

Accomplishments Report



April 2011

Report to the Audit
Committee

ACTIVITIES AND
ACCOMPLISHMENTS
OF THE OFFICE OF
THE CITY AUDITOR
JANUARY 2010
THROUGH
DECEMBER 2010

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THE CITY OF SAN DIEGO

DATE: April 6, 2011
TO: Honorable Members of the Audit Committee
FROM: Eduardo Luna, City Auditor
SUBJECT: **Activities and Accomplishments of the Office of the City Auditor
January 2010 through December 2010**

This is a report on the Activities and Accomplishments of the Office of the City Auditor for the period January 1, 2010 through December 31, 2010.

The calendar year covered by this report has been productive, challenging, and rewarding. I am very grateful to the Audit Committee for the support given to this Office. I am also grateful to the City Administration for its cooperation during the conduct of our audits.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Councilmembers
Jay M. Goldstone, Chief Operating Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst

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Executive Summary

This report summarizes the activities and accomplishments of the Office of the City Auditor from January 1, 2010 through December 31, 2010.

The Office of the City Auditor is an independent office that reports and is accountable to the Audit Committee and City Council. The City Auditor conducts performance audits of City departments, offices, and agencies in accordance with government auditing standards, and performs fraud investigations using procedures recommended by the Association of Certified Fraud Examiners. Our mission is to advance open and accountable government through accurate, independent, and objective audits and investigations that seek to improve the economy, efficiency, and effectiveness of City government. Our performance audits and investigations have benefited the City in many ways. Some audit reports recommend ways to reduce costs or increase revenues, while other reports identify opportunities to increase effectiveness, use resources more efficiently, and improve internal controls. In addition, our investigations of Fraud Hotline complaints have identified waste and abuse of City resources. For all of the issues that have been identified in our audit and investigative reports, we have made recommendations for City management to implement to mitigate the problems found.

Our principal goal is to increase the economy, efficiency, and effectiveness of the City through audits and investigations and their recommendations. From January 1, 2010 through December 31, 2010, the Office produced 19 reports with 139 recommendations. Our Office identified \$5,963,823 in potential monetary recoveries and cost saving for the City, which equates to \$2.50 in saving for every \$1.00 of audit costs. Since the establishment of the Office in July 2008, our Office has identified a cumulative \$13,389,094, which equals to \$2.75 in potential savings for every \$1.00 in audit cost. We have an ongoing process of performing follow-up procedures to determine how many of the recommendations have been implemented.

Introduction

With the City of San Diego (City) having an operating budget exceeding \$2.8 billion, the members of the San Diego City Council need an effective means to monitor the use of tax dollars and City activities and programs. As an independent audit function, the Office of the City Auditor (Auditor's Office) plays an integral role in the oversight process. Findings and recommendations developed through the audit process have helped save tax dollars, increase revenues, and improve the management of City programs. Additionally, our independent reviews have served as an important, objective information source for the City Council, City management, and the general public.

City Auditor's Authority and Responsibility

The San Diego City Charter prescribes the powers and duties of the Auditor's Office. Section 39.2 outlines the duties of the City Auditor as follows:

- The City Auditor shall report to and be accountable to the Audit Committee.
- The City Auditor shall prepare annually an Audit Plan and conduct audits in accordance therewith and perform such other duties as may be required by ordinance or as provided by the Constitution and general laws of the State.
- The City Auditor shall follow Government Auditing Standards.

The City Charter grants the City Auditor the following access and authority:

- The City Auditor shall have access to, and authority to examine any and all records, documents, systems and files of the City and/or other property of any City department, office or agency, whether created by the Charter or otherwise.
- It is the duty of any officer, employee or agent of the City having control of such records to permit access to, and examination thereof, upon the request of the City Auditor or his or her authorized representative. It is also the duty of any such officer, employee or agent to fully cooperate with the City Auditor, and to make full disclosure of all pertinent information.
- The City Auditor may investigate any material claim of financial fraud, waste or impropriety within any City Department and for that purpose may summon any officer, agent or employee of the City, any claimant or other person, and examine him or her upon oath or affirmation relative thereto.
- All City contracts with consultants, vendors or agencies will be prepared with an adequate audit clause to allow the City Auditor access to the entity's records needed to verify compliance with the terms specified in the contract.

The San Diego Municipal Code Section 22.0711 makes it unlawful to mislead the City Auditor. This Improper Influence Ordinance states:

- It shall be unlawful for any elected official, officer, or employee of the City, or anyone acting under their direction, to take any action to coerce or fraudulently influence, manipulate or mislead the City Auditor or any member of his or her staff in the conduct of an audit with the specific intent of obstructing such audit or rendering any report of such audit materially misleading.
- Any person who violates this section, or who counsels, aids, abets, advises, or participates with another to commit such violation, is guilty of a misdemeanor and is subject to the penalties set forth in Chapter 1 of the Municipal Code.

Mission and Core Service

The Mission and Core Service of the City Auditor's Office are as follows:

Mission Statement: To advance open and accountable government through accurate, independent, and objective audits and investigations that seek to improve the economy, efficiency, and effectiveness of City government.

Core Service: Through performance audits, attestation audits, and special investigations, the Office of the City Auditor provides essential information to assist the City Council in its decision-making process. The Office of the City Auditor also provides valuable information to City management and the general public. Our mission is to independently assess and report on City operations and services while providing objective and technically correct information.

Audit Services

The Office of the City Auditor issues reports that identify ways to increase the economy, efficiency, effectiveness, and accountability of City government and provide independent, reliable, accurate, and timely information to the City Council and other stakeholders.

Role of Auditing In City Government

The City Auditor's audits and reviews provide insight into City departments, offices, agencies, and their programs. Such audits and reviews are but one step in the process of establishing City programs, evaluating their performance, providing the City Council and City Administration with needed information, and making any necessary changes to ensure that City programs are as efficient and effective as possible.

Auditing City Departments and Programs

The Auditor's Office performs or coordinates audits and studies according to Government Auditing Standards promulgated by the Comptroller General of the United States. The following describes the scope of work performed.

Performance Audits

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Performance audits that comply with Generally Accepted Government Auditing Standards (Yellow Book) provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support the conclusions reached. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions.

A performance audit is a dynamic process that includes consideration of the applicable standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

Financial Audits

Financial audits include financial statement and financial-related audits. Financial statement audits provide reasonable assurance that the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

In accordance with the City Charter, an independent accounting firm conducts the audit of the City's Comprehensive Annual Financial Report (CAFR). The City Charter states:

- The Audit Committee shall recommend to the Council the retention of the City's outside audit firm and, when appropriate, the removal of such firm.
- The Audit Committee shall monitor the engagement of the City's outside auditor and resolve all disputes between City management and the outside auditor with regard to the presentation of the City's annual financial reports. All such disputes shall be reported to the Council.

The City Auditor is responsible for administering the contract with the outside audit firm that conducts the City's financial audit. The City Auditor provides technical assistance with the preparation of the Request for Proposal to hire the outside auditor, sits on the panel that evaluates and selects the outside audit firm, reviews the accuracy of the invoices submitted by the outside audit firm, and makes the appropriate payments to the firm based on the terms of City's contract and the audit work performed.

Attestation Engagements

The Yellow Book defines an attestation engagement as:

An engagement concerned with examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. Possible subjects of attestation engagements could include reporting on:

- an entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants;
- the effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- management's discussion and analysis presentation;
- prospective financial statements or pro-forma financial information;
- the reliability of performance measures;
- final contract cost;
- allowability and reasonableness of proposed contract amounts; and
- specific procedures performed on a subject matter (agreed-upon procedures).

Annual Citywide Risk Assessment

Accepted auditing practices and the Institute of Internal Auditors' Standards require the chief audit executive to establish a risk-based approach to determine the priorities for audit activities. The City Auditor conducts an Annual Citywide Risk Assessment as the basis for the Annual Audit Plan. The risk assessment was developed by using the Institute of Internal Auditors' recommended procedures as well as risk assessment models used by other government entities. The City's budget data and the component unit information in the City's financial statements are used to define the audit universe (all of the City's potential audits that could be performed). The City's significant Departments and City Agencies and their primary Activity Groups are assigned a risk score based on a management questionnaire with nine weighted "risk factors," such as the amount of budgeted expenditures, the level of cash handling, and the adequacy of internal controls. The results of the management surveys are tabulated in the Annual Citywide Risk

Assessment, which ranks the City's activities with the highest risk factors that may warrant and benefit from audit review.

Annual Audit Work Plan (July through June)

The City Auditor develops an Annual Audit Work Plan by considering the audits mandated by the City Charter and the San Diego Municipal Code as well as the results of the Annual Citywide Risk Assessment. We design our work plan to address what we consider to be the highest priority areas, while limiting the scope of work to what we can realistically accomplish with the staff resources available. The Audit Work Plan includes our scheduled Performance Audits as well as our other audit activities. Included is the proposed audit objective for each assignment and estimated audit hours. We perform an in-depth risk assessment on each activity group selected for audit to ensure our audit objective covers the areas of highest risk for that activity group and adjust the audit objective, procedures, and hours accordingly. Our estimated audit hours are based on our knowledge of the complexity of the activity groups selected for audit. We should note that actual hours can vary from estimated due to changes in audit scope, expanded audit testing related to identified findings, and previously unforeseen situations.

Mid-Year Additions to the Audit Work Plan

Any requests to add audits to the Audit Work Plan mid-year are presented to the Audit Committee with analysis from the City Auditor of the impact the additional proposed audit will have on other audits in the current Audit Work Plan. Audit priority will be given to those requests that pertain to the health and safety of citizens, potential for significant financial savings or increased revenues, and/or issues of integrity.

Audit Recommendations Follow-up

To ensure recommendations are implemented by City management on a timely basis, the City Auditor undertakes a semi-annual recommendation follow-up process to track the status of all previous audit recommendations. The City Auditor has established a process with the City Comptroller whereby the Comptroller staff tracks the implementation status of audit recommendations, and provides weekly status updates to the City Auditor. The City Auditor prepares semi-annual follow-up reports on the status of all open recommendations for audit reports issued through the periods ending June 30th and December 31st. The City Auditor presents the results of follow-up reports to the Audit Committee.

Non-audit Services

The Yellow Book establishes that audit organizations that provide non-audit services (professional services) must communicate to management that the scope of work performed does not constitute an audit under the yellow book. Further, audit organizations that provide non-audit services must evaluate whether providing non-audit services creates an independence impairment in fact or appearance with respect to the entities they audit.

Fraud Hotline (866-809-3500)

The Office of the City Auditor administers the City's Fraud Hotline program. The primary objective of the Fraud Hotline is to provide a means for City of San Diego employees and citizens to confidentially report suspected instances of fraud, waste, or abuse. The Network Inc., an independent third-party provider, accepts calls from City employees and the public, providing complete confidentiality. The caller can choose to remain anonymous. The Network issues a report for each complaint to the Office of the City Auditor. The Office of the City Auditor investigates all material complaints received related to fraud, waste, and abuse using procedures recommended by the Association of Certified Fraud Examiners. Any non-fraud or immaterial complaints made to the Fraud Hotline are reviewed by the City Auditor's Hotline Intake and Review Committee, which is composed of the City Auditor, the Personnel Director, and the Labor Relations Director or their designees. In most cases, non-fraud related or immaterial complaints are referred to City departments for further review and investigation.

During the period January 1, 2010 through December 31, 2010, the Office of the City Auditor received 71 complaints, and issued 2 Hotline Investigative Reports with 4 recommendations regarding complaints that were substantiated or corrective actions were needed. The City Auditor issues quarterly reports to the Audit Committee summarizing Hotline activities. According to the Association of Certified Fraud Examiners' 2010 Report to the Nation, Hotlines are a very effective tool for fraud detection. Over 40 percent of the fraud cases in their 2010 study were uncovered by a tip or complaint. The Office of the City Auditor is dedicated to investigating all of the reported claims of material fraud, waste and abuse.

Benefits to the City of San Diego

The City Auditor's expanded audit approach has benefited the City of San Diego in a variety of ways. Some audits have resulted in recommendations to reduce costs or increase revenues. Other audits have resulted in recommendations to increase effectiveness, use resources more efficiently, improve internal controls, or provided objective, timely information to the City Council, City Administration, and the public.

Cost Savings and Increased Revenues

Our principal goal is to increase the economy, efficiency, and effectiveness of the City through audits and investigations and their recommendations. From January 1, 2010 through December 31, 2010, the City Auditor's Office completed 14 performance audits, 3 agreed-upon procedures reviews, and 2 hotline investigations, which produced 19 audit reports. These reports contained 139 recommendations to improve economy, efficiency, and effectiveness within City government. As shown in the Summary of Work Performed (**Attachment I**), our Office identified \$5,963,823 in potential monetary recoveries and cost saving for the City, which equates to \$2.50 in potential savings for every \$1.00 of audit costs.

At the conclusion of each audit, we determine if there are any quantifiable monetary benefits derived from our audit findings and recommendations. If the monetary benefits reoccur in future years, we calculate the benefit for up to a 5 year period. These monetary benefits are an estimate and are contingent on our recommendations being successfully implemented by City management. We are working with the Administration to follow up on recommendations and ensure they are implemented as intended.

Since the establishment of the Office in July 2008, our Office has identified a cumulative \$13,389,094, which equals to \$2.75 in potential savings for every \$1.00 in audit cost.

Audit Recommendations

In addition to identifying cost savings and increased revenues, the City Auditor's Office has also made audit recommendations that benefited the City in the following ways:

- ***Improved Economy or Efficiency.*** Audit recommendations identified ways to (a) maximize revenues or identify opportunities for new revenues or cost savings; (b) manage or utilize its resources including public funds and personnel in an economical and efficient manner; and (c) identify causes for inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, use of resources, allocation of personnel, and purchasing policies.

- ***Improved Operations or Program Effectiveness.*** Audits have also helped the auditees (a) safeguard assets; (b) detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisition, use, or disposition of assets; (c) promote accountability; (d) ensure compliance with laws, regulations, policies, procedures, or generally accepted

industry standards; (e) check the accuracy and reliability of its accounting data; (f) achieve the desired program results; and (g) meet the objectives the City Council or other authorizing bodies established.

• ***Provided Objective Information.*** Audit reports have also provided reliable, objective, and timely information to decision-makers and the public. This information has assisted the City Council and City Administration in making needed policy and administrative changes and has informed the public about the management of City government.

See the Summary of Audit Reports (**Attachment II**) for a brief summary for each of the 19 audit and investigative reports issued by the City Auditor from January 2010 through December 2010. Attachment II also includes the 139 specific recommendations made for the 19 reports.

Office Overview

Budget

The Office of the City Auditor was established as an independent department in July 2008 for Fiscal Year 2009. The Fiscal Year 2011 approved budget for the Office of the City Auditor includes nineteen staff members at a budgeted cost of approximately \$2.8 million for salaries, fringe benefits, and non-personnel expenses such as office equipment, training and supplies. The City Auditor's Fiscal Year 2011 budget also includes \$942,374 for the City's annual financial statement audit of the City's Comprehensive Annual Financial Report (CAFR) that is conducted by an outside independent audit firm. The City Auditor administers the CAFR audit contract. During Fiscal Year 2011, the Office of the City Auditor will have 15 Performance Auditors to conduct audits and investigations.

The following tables represent the departmental budget for FY10 and FY11.

DEPARTMENT SUMMARY

	FY 2010 [¶]	FY 2011
Positions	16.50	18.50*
Salaries and Wages	\$ 1,395,134	\$ 1,633,127
Fringe Benefits	\$ 738,121	\$ 1,010,510
Non-Personnel Expenditures	\$ 162,949	\$ 175,169
<i>DEPARTMENTAL TOTAL</i>	\$ 2,296,204	\$ 2,818,806
CAFR – Outside Audit	\$ 925,000	\$ 942,374
TOTAL BUDGET	\$ 3,221,204	\$ 3,761,180

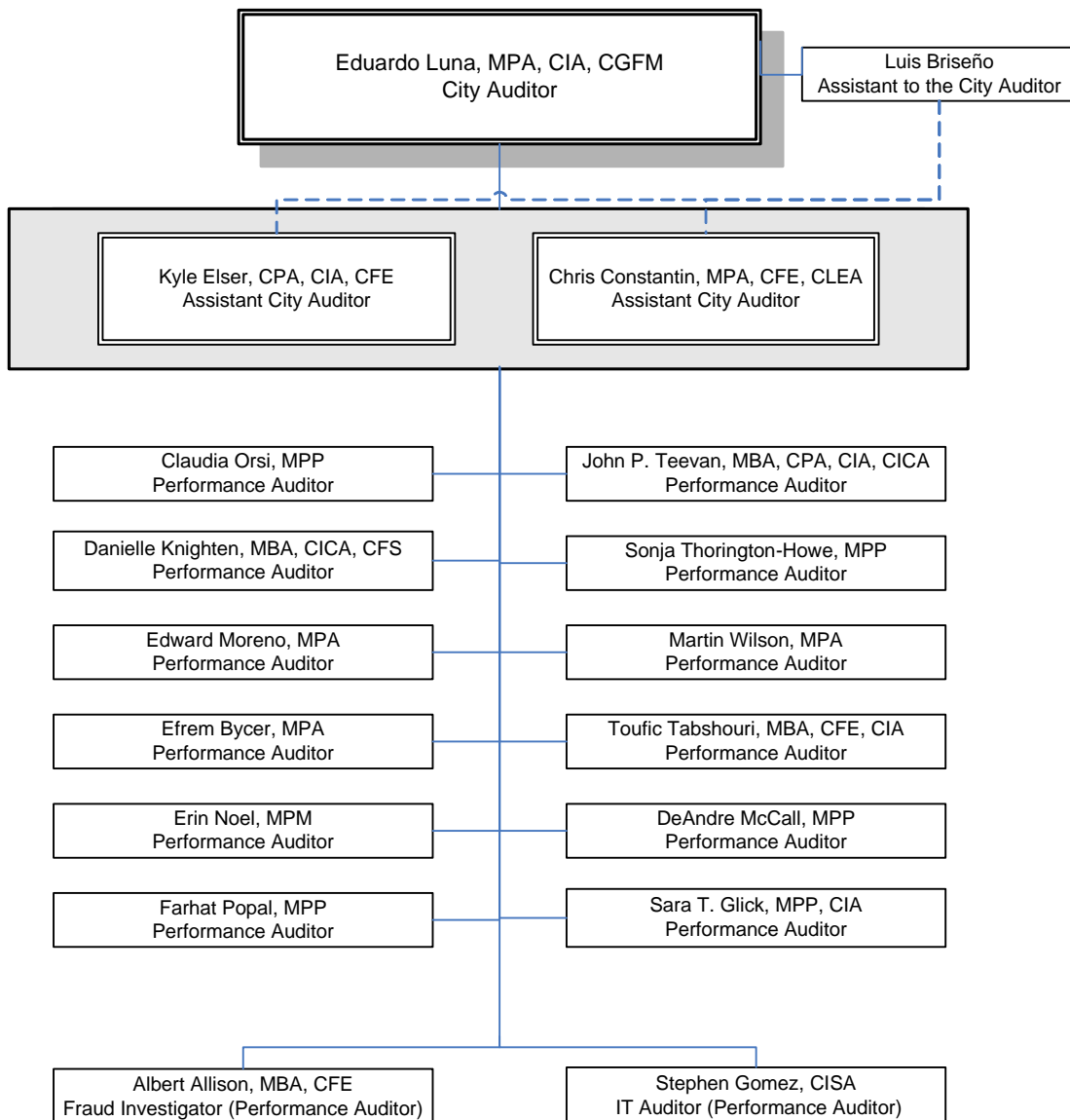
[¶]This FY 2010 budget information includes the City Council approved year-end adjustments that were not included in the City Auditor's original published budget. For example the original budget only had \$250,000 allocated for the CAFR audit.

*The City Auditor's FY 2011 budget authorized the hiring of one (1) audit staff with a start date after January 2011. Therefore, the City Auditor had 18 budgeted positions at the period end date for this report (December 2010), and nineteen positions starting in January 2011.

For the period ending December 31, 2010, the Office was staffed with 18 positions including 14 Performance Auditors, two Assistant City Auditors, one Assistant to the City Auditor, and the City Auditor as shown in the organization chart below.



City of San Diego Office of the City Auditor December 31, 2010



Staff Background and Experience

Eduardo Luna was hired as the City of San Diego's Internal Auditor in September 2007. Prior to joining the City, Eduardo worked in the City of San Jose's Office of the City Auditor between 1995 and 2007, and he worked for several years as an Evaluator with the U.S. General Accounting Office. With the passage of Proposition C on June 3, 2008, the independent Office of the City Auditor was created in July 2008, and Eduardo Luna was formally appointed and confirmed for a ten-year term as the City of San Diego's first City Auditor on April 14, 2009.

The City Auditor's staff have diverse educational backgrounds and work experience. Staff educational backgrounds include accounting, economics, political science, business administration, engineering, international studies, liberal arts, and computer applications and networking. Further, all staff members have advanced academic degrees and/or professional certifications (see Table 1). Additionally, staff members have had previous experience in public accounting, health care, technology and federal, state, and local government. This wide range of educational training and experience brings a broad perspective to the variety of audit work the Office conducts.

Table 1:

Certifications for Professional FTEs	Number Held
Certified Internal Auditor (CIA)	5
Certified Fraud Examiner (CFE)	4
Certified Internal Control Auditor (CICA)	2
Certified Public Accountant (CPA)	2
Certified Fraud Specialist (CFS)	1
Certified Government Financial Manager (CGFM)	1
Certified Law Enforcement Auditor (CLEA)	1
Certified Information Systems Auditor (CISA)	1
Graduate Degrees for Professional FTEs:	
Masters in Public Policy (MPP)	5
Masters in Public Administration/Affairs (MPA)	5
Masters in Business Administration (MBA)	4
Masters in Public Management (MPM)	1

Members of the staff have been officers or members in the following professional organizations: Association of Local Government Auditors (ALGA), Institute of Internal Auditors (IIA), Association of Government Accountants (AGA), American Institute of Certified Public Accountants (AICPA), Association of Certified Fraud Examiners (ACFE), Information Systems Audit and Control Association (ISACA), Association of Certified Fraud Specialists (ACFS), and International Law Enforcement Auditors Association (ILEAA).

Leadership, Professional Development and Other Accomplishments

The Office of the City Auditor has received and participated in the following:

- The Association of Local Government Auditors conducted a peer review of the City Auditor's Office and issued a report in October 2010. They reviewed the internal quality control system of our audit organization and conducted tests in order to determine if our system operated to provide reasonable assurance of compliance with Government Auditing Standards. The independent peer review team issued its highest rating, which specifies the City of San Diego Office of the City Auditor has conducted work in full compliance with Government Auditing Standards for the period July 1, 2008 through June 30, 2010.
- The City Auditor served on the United States Comptroller General's Domestic Working Group (November 2010). The group is organized to help advance the accountability community by allowing leaders in the federal, state, and local governmental audit communities to informally discuss topics of mutual concern and collaborate on issues of mutual interest.
- Assistant City Auditor participated on an ALGA Peer Review team to assess compliance with Government Auditing Standards for the City of Oakland's Audit Department (March 2010).
- Assistant City Auditor appointed Assistant Editor of ALGA's national Quarterly publication (March 2010).
- City Auditor staff provided assistance to the Citizen's Revenue Review and Economic Competitiveness Commission.
- In July 2010, the City Auditor management team held a strategic planning retreat.
- Made presentations to the San Diego Taxpayers Association Board of Directors (January 2010) and at the Association of Certified Fraud Examiner/Institute of Internal Auditors joint meeting (November 2010).
- Co-hosted the International Law Enforcement Association Conference (October 2010).
- The City Auditor's appointment was recognized by the Mexican American Business & Professional Association (June 2010).

City Auditor Website

The City Auditor Website is continuously updated and maintained by staff. Our website provides information on the following:

- Mission Statement
- Contact Information
- Budget Information
- Audit Committee Information
- Listserv sign up to receive audit reports
- News and Announcements
- Hotline Information
- About Us
 - Our Charter Authority
 - Improper Influence Ordinance
 - City Auditor and Staff Biographies
 - Organizational Chart
- Policies and Procedures - Audit Manual
- Reports and Documents
 - Audit Reports
 - Monthly Status Reports
 - Annual Accomplishment Reports
 - Risk Assessment and Audit Work Plans
 - Peer Review Report
 - Audit Memorandums and Presentations
 - Hotline Reports and Statistics
- Resources
 - Links to various auditing organizations
- FAQs

During calendar year 2010, the City Auditor's Office Website received over 5,400 visits per month from individuals and organizations. The City Auditor's Website can be found at <http://www.sandiego.gov/auditor/>.

Summary of Work Performed – January 2010 through December 2010

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
1	01/12/10	10-012	Audit Of Accounts Of Theresa (Tracy) Jarman, Former Fire Chief	\$ 0	0	0
2	02/02/10	10-013	Bid To Goal: Efficiencies Have Been Achieved, But Improvements Are Needed In Documentation, Management, And Internal Review Of The Program	\$ 0	14	14
3	02/08/10	10-014	Audit Of Accounts Of Anna Danegger, Former Business Office Director	\$ 0	0	0
4	02/19/10	10-015	Audit Of Accounts Of David Wescoe, Former Retirement Administrator	\$ 0	0	0
5	03/05/10	10-016	Citywide Revenue	\$ 1,047,103 ¹	23	20
6	03/25/10	10-017	Performance Audit Of The City Treasurer's Investments Division	\$ 0	3	3

¹ We found that a State audit determined that the County of San Diego did not equitably distribute operating costs during the period 2004-2006, resulting in an under-remittance to the City of \$1,047,103. The County is disputing the State's findings. We recommended the City Treasurer follow-up on this issue and its Revenue Audit group perform audits of the Court-distributed revenues.

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
7	03/30/10	10-018	Performance Audit Of The Purchasing And Contracting Department - Citywide Open Purchase Order Program	\$ 703,660 ²	6	6
8	04/30/10	10-019	Performance Audit Of The Subcontractor Outreach Program (ScOPE)	\$ 0	13	12
9	06/22/10	10-020	Performance Audit Of The Development Services Department's Collection Of Water And Sewer Fees	\$ 171,342 ³	7	7
10	08/31/10	11-001	Performance Audit Of Risk Management's Public Liability And Loss Recovery Division	\$ 2,400,000 ⁴	23	17
11	07/21/10	11-002	Hotline Investigation Report Of Abuse From The Sale Of Scrap Metal	\$16,631 ⁵	1	1
12	07/29/10	11-003	Central Stores Agreed-Upon Procedures Inventory Count – FY2010	\$ 0	0	0

² We found that Central Stores charged a 5% surcharge to process invoices, which exceeded the actual administrative costs in FY2007–2009 by \$527,535. We recommended surplus funds be transferred to the General Fund. We also found a high rate of lost discounts totaling \$35,225 for FY2009, and recommended procedures to take advantage of all discounts. This annual figure over a five year period plus the surplus in surcharges results in a total benefit of \$703,660.

³ A review of the data submitted by the Water Department and the Development Services Department identified \$171,342 in unpaid water/sewer fees on accounts having permits and/or certificates of occupancy issued to them.

⁴ We estimate the City will incur a 3% savings on claim payments, settlements, judgments, external legal services, consultants, and insurance premiums for an annual benefit of \$800,000 two years after all recommendations are implemented. We included two additional years of estimated savings for a total benefit of \$2.4 million over five years.

⁵ General Services deposited \$1,631 from scrap metal proceeds as a result of our investigation, and we estimate an additional \$3,000 in annual scrap metal income for five years, for a total benefit of \$16,631.

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
13	08/9/10	11-004	Audit of Accounts of Nader Tirandazi, Former Financial Management Director	\$ 0	0	0
14	08/26/10	11-005	Agreed-Upon Procedures Review Of The Water Department's Increase In City Of San Diego Water Rates	\$ 0	0	0
15	10/06/10	11-006	Performance Audit Of The Fire Prevention Activities Within The City Of San Diego	\$ 795,322 ⁶	23	22
16	10/25/10	11-007	Performance Audit Of City Treasurer's Delinquent Accounts Program	\$ 697,000 ⁷	7	7
17	11/05/10	11-008	Hotline Investigation Of Contract Administration With The Greater Golden Hill Community Development Corporation	\$ 0	3	2

⁶ We found the Bureau has inadequate data systems that result in assigning personnel to sites not requiring inspections; these non-productive inspections cost an estimated \$50,000 annually. We recommended the Bureau electronically interface its database with the business tax system to capture current business information and avoid this inefficiency. We estimated over five years this would save \$250,000. We also found the Bureau has not invoiced \$545, 322 for its high rise inspections, bringing the total benefit to \$795,322.

⁷ We found the City has \$69.7 million in past-due accounts that Treasurer's Collections is no longer pursuing. We recommended Treasurer's use a third party collection agency to try and collect this debt. Based on a potential 1% collection rate, we estimate the City will receive \$697,000 by referring its outstanding debt to a collection agency.

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
18	11/29/10	11-009	Street Maintenance: City Needs To Improve Planning, Coordination, And Oversight To Effectively Manage Transportation Assets	\$ 132,765 ⁸	14	14
19	12/30/10	11-010	Managed Competition Cost Comparison Tool Testing	\$ 0	2	2
				\$5,963,823	139	127

Totals

⁸ We found General Services and Public Utilities are both receiving Underground Service Alerts to indicate future development in the public right of way. The cost of an alert is \$1.50 per email or \$2.00 per fax. We found the City can consolidate its service alerts into one account, and alerts can be forwarded to the other department. Based on past average costs, by consolidating to one account, the City would save an estimated \$26,553 annually and \$132,765 over five years.

Summary of Audit Reports

The following summarizes the audit reports that the Office of the City Auditor issued from January 2010 through December 2010:

10-012 AUDIT OF ACCOUNTS OF THERESA (TRACY) JARMAN FORMER FIRE CHIEF

We conducted a close out audit of the former Fire Chief. We found that Ms. Jarman had no outstanding debt to the City and no issues came to our attention requiring further review.

RECOMMENDATIONS

We did not make any audit recommendations.

10-013 BID TO GOAL: EFFICIENCIES HAVE BEEN ACHIEVED, BUT IMPROVEMENTS ARE NEEDED IN DOCUMENTATION, MANAGEMENT, AND INTERNAL REVIEW OF THE PROGRAM

The intent of the Bid to Goal (B2G) program is (1) for employee bids to meet or be less than industry benchmarks provided by a third party contractor and (2) to achieve savings which the Department calculates by subtracting actual costs from employee bid amounts. Two of five B2G employee bids we reviewed for fiscal years 2005 through 2008 exceeded industry benchmarks, because the benchmarks were done about two years prior to the program beginning and adjustments made to the employee bids—such as for inflation—were not made to the benchmarks. Further, we faced challenges in obtaining accurate and complete data on the B2G program because there has been no central source with this information and the various divisions have not maintained updated and complete historical records despite recommendations by the external auditor to do so. Without providing a benchmark which is comparable for the first year of the contract and maintaining complete and accurate records of the program, the auditability, credibility, and transparency of B2G is affected.

The divisions have achieved savings and efficiencies, such as reducing sanitary sewer overflows by 81 percent since fiscal year 2000, but B2G has been closely linked with other efforts, including Business Process Reengineering, which we believe would have improved the divisions' efficiency and effectiveness. We identified four areas where improvements are needed to better manage the program: the Department has not (1) clearly defined roles and responsibilities in the bid process for itself and the contractor; (2) tracked the administrative time

and costs of B2G; (3) tracked actual expenditures for the employee assurance fund, and (4) required the external audit of payouts or maintained accurate records of total gross payouts and the number of employees receiving payouts.

The Department has improved gainsharing goals in fiscal year 2010 and met the operational and administrative provisions for gainsharing. However, the degree of employee involvement varies across divisions because the Department lacks a system for involving all levels of employees in developing gainsharing goals. Without such a system, the Department is missing an opportunity to obtain valuable employee input.

The divisions have overstated program savings by about 8.4 percent from fiscal year 2005 through 2008. Discrepancies are occurring because the Department lacks specific guidance for preparing savings calculations, a process for ensuring that recommendations made by the external auditor are implemented, and an internal control and review process. Internal controls are an integral component of an organization's management. Without such controls, managers cannot ensure that B2G results are reliable and safeguard the integrity of the program.

RECOMMENDATIONS

- #1 We recommend that the Department solicit the development of a private sector benchmark at least every 5 years and ensure that the benchmark is comparable with the employee bid for at least the first year of the contract.
- #2 We recommend that the Department establish a central location for B2G documentation and core of employees with knowledge about the program.
- #3 We recommend that the Department ensure that accurate and updated B2G records, such as the annual performance reports, are maintained.
- #4 We recommend that the Department develop guidance with specific criteria for B2G annual reports, including the format and content and required updates to be included in such reports that will allow the results to be easily reviewed and compared.
- #5 We recommend that the Department maintain a public, historical record of B2G results by including previous years' annual reports on the Department's website.

- #6 We recommend that the Department identify clear and distinct roles and responsibilities for the Department and contractor and provide structure for the bid process.
- #7 We recommend that the Department develop a system for accurately tracking the administrative costs of the program.
- #8 We recommend that the Department develop a system for accurately tracking EEIR actual expenditures and report these in annual performance reports.
- #9 We recommend that the Department require an external audit of payouts, maintain an accurate record of the audited total gross payout amounts and number of employees receiving payouts, and evaluate whether setting net rather than gross payout caps is the most equitable and appropriate limit.
- #10 We recommend that the Department ensure that gainsharing goals continue to be measurable, auditable, and stretch goals.
- #11 We recommend that the Department establish a structured system for involving all levels of employees in the goal-setting process, such as encouraging participation on goal-setting teams on a rotational basis to obtain ideas and input for improving the efficiency and effectiveness of operations and hold these employees accountable and responsible for each performance measure.
- #12 We recommend that the Department develop detailed and specific guidance for standardized savings calculations, including instructions for sources of data, out of scope and in scope expenditures, encumbrances, and justifications for administrative relief when goals are not met.
- #13 We recommend that the Department develop procedures for ensuring that recommendations from external audits are implemented.
- #14 We recommend that the Department establish processes for making internal controls an integral part of planning, budgeting, management, accounting, and auditing the B2G program, including reviewing savings calculations and goal achievement and segregating duties between performing, reviewing, and documenting a task.

10-014 AUDIT OF ACCOUNTS OF ANNA DANEGGER, FORMER BUSINESS OFFICE DIRECTOR

We conducted a close out audit of the former Business Office Director. We found that Ms. Danegger had no outstanding debt to the City and no issues came to our attention requiring further review.

RECOMMENDATIONS

We did not make any audit recommendations.

10-015 AUDIT OF ACCOUNTS OF DAVID WESCOE FORMER RETIREMENT ADMINSTRATOR

We conducted a close out audit of the former Retirement Administrator. We found that Mr. Wescoe had no outstanding debt to the City and no issues came to our attention requiring further review.

RECOMMENDATIONS

We did not make any audit recommendations.

10-016 CITYWIDE REVENUE

In response to a request by Councilmember Tony Young on April 30, 2009, the Office of the City Auditor has performed a citywide revenue audit in order to identify all major revenue sources for the City of San Diego; determine the amount collected and the entity responsible for collection; determine the frequency/extent of past audits; compare with other California cities to find underutilized revenue sources; and evaluate the performance of the City Treasurer's Revenue Audit & Appeals Division.

Because time constraints prohibited an all-inclusive survey of citywide revenue sources, the revenues we focused on are those that are collected by a third-party and remitted to the City. This review encompassed approximately 78 percent of the \$1.13 billion in General Fund revenues for FY2010.

In FY 2010, the City of San Diego budgeted over \$886 million in major revenues and lease payments. Some of the revenues, such as Transient Occupancy Tax (TOT) and franchise fees are remitted directly to the City; other revenues, such as property tax and sales and use tax are remitted to the City by other governmental entities. We found that the City administration performs basic actions to verify that revenue payments received are accurate, such as auditing the TOT payees or using consultants to monitor sales tax payments. However, the City administration needs

to take immediate actions to maximize major revenue collected by developing appropriate partnerships with other government entities, taking pro-active and preventative steps to ensure full sales tax and business license payments, and improving revenue audit methodology. By so doing, the City can ensure that it receives all the major revenues that it is entitled to receive.

RECOMMENDATIONS

- #1 Develop a Memorandum of Understanding with the County of San Diego to ensure access to required information allowing the City Treasurer's Revenue Audit Division to review property tax allocations to the City and observe the next State audit of the County.
- #2 The Financial Management Department should take steps to obtain State audits of County property tax allocations, and review any relevant findings/recommendations for purposes of follow up.
- #3 The City Treasurer's Office should consider providing business registration information to the County Assessor's office, and inform new businesses registering in the City of San Diego that they may be required to pay unsecured property tax to the County.
- #4 The City of San Diego should consider streamlining its communication with the County of San Diego's Assessor's Office to ensure the County's possessory interest records are up to date.
- #5 The City's Financial Management Department should evaluate the benefits of joining the Teeter Plan, and unless there is compelling information to suggest otherwise, take appropriate steps to become part of the Plan.
- #6 Consider having the City Treasurer's Revenue Audit Division utilize the free audit training offered by MuniServices, LLC to reduce reliance on MuniServices for future sales and use tax audit services.
- #7 Financial Management should review gross Safety Sales Tax revenues annually in order to verify the accuracy of Safety Sales Tax allocations to the City.
- #8 Financial Management should annually reconcile Sales Tax Triple-Flip funds received from the County with ERAF shift loss detailed in BOE sales tax reports.

- #9 The City Comptroller's Office should continue identifying the necessary subprocesses and prepare written policies/procedures for verifying the accuracy of TransNet revenues.
- #10 In order to verify accurate TransNet allocations, the City of San Diego Streets Division should work with the California Department of Transportation (CalTrans) to ensure accurate miles of road maintained figures.
- #11 The Office of the City Comptroller should develop written policies/procedures for verifications of gas tax revenues performed by the City.
- #12 The Office of the City Comptroller should ensure the City is not paying federal gas taxes by verifying that the payments to fuel vendors do not include federal excise tax.
- #13 The Office of the City Comptroller and Financial Management should develop written policies/procedures for verifications of motor vehicle license fees.
- #14 The City Treasurer's Office should monitor when court revenue distribution audits are done by the State Controller's Office, and be aware of findings and/or under remittances relevant to the City of San Diego for purposes of follow up.
- #15 The City Treasurer's Revenue Audit Division should consider performing audits of court-distributed revenues.
- #16 The Office of the Independent Budget Analyst (IBA) should work in consultation with the Real Estate Assets Department to revise Council Policy 700-10 to clarify who has the appropriate auditing authority.
- #17 The Real Estate Assets Department should develop written policies/procedures for the verification of lease payments.
- #18 The Real Estate Assets Department should work with the City Treasurer's Revenue Audit Division to develop an indicator for percentage leases in the Electronic Document Retrieval System (EDRS).

- #19 The City Treasurer's Revenue Audit Division should include their annual reconciliation of the Division's lease audit database with the Real Estate Assets Department database in their written departmental procedures.
- #20 The Revenue Audit Division should develop policies/procedures for auditing state video franchises that include (1) procedures for auditing franchisee's methodology of calculating franchise fees, (2) the requirement for the franchisee to provide detailed calculation summaries, and (3) an audit cycle no longer than 4 years.
- #21 Based on the requirement for hotel operators to maintain records for a period of three years, the Revenue Audit Division should perform audits on a three-year cycle.
- #22 The Business Tax Compliance Program should develop written policies/procedures for the work it performs.
- #23 The Business Tax Compliance Program should expand techniques used for ensuring compliance—including utilization of preventative measures such as informal employee audits—and determine an alternative method for ensuring accurate business size designation.

10-017 PERFORMANCE AUDIT OF THE CITY TREASURER'S INVESTMENTS DIVISION

The City's cash and investments are significant public assets which require continuous oversight and management. As of June 2009, the City Treasurer is responsible for managing approximately \$2 billion in pooled investment assets. We found that the City Treasurer has internal controls in place to mitigate risks associated with its pooled investment activities. Specifically, we found the controls to be adequate in the following areas:

- The accuracy and completeness of the financial reporting related to City pooled investments;
- Management of City pooled investments, including consistency with the related investment policy and controls related to the transfer of funds and overnight investing;
- Acceptable qualifications of the personnel involved in the investment process; and,
- The adequacy of the request for proposal (RFP) selection process for banking and investment custodian services.

However, during our audit we found that the City Treasurer can strengthen controls associated with the City's Investments Advisory Committee (IAC) and the process of updating changes to the City Treasurer's Investment Policy for Pooled Investment Funds (Investment Policy). By so doing, the City Treasurer can provide greater assurance to the Mayor, City Council, and the Public for the appropriate management of City investment assets.

Within this report we provide three recommendations for the City Treasurer to improve its operations related to governance and updating the investment policy.

RECOMMENDATIONS

- #1 The City Treasurer should finalize and implement a charter or comparable controlling document for the Investment Advisory Committee defining the roles, responsibilities, term limits, applicant requirements and related administrative processes for the committee. This document and related committee reference information should be included and maintained on the Investments Division's public website.
- #2 The City Treasurer should review and update the Investment Policy for inclusion of the identified consensus recommendations during the subsequent update to the Investment Policy within an official Investment Advisory Committee charter or comparable controlling document, as appropriate.
- #3 The City Treasurer should formally document a written procedure for processing complete and accurate annual updates for the Investment Policy, including the critical steps in the process from initiation to acceptance by City Council and subsequent handling in preparation for the following year. This procedure should be crafted to effectively and efficiently update the policy, but also provide for appropriate record management clearly identifying documentation requirements during various stages of the process.

10-018 PERFORMANCE AUDIT OF THE PURCHASING AND CONTRACTING DEPARTMENT - CITYWIDE OPEN PURCHASE ORDER PROGRAM

The current citywide open purchase order (PO) program has weaknesses that contribute to the program's inefficient use of City resources for the purpose of procuring goods and services. These weaknesses include a cumbersome manual process, invoices not always paid timely or in compliance with contract terms, the lack of a reconciliation of surcharge amounts received (revenue) versus expenses, and no requirement for departments to encumber funds prior to expending them. These weaknesses result in:

- Wasteful use of City resources due to a duplication of efforts processing purchases;
- Departments potentially make purchases of goods or services without having the required funds;
- Risk of misappropriation of City assets due to control weaknesses surrounding the use of form 2610 to purchase items;
- Monetary losses from discounts not being taken and non-compliance with contract terms; and
- Surplus of funds exceeding \$525,000 not being utilized as a result of revenue from citywide PO surcharge exceeding program expenses.

By incorporating additional controls into Departmental POs and utilizing them, or using some other method besides Citywide POs, management can ensure more efficient uses of City resources when procuring goods and services.

RECOMMENDATIONS

- #1 Incorporate the use of a requisition form similar to a form 2610 in the Departmental Blanket/Open Purchase Order program to reduce the risk of misappropriation.
- #2 City Management should institute a process and timeline for the elimination of the Citywide Blanket/Open Purchase Order program. Instead, citywide contracts should be established and departments should procure goods and services using the newly revised Departmental Blanket program or some other method that is more efficient and incorporates effective controls.
- #3 Modify Administrative Regulation 35.15 to adequately reflect the new policies as a result of the actions taken from Recommendations one and two above. Additionally, the Administrative Regulation should include a requirement for departments to document and retain a reconciliation of the requisition forms, similar to the form 2610, on a quarterly basis.
- #4 City Management should analyze the Stores Revolving fund balance of \$1.4 million to determine if this balance represents a surplus. If this analysis results in the determination of a surplus, it should be transferred back to the applicable funds (general, enterprise, etc.) per the annual appropriations ordinance.
- #5 Central Stores should conduct an annual analysis to ensure that all surcharges (storerooms, mailrooms, etc.) are set at an appropriate level to only recoup the cost of service. This analysis should also include a procedure to transfer any surplus at fiscal year end back to the applicable fund(s).

- #6 City Management should ensure that all departments are aware of discounts and have appropriate procedures in place to ensure that all discounts are taken advantage of for timely payment on City purchases in order to reduce costs.

10-019 PERFORMANCE AUDIT OF THE SUBCONTRACTOR OUTREACH PROGRAM (SCOPE)

We completed a *Performance Audit of the Subcontractor Outreach Program (SCOPE)* – a program administered by the Equal Opportunity Contracting Program (EOCP).

A disparity study was conducted in the 1990's to examine whether the City engaged in discriminatory construction contracting practices and disparate treatment of Minority and Women Business Enterprises in the marketplace. The disparity study revealed the City was a passive participant of discrimination and disparate treatment. The City adopted the Subcontractor Outreach Program (SCOPE) in early 2000 for the following purposes: 1) address the issues raised in the disparity study, 2) level the playing field, provide contracting opportunities for all segments of the contracting community irrespective of size, ethnicity, or gender, and 3) allow the City to collect data on subcontractor bids that are submitted to prime contractors, among other reasons.

SCOPE is a program managed by EOCP and requires ongoing collaboration with other City departments to administer the program. The purpose of SCOPE is to maximize subcontracting opportunities for all qualified and available firms and to provide an equal opportunity for all subcontractors to participate in the performance of City construction work. Currently, SCOPE applies to only a subset of projects in the City. Two different subcontracting goals are calculated for SCOPE projects: mandatory subcontracting goals and advisory participation levels.

We performed a statistical analysis of FY2009 program data and conclude that prime contractors exceed SCOPE mandatory goals but do not attain advisory participation levels. Further, statistically speaking, we found no evidence that prime contractors deliberately under-employ historically under-represented contractor groups. In addition, we found the program needed improvement in the following areas:

- Program management has not focused on collecting contracting data trends in the City needed for a disparity study;
- The methodology for setting mandatory and advisory goals has historically been subjective and in some cases inaccurate.

- Management has not completely implemented the new Caltrans methodology for City funded projects by not establishing an annual goal for City-funded projects and not measuring whether City-funded projects succeed or fail in meeting the annual goal.
- The performance data presented to decision-makers may not be capturing actual – and therefore accurate – program performance.
- EOCP has been effective in informing and outreaching to historically under-represented contracting groups at pre-bid conference meetings, but the outreach efforts have not translated to these categories of contractors winning City public works project bids.

We would like to thank the Director of Administration for requesting this audit. We made 13 recommendations to address the areas needing improvement.

RECOMMENDATIONS

- #1 The City should collect accurate and comprehensive data that measures the contracting practices in the City.
- #2 The City should perform a comprehensive disparity study.
- #3 The City should create policies and procedures for collecting and reporting on data that may be used in a disparity study.
- #4 Equal Opportunity Contracting Program management should develop written policies and procedures to ensure that SCOPE goals formulas embedded in spreadsheets used to generate SCOPE goals are accurate and are reviewed by management.
- #5 Engineering & Capital Projects management should review the accuracy of goals generated by specification engineers prior to submitting SCOPE goals to Equal Opportunity Contracting PROGRAM for final review and approval.
- #6 Equal Opportunity Contracting Program and Engineering & Capital Projects should document the rationale for adjustments made to SCOPE goals calculations or factors that impact SCOPE goals on a per-project basis.
- #7 SCOPE goal formulas should be calculated as prescribed by Caltrans to ensure that the City reaps the benefits of streamlining processes if the City continues to use the Caltrans methodology to calculate goals for City-funded projects.

- #8 Management should establish an annual goal for City-funded projects in order to measure the progress (or lack thereof) that prime contractors subcontract to the various historically underrepresented contractor groups.
- #9 Management should provide both committed and actual achievement data like those found in the Final Summary Report when reporting to City Council the performance of SCOPE.
- #10 Program Management should evaluate the extent to which change order work can feasibly be assigned to subcontractors on a per-project basis and require and enforce SCOPE goals to apply to all feasible change order work to the fullest extent of the law.
- #11 Management should review the approaches to increasing contractor diversity outlined in nominations to SARA and continue to consult with other entities for best practice guidance on how to increase the diversity of subcontractors and document the communications.
- #12 Equal Opportunity Contracting Program, Engineering & Capital Projects and Purchasing & Contracting should discuss the distinct data Equal Opportunity Contracting Program needs to adequately manage SCOPE.
- #13 Equal Opportunity Contracting Program should obtain direct access to the data it needs to effectively and efficiently administer SCOPE.

10-020 PERFORMANCE AUDIT OF THE DEVELOPMENT SERVICES DEPARTMENT’S COLLECTION OF WATER AND SEWER FEES

In response to a request from the Public Utilities Department (Public Utilities), we have conducted an audit of the Development Services Department’s (DSD) process for the collection of Water and Sewer permit fees (IOS fees). Specifically, we reviewed the internal policies and processes involved in the billing, collection, and follow-up of Water and Sewer permit fees.

Based on our review of various divisions within DSD, as well as audit testing of a number of reports generated by the Public Utilities Department’s Installation Order System (IOS) that identify inappropriately issued permits and inaccurately entered data, we found that during the audit years tested, DSD did not maintain adequate controls to ensure that all IOS fees were consistently and appropriately charged and collected.

We found the following issues during our review:

- As of June 30, 2009, there was over \$170,000 in uncollected IOS fees for projects with permits issued and/or with project status complete.
- DSD and Public Utilities do not maintain a Service Level Agreement or Memorandum of Understanding detailing responsibilities and expectations in the assessment, collection, and follow-up of IOS fees.

We made seven recommendations for corrective action.

RECOMMENDATIONS

- #1 Development Services Department should revise its collection processes to ensure that building permits and certificates of occupancy are not being issued to customers prior to full payment of all development fees including water fees.
- #2 Development Services Department and Public Utilities should create and maintain either a Service Level Agreement or a Memorandum of Understanding that formally defines the agreed level of service between the two departments.
- #3 Development Services Department management should develop formal written policies and procedures regarding the collection of IOS permit fees to ensure appropriate payments are made and payment information is transferred into IOS. These policies and procedures should be monitored by management for effectiveness.
- #4 Development Services Department should continue implementation of the newly developed recovery practices, including how unpaid fees will be referred to Collections, in order to recoup unpaid fees while sharing monitoring and recovery information of delinquent accounts with Public Utilities' IOS Section.
- #5 Development Services Department management, in conjunction with the Public Utilities' IOS Section, should create a common repository that is updated as rules or procedures for the assessment of IOS permit fees are created or changed.
- #6 Development Services Department should implement a periodic review of plans in Supervisory Clusters that regularly assess IOS fees and yearly training sessions in conjunction with Public Utilities.

- #7 Public Utilities should work with implementation consultants as planned to ensure maximum efficiencies are gained through interfacing with all process-related applications, including Development Services Department's (DSD) Project Tracking System. DSD should be included on the relative interfaces and facilitate automated data interfacing as recommended and required by the implementing consultant.

11-001 PERFORMANCE AUDIT OF RISK MANAGEMENT'S PUBLIC LIABILITY AND LOSS RECOVERY DIVISION

Claims against the City cost taxpayers approximately \$29 million annually. The Public Liability and Loss Recovery Division (Public Liability) of the Risk Management Department (Risk Management) is responsible for the investigation and settlement of all claims arising from the City of San Diego's (City) operation as a municipality. Its employees provide services to citizens and special event promoters to ensure the public's interests are protected with appropriate insurance, select and purchase risk and excess liability insurance for the City, and recover funds for damages to City assets caused by individuals and corporate entities. The City receives claims for various incidents such as automobile accidents, water main breaks and flooding, sewer main back-ups, vehicle tows and trip and falls. Risk is typically measured in terms of the probability that these types of events would occur and the severity of their impact.

During our audit, we found that Risk Management does not analyze systematic risks or follow Enterprise Risk Management system methodologies or other enhancing practices, nor does it maintain documented processes. Furthermore, the communication and coordination related to risk between Risk Management and other City departments is minimal and episodic, and there is no coordinated City-wide effort to reduce City losses from preventable claims and better manage and mitigate its organizational risk. Risk Management can also improve its reporting to the City Council and other parties to meet the informational needs of the City Council. As a result, the accountability of governing bodies and management is reduced, and departments are deprived of information to respond to systemic risks.

We also noted that the City does not have a formalized and documented standardized claim reserving approach, which can result in inconsistent reserving practices. Consequently, the difficulty of maintaining accurate financial reporting is increased. Moreover, we found that the review and analysis of the cost and adequacy of insurance coverages and limits is informal and not documented. As a result, the City risks purchasing unnecessary or insufficient insurance coverages and paying excessive premiums. Furthermore, we noted a lack of quality control within Risk Management, including outdated, inadequate or undocumented policies and procedures and underutilized actuarial resources. Risk Management could also maximize the benefits of the loss recovery function to enhance opportunities to collect additional revenue for the City.

Finally, we found that Risk Management can implement changes to manage staffing workloads more effectively and efficiently, such as streamlining the process for handling vehicle tow claims with the San Diego Police Department, requesting increases in settlement authority limits, adopting new technologies, or defining denial criteria for claims.

We provide 23 recommendations for Risk Management to improve its operations. Implementing these recommendations will require collaboration and effort between Risk Management and various departments.

RECOMMENDATIONS

- #1 Risk Management should adopt public sector practices for collection, analysis, and reporting of risk information, and prepare and distribute an annual Risk Management Report.
- #2 Risk Management should annually survey City departments about their informational needs and analyze historical claims data and provide departments with reports on a monthly or quarterly basis.
- #3 Risk Management, with the assistance of an actuarial consultant, should develop and implement cost allocation methodology for City departments to assess the costs of general liability claims.
- #4 The City Administration should consider actions taken by other cities to limit sidewalk repair responsibility and to take appropriate action to limit the City's liability related to sidewalks.
- #5 The City Administration should establish a risk management working group charged with coordinating Risk Management efforts with membership representation from all the major city departments and the City Attorney's Office. This committee should meet at least quarterly and be chaired by the Director of Risk Management or another senior city official.
- #6 Risk Management should develop a detailed safety training curriculum for City employees and deliver this training on a regular basis. The Public Liability and Loss Recovery Division should develop detailed informational material regarding its services and post it on the City website. Training and informational material should be targeted to areas and activities with high public liability losses and addressing frequently asked questions.

- #7 Risk Management and the City Attorney should solicit feedback from the City Council on the adequacy and completeness of current public liability claims-related reporting and, as appropriate, facilitate the updating of Council Policy 000-009 to be consistent with agreed-upon reporting.
- #8 Develop additional Risk Management policy and departmental guidance to detail the steps for the proper reporting of claims compliant with Council Policy 000-009. This guidance should specify report contents to satisfy current reporting requirements and subsequently developed ones.
- #9 Risk Management should formalize and document the claim reserving approach and periodically review it with the City's actuary.
- #10 Risk Management should properly document and maintain each annual marketing effort in relation to insurance premiums to retain historical self-insured retention limits, excess liability coverage's and available premiums.
- #11 Risk Management should prepare formalized annual reviews of historical premiums, actual losses and reimbursements. These reviews would include the self-insured retention limit, excess liability limits, and related premiums on an annual basis to assess the best limits to maintain and validate the reasonableness of insurance costs. This is typically done in conjunction with the preparation of the City's annual budget and the city's annual renewal of its insurance. Risk Management will continue its practice of annual insurance reviews and in conjunction with the FY2012 budget development will document this process by the fourth quarter of FY2012.
- #12 Risk Management should develop additional policy, procedure and departmental guidance to detail the process and expectations related to the periodic internal and external reviews of insurance coverage's and premiums, and the documentation thereof.
- #13 Risk Management should review documented and undocumented processes for current reporting, practices, roles and responsibilities to ensure that Risk Management has a strong documented loss recovery function in compliance with Administrative Regulation 45.80 and best practices. These processes should incorporate formalized communication about and advertisement of the loss recovery function, including on the internal and external Risk Management websites.

- #14 Risk Management should seek additional actuarial analysis or reviews for risk control, cost allocations, and claims reviews to assist with loss management processes and the implementation of loss prevention programs. Any newly created and existing actuarial analysis should be incorporated into the proposed annual reporting that we separately recommended Risk Management prepare.
- #15 Risk Management should develop, document and implement policy, procedure and departmental guidance to detail the actuarial process and expectations to include the following: a. Receipt and analysis of the results of the annual actuarial review, including any impact on the recommended annual Risk Management reporting; b. Any internally or externally developed reports or analysis including, but not limited to, risk control cost allocations and claims reviews; and, c. Claim reserving practices developed, formalized and implemented.
- #16 Risk Management should review and update claim-related City Council Policies, Administrative Regulations and forms to ensure consistency with current processes, organizational structure and overall expectations, and periodically perform ongoing reviews of those documents for accuracy.
- #17 Risk Management should resolve the discrepancy between the CA Government Code and Section 110 of the City Charter regarding the time limit for submitting claims against the City.
- #18 Risk Management staff should also document, formalize and implement detailed policies and related procedures and departmental instructions to specify the current process and documentation requirements regarding the receipt, handling and resolution of public liability claims.
- #19 Risk Management should obtain or develop formalized staffing and workload benchmarking to monitor workload levels, measure staff performance and substantiate future budgetary requests.
- #20 Risk Management should develop and implement legally defensible documentation standards for claimants that would permit the rapid evaluation and/or rejection of claims lacking sufficient evidence. Documentation requirements should be included on the City's claim form and / or Risk Management's external website.

- #21 Risk Management should review and where appropriate request and update of the authorization limits indicated in section IV of Council Policy 000-009 as appropriate to allow greater efficiency in claims handling as well as consistency with the jurisdiction of the small claims court (claims up to \$7,500) and the organizational structure of the Public Liability & Loss Recovery Division.
- #22 Risk Management should deny or reject all tow and impound related claims that have not been reviewed and substantiated by the San Diego Police Departments' Internal Affairs.
- #23 The City Administration should transfer the responsibility for vehicle post-storage hearings being performed by Risk Management to the San Diego Police Department.

11-002 HOTLINE INVESTIGATION REPORT OF ABUSE FROM THE SALE OF SCRAP METAL

Our investigation concluded that the allegation was substantiated and that scrap metal was sold by City employees and the proceeds used to fund both food and the purchase of raffle gifts for City employees by a division of the General Services Department.

The investigation also found that there are incomplete and inconsistent records relating to the sale of scrap metal and other recyclables that totaled in excess of \$21,000 during the fiscal years 2004 through 2010. Reports of the sale of scrap metal received from the supervisors did not agree with information obtained from employees and from local recycling companies that employees sold scrap metal to. It is not known whether employees were recycling the City's scrap metal or were recycling scrap metal they collected that was not City property. It is also not known due to lack of City records whether employees recycled City scrap metal for their personal gain. It appears that scrap metal recycling done during normal business hours and/or transported in City vehicles would include the City's scrap metal.

The balance of the proceeds of the sale of scrap metal and from the proceeds of the sale of raffle tickets is maintained in the office safe in a manila envelope. The approximate balance of cash in this fund on May 27, 2010 was \$1,900.

RECOMMENDATIONS

- #1 Based on our observations during this investigation we recommend that the General Services Department implement a process to manage and monitor scrap metal, especially for the more valuable metals of copper, brass, and aluminum.

The process should include: All proceeds from the sale of scrap metal should be deposited with the City's General Fund; Affirmation by top management that recycling of appropriate materials is an integral part of all employee's duties; Utilize the citywide contract for all scrap metal recycling transactions; Establishment of a log or other procedures to track scrap metal and other recyclables as they are returned to the division's headquarters; the scrap inventory log should be reconciled with vendor records to ensure that scrap metal and other recycling proceeds are properly deposited; Utilize the In-Town Reimbursable Expense procedures detailed in Administrative Regulation 95.40 to fund the Safety Awards dinner and other employee recognition events.

11-003 CENTRAL STORES AGREED-UPON PROCEDURES INVENTORY COUNT – FY2010

We performed the agreed-upon procedures for the FY2010 inventory count as required by San Diego Municipal Code §22.0501. The review consisted of comparing the City's physical inventory in its three storerooms to the inventory stock record.

The following were the agreed-upon procedures conducted in the FY2010 inventory count:

- Obtained electronic version of stock record that is kept by Purchasing Agent
- Selected a sample, by storeroom, based on a 99% confidence level and 8% confidence interval
- Conducted physical inventory count of the sample at the City's three storerooms
- Compared results of physical inventory count to the stock record
- Provided results of inventory count, by storeroom, to Purchasing Agent

A total of 294 stock items were sampled and counted with a SAP inventory value of \$175,026.68. Of the stock sampled, we found that the physical count of items on hand did not match the City inventory records in 59 instances. As a result, the actual inventory value of stock items tested is \$2,442.24, or 1.4%, greater than Central Stores' records.

RECOMMENDATIONS

We did not make any audit recommendations.

11-004 AUDIT OF THE ACCOUNTS OF NADER TIRANDAZI, FORMER FINANCIAL MANAGEMENT DIRECTOR

We conducted a close out audit of the former Financial Management Director, who resigned on March 19, 2010. We found that Mr. Tirandazi had no outstanding debt to the City and no issues came to our attention requiring further review.

RECOMMENDATIONS

We did not make any audit recommendations.

11-005 AGREED-UPON PROCEDURES REVIEW OF THE WATER DEPARTMENT'S INCREASE IN CITY OF SAN DIEGO WATER RATES

We found the Water Department's methodology for assessment of penalties was consistent with those proposed by the water agencies, the penalty calculation was consistently applied to each customer class, and calculations were mathematically accurate.

RECOMMENDATIONS

We did not make any audit recommendations.

11-006 PERFORMANCE AUDIT OF THE FIRE PREVENTION ACTIVITIES WITHIN THE CITY OF SAN DIEGO

Ensuring public safety and reducing the threat of wildfires for residents are essential services provided by the City. The Fire Prevention Bureau (Bureau) exists to increase public safety by providing state-mandated facility inspections. In addition, in 2008, the Bureau began operating a proactive brush management program aimed at ensuring defensible space in San Diego and reducing hazards from wildfires and increasing public safety.

Our performance audit found significant opportunities for improvements exist to mitigate the risk of loss of life and property resulting from fire. Specifically, our audit found improvement was needed in the City's fire prevention activities in the following areas:

- The Bureau does not conduct regularly required inspections, which increases the risk of loss of life and property in the event of a fire. State law requires periodic inspections to be made of occupancies that use

combustible, explosive or otherwise dangerous materials and requires that certain occupancies, such as day care facilities, residential facilities, and high rise buildings be inspected annually. We found that the Bureau did not conduct 65 percent of inspections that we sampled within the annual required inspection cycle.

- The Bureau has not obtained appropriate and authorized remuneration for some of its inspections and it has not invoiced for its high rise inspections since July 2009, totaling at least \$545,000.
- The Bureau has inadequate data systems that do not provide accurate listings of sites requiring inspections. This results in missing inspections or inefficiently assigning inspections of sites not requiring inspections. As a result, the Bureau incurred at least \$100,000 of non-recoverable costs for fiscal years 2008 and 2009. When databases are incomplete, not all inspections required by State and Municipal law are performed.
- The Bureau does not annually inspect all 42,818 parcels within its jurisdiction for brush management compliance and it lacks an adequate tracking system for its inspection activities. Under current staffing levels, the Bureau performs about 15,000 inspections per year and is only able to inspect all parcels subject to brush management regulations every three years. Substantial brush growth can occur over a three year period, so triennial reviews may not be sufficient to adequately prevent wildfires.
- In other jurisdictions, local conditions dictate differing brush management requirements. State law requires 100 feet of defensible space but allows local jurisdictions to enhance the requirements. We surveyed four jurisdictions and found that they exceed San Diego's approach. If brush management is inadequate, the public may not be sufficiently protected.
- Improvements are needed in regard to the level of oversight over City departments' compliance with brush management regulations. The Bureau does not monitor whether public entities comply with brush management and other fire prevention requirements.

According to the Bureau, it lacks sufficient resources to adequately conduct annual facility and brush inspections. Without effective processes and strong internal controls for data management processes the program cannot operate effectively. Effective implementation includes providing standardized guidance, processes, or systems for all inspection programs and ensuring that accurate and reliable data are maintained and easily accessible.

We made 23 recommendations to address the issues we identified.

RECOMMENDATIONS

- #1 The San Diego-Fire Rescue Department should further evaluate the resource requirements of the Fire Prevention Bureau and identify options for augmenting inspection staff. This may include, but is not limited to, assigning light duty personnel to help inspections or augment inspection staffing with qualified return retirees.
- #2 The San Diego Fire-Rescue Department should evaluate the Fire Prevention Bureau's workload before assigning its staff special projects that require considerable efforts, particularly if the Fire Prevention Bureau is not achieving inspection goals.
- #3 The Fire Prevention Bureau should replace its practice of canceling CEDMAT inspections with a justifiable prioritization schedule that varies the frequency of inspections according to risk.
- #4 The San Diego-Fire Rescue Department should ensure that the Fire Prevention Bureau maintains adequate documentation and data systems which provide reliable and accurate information on the universe of inspections, inspections performed, cancelled, and overdue. The Fire Prevention Bureau should use this information to appropriately plan inspection activities.
- #5 The Fire Prevention Bureau should increase the time inspectors spend on direct inspection activity to match established department goals.
- #6 The San Diego Fire-Rescue Department should assess the adequacy of their inspection related performance measure for its FCIP unit to ensure the measure tracks compliance with the annual inspection requirements.
- #7 The San Diego Fire-Rescue Department should assess current staffing requirements for providing inspection services that are fully cost recoverable, and as part of the assessment consider the use of alternatives services to supplement and/or enhance inspection activity.
- #8 The Fire Prevention Bureau should work with other City departments, such as the City Treasurer's Business Tax Office and the Development Services Department, to electronically interface the Fire Prevention Bureau's database with other relevant City systems to ensure the timely capture of new business information.

- #9 The Fire Prevention Bureau should update policies and procedures making database completeness and accuracy a high priority.

- #10 The Fire Prevention Bureau should develop policies and procedures and implement controls addressing the following areas: Defining the process for obtaining, maintaining, entering, and modifying inspection status information in the management information system; Clarifying responsibilities for communication of inspection status between inspectors and data personnel; Establishing the manner in which the information system is managed; Discussing employees' roles and responsibilities related to internal controls and data management.

- #11 The Fire Prevention Bureau should work closely with the consultant hired to install the new data management system to ensure critical fields are only accessible by appropriate personnel, or if this is impractical establish mitigating controls to monitor the appropriateness of data access and modification.

- #12 The Fire Prevention Bureau should work closely with its Field Collection Unit consultant and IT staff to ensure that information transferred to the new system is corrected as soon as possible.

- #13 The Fire Prevention Bureau should retroactively invoice for the inspections that were not invoiced at the time they were performed due to data errors.

- #14 The Fire Prevention Bureau should develop a systemic and documented approach towards billing for, and recovering, unpaid inspection fees related to high rise inspections.

- #15 The Fire Prevention Bureau should resume and retroactively bill for inspections performed on high rises once the City Council approves the new fee structure.

- #16 The Fire Prevention Bureau should bring before City Council a recommended policy and protocol for future fee deferral that determines when the Mayor has the discretion to grant approval for discontinuing billing for services rendered.

- #17 The Fire Prevention Bureau should identify the capabilities and resources necessary to maintain a brush management tracking system which is up to date, retains relevant inspection information, and is used to efficiently and effectively deploy inspection resources.

- #18 The Fire Prevention Bureau should conduct periodic benchmarking of fire prevention activities with other jurisdictions to identify and implement best practices.
- #19 The Fire Prevention Bureau should reconcile its workload capabilities with the 2007 After Action Report and report the results to City Council.
- #20 The Fire Prevention Bureau should take the following items to Council for action: a. Commission an assessment to determine whether the current standards for creating an adequate defensible space buffering the Wildland/Urban Interface properly address: slope, fire intensity and environmental conditions, existing non-conforming rights, and other outstanding issues. The assessment should also evaluate the need to hire an Urban Forester and a GIS specialist to increase brush management efficiency and effectiveness. b. Based on the results of the assessment, prepare an ordinance with additional standards to address the deficiencies identified and present to the City Council justification for any additional staffing requests.
- #21 The Fire Prevention Bureau should establish policies and procedures that require City departments to report back to the Fire Prevention Bureau the status of complaints and the steps taken to address the violation. These policies and procedures should establish a process to inform the Mayor and/or the Chief Operating Officer of non complying City departments.
- #22 The Administration should determine the number of lots managed by City departments and the Fire Prevention Bureau should ensure departments are aware of their brush management responsibilities.
- #23 The Park and Recreation Department Open Space Division should conduct a new cost benefit analysis for future contracts and determine the most cost effective option to provide brush management services.

11-007 PERFORMANCE AUDIT OF CITY TREASURER'S DELINQUENT ACCOUNTS PROGRAM

During the course of many years, a significant amount of money owed to the City has accumulated from past due accounts receivable. As of February 2010, unpaid past due accounts owed to the City totaled over \$100 million. This money is owed by individuals, businesses and government agencies for a variety of different City services, fees and penalties. We found that the

Delinquent Accounts Program (Program) follows many industry best practices and collects about 79 percent on the City's past due receivables;² however, improvements can be made to increase recovery and strengthen the City's invoicing (billing) and past due debt referral practices. Specifically, our review found that the Program and Citywide collection efforts could be improved by:

- Implementing additional tools to further increase collections,
- Instituting an authoritative and effective invoicing and referral policy, and
- Centralizing all Delinquent Account Program policies and procedures in a comprehensive operations manual.

We made seven recommendations to help improve the rate of collections of delinquent accounts and to standardize the City's billing, referral and the collection processes.

RECOMMENDATIONS

- #1 The Delinquent Accounts Program should assess the benefit of using a third-party collection agency to supplement its in-house collection efforts and report the results of the assessment to the Chief Financial Officer in order to take the appropriate action.
- #2 The Delinquent Accounts Program, in consultation with the City Attorney, should publish a list of top debtors on the City's public website and update the list at a set interval, such as monthly or quarterly to the extent allowable by law.
- #3 The Delinquent Accounts Program should actively pursue inclusion in the federal offset program.
- #4 The Delinquent Accounts Program should determine if additional government databases are accessible including, but not limited to, State of California Employment Development Department and court bankruptcy records.
- #5 The Delinquent Accounts Program should assess if there are other City Departments with customer data available that could be used to enhance collection efforts. This assessment should ensure the Program has maximized its access to all available City databases and systems containing customer information, such as the customer data within the Water Utilities billing system.

- #6 The Delinquent Accounts Program should draft process narratives on billing and collection to replace Administrative Regulation 63.30. This newly crafted regulation should standardize the billing and referral of delinquent accounts across City departments and should state that departures from these standards need to be approved by the City Treasurer.
- #7 The Delinquent Account Program should establish a comprehensive Program Operations Manual that incorporates all existing policies and procedures, newly developed policies, procedures, training materials and resources, as well as the Delinquent Account Program's purpose, values, and mission.

**11-008 HOTLINE INVESTIGATION OF CONTRACT ADMINISTRATION
WITH THE GREATER GOLDEN HILL COMMUNITY
DEVELOPMENT CORPORATION**

The Office of the City Auditor conducted an investigation of the Greater Golden Hill Community Development Corporation (GGHCDC) and the City's Office of Small Business (OSB) in response to a complaint made to the City's Fraud Hotline. The complaint alleged a lack of fiscal control in the administration of contracts between the OSB and the GGHCDC. Our investigation concluded that the allegations are substantiated in part. We found that the OSB did not document the required on-site monitoring visits, and it appears that the GGHCDC did not properly solicit enough bids before a contract was awarded.

RECOMMENDATIONS

- #1 We recommend that the Office of Small Business (OSB) establish policies and procedures to require written documentation of all on-site inspections required by maintenance agreements with the City and non-profit corporations retained to provide services. The report or checklist should include but not be limited to date and time of visit, list of participants, records reviewed, specific topics of discussion, observations made by the OSB staff member, and list of any follow-up actions as a result of the visit.
- #2 We recommend that the Office of Small Business establish policies and procedures to verify that procurement policy guidelines are being followed by recipients when payments to an individual vendor exceed any threshold amounts that require the contracting agency to seek multiple bids prior to award. This may include periodically reviewing recipient's procedures used to ensure compliance with the procurement policy guidelines during on-site visits.

- #3 We recommend that the Office of Small Business determine what actions should be taken regarding the Greater Golden Hill Community Development Corporation not following the City’s contract (or procurement guidelines) in its transactions with a vendor by not receiving three price proposals for expenditures between \$5,000 and \$25,000.

11-009 STREET MAINTENANCE: CITY NEEDS TO IMPROVE PLANNING, COORDINATION, AND OVERSIGHT TO EFFECTIVELY MANAGE TRANSPORTATION ASSETS

The effective management of transportation assets and infrastructure requires sustained financial investment in pavement preservation and prioritization of capital assets that, if maintenance is deferred, will cost more in future years. We found that the City’s investment in pavement preservation is limited due to financial constraints, competing funding priorities, and restriction on the use of available funds. The City invested \$133 million or about 11 percent of total expenditures on transportation for resurfacing streets between fiscal years 2004 and 2010. Further, the City has not comprehensively managed transportation assets and investments, and transportation responsibilities have been decentralized among various functionally-segregated departments, contributing to coordination and oversight challenges. Based on our concerns and recommendations, the City plans to reorganize and consolidate transportation management functions under a new Transportation and Storm Water Department. Without a unifying organizational structure that encourages efficiency, collaboration, and proactive management of transportation assets, the City cannot make wise investments.

Planning and coordination of all work on or under streets is critical to limit excavations—which will degrade and shorten pavement life—into newly resurfaced streets. San Diego Municipal Code prohibits excavations into streets that have received asphalt overlay and slurry seal, for three years and one year, respectively, with a few exceptions such as nonlinear excavations. About 18 percent of a sampling