clear and adequate.

b. Review billings to Tek Systems and provide an explanation of the amounts billed on September **15,** 2002.

Finding Number 6

Procedures in place at SDDPC and the City could be improved to ensure that all goods and services requested by the City are allowable and appropriately authorized by the City. In addition, policies could be clarified in the area of Board and City Manager approval for exceptions to the Rate Agreement (RA) or projects approved outside of the RA.

a. 11 checks totaling $4,023, made payable to delislrestaurants, were selected for testing. Of these, SDDPC paid the following 2 delis for food at trainingl meetings attended by City employees. SDDPC then billed the City. SDDPC advised that City employees had requested this from SDDPC. At City meetingsltraining food should be requested through the normal City process, not SDDPC.

- Eat Your Heart Out Deli invoiced SDDPC for $172 on 3/23/03 and SDDPC billed the Water and Metropolitan Waste Water $183 (6.7% surcharge) on Service Request (SR) 30039659. No documentation was attached to the SDDPC payment to the deli describing the purpose of the meeting or who attended.
- Brothers Restaurant and Deli invoiced SDDPC for $658 on 5122103 for breakfast and lunch for 3 days (6 meals) and SDDPC then billed the Water Department $702 (6.7% surcharge) described on the billing as "Technical Training Charges". There were 15 attendees; 13 of which were City employees.

b. An invoice for $850 was billed by Columbia Ultimate Business Systems for attendance by 2 City employees at an in-town Annual Government Collections Conference. The City was then billed approximately $907 with surcharge.

c. City procedures require Information Technology and Communications Department (IT&C) approval to be obtained for purchase of non-standard equipment. 22 digital cameras were purchased at a cost of $9,030 through SDDPC by Field Engineering. Documentation provided by SDDPC indicated the Field Engineering department's Information Systems Analyst (ISA) had approved this purchase, not IT&C staff. The SDDPC records do not indicate whether requests are standard or non-standard at the time of purchase.

d. Adequate controls were not in place at the City or SDDPC to prevent unauthorized mainframe access, as well as, to prevent unauthorized employees from placing an order for IT services. The process to obtain authorization for placing an order for IT services is as follows:

- Employee requests access to place IT orders online from IT&C
- Upon IT&C approval, SDDPC issues the user access to order IT goods and services on-line.

Procedures are not in place at IT&C to ensure the employee's department has authorized the employee to place orders. As an audit test of the system controls, an Audit Division employee submitted a request for access, and it was granted. The Auditor's ISA did not authorize this and was not contacted by IT&C or SDDPC staff for verification. The employee was contacted directly by SDDPC and permitted access to place orders. Subsequently, an order to access a secure mainframe application was placed by the newly assigned user, and no one questioned the order.

e. SDDPC and the City authorized a fixed cost project for voice and data telecommunication connectivity. SDDPC advised us the cost of the project was $708,681 and the City paid $339,290 (48%). The budget document dated May 24, 2002, stated SDDPC would absorb the costs over budget. Project costs absorbed by SDDPC may lead to higher rates for other services at the City. A review of policies and approvals necessary for fixed cost projects should be undertaken by the City and SDDPC.

f. $4,389 for a deposit and monthly rent related to space leased for telephone wiring at a City facility was paid by SDDPC in fiscal year 2003 per the Project Charter. The 2003 RA specifically states facility expenses are a client funded expense. Policies should be clarified and exceptions to the RA should be noted within the Project Charter (project agreement) when' approved.

g. Purchases by Mayor and Council Districts during the period from July 1, 2002, to January 4, 2004 were reviewed and found to be in accordance with policies. The Mayor and Council Districts do not have ISAs as other City Departments do. The process for procurement of IT services for Departments without ISAs should be clarified.

Recommendations Related to Finding Number **6**

SDDPC Recommendations:

a. In conjunction with the City, review procedures to add users who are authorized to request purchases. Provide written confirmation to the requesting City departments when a new user is added.

b. Ensure appropriate approval is obtained from the City if there are exceptions to the RA in Project Charters (project agreements).

City Recommendations:

a. Clarify and communicate procurement policies for all City purchases. Ensure food for City trainingIlmeetings is not purchased by SDDPC and billed to the City. Reimbursement for food is to be paid though the City process.

b. Clarify whether items not clearly related to IT, such as cameras, should be purchased through SDDPC.

c. In conjunction with SDDPC, review policies and approvals for fixed cost agreements.

d. Review policies to determine if Council approval of IT projects exceeding a certain dollar threshold is necessary.

Finding Number 7

The description of labor in a large portion of the SDDPC weekly bills that are sent to the City differed from the description in the RA. In order to accommodate various City Departments needs, descriptions for labor billings did not always relate to the description in the RA. We were unable to confirm all labor was billed in accordance with the RA due to this factor.

SDDPC advised the billing titles were more detailed than the titles in the RA. SDDPC provided us a list of the titles billed that were equivalent to titles in the RA and explained

- The billed titles are tied to the tier titles in their system.
- The billing was designed based on requests of the City Departments.
- The Departments understand how the titles used tie to the RA.

We notified the Information Technology and Communications Department (IT&C) of the differences. Several times we were advised by SDDPC that City employees review SDDPC billings as a control to ensure the City is billed correctly. We cannot determine how City employees could verify that the labor rates billed were correct when the billing titles did not match the RA titles. We suggested the billing titles be added to the RA document; SDDPC advised they would look into this option.

Recommendation Related to Finding Number 7

SDDPC Recommendation:

In conjunction with the City, evaluate the billing information provided to the City to ensure billing descriptions are adequate for the departments to compare billing rates to RA rates.

Finding Number 8

Labor billings exceeded the Rate Agreement amount by **$322** for a temporary employee and **$616** for a permanent employee in fiscal year **2003** for a total overpayment of $938.

Our analysis of temporary labor costs exceeding the RA amount disclosed 1 instance in which labor billed in fiscal year 2003 was based on the Programmer Analyst II rate for fiscal year 2004, not 2003, and 3 instances in which the higher billing rate was authorized by the departments. An Information Systems Administrator authorized one of the rates, an Associate Engineer authorized the other, and an authorization for the third was not on file though during the audit the Department'confirmed they had agreed to the rate. Under normal circumstances, SDDPC bills the City the higher of the RA or actual cost plus a 6.7% surcharge.

Description		Temporary Position Title Billed		
	Programmer Analyst V	Programmer Analyst II [2]	Programmer Analyst IV	GIS Analyst V
Equivalent Position per SDDPC	Principal Analyst II	Programmer Analyst	Principal Analyst I	Principal Analyst II
Hourly rate invoiced by the employment agency to DPC	**$85.40**	**$31.25**	**$97.50**	**$91.50**
Actual cost invoiced + surcharge of .067	**$91.12**	**$33.34**	**$104.03**	**$97.63**
RA Hourly Rate	**$114**	**$66**	**$97**	**$114**
Actual Hourly Rate Billed to City	**$124**	**$69.13**	**$108.50**	**$150**
Comparison [1]	$10	**$3.13**	**$4.47**	**$36**
Hours Billed in fiscal year **2003**	**1,896**	**103**	**895**	**144**
Total Billings exceeding Rate Agreement	Authorized	**$322.39**	Authorized	Authorized

Footnotes:

[1] If the RA was less than the actual cost plus the surcharge, the comparison was between the actual cost plus surcharge and the actual billed to the City; otherwise, the comparison is the RA rate and the actual rate billed to the City.

[2] The Programmer Analyst II billings were for the period between 5/11/2003 and **613012003.**

In addition, 1 permanent employee billed 38.5 hours at $16 an hour more than the RA rate of $114 per hour, resulting in an overpayment totaling $616. The employee billing description was SAP Technical Analyst. The equivalent RA position per SDDPC is a Principal Analyst II. When asked to explain the difference, we were advised the permanent employee had technical skills that warranted the additional charge.

Recommendations Related to Finding Number 8

SDDPC Recommendation:

Request SDDPC refund to the City department the overpayments of $938.

City Recommendation:

Determine what the appropriate level **of** authority should be at the City **to** approve higher billing rates for labor and communicate this to SDDPC and City employees.

B: CREDIT CARD AND MISCELLANEOUS ADMINISTRATIVE COSTS

PURPOSE:

To complete the review of credit card expenditures on costs of meals, travel, and other miscellaneous expenses not billed directly to the City but impacting negotiated rates between the City and SDDPC. These additional findings and recommendations are based on the additional testing in this area which was completed after the interim report.

METHODOLOGY:

1. Obtained all cardholder credit card statements from January 2001 through June 30, 2003.
2. Classified the expenses as meals, travel, or other miscellaneous types.
3. Reviewed employee travel expenses.
4. Reviewed other miscellaneous administrative expenses.
5. We reviewed 1,097 credit card transactions between January 2002 and June 2003 totaling $318,489. Based on the documentation provided, the credit card transactions were classified by expense type such as meals, travel, etc. For each expense type, we reviewed the related policies and tested some transactions to determine if the expenses were adequately documented. The expenditures (rounded to the nearest dollar) were as follows:

Credit Card Expense Type	Expense Amount *	Percent of Total
Supplies and services	$122,632	38.5%
Training	$91.108	28.6%
In town meals	$40,082	12.6%
Employee Events	$28,165	8.8%
Travel	$19.960	6.3%
Other misceilaneous	$10.812	3.4%
Fuel	$1.967	.6%
Florist	$1.867	.6%
Expenses reimbursed to DPC	$1,057	.3%
Finance Charges / Late fees	$839	.3%
Total	$318,489	100%

*In some cases, amounts may **have** been reimbursed at a later date.

Finding Number 9

Meal expenditures paid by credit card between January **2002** and June **2003 (18** months) totaled **$40,082.** The average meal cost per attendee was approximately **$26** based on meal expenses over the **18** month period; however, approximately **14%** of the **421** meals purchased had a cost per attendee exceeding **$40** per person. The purposes of meals, if provided, did not explain why it was necessary to conduct business at a restaurant. Revised SDDPC policies now limit reimbursements to **$15** for breakfast, **$20** for lunch, and **$30** for dinner and require manager's approval for off-site meetings.

During an 18 month period, 5 staff members' credit card expenditures for meals exceeded $1,000 which represents 97.2% of the total meal expenses incurred in the period.

Position	Amount'	Percent of Total
Chief Executive Officer	$15,069	37.6%
Director	$12,023	30.0%
Chief Operating Officer	$5,089	12.7%
Manager	$4,596	11.5%
Director	$2,155	5.4%
Total	**$38,932**	**97.2%**

* Some refunds for personal use of the card may have been made.

In our interim report we brought to the Board's attention purchases of alcohol and the lack of itemized receipts for meals. SDDPC revised their policies and no longer permit payment for alcohol. Itemized receipts are required for meals. Also, SDDPC advised Mr. Talamantez repaid costs of alcohol identified in our interim audit report.

The justifications for meal expenditures were not specific. For example, the stated purpose of a $237 meal at Busalacchi's attended by 3 DPC employees on June 13, 2002, was "strategy meeting". In 53 instances, no purpose was stated.

We also classified the meals based on who attended the meal (employees only, outside contractors, etc.) The results of the review are as follows:

Attendees	Amount	Percent of Total Meal Cost	No. of Meals*	Average Cost per Attendee
SDDPC Employees only	$12,597	31.4%	139	$28.22
Not documented	$11,590	28.9%	89	Not applicable
SDDPC Employees & Outside Contractors	$5,685	14.2%	65	$30.75
City & SDDPC Employees	$5,027	12.5%	72	$19.58
SDDPC Employees & Board Members	$3.870	9.7%	52	$30.96
Spouses	$1,313	3.3%	4	$77.23
Total	$40,082		421	

*These are the number of credit card transactions for meals. **1** transaction may include several meals.

In addition, the documentation for some meals, paid by check, was not sufficient to explain what the purpose of the meal was, who attended, and whether the City was billed.

- $502 was invoiced to SDDPC by Scotts Gourmet Sandwiches on 10/10 and 10/11/02. The purpose was listed as PMO training class. Of the 13 attendees, 12 were City employees. We could not determine if this was subsequently billed to the City or paid by SDDPC.
- Design Center Deli invoiced SDDPC for $201 on 6/27/02 and $357 between 10/28/02 and 10/30/02. Although the notations on the invoices stated Performance meeting training and Sunone Portal class, we could not determine from the documentation if this was City training or SDDPC training and who attended.
- A payment of $257 to Submarina on 6/5/02 noted lunch for PMO training but did not include a list of attendees.
- $658 was invoiced by Westgate Hotel for 4 meetings. The purpose was stated as "org issues". No attendees were listed.

The SDDPC policy has been revised to require business be conducted during working hours on company premises whenever possible. Off-site meetings require prior approval.

Recommendations Related to Finding Number 9

SDDPC Recommendations:

a. Consider requiring an annual report of meal expenses be made to the Board to ensure all employees comply with the revised policies andadministrative expenses are closely monitored.

b. Ensure adequate documentation of all expenses paid, including attendees and business purpose, is retained.

Finding **Number 10**

Credit card payments were not made in accordance with SDDPC policies which required receipts and a credit card form be submitted stating the business purpose of the expense. Credit card expenses incurred by executives included payments of **$450** for big screen television rentals; $1,867 to florists; $1,089 for additional membership fees and events; $1,382 for an executive physical; $258 for Christmas cards; $893 for employee internet services; and **$852** for furniture rental. The required forms were not always submitted and payment was made regardless of this. Strong internal controls require all expenses be documented, accompanied by receipts, and purposes for the expenditure. SDDPC advised credit cards have been reduced from **14** cards to 3 cards used by Procurement, Training, and Administrative staff.

a. Approximately 55% of the items reviewed had only credit card vouchers and did not have itemized receipts documenting what was purchased. The required credit card request forms were not submitted for most meal and executive travel expenses, although in many instances the credit cardholder wrote the names of attendees and a purpose on the credit card voucher. However, this information was sometimes illegible, and did not adequately explain the necessity of the off-site meal.

b. Expenses of $450 incurred for big screen television rentals in January of 2002 and 2003 had no receipts attached. SDDPC advised this was for 1 of 3 Senior Management events held each year and it was at Mr. Talamantez's residence on the day of the Superbowl. Also, Mr. Talamantez was reimbursed $690 for food. The deli bill attached to the reimbursement request was addressed to Mr. Talamantez at his home and stated, Superbowl January 26, 2003.

c. Florist costs were $1,867. Seven purchases totaling $624 had no purpose stated. Other costs were documented as funeral arrangements; some related to SDDPC employees and some to City employees. SDDPC staff advised they had reviewed all florist charges and found them appropriate and authorized.

d SDDPC staff advised a payment to Scripps for $1,382 was allowed for an executive physical under the terms of Roger Talamantez's employment contract. No receipt was provided, therefore, we could not confirm the amount was paid for a physical examination or who received the services. In addition, the contract limited the reimbursement amount to $1,000. SDDPC recently advised us that Mr. Talamantez did reimburse DPC for the $382 over the contract amount. The reimbursement was not made until after the date of our interim report.

e. According to SDDPC staff, furniture and apartment rental costs totaling $10,435 for the Chief Technology Officer were paid over a six month period because SDDPC requested the employee not commute to his primary residence in Riverside. The purpose was to encourage him to relocate his residence to San Diego. The apartment rentalbegan in March 2002, 24 months after his date of employment.

f. Of the $1,967 paid for fuel by credit card, $1,883 was charged by Mr. Talamantez over an 18 month period which was in addition to his car allowance of $450 per month. Also, parking expenses of executive staff were paid by SDDPC. We reviewed a check issued September 13, 2002, to Ace Parking. The monthly fee paid for 21 parking permits was $2,835 or $135 per person. SDDPC advised us that they no longer reimburse fuel in addition to a car allowance.

g. The annual percentage rate on the credit card was 14.99%. Late fees paid were $839. SDDPC advised this occurred due to holding payments until documentation was provided by cardholders. Revised policies now require the credit cardholder to pay all late fees.

Recommendations Related to Finding Number 10

SDDPC Recommendations:

a. Ensure expenditures of public funds are appropriate, not excessive, and have a clear business purpose.

b. Develop and formalize procedures to ensure strong internal controls over administrative expenses are in place so that costs for items such as Superbowl events will be identified and not reimbursed. Monitor and report administrative costs to the Board periodically.

c. Ensure that the accounting staff requires employees, including executives, comply with all policies.

City Recommendation:

Determine if the expenditure listed above, such as the Superbowl television rentals and deli bill are an appropriate use of public funds. If not, take appropriate action.

Finding Number 11

In addition to memberships and donations identified in the interim report, the following payments for memberships and donations to non-profit organizations were made. A revised policy on donations was adopted in January 2004. The policy is broad in that it permits donations to community-based organizations using information technology or organizations that would benefit from technology in the future.

a. $388 was paid to the Rotary Club by SDDPC. This included $360 for annual dues. The remainder was for miscellaneous costs. All payments to the Rotary Club in fiscal years 2002 and 2003 totaled $1,300.

b. In addition to the membership fees previously reported, SDDPC paid an annual fee of $400 for Roger Talamantez's membership in the Corporate Directors Forum. Also, we noted an annual membership of $400 and a Summer Social fee of $140 was paid for a Corporate Director.

c. SDDPC paid a credit card bill submitted for Roger Talamantez that included expenses of $2,500 to San Diego State University Development with no documentation attached. When asked, SDDPC staff stated the purpose of the payment to San Diego State University (SDSU) was for discounts on employee training courses. We asked, but did not receive, documentation that the $2,500 was for discounted classes.

We contacted SDSU to confirm the purpose of the payment. They provided documentation that the $2,500 payment was a fee of $480 for a dinner event, the Alumni Association Monty Gala (which recognizes outstanding alumni), and a $2,020 unrestricted donation to the Foundation. The dinner cost was for 8 persons, or $60 per person. This donation was not on

the list of budgeted donations provided to us by SDDPC staff. The payments for discounted employee training classes at SDSU were by check and for a different amount than the credit card amount. In addition, a SDSU Alumni membership fee of $35 was paid by credit card.

Recommendation Related to Finding Number **11**

Request SDDPC to further review its policies regarding memberships and donations to ensure that when using public funds the membership or donation is related to providing IT services. In addition, require memberships and donations be itemized and approved in the annual budget.

Finding Number 12

Other miscellaneous administrative costs that came to our attention are as follows:

a. Bonuses paid to executives in FY 2003 ranged from $5,000 to $37,500 and totaled $147,650.

b. Rental payments of $45,287 monthly or $543,444 annually are paid for office space at 3950 Calle Fortunada. The office space has been vacated since March 1, 2004 due to consolidations and the lease expires November 2008. SDDPC advised they are actively working on this and have notified the City's Real Estate Assets Department regarding this issue.

c. Fiscal year 2003 payments to Custom Coffee Plan for refreshments and supplies which include first aid items were approximately $17,750. SDDFC advised they are reevaluating items being purchased.

Recommendation Related to Finding Number 12

Work with SDDPC to sublet the leased property as soon as possible. Due to the increased overhead costs incurred by the City due to this lease, if the property is not sublet within 3 months, consider whether it would be prudent for City staff to utilize the property to offset the overhead costs passed to the City.

I would appreciate a response to the detailed recommendation in this report within *sixty* days. If you have any questions, please contact me.

Darlene Morrow-Truver
Audit Manager

CITY OF SAN DIEGO
MEMORANDUM

DATE: September 10,2004

TO: Darlene Morrow-Truver, Acting Assistant Auditor & Comptroller

FROM: Rey Arellano. Deputy City Manager & CIO

SUBJECT: Audit of San Diego Data Processing Corporation Procurement, Billing, and Credit: Card Expense Review

REFERENCE: Audit Division Audit Report Dated June 9,2004

This memorandum provides the City Manager's response to the "Audit of San Diego Data Processing Corporation Procurement, Billing, and Credit Card Expense Review," dated June 9, 2004. In addition to the review of San Diego Data Processing Corporation (SDDPC) practices, the Audit Report presents several recommendations for the City regarding its policies and procedures in the area of IT procurement. The City appreciates the work of the Auditor staff in providing its thorough review and objective assessment.

Attachment #1 contains the responses to City-specific recommendations, which are summarized below:

- Evaluate policies related to the approval of IT Projects (Finding G).
- Clarify the procurement process for items not clearly related to IT, and ensure that approvals are made by authorized City staff (Findings 6 and 8).
- Miscellaneous recommendations for the City (Findings 10 and 12).

Additionally, Attachment #2 contains City actions in support of recommendations directed to SDDPC.

The point of contact for questions is Diane Norman (619.533.4757 or DNorman@sandiego.gov) or myself (619.533.6565 or RArellano@sandiego.gov).

Rey Arellano
Deputy City Manager & CIO

Attachments:

1. Response to Auditor's Findings
2. Additional City Actions

cc: P. Lamont Ewell, City Manager
George Loveland, Assistant City Manager
Patricia Frazier, Deputy City Manager
Terri Webster, Acting Auditor & Comptroller
Lisa Irvine, Director, Financial and Management Services
Paul Edmonson, Deputy City Attorney
Conny Jamison, Chairperson, San Diego Data Processing Corporation
Tom Fleming, President & CEO, San Diego Data Processing Corporation
Don Del Rio, Corporate Counsel, San Diego Data Processing Corporation
Joyce Russell, Chief Financial Officer, San Diego Data Processing Corporation

Response to Auditor's Findings

This attachment contains the City Manager's response to City-specific recommendations identified in Findings 6, 8, 10 and 12 of the Audit Division Audit Report dated June 9, 2004.

Finding Number *6*

"Procedures in place at SDDPC and the City could be improved to ensure that all goods and services requested by the City are allowable and appropriately authorized by the City. In addition, policies could be clarified in the area of Board and City Manager approval for exceptions to the Rate Agreement (R4)or projects approved outside of the RA."

Audit Recommendations for the City	Manager's Response
a. Clarify and communicate procuremcnt policies for all City purchases. Ensure food for City training/meetings is not purchased by SDDPC and billed to the City. Reimbursement for food is to be paid through the city process.	Concur. While policies are documented. and procedures periodically reviewed, the City can more effectively communicate the procedures. The following action will be taken: 1. Communicate in writing to departments, SDDPC and other vendors that food for City trainings and meetings cannot be purchased by SDDPC/vendors and billed to the City. Purchases by the City for food must follow the City's Administrative Regulation 95.40 (In-town Reimbursable Expense). 2. Update the SDDPC Information Systems Reference Guide and SDDPC Service Level Agreement to include references to the City's Administrative Regulation 95.40 (In-town Reimbursable Expense). 3. Review procurerncnt policies and procedures at the September 8 2004 ISA Quarterly meeting. 4. Provide copies of applicable policies and procedures related to IT procurement on the City's *Intranet* when the site is upgraded. which is estimated to be completed in October 2004.
b. Clarify whether items not clearly related to IT. such as cameras. should be purchased through SDDPC.	Concur in general that items not related to IT should not be purchased through SDDPC. However. in some circumstances it may be appropriate for these items to be acquired as part of a larger IT procurement, such as digital cameras for a sewer pipe monitoring system, or an ID badge system. The current procedure for purchasing non-standard items through SDDPC service requests requires IT&C approval. The City will confirm that

Audit Recommendations for the City	Manager's Response
	SDDPC is to refer such requests to IT&C for review and approval. The City will also communicate to departments in writing, that items clearly not related to IT should be purchased according the Purchasing Division guidelines as stated in the Purchasing Reference Manual.
c. In conjunction with SDDPC, review policies and approvals for fixed cost agreements.	Concur. A meeting was held on August 5,2004 with SDDPC management to review fixed cost agreements. In addition to reemphasizing the requirement for approval by the Department Director. Chief Information Officer and an SDDPC executive: the criteria for consideration of a fixed cost agreement will be finalized by September 30, 2004.
d. Review policies to determine if Council approval of IT projects exceeding a certain dollar threshold is necessary.	Based on a legal review by the City Attorney, the current operating agreement between the City and SDDPC does not require Council approval of IT projects. City Council already approves funding of City IT projects through the normal 1472 process or through the budgeting process. IT projects funded by the Corporation are not subject to Council approval under the current operating agreement.

Finding Number 8

"Labor billing exceeded the Rate Agreement amount by $322 for a temporary employee and $616 for a permanent employee in fiscal year 2003 for a total overpayment of $938."

Audit Recommendations for the City	Manager's Response
Determine what the appropriate level of authority should be at the City to approve higher billing rates for labor and communicate this to SDDPC and City employees.	The FY2005 Rates Agreement clearly addresses the billing rate applied to outside contract or temporary labor used for providing SDDPC services to the City. It also indicates that SDDPC "may not unilaterally bill the City any rates, fees or surcharges other than those in the agreement. Rather, SDDPC must first obtain City Manager/Chief Information Officer approval. If unauthorized rates/fees/surcharges are billed during this period for any reason. they will be refunded to the customer by SDDPC." In addition, as stated in the M. in the case "when a department wishes to enter into an agreement for services using a different pricing structure. SDDPC is required to include the CIO or Designee as a third party signer to all such agreements".

Finding Number 10

"Credit card payments were not made in accordance with SDDPC policies which required receipts and a credit card form be submitted stating the business purpose of the expense. Credit card expenses incurred by executives included payments of $450 for big screen television rentals; $1,867 to florists; $1,089 for additional membership fees and events; $1,382 for an executive physical; $258 for Christmas cards; $893 for employee internet services; and $852 for furniture rental. The required forms were not always submitted and payment was made regardless of this. Strong internal controls require all expenses be documented acconipaniecl by receipts, and purposes for the expenditure. SDDPC advised that credit cards have been reduced from 14 cards to 3 cards used by Procurement, Training, and Administrative staff."

Audit Recommendations for the City	Manager's Response
Determine if the expenditure listed above. such as the SuperBowl television rentals and deli bill are an	The corporation has taken steps for the items identified above and has established policies defining appropriate expenditures involving the use of public funds.

Audit Recommendations for the City	Manager's Response
appropriate use of public funds. If not take the appropriate action.	

Finding Number 12

"Other miscellaneous administrative costs that came to our attention."

Audit Recommendations for the City	Manager's Response
Work with SDDPC to sublet the leased property as soon as possible. Due to the increased overhead costs incurred by the City due to the lease, if the property is not sublet within 3 months, consider whether it would be prudent for City staff to utilize the property to offset the overhead costs passed to the City.	The Real Estate Assets Department is providing best effort to assist SDDPC in exploring options for sub-letting the leased space

Additional City Actions

A number of Auditor findings, while directed at the San Diego Data Processing Corporation (SDDPC). nonetheless require City actions. This attachment describes those items.

Finding Number *6*

"Procedures in place at SDDPC and the City could be improved to ensure that all goods and services requested by the City are allowable and appropriately authorized by the City. In addition, policies could be clarified in the area of Board and City Manager approval for exceptions to the Rate Agreement (RA) or projects approved outside of the RA."

Audit Recommendations for SDDPC	Additional City Actions
a. In conjunction with the Citv. review procedures to add users who arc authorized to request purchases. Provide written confirmation to the requesting City departments when a new user is added.	Currently an individual from a department completes the intranet form to reauest access to the Service Request System (SKS). An email is generated that notifies IT&C to confirm the employee is approved by the department, which is usually done by phone. The authorized employees are listed on the ISA Contact List with a notation. The List serves as a reference tool for SDDPC and for other suppliers. Departments receive the list periodically for review and verification. In addition, the list is posted on the City's intranet where departments can review it as needed. IT&C staff will work with SDDPC to determine if it is feasible to enhance SRS to provide an automated order notification and approval function.

Finding Number 7

"The description of labor in a large portion of the SDDPC weekly bills that are sent to the City differed from the description in the RA. In order to accommodate various City Departments needs, descriptions for labor billings did not always relate to the description in the RA. We were unable to confirm all labor was billed in accordance with the RA due to this factor."

Audit Recommendations for SDDPC	Additional City Actions
In conjunction with the City, evaluate the billing information provided to the City to ensure billing descriptions are adequate for the departments to compare billing rates to RA rates.	The FY 2005 City/SDDPC Rates Agreement (revised 7/28/04) includes a table of descriptive job titles, with its corresponding tier and alignment with industry standard job titles.

SAN DIEGO DATA PROCESSING CORPORATION

RESPONSE TO AUDIT REPORT

September 10, 2004

Darlene Morrow-Truver
Audit Manager
City of San Diego

SUBJECT: SDDPC Response to City of San Diego Audit Report dated June 9, 2004 Regarding San Diego Data Processing Corporation Fiscal Year 2003 Procurement and Billing, and January 2002 through June 2003 Credit Card Expense

SUMMARY:

As communicated in SDDPC's response to the Interim Audit report, the Board of Directors of San Diego Data Processing Corporation (SDDPC) approved ten (10) new Finance and Accounting Policies at its January 22, 2004 Board Meeting. The purpose of these policies is to guide the actions of employees in achieving the missions, goals, and objectives of the organization.

The following new policies became effective January 23, 2004:

- Board of Director Events Policy
- Business Meeting Policy
- Credit Card Policy
- Donations and Sponsorships Policy
  Employee Events Policy
- Finance and Accounting Policies
- Mileage Expense Policy
- Out-of-Town Travel Policy
- Parking Policy
- Professional Dues and Memberships Policy

On February 26, 2004, the Board adopted a Code of Ethics governing employee conduct to address potential conflicts of interest. In addition, the Board adopted an Approval Policy on March 25, 2004, the Communications Tool Policy on April 22, 2004. Moreover, an Ad Hoc Committee on Procurement was established and has been reviewing the current Procurement and Contract policies.

We believe that the above referenced policies establish strict guidelines for SDDPC staff to follow in conducting Company business, more closely align with the City of San Diego standards, and address the recommendations identified below.

Finding Number 1 :

Payments have been made to vendors that were not in accordance with contract terms or without sufficient documentation such as receipts, attendees at meals, and business purposes. **7 (10%)** of the **65** items tested had written agreements other than a purchase order (contract or MOU). Of these, 2 vendors were overpaid **$8,671** and costs totaling approximately **$7,000** were unclear as to why they were reimbursed. SDDPC billed the City for work performed by the contractor, EMA. The City was not directly billed for work preformed by the contractor, SA Ventures. SDDPC advised the SA Ventures costs were excluded from budgeted costs when negotiating rates with the City.

Recommendations Related to Findina Number 1

SDDPC Recommendations:

a. Request repayment of **$6,661** paid to EMA for disallowed reimbursable expenses and **$200** in labor exceeding the contract terms and reimburse these amounts to the City Department.

b. Request repayments of **$950** in costs exceeding the reimbursable limits from SA Ventures and the **$860** spent on equipment.

c. Analyze all payments to SA Ventures, its president, and to EMA to determine whether labor costs and reimbursements were within the contract terms and contract limits. Request a reimbursement from the vendors for overpayments, if any are found. Provide this schedule with documentation to the City. Submit refunds from EMA, if any, to the City Department.

d. Design appropriate controls to ensure payments are made in accordance with policies and contracts. Also, if requests are received from City staff to make payments not in accordance with contract terms, do not make payments, unless the contract terms are amended or proper support is received.

e. Establish a policy prohibiting reimbursement for alcoholic beverages to contractors.

SDDPC Response:

*SDDPC staff is working with **EMA** staff to receive reimbursement or additional documentation for the disallowed expenses and the excess labor billing as identified in the audit. **A** review of all payments made to **EMA** for the period July 1, 2002 through November 30, 2002 is being finalized and reimbursement from **EMA** will be requested for items not in accordance with contract terms or without sufficient documentation. Credits will be issued to the City Department by SDDPC within 30 days of receipt of reimbursement amounts.*

A complefe review of payments to SA Ventures is in process. Reimbursement of expenditures outside the contract will be requested.

Effective July 1, 2004, all new vendor contracts and amendments to existing contracts that have provisions for expense reimbursement, include a statement that alcoholic beverages are not considered to be eligible for reimbursement by SDDPC.

Finding *Number 2*:

Documentation was not available for bids or sole source status in 1 of 4 contracts reviewed that exceeded $1,000,000, and documentation of quotes were unavailable for any other purchases. Retention policies are not in place to ensure documentation is retained for a sufficient period of time.

Recommendation Related to Finding Number 2

SDDPC Recommendations:

a. *Revise procedures to ensure that documentation is retained, that staff verify contracts agree with bids, and that purchases have been made at a reasonable cost.*

b. *Establish document retention policies and ensure they meet any legal requirements.*

SDDPC Response:

SDDPC's Procurement Department has established a central repository of final negotiated confracts that includes related bid documentation. Executed contracts and associated vendor-selected bid documentation will be retained for three years after contract termination date. Bid documentation for non-selected vendors will be maintained for three years after award of contract to selected vendor.

The contract is the binding document between SDDPC and the vendor. During the contract negotiation process, terms are negotiated to provide the best overall

value and solution. Therefore, the contract may not mirror the bid documentation and the contract is the controlling document.

For non-bid related purchases, a proposed revision to current policy will be presented at the September Board meeting that requires obtaining written quotes for purchases between a defined value range. Additionally, for purchases below the defined value range, on-line price comparisons will be performed where feasible and documentation will be maintained in Procurement's central repository.

A document retention policy is being finalized and, upon completion, will be consistent with any legal requirements.

Finding Number 3:

Amendments to a "follow-on" contract (amendments contemplated during the initial bid process) increased the contract amount from **$376,450** *to an amount exceeding* **$4** *million dollars. Documentation provided to the Board for these amendments did not clearly state the justification for not considering additional bids. Also amendments to a contract for* **$84,600** *increased the contract amount to over* **$100,000** *without additional quotes. Documentation was not provided in this instance clearly stating the Board had waived the policy.*

Recommendations Related to Finding Number 3

SDDPC Recommendations:

a. *Evaluate the policy of not requiring new bidding of contracts which significantly increase in percentage.*

b. *For existing contracts that are subsequently amended, causing the dollar threshold to exceed the amount requiring quotes, a) ensure staff complies with the policy to obtain additional quotes, or b) clearly indicate to the Board that the contract is a sole source, what the criteria is for this, and indicate to the Board that the procurement policy is being waived and why.*

SDDPC Response:

For future amendments to existing contracts, SDDPC will first evaluate the reason for the increase in amount to determine if a new Request for Quotation (RFQ) or Request for Proposal (RFP) is advisable. For work that was not contemplated in the RFQ or RFP and subsequent contract, SDDPC will recommend that the change in scope be competitively bid. If there is sufficient justification for a single source, it must be documented in a single source justification memo and approved by the Procurement Manager. The justification must meet one of the

criteria as set forth in the "Sole Source Justification Policy". If approved by the Procurement Manager, the contract amendment and the single source justification must be then presented to the Board of Directors for approval.

For contracts that were initially issued under the dollar threshold for required competition, no competition was obtained, and a subsequent amendment increases the contract value to a threshold that requires competition, SDDPC will recommend that the additional scope be competitively bid. If there is sufficient justification for a single source, it must be documented in a single source justification memo and approved by the Procurement Manager. The justification must meef one of the criteria as set forth in the "Sole Source Justification Policy". If approved by the Procurement Manager, the contract amendment and the single source justification must be then presented to the Board of Directors for approval.

Finding *Number 4*

In our test sample, we were unable to re-compute and verify the accuracy of some of the amounts invoiced by vendors based on the documentation provided by SDDPC. Therefore, we concluded that in some instances, SDDPC is not verifying that the amounts invoiced by vendors are accurate.

Recommendation *Related to Finding Number 4*

SDDPC Recommendation:

Review payments procedures and ensure there is adequate documentation to verify the invoiced amounts paid by SDDPC agree to the contract amounts, and that the documentation is retained.

SDDPC Response:

Invoice validation procedures are being documented to reinforce the requirement lo SDDPC staff the responsibility to ensure vendor charges are in agreement with contract amounts before approving invoices. The procedure includes the requirement for a contract pricing summary page that will be used for invoice validation. When temporary employees are staffed, the contract rate is required on the staffing request form and will be provided to SDDPC staff responsible for validating vendor invoices. Payment procedures have been reviewed throughout SDDPC to ensure that adequate documentation exists and is retained.

Finding Number 5

Billings to the City could not always be clearly traced and therefore, we were not always able to verify if invoices were billed to the City correctly.

Recommendations Related to Finding Number 5

SDDPC Recommendations:

a. *Evaluate, in conjunction with the City, the billing process to ensure billing information is clear and adequate.*

b. *Review billings to Tek Systems and provide an explanation of the amounts billed September 15, 2002.*

SDDPC Response:

For the items noted in this finding, billing to the City occurred as part of fhe accounting process of recording vendor invoices. For the Tek Systems billing dated Sepfember ***15, 2002,*** *a data entry error occurred that resulted in an erroneous billing of* ***$1,920.60*** *and a refund will be issued to the City Department. Accounting management has reviewed internal procedures and provided additional training to accounting staff that reinforces the proper invoice entry process.*

In addition, SDDPC has instituted a process to review invoices with City departments on a quarterly basis to answer questions on a timely basis. Also, recommendations on improvements to the billing process will be solicited, evaluated, and implemented where possible.

Finding Number 6

Procedures in place at SDDPC and the City could be improved to ensure all goods and services requested by the City are allowable and appropriately authorized by the City. In addition, policies could be clarified in the area of Board and City Manager approval for exceptions to the Rate Agreement (RA)or projects approved outside of the RA.

Recommendations Related to Finding Number 6

SDDPC Recommendations:

a. *In conjunction with the City, review procedures to add users who are authorized to request purchases. Provide confirmation to the requesting City departments when a new user is added.*

b. *Ensure appropriate approval is obtained from the City if there are exceptions to the RA in Project Charters (project agreements).*

SDDPC Response:

The currenf procedure to add users who are authorized to request purchases has been reviewed. SDDPC staff is working with IT&C staff to determine if it is feasible to enhance the Service Request System to provide an automated order notification and approval function.

The FY2005 Rate Agreement (RA) articulates the joint agreement that the City Manager/Chief Information Officer approval is required for exceptions to the pricing established in the RA.

Finding *Number 7*

The description of labor in a large portion of the SDDPC weekly bills sent to the City differed from the description in the RA. In order to accommodate various City Departments needs, descriptions for labor billings did not always relate to the description in the RA. We were unable to confirm all labor was billed in accordance with the RA due to this factor.

Recommendations Related to Finding Number 7

SDDPC Recommendations:

In conjunction with the City, evaluate the billing information provided to the City to ensure billing descriptions are adequate for the departments to compare billing rates to RA rates.

SDDPC Response:

The Rate Agreement (RA) lists the industry-standard job titles used by SDDPC which are supported with detailed job descriptions. The billing descriptions reflect a specific specialty within a job category. A matrix was included in the May 13, 2004, Fiscal Year 2005 Rate Agreement that maps the "specific specialty title" to the industry-standard job title. In addition, the Board has established customer billing concerns as a priority and will work with City and SDDPC staff to identify and address all billing issues.

Finding *Number 8*

Labor billings exceeded the Rate Agreement amount by $322 for a temporary employee and $616 for a permanent employee in fiscal year 2003 for a total overpayment of $938.

Recommendations Related to Finding Number **8**

SDDPC Recommendation:

Request SDDPC refund to the City department the overpayment of **$938.**

SDDPC Response:

SDDPC will reimburse the City for $938.00. In addition, the Board has established customer billing concerns as a priority and will work with City and SDDPC staff to identify and address all billing issues.

Finding Number 9

Meal expenditures paid by credit card between January **2002** *and June* **2003** *(18 months) totaled* **$40,082.** *The average meal cost per attendee were approximately $26 based on meal expenses over the 18 month period; however, approximately* **14%** *percent of the* **421** *meals purchased had a cost per attendee exceeding* **$40** *per person. The purposes of meals, if provided, did not explain why it was necessary to conduct business at a restaurant. Revised SDDPC policies now limit reimbursements to $15 for breakfast,* **$20** *for lunch, and* **$30** *for dinner and require manager's approval for off-site meetings.*

Recommendations Related to Finding Number **9**

SDDPC Recommendation:

a. *Consider requiring an annual report of meal expenses be made to the Board to ensure all employees comply with the revised policies and administrative expenses are closely monitored.*

b. *Ensure adequate documentation of all expenses paid, including attendees and business purpose, is retained.*

SDDPC Response:

The Business Meeting Expense Policy adopted on January 23, 2004, limits reimbursement for meals and requires prior approval from senior management for employee-only and off-site business meals. An annual report of meal expenses will be provided to the Board. Documentation requirements are also included in the Policy. Accounting staff have been directed to ensure adequate documentation is provided before payments are made. The Accounting Manager reviews all checks prior to mailing as an additional validation process.

Finding Number 10

Credit card payments were not made in accordance with SDDPC policies which required receipts and a credit card form be submitted stating the business purpose of the expense. Credit card expenses incurred by executives included payments of **$450** *for big screen television rentals, $1,867 to florists,* **$1,089** *for additional membership fees and events,* **$1,382** *for an executive physical,* **$258** *for Christmas cards,* **$893** *for employee internet services, and* **$852** *for furniture rental. The required forms were not always submitted and payment was made regardless of this. Strong internal controls require all expenses be documented and accompanied by receipts and purposes of the expenditure. SDDPC advised credit cards have been reduced from 14 cards to* **3** *cards used by Procurement, Training, and Administrative staff.*

Recommendations Related to Finding Number 10

SDDPC Recommendations:

a. Ensure expenditures of public funds are appropriate, not excessive, and have a clear business purpose.

b. *Develop procedures to ensure strong internal controls over overhead costs are in place to ensure costs for items such as Superbowl events will be identified and not reimbursed. Ensure overhead costs are monitored and reported to the Board periodically.*

c. Ensure that the accounting staff requires employees, including executives, comply with all policies.

SDDPC Response:

A Business Meeting Policy and an Employee Events Policy were adopfed on January 23, 2004, and establish the criteria for reimbursement. Policies have been posted on SDDPC's intranet and all employees are responsible for knowing and following policies. Key policy provisions were also reviewed with SDDPC managers who are responsible for ensuring that the appropriate policy and associafed procedures have been followed before approving expense reimbursement request forms. In addition, accounting staff have been directed to ensure that all policy provisions are met before reimbursements are made and clearly understand that policies apply to all employees, including executives. The Accounting Manager reviews all checks prior to mailing as an additional validation process.

Finding *Number 11*

In addition to memberships and donations identified in the interim report, the following payments were made to non profit organizations. A revised policy on donations was adopted in January **2004.** *The policy is broad in that it permits donations to community-based organizations using information technology or organizations that would benefit from technology in the future.*

Recommendation Related to Finding Number 11

Request SDDPC to further review policies regarding memberships and donations to ensure when using public funds the membership or donation is related to providing IT services. In addition, require memberships and donations be itemized and approved in the annual budget.

SDDPC Response:
The Donations and Sponsorships Policy that was adopted on January 23, 2004, already requires the establishment and approval of a donation and event sponsorship schedule as part of the annual budget process. The policy also requires quarterly reporting on Donations and Sponsorships to the Board of Directors as part of the financial report.

Finding Number **12**

Other miscellaneous overhead expenses that came to our attention are as follows:

a. *Bonuses paid to executives in FY* **2003** *ranged from* **$5,000** *to* **$37,500** *and totaled* **$147,650.**

b. *Rental payments of* **$45,287** *monthly or* **$543,444** *annually are paid for office space at* **3950 Calle** *Fortunada. The office space has been vacated since March* **I , 2004** *due to consolidations and the lease expires November* **2008.** *SDDPC advised they are actively working on this and have notified the City's Real Estate Assets Department regarding this issue.*

c. *Fiscal year* **2003** *payments to Custom Coffee Plan for refreshments and supplies which include first aid items were approximately* **$17,750.** *SDDPC advised they are reevaluating items being purchased.*

Recommendation Related to Finding Number **12**

Work with SDDPC to sublet the leased property as soon as possible. Due to the increased overhead costs incurred by the City due to this lease, if the property is

not sublet within 3 months, consider whether it would be prudent for City staff to utilize the property to offset the overhead costs passed to the City.

SDDPC Response:

SDDPC confinues fo aggressively market the available office space af 3950 Calle Fortunada. A commercial real estate broker continues to list and show the space as interested parties are identified. On-going discussions with City staff have occurred but no immediate need has been identified.

We thank the City Audit Team for bringing the above findings to our attention. The Board and SDDPC staff have implemented the above referenced policies and continue to carefully review all expenditures within the Corporation.

If you have any questions, please contact us.

Board of Directors
San Diego Data Processing Corporation

cc: Rey Arellano
Don Del Rio
P. Lamont Ewell
Tom Fleming
Patricia Frazier
Lisa Irvine
George Loveland
Joyce Russell
Terri Webster

CITY OF SAN DIEGO

CITY AUDITOR AND COMPTROLLER

Audit Division Mail Station #654

MEMORANDUM

DATE : March 24, 1992

TO : Jack McGrory, City Manager

FROM : Eugene T. Ruzzini, Audit Division Manager

SUBJECT : San Diego convention Center Corporation (SDCCC)

At your request, we have completed an audit of SDCCC. Our audit consisted of reviewing SDCCC policies and procedures, and current and prior activities at the Convention Center. This finalizes our audit process whereby we have issued two audit reports. The first report was issued to the City Attorney for those items pertaining to Mr. Tom Liegler, former Executive Vice President/General Manager of the Center. The second report is attached and recommends several changes to the Convention Center's policies and procedures. SDCCC was provided the opportunity to comment on our report and their comments have been incorporated.

If you have any questions, please contact me.

Eugene T. Ruzzini
Audit Division Manager

cc: John W. Witt, City Attorney
Maureen Stapleton, Assistant City Manager
Patricia T. Frazier, Financial Management Director

Printed on recycled paper

CITY OF SAN DIEGO

CITY AUDITOR AND COMPTROLLER
Audit Division

AUDIT REPORT

March 24, 1992

SUBJECT

San Diego Convention Center Corporation (SDCCC).

PURPOSE

To review SDCCC policies and procedures and some of the current and prior practices at the Convention Center.

BACKGROUND

In April 1991, the SDCCC Board of Directors began investigating allegations that Tom Liegler, former SDCCC Executive Vice President/General Manager, used SDCCC funds for private parties held at the Convention Center. On April 24, 1991, Mr. Liegler submitted his resignation to the Board of Directors. Subsequently, the Audit Division of the City Auditor's Office was requested to investigate Mr. Liegler's activities at the Convention Center. Concurrent with the investigation, this audit was performed.

SCOPE OF AUDIT

1. Reviewed SDCCC Administrative Policies and procedures.

2. Contacted other convention centers concerning their policies and procedures.

3. Interviewed current and former employees of SDCCC and Premier Food Services, Inc. (Premier), Catering Service at the Convention Center. Mr. Liegler was not contacted by the auditor.

4. Examined SDCCC and Premier supporting documentation for food and beverage events paid for by the Convention Center.

SCOPE OF AUDIT (cont'd)

5. Examined deposits to and disbursements from the Reserve Fund.

6. Reviewed "start-up" costs incurred by Premier and reimbursed by SDCCC.

7. Reviewed, on a test basis, travel expense reports for Mr. Liegler.

8. Reviewed payments to consultants.

9. Reviewed other SDCCC expenditures and activities deemed pertinent to the audit.

ORGANIZATION OF REPORT

This report is presented with three main categories: Expensive Uses/Questionable Uses of SDCCC Funds, Financial and Fiscal Matters, and Policies and Procedures. The first category, Expensive Uses of SDCCC Funds, is further categorized into Catered Events, Payments to Consultants, and Other.

FINDINGS

CATEGORY: EXPENSIVE USES/QUESTIONABLE USES OF SDCCC FUNDS

Catered Events

1. **Two Board events appear to be an expensive use of SDCCC funds. A total of $5,389 was spent on these events.**

   a. The Board Year End Dinner of October 9, 1990, was held for 46 people, mainly current and former Board members and their guests. A specially printed invitation indicated the purpose of the event was a "special thank you to our Board of Directors and a Bon Voyage to our four past Directors". The total cost of this event was $3,396.10.

FINDINGS (cont'd)

b. A reception was held at the home of the SDCCC President, on March 28, 1991, for 80 people including SDCCC Board members, management, department directors, division managers, supervisors, and staff from Premier and other SDCCC contractors. The purpose of the event was documented as: "Introduce new members; team building and enhanced communication". Food and beverages for the dinner meeting cost $1,768.04. In addition, SDCCC purchased three floral centerpieces at a cost of $225.

RECOMMENDATION: *Require the SDCCC Board of Directors to prove the benefit to SDCCC for the two events questioned.*

SDCCC COMMENT: The October 9, 1990 event was scheduled at the direction of the former General Manager for the purpose of recognizing the contributions of founding and then current Board members.

The March 28, 1991 event was hosted at SDCCC President's house after discussions with the former General Manager on the need to introduce new Board members to staff in a conducive atmosphere off-site where team building could occur with the management and professional staff. The benefit to the organization was improved morale and communication. Any future team building functions will be held on-site unless there is a compelling reason to use an off-site location.

RECOMMENDATION: *Establish a policy for SDCCC staff meetings and set spending guidelines for these types of meetings.*

SDCCC COMMENT: SDCCC will establish a separate policy with spending guidelines on in-town expenses, including staff meetings. In the future, such expenses will be budgeted and use of the Reserve Fund for such team building events will be discontinued.

FINDINGS (cont'd)

RECOMMENDATION: *Establish a policy that provides guidelines for expenditures at Board meetings or events.*

SDCCC COMMENT: Approval mechanisms are now in place requiring prior approval of events costing in excess of $250 and post approval for all such events. The in-town expense policy discussed above will include Board meetings or events.

2. **SDCCC spent $21,989 on various events held for employees and board members that appear to be expensive uses of SDCCC funds.**

   a. Employee Thanksgiving Dinner - $13,535.50 on November 23, 1989. A Thanksgiving dinner party was held for approximately 500 employees of SDCCC and Premier, Morrow-Meadows, Mercy Hospital, and Meeting Services Inc., (all are contractors of SDCCC). Each employee invited was allowed to bring up to three guests. The dinner was catered by Carriage Trade Catering Company, owned by Premier.

   b. SDCCC Picnic - $3,577.22 on August 4, 1990. A total of $2,172.03 was spent for food and equipment rentals and $1,405.19 was spent for labor. SDCCC advised all employees were invited however, the attendees were not identified and the benefit to SDCCC was not explained.

   c. Dinner Party at Mr. Liegler's House - $3,023.05 on March 5, 1989. Carriage Trade Catering Company, owned by Premier, served 22 guests, including consultants, John Maxwell and Bernd Gabel, from Toronto, Canada, at Mr. Liegler's house for a total cost of $2,900.00. In addition, $123.05 for flowers were purchased for the dinner. The documentation for this event did not indicate the purpose or identify all of the attendees.

FINDINGS (cont'd)

d. "Board Think Tank Meetings" - $1,006.95 on August 21, 1990. SDCCC advised the purpose of the meetings was to assist the Board and answer questions concerning staff performance. All seven Board members were present along with Mr. Liegler. In addition, the auditor was advised the SDCCC Department Heads were on "standby" in another room to provide input as needed; however, they were never called upon. A memo dated August 6, 1990, from Mr. Liegler to the SDCCC Board of Directors, indicates the meeting was "to be informal, an opportunity for the Board members to get to know each other better with no planned agenda...".

e. Retirement Parties - Expenditures totaling $646.29. On December 16, 1989, a retirement party was held for Jack Thorpe, former City of San Diego Purchasing Agent. Approximately 110 people attended. Thorpe worked at the Convention Center during the period February 14, 1989 through April 13, 1990. SDCCC incurred costs of $542.69 for this event. Four months later, on April 13, 1990, another smaller party billed as "Jack Thorpe's Going Away Party" for $103.60 was held.

f. Employee Recreation Council Christmas Party - $200.00 on December 28, 1990. The SDCCC Reserve Fund was used to subsidize the Employee Recreation Council (ERC), an informal committee of SDCCC employees, Christmas party. Mr. Liegler made the following notation when approving the payment: "Approved from Premier Reserve Fund (Promotion) for this good purpose". The promotional value to SDCCC or Premier was not identified.

RECOMMENDATION: *Establish a policy for catered events involving SDCCC staff.*

SDCCC COMMENT: Administrative Policy No. 2 and No. 3 currently cover elements of this recommendation. The in-town expense policy discussed in the comments to the recommendations of Finding 1 will include catered events.

FINDINGS (cont'd)

RECOMMENDATION: *Establish an employee recognition policy that defines parameters and awards for employee achievement. The policy should specifically consider whether Thanksgiving dinners, retirement parties, Christmas parties, picnics, etc., are appropriate uses of SDCCC funds.*

SDCCC COMMENT: SDCCC has a number of employee recognition programs including Employee of the Month, Employee of the Year, a Suggestion Program, Length of Service Awards, etc. SDCCC agrees to formalize and consolidate these programs in an employee recognition policy. SDCCC believes a modest budget for events such as an annual holiday function and picnic as well as other employee recognition events is appropriate.

RECOMMENDATION: *Establish a policy for SDCCC staff meetings and set spending guidelines for these types of meetings.*

SDCCC COMMENT: Agreed to in the comments to the recommendations of Finding 1.

RECOMMENDATION: *Establish a policy that provides guidelines for expenditures at Board meetings.*

SDCCC COMMENT: Agreed to in the comments to the recommendations of Finding 1.

Payments to Consultants

3. **SDCCC spent $92,308 for consultant services that were either not adequately documented or monitored, not procured under a formal bid process, and questionable in regards to the benefit provided to SDCCC. SDCCC does not have an Administrative Policy governing consultants.**

FINDINGS (cont'd)

a. Mr. Liegler personally selected the consultants, who included former City of San Diego employees, current or former employees of the Anaheim Convention Center and Anaheim Stadium (where Mr. Liegler served as General Manager prior to coming to San Diego), the President and CEO of the Toronto Metro Centre, and the General Manager of the San Jose Convention Center. The SDCCC Purchasing Manager advised quotations and bids were not sought prior to awarding the contracts.

b. The agreements contained no specific performance bench marks or work product requirements for the consultants other than submission of an invoice. The work product submitted ranged from invoices only with no description of work performed to verbal reports to more extensive written reports that appeared consistent with the invoice.

c. Bill Hall, former Anaheim Stadium Maintenance Manager, was paid **$7,500** during the period May 4, **1990** through August **31, 1990** for housekeeping consulting, The only written work product available for the auditor's review was two reports, totaling **7** pages, that contained critiques on the appearance of carpeting, stainless steel railing, paint, etc., at the Convention Center. The former Executive Housekeeper for SDCCC advised Hall did not provide anything of value to SDCCC and she questioned why he was paid.

d. Ben Lamas, Grounds Supervisor at Anaheim Convention Center and Stadium, was paid **$3,037.50** during the period August **31, 1990** through May **28, 1991** for landscaping consulting. The only written work product available for the auditor's review was various memos discussing items such as valves, trees, and fertilizer needs at the Convention Center.

e. Jerry Uptgraft, Former Crowd Control Supervisor at Anaheim Convention Center, was paid a total of **$9,766** for crowd control consulting during the period November **2, 1989** through April **24, 1990.** The only written work product available for the auditor's review was a two page report about his February **28, 1990** visit to the Convention Center.

FINDINGS (cont'd)

f. John Maxwell, General Manager of Toronto Metro Centre and Bernd Gabel, also from Toronto, were paid $4,281 and $1,391, respectively, during the period February 28, 1988 through July 5, 1989, for sharing their knowledge and experiences from the Toronto facility. In addition, SDCCC paid $1,550 for travel and lodging on behalf of Maxwell and Gabel. Maxwell advised a written report was not prepared. He was paid for discussing Toronto operations with SDCCC staff and George Karetas of Premier.

g. Gene Shulaw, former Food and Beverage Director at Anaheim Convention Center, was paid $6,402 during the period December 20, 1989 through May 2, 1990 for observing the food and beverage operations at the Convention Center. The only work product SDCCC was able to provide to the auditor for these "services" was five pages of notes, typed by Doris Glaser, SDCCC Executive Assistant, on Shulaw's visit to the Convention Center during January 19 through 23, 1990.

h. Robert Kerrigan, former Assistant Manager for the City of San Diego Convention and Performing Arts Center (CPAC), was paid $675 for undescribed services in June 1989 and $425 for reviewing vending machine, gift shop, and shoe shine operations at the Convention Center in August and September 1989. SDCCC was not able to provide the auditor with any work product for these services.

4. Mr. Liegler hired consultants to serve on interview panels without first inquiring with **SDCCC** Human Resources Manager whether she desired or needed those panelists. During the period May 22, 1989 through June 28, 1990, SDCCC paid $4,738, including $323 out-of-pocket expenses, to four consultantsthat were interview panelists. The consultants were paid as follows: George Brodeur - $1,388, Stephen Gardella, Jr. - $1,200, Joe Morris - $550, and Williams and Blair - $1,600. SDCCC Human Resources Manager advised the consultants performed satisfactorily; however, she found it unusual that some were from out-of-town and were fully compensated for their time, travel, and lodging expenses. Also, all other SDCCC interview panels, where Mr. Liegler did not involve himself, were assembled with volunteers recruited from the local San Diego area.

FINDINGS (cont'd)

5. **Compliance with the payment terms of the consultant agreements was not properly monitored.**

   a. A review of consultant payments disclosed 12 payments, totaling $13,435, were made for services performed beyond the terms of the agreements. For example, George Brodeur received payments on June 14, 1989 and January 17, 1990, totaling $1,388, after his contract expired on December 31, 1988.

   b. A review of payments also disclosed 13 payments, totaling $9,576, that exceeded the consideration limit of the agreement. For example, an agreement for Trombley and Associates specified a maximum of $3,000 for consulting on personnel related issues (Trombley was a former Staff Assistant to Mr. Liegler at Anaheim). SDCCC made five payments under this agreement totaling $5,947; the third, fourth, and fifth payments exceeded the $3,000 limit.

   c. Mike Connolly, former CPAC General Manager, was paid $29,937 during the period July 5, 1988 through December 28, 1989 for coordinating the Community Celebration Grand Opening in November 1989. Connolly also hired, and SDCCC paid $2,985 to ten other individuals. Connolly was awarded six separate agreements before completing his assignment. The first agreement was for one year, through June 1989, with a maximum of $5,000. Beginning on July 1, 1989 and continuing each month thereafter for five months, SDCCC awarded Connolly additional $5,000 agreements. Mr. Liegler signed a schedule analyzing the payments to Connolly and made the following comment: "Approved for payment of all claims even though over contract terms. Some surprises. Very successful program".

   d. Reimbursed out-of-pocket expenses were not approved in advance. The consultant agreements required the consultants to obtain written approval, in advance, from SDCCC for all out-of-pocket expenses that would be submitted for reimbursement. A review of documentation related to the consultant agreements and payments did not disclose any evidence of this.

FINDINGS (cont'd)

e. On two occasions, SDCCC paid hotel bills for consultants staying in San Diego when they may not have been performing consultant services. On November 25, 1989, Greg Trombley, of Trombley and Associates - personnel consultants, stayed at the San Diego Marriott and Marina at a cost of $108. On February 8, 1990, Frank Ventrola, a wardrobe consultant, also stayed at the Marriott at a cost of $147. Neither Trombley's nor Ventrola's invoices for consulting services indicated any services performed on these dates.

RECOMMENDATION FOR FINDINGS 3, 4, AND 5:

Establish an Administrative Policy on the hiring of consultants and:

a. *Require the SDCCC Board of Directors to establish parameters for consulting contracts.*

b. *Ensure future consultants are hired, in accordance with the parameters established, pursuant to an RFP process or by seeking competitive bids.*

c. *Ensure all future consulting contracts contain performance bench marks that must be approved by SDCCC prior to payment.*

d. *Ensure all consultants submit thorough documentation of the services performed.*

e. *Review the practice of hiring consultants to sit on interview panels.*

f. *Monitor the terms of each consulting agreement to avoid paying beyond contract terms.*

SDCCC COMMENT: New controls and monitoring systems are now in place with regard to all contracts. SDCCC will develop an Administrative Policy on the hiring and overall administration and evaluation of consultants.

FINDINGS (cont'd)

Other

6. **SDCCC purchased term life insurance and disability insurance for Mr. Liegler in excess of insurance limitations in his employment agreement.** The employment agreement terms require SDCCC to provide life insurance coverage equal to other management employees. The benefit to employees is limited to 150 percent of their base salary with a maximum benefit of $100,000 for life insurance and 60 percent of monthly earnings to a maximum monthly benefit of $5,000 for disability insurance. These benefits are provided through the employee group plan. However, SDCCC purchased for Mr. Liegler an additional whole life insurance policy with a $314,000 benefit at a cost of $17,743.52 from Executive Life Insurance. This policy was in force during the period March 23, 1989 through March 23, 1991. SDCCC paid the quarterly premiums and Mr. Liegler paid SDCCC for the premium portion exceeding term life insurance costs above 200 percent of his base salary. This benefit level is comparable to what Mr. Liegler received while employed in Anaheim, CA.

   SDCCC purchased a policy from New York Life, to replace the Executive Life policy, with an annual premium of $13,347.90 for the period January 18, 1991 through January 18, 1992. This resulted in double coverage for Mr. Liegler for the period January 18, 1991 through March 23, 1991. In addition, SDCCC paid premiums of $920.25 for a disability insurance policy with coverage of $1,700 that was in effect for the period August 22, 1990 through May 22, 1991.

   Since SDCCC's employee group life and disability insurance plans met the terms of Mr. Liegler's employment agreement, the costs of these additional insurance policies do not appear to be the responsibility of SDCCC, except for costs of $1,971.50 for a two month period of double life insurance coverage. SDCCC purchased the policy from New York Life before canceling the policy with Executive Life to avoid a period without coverage. SDCCC paid a total of $32,011.67 for additional life and disability insurance premiums. SDCCC collected $13,875.37 from Mr. Liegler for this additional insurance. An additional $16,164.80 should have been collected from Mr. Liegler for the additional insurance coverage.

FINDINGS (cont'd)

RECOMMENDATION: *Recover $16,164.80 from Mr. Liegler for additional insurance coverage.*

SDCCC COMMENT: The former General Manager has been invoiced for the amount in question.

7. Mr. Liegler spent $3,264 of SDCCC funds during the period July 1, 1989 through March 31, 1991 for various in-town expenditures. Several appear to be expensive uses of SDCCC funds, for example:

a. On August 21, 1989, Mr. Liegler purchased a $438.20 meal for eight at the Horton Plaza Hotel. The stated purpose was to discuss food and beverage contract administration issues.

b. On September 1, 1989, Mr. Liegler spent $204.72 for a meal at the U.S. Grant for the stated purpose of "Imageneering Task Force". SDCCC personnel were in attendance.

c. On October 23, 1989, Mr. Liegler paid for a meal at the Panda Inn costing $310.84; names of attendees were not available. The purpose stated was, "crowd control security meeting".

RECOMMENDATION: *Modify the existing SDCCC Administrative Policy to ensure all in-town meals are properly documented, the benefit to SDCCC indicated, attendees and their affiliations listed, and the newly established meal guidelines are met unless otherwise justified.*

FINDINGS (cont'd)

SDCCC COMMENT: The present Administrative Policy No. 2 and current reporting and monitoring systems implement this recommendation with the exception of the "newly established meal guideline." Those guidelines were established for out-of-town travel. Meal costs for meetings with non-SDCCC personnel are limited by the Policy to "actual, reasonable, and necessary expenses." More definitive guidelines for such meal costs will be included in a revision to this Policy.

RECOMMENDATION: Ensure SDCCC Policies and Procedures clearly define circumstances where entertainment of clients is warranted and provide for an approval and review process of client entertainment expenses.

SDCCC COMMENT: The appropriate Administrative Policy will be revised to clarify the circumstances where entertainment of clients is warranted. Approval and review processes are now in place.,

8. SDCCC funds do not appear to have been spent efficiently for travel and conference registration fees.

   a. Several of Mr. Liegler's trips do not appear to have been adequately planned resulting in SDCCC paying higher airfare. Airplane tickets were purchased within three days of departure and ticket costs were excessive when compared with tickets purchased in advance for the same trip by other SDCCC personnel. For example, on a trip to Chicago in July 1990 the Marketing Director's airfare, purchased through Lopez travel, cost $389.50 whereas Mr. Liegler's airfare, purchased through Globetrotter Travel, cost $1,005.00. Doris Glaser, Special Assistant to the General Manager and Board of Directors, advised airfare was routinely purchased near the departure date rather than in advance to avoid cancellation fees if Mr. Liegler decided not to go.

FINDINGS (cont'd)

b. Higher registration fees for conferences were paid. For example, the registration fee for the National Association of Exposition Managers (NAEM) held during November 27 through 30, 1990 in Phoenix, AZ, was $225 if paid by September 28, 1990 and $400 if paid after November 2, 1990; Mr. Liegler paid the $400 fee.

RECOMMENDATION: *Modify the existing SDCCC Administrative Policy to ensure travel is adequately planned to take advantage of the lowest possible travel costs, including airfare, hotel costs, and conference registration fees.*

SDCCC COMMENT: Additional language will be added to the policy to this effect.

RECOMMENDATION: *Select a single travel agency, through competitive bidding, for use by all SDCCC personnel.*

SDCCC COMMENT: SDCCC will proceed with a bid process to retain a single travel agency as soon as possible.

9. **A total of $9,693 spent on advertising in the trade journal Amusement Business does not appear to have benefitted SDCCC.** The advertisements were paid for by expending $3,407 from the Reserve Fund and $6,286 from the General Fund. Single, business card size advertisements were placed in 39 issues of Amusement Business during the period October 14, 1989 through April 22, 1991. Each featured a favorite quotation or cliche of Mr. Liegler's. Other than displaying the SDCCC logo, the advertisements and quotations did not appear to promote the Convention Center. Mr. Liegler initiated this advertising program and processed all invoices for payment. The program was canceled after Mr. Liegler resigned because the Acting General Manager and the SDCCC Marketing Director determined the value of the advertisements did not warrant their costs.

FINDINGS (cont'd)

RECOMMENDATION: *Ensure authority of advertising campaigns is placed with the Marketing Department with the requirement that the benefit to SDCCC be documented.*

SDCCC COMMENT: All current and future advertising is managed by the Marketing Department and reviewed by the General Manager.

CATEGORY: FINANCIAL AND FISCAL MATTERS

10. **The SDCCC Reserve Fund has not been adequately disclosed in the annual budget. Mr. Liegler approved all expenditures from the Reserve Fund. Several expenditures from this Fund do not appear to be related to Marketing and Promotion.** The carry forward balance of the Reserve Fund from FY 1991 was approximately $37,000. The FY 1992 budget presented to the City Council did not fully disclose the Reserve Fund. Therefore, the year end carry forward balance, anticipated deposits from the Premier agreement, and any planned expenditure of these funds during FY 1992 were not adequately disclosed in the FY 1992 budget.

    The food and beverage agreement between SDCCC and Premier requires Premier to contribute five percent of monthly gross receipts into a Reserve Fund as follows: small wares and equipment replacements and additions - 1 percent; extraordinary repair and maintenance of small wares and equipment - 1 percent; and marketing and sales promotion - 3 percent. The agreement also provides that SDCCC may transfer to its general fund any portion of the Reserve Fund balance at the end of each fiscal year. SDCCC maintains a separate checking account for the Reserve Fund. A total of $4,440 was spent for food and beverage events from the Reserve Fund under the category Marketing and Promotion but the expenditures do not appear to benefit SDCCC in this manner. Only one of these events was approved by Board members. Below is a summary of the Fund for the period March 26, 1990, through June 5, 1991.

FINDINGS (cont'd)

RESERVE FUND

Category	Deposits	Disbursements
Small wares Replacements	$ 73,155	$ 35,771
Equipment Repair	73,155	1,499
Marketing and Promotion	220,209	27,078
Transfer to SDCCC General Fund on July 13, 1990		100,000
Totals	$366,519 (1)	$164,348

(1) Amounts deposited in accordance with contract requirements.

RECOMMENDATION: *Establish guidelines and controls for expenditures from the Reserve Fund. All expenditures should be approved by the Board of Directors.*

SDCCC COMMENT: Revisions to the Administrative Policy No. 3 were approved by the Board of Directors at its February 1992 meeting. A major change to the policy was the development of an annual plan for Reserve Fund expenditures to be approved by the Board.

RECOMMENDATION: *Ensure the Reserve Fund is properly budgeted with full disclosure to the City Council of the current balance, anticipated revenues, and projected expenditures of these funds.*

SDCCC COMMENT: A separate schedule will be included in the SDCCC budget submission to the City Council to include the information items cited by the Auditor.

FINDINGS (cont'd)

RECOMMENDATION: *Ensure SDCCC Policies and Procedures clearly define the authority for the General Manager and other SDCCC staff to sponsor events and require SDCCC sponsored events to be pre-approved and periodically reviewed to assess effectiveness. The Board of Directors should approve and review the General Managers's events. In addition, funding for SDCCC sponsored events should be budgeted.*

SDCCC COMMENT: Administrative Policy No. 3, "Marketing, Sales and Solicitation Expense Policy," requires that the Genera1 Manager's expenditures in excess of $250 be approved in advance of the event by the Board President or Chairman of the Budget Committee, who must also review and approve all expenditures prior to payment. The in-town expense policy discussed in the comment to the recommendation of Finding 2 will address the remaining recommendations.

RECOMMENDATION: *Ensure SDCCC Policies and Procedures clearly define criteria for SDCCC sponsoring an event, spending guidelines for events, and documentation of the purpose of the event. For example, justify a prospective event in terms of future anticipated revenues the event would bring to SDCCC. In addition, ensure events are sponsored for purposes that are compatible with SDCCC's primary mission.*

SDCCC COMMENT: SDCCC policies and procedures will be reviewed and revised as necessary.

11. A delay in setting the start date of the Premier agreement may have caused SDCCC to incur additional Start-up Costs. It appears Mr. Liegler delayed the start date because he did not want several costs to "come out of our FY 1989-90 General budgetw. Of the costs incurred, all were not supported or properly justified. Therefore, the validity of these charges is questioned.

FINDINGS (cont'd)

a. The food and beverage agreement defines Start-up Costs as those expenditures, recommended in writing by Premier and approved in writing by the General Manager, made by Premier prior to the **commencement date of the term of the agreement.** Total start-up costs incurred during the period December 8, 1988 through January 24, 1991 were $805,986, of which $481,108 was paid in cash and $324,878 amortized over thirty-six months and charged as a direct operating expense.

   On May 29, 1990, the SDCCC Board of Directors approved a majority of the $805,986 Start-up Costs. Board minutes do not indicate approval for $42,896 that Mr. Liegler and Karetas agreed to on September 14, 1990. Included in the $42,896, was a Taste Tester event held on March 29, 1990, for 350 people at a cost of $13,214; the IAAM Showcase event held April 7, 1990, at a cost of $9,708; and $2,800 paid to Gene Shulaw for consulting services.

   In a memo from the former SDCCC Finance Director, to Mr. Liegler, it was indicated Premier wanted the start date of the contract to be December 1, 1989. However, Mr. Liegler's notes indicated he hesitated to start the agreement because several opening events would be charged against the FY 90 General Fund budget. The effective start date of the Premier agreement was established by Mr. Liegler and Mr. Karetas to be February 1, 1990. However, this decision was not agreed upon until December 1990. Had **the start date of the agreement been December 1, 1989, as desired by Premier, several Start-up Costs, such as operating losses, overhead, and interest may not have been incurred or incurred to a lesser extent. However, delaying the start date of the agreement was not totally detrimental to Premier because all operating costs were paid by SDCCC.**

b. SDCCC did not have on file adequate supporting documentation or justification for $516,598 of start-up costs, which includes personnel/payroll, equipment purchases, overhead, and miscellaneous.

FINDINGS (cont'd)

START-UP COSTS

Category	Cost
Personnel/Payroll	$343,803
Food and Beverage Events	142,030
Operating Losses	115,180
Overhead	62,500
Interest	23,595
Equipment Purchases and Rentals	19,895
Other/Miscellaneous	98,983
Total	**$805,986**

Food and Beverage Event expenses include two grand opening ceremonies and other promotional events, for example IAAM, through April 7, 1990. SDCCC agreed to fund Premier's operating losses for December 1989 and January 1990 and 50 percent of Premier's overhead related to the period prior to the Convention Center opening because of the delay in starting the agreement. Other/Miscellaneous includes items such as materials, food supplies, travel expenses, and employment recruiting expenses incurred during the period December 8, 1988 through November 30, 1989.

c. Premier included in start-up costs equipment purchases totaling $8,583 that are not tagged as SDCCC property or recorded on the SDCCC fixed assets inventory. Also, some of the items could not be located at the Convention Center. During June, July, and August 1988, Premier purchased 43 training tapes at a cost of $8,122. Later, in November 1989, Premier purchased a VCR and monitor for $461. The auditor sighted the VCR and monitor; however, Premier was able to produce only 30 of the 43 films.

RECOMMENDATION: *Require Premier to provide documentation for all start-up costs.*

FINDINGS (cont'd)

SDCCC COMMENT: With the exception of the **$42,896** discussed below, all start-up costs were approved by the former general manager and the board of directors. SDCCC will require Premier to provide documentation for any unsupported start-up costs.

RECOMMENDATION: *Review the $42,896 of additional Start-Up Costs, not approved by the SDCCC Board, for appropriateness.*

SDCCC COMMENT: The items comprising the **$42,896** of additional start-up costs will be reviewed by the Budget Committee.

RECOMMENDATION: *Ensure all SDCCC assets are properly tagged and accounted for. A complete physical inventory should be performed and the results reconciled to the accounting records. Unexplained differences should be investigated.*

SDCCC COMMENT: A physical inventory of fixed assets was taken by an outside firm in September **1991.** We have compared the results of the physical count to the accounting records and are in the process of investigating differences.

12. SDCCC has not been compensated for food service equipment borrowed by Premier for their Del Mar Race Track operation. During the period June through August, **1990,** Premier borrowed SDCCC equipment without permission. This equipment included hot box carts, refrigerated carts, and electric slicers, etc. Records were not available from SDCCC indicating how long Premier kept the items borrowed; however, documentation indicates all items were returned by August **13, 1990.** In a letter from George Karetas of Premier to Mr. Liegler, dated August **10, 1990,** "...Our Del Mar operation has been using five refrigerated carts, four heated carts, and two electric slicers from the Center." "...I suggested to rent the equipment for the duration of the meet for **$5,000.** Bruce (Bruce MacKenzie of Premier) advised Gene Stevens (SDCCC Operations Manager) that the equipment was borrowed and asked

FINDINGS (cont'd)

if it would be permissible to rent it for $5,000. There is a question now as to whether there was approval to rent the equipment or simply an acknowledgement that the equipment was being used by Premier." Records do not indicate SDCCC responded to the Premier letter.

Although the documentation indicates SDCCC food service equipment was taken from and returned to the Center, Premier did not compensate SDCCC for the use of this equipment. The Assistant General Manager of SDCCC advised that subsequent to this incident, food service equipment is not loaned to anyone.

RECOMMENDATION: *Determine a monetary compensation for Premier's use of SDCCC equipment and request reimbursement from Premier.*

SDCCC COMMENT: Upon learning that SDCCC equipment had been borrowed by Premier for the opening of its Del Mar operation, the former General Manager directed the immediate return of all items. Premier was reminded in writing that the agreement entered into by the Port and the City along with the contract between Premier and SDCCC did not allow the use of equipment off-site. The only exception would be a contracted SDCCC/Premier function to a lessee of the Center. Premier's earlier offer to compensate SDCCC was to cover the entire seven week Del Mar season. The total time period that Premier had use of the equipment, including transfer to and from the Del Mar facility, was less than ten days.

SDCCC's position at all times was that there was no agreement, rental or otherwise, to loan out SDCCC equipment. Although the matter was resolved quickly and SDCCC suffered no equipment damage, it can also be argued that some compensation is appropriate for the brief period in question. Premier will be invoiced a prorated amount of $1,000 to cover the time Premier had use of the equipment.

FINDINGS (cont'd)

13. **SDCCC lost $2,015.08 of its share of Premier's Operating Margin for May 1990 due to catering services that Premier discounted for an employee.** On May 5, 1990, David Lou, former Premier Controller, held his wedding reception at the Convention Center and ordered $5,926.68 of food and beverage services. The bill was later discounted $2,370.68 (40 percent). This reduction of Premier revenues also reduced the Operating Margin by the same amount. Under the Food and Beverage agreement SDCCC is entitled to 85 percent of the Operating Margin. Therefore, SDCCC lost 85 percent of the $2,370.68 discount, or $2,015.08. There is no official policy authorizing any employee discounts for catered events. A SDCCC memorandum, dated March 12, 1990, indicates the 40 percent discount was intended for food and beverage services invoiced to SDCCC; however, nothing in the memo suggests the discount was to be extended to Premier employees. In a memo dated May 3, 1991, the Acting General Manager, advised the SDCCC Board of Directors that the practice of allowing employee discounts for personal food and beverage events has been suspended and will be the subject of a survey of other convention centers and a future report to the Board.

RECOMMENDATION: *Recover $2,015.08 from Premier for the discounted David Lou wedding reception.*

SDCCC COMMENT: This discount effectively provided the food and beverage service to the Premier employee at Premier's estimated cost and, therefore, did not result in any net cost to SDCCC. Since there was not a formal policy or procedure for providing or prohibiting employee discounts at the time of the subject event, SDCCC does not believe it would be appropriate to bill Premier for the discounted function.

RECOMMENDATION: *Discontinue the practice of providing discounts for catered events to employees of SDCCC or SDCCC contractors.*

SDCCC COMMENT: This practice has been discontinued.

FINDINGS (cont'd)

14. SDCCC **may not be realizing the full revenue potential of leasing space to certain advertising organizations in the Convention Center lobby.** SDCCC awarded lease agreements to three firms that pay SDCCC little or no rent for their advertising activities in the lobby, while a fourth advertising lessee, Expo Vision, Ltd., pays SDCCC approximately $100,000 per year to operate in the lobby. The SDCCC Contract Administrator advised none of the agreements were awarded pursuant to a Request for Proposals (RFP).

    a. San Diego Business Journal (Journal) publishes the "San Diego Convention Center Guide", a guide to attractions, dining, accommodations, and convention services. SDCCC granted the Journal the exclusive right to distribute the guide in the lobby; in exchange, the Journal agreed to print 12 pages of SDCCC "editorial" and photographs and print 250,000 copies per year. The Journal appears to have made the best deal they could; however, SDCCC does not receive any portion of advertising revenue the Journal receives from companies that advertise in the San Diego Convention Center Guide. The agreement was executed on April 25, 1989 by Ted Owen of the Journal and Mr. Liegler. The Journal would not provide the auditor with revenue to date from the Guide advertisers.

    b. TCS Publishing, Inc. (TCS), publishes "The San Diego Resource Directory", a coat pocket sized advertising directory. SDCCC granted TCS the exclusive right to distribute this type of directory at the Convention Center; in exchange, TCS agreed to print 100,000 copies of the Directory per year and pay SDCCC $2,500 upon execution of the agreement, $3,500 at the beginning of the second year of the agreement, and $4,500 at the beginning of the third year of the agreement. As additional consideration, TCS agreed to pay SDCCC a monthly commission of 25 percent of all single copy sales of the Directory; however, the Directory is given away and never sold and does not even have a price printed on it. TCS appears to have made the best deal they could; however, SDCCC is not entitled to any portion of the advertising revenue TCS receives from companies that advertise in the Directory. The agreement was executed on November 30, 1990 by Ted Owen, President of TCS, and Mr. Liegler. Owen advised TCS has received $65,000 in advertising revenues at the time of the auditor's inquiry.

FINDINGS (cont'd)

c. SDCCC provides rent free space and the exclusive right for the San Diego Convention and Visitors Bureau (ConVis) to operate a restaurant reservation and information booth in the Convention Center lobby. The only consideration specified in the agreement, executed on January 31, 1990, is for ConVis to display and provide restaurant information and reservation services to convention and trade show guests. ConVis advised they have received approximately $70,000 in revenue at the time of the auditor's inquiry from this booth.

d. Expo Vision, Ltd. (Expo) and SDCCC entered into an agreement on August 25, 1989 whereby Expo operates backlit advertising displays in the Convention Center lobby. SDCCC receives a monthly commission of approximately one-third of Expo's gross advertising sales from the displays. The SDCCC Contract Administrator advised Expo has performed well and pays SDCCC approximately $100,000 per year in commissions.

e. SDCCC entered into an agreement on February 28, 1991, with San Diego Theatre League (SDTL) to operate a Times Arts Tix booth in the center. The agreement does not provide for any compensation to SDCCC.

RECOMMENDATION: *Renegotiate the agreements between San Diego Theatre League, San Diego Business Journal, TCS Publishing, and ConVis to provide SDCCC with a fair value of consideration, when the terms of these agreements expire.*

SDCCC COMMENT: These contracts will be reviewed and renegotiated.

FINDINGS (cont'd)

CATEGORY: POLICIES & PROCEDURES

15. **Monthly car allowance payments to certain employees do not appear justified.** The Administrative Director, Executive Assistant, Marketing Director, and Finance Director receive a monthly car allowance of $330 each. SDCCC Administrative Policy No. 5, "Car Allowances", states the allowance is designed to pay for approximately one-half the costs of owning and maintaining a vehicle and represents the mix of business, within the County of San Diego, and personal use. Employees are reimbursed a mileage rate for use outside the County of San Diego. The Marketing Director may use his vehicle to a certain extent in conducting SDCCC business that would justify the monthly allowance. However, car allowances for the Administrative Director, Executive Assistant, and Finance Director do not appear warranted. Instead, these individuals could be reimbursed for mileage related to SDCCC business.

RECOMMENDATION: *Review the need for the Administrative Director, Executive Assistant, and Finance Director to be paid monthly car allowances and, if appropriate, discontinue their car allowances. Consider reimbursing these ernployees based upon miles traveled on SDCCC business.*

SDCCC COMMENT: The car allowances have been discontinued for the Executive Assistant and the Finance Director. The allowance will continue for the Marketing Director on the basis of marketing related business use. Existing policy will be revised. The former Administrative Director, now the Assistant General Manager, and the Operating Director drive SDCCC owned vehicles. The General Manager has a leased vehicle pursuant to her contract.

FINDINGS (cont'd)

16. **SDCCC Directors and employees received 74 percent of the complimentary tickets distributed in 1990.** SDCCC Administrative Policy No. 9, "Complimentary Admissions Policy", requires a complete accounting be maintained for all complimentary tickets issued. However, the policy does not prohibit the issue to SDCCC personnel or associates. A review of the policies for other convention centers disclosed Dallas, New Orleans, and Boston prohibit the distribution of complimentary tickets to employees.

    A review of a "Complimentary Ticket Distribution" summary report for 1990, provided by Doris Glaser, disclosed SDCCC distributed 1,223 complimentary tickets. SDCCC Directors and employees received 910 tickets, Contractors at SDCCC (Ace Parking, SDCCC General Counsel, Meeting Services, Inc., and Premier) received 130 tickets and other recipients, unrelated to SDCCC such as the Chamber of Commerce, Hotels, and the Press, received 183 tickets.

RECOMMENDATION: *Discontinue the practice of providing employees with complimentary tickets.*

SDCCC COMMENT: While other convention centers may not have a formal policy regarding complimentary tickets, the practice of providing complimentary tickets to board members and employees is common in the industry. SDCCC board members and staff have gained valuable information on events and the building's operations through this practice. SDCCC's formal policy on this matter ensures that a record of complimentary tickets distributed is maintained.

FINDINGS (cont'd)

17. **SDCCC does not have an Administrative Policy regarding conflict of interest.** Board members have been following the Fair Political Practices Act and employees the SDCCC Personnel Guideline 502.0, "Conflict of Interest". This policy encourages employees to avoid conflicts and requires them to notify supervisors prior to taking any form of employment with an organization that competes or deals with SDCCC; however, the Personnel Guideline does not address employees' current affiliations with such organizations. The policy does not deal with contractor/vendor affiliations.

RECOMMENDATION: *Establish an Administrative conflict of interest policy and a code of ethics for Board Members and SDCCC personnel.*

SDCCC COMMENT: On September 23, 1985 the City Council approved the SDCCC Conflict of Interest Code which the Board and key staff have followed since. An Administrative Policy will be developed to incorporate the Conflict of Interest Code and a code of ethics.

RECOMMENDATION: *Establish procedures for SDCCC personnel entertaining or being entertained by SDCCC vendors and contractors.*

SDCCC COMMENT: Such procedures will be incorporated into the existing Personnel Guidelines dealing with "Conflict of Interest."

18. **SDCCC Administrative Policy No. 2, "Travel, In-Town Expenses and Credit Card Policy", has not been followed.** The Policy requires travel reports to be submitted with a complete set of documentation and requires trips estimated to exceed $150 to be approved in advance. Mr. Liegler did not submit his travel requests in advance for Board approval, did not submit or submitted late his travel reports, and in several instances did not submit adequate documentation with the reports.

FINDINGS (cont'd)

RECOMMENDATION: *Enforce current SDCCC Policy regarding obtaining approval before taking trip, justifying and explaining benefit received, listing all individuals entertained, and submitting a complete trip accounting in a timely manner.*

SDCCC COMMENT: As indicated in the audit, the former General Manager did not always conform to the procedures described above. These procedures are currently being enforced.

RECOMMENDATION: *Modify the existing SDCCC Administrative Policy to require the General Manager's expenditures to be approved in advance and reviewed after the fact by the Chair of the Board of Directors.*

SDCCC COMMENT: Administrative Policy No. 2 does require review and approval of the General Manger's expenditures by the President, Treasurer or Secretary; however, it does not specifically require pre-approval. The recommended process has been occurring in practice since the departure of the former General Manager and the current Policy will be modified accordingly.

19. Timekeeping records are not adequately maintained for SDCCC security personnel. During the course of the audit, allegations arose concerning falsifications of time sheets by security personnel. Documentation available could not substantiate the allegation. However, SDCCC staff advised the time clock in the security office is not used. Security personnel complete and submit handwritten time sheets as documentation of hours worked. Time cards that are properly validated by a time clock provide control over actual hours worked for employees.

FINDINGS (cont'd)

RECOMMENDATION: *Institute timekeeping procedures that require security employees to clock in and out at the beginning and end of their shifts.*

SDCCC COMMENT: **An improved payroll and time sheet system has been implemented to correct past deficiencies. Additionally, logs will be maintained for recording signing in and out times.**

Respectfully submitted,

Edward T. Nash

Edward T. Nash
Auditor

Approved:

Anthony L. Salmon

Anthony L. Salmon
License & Tax Audit Manager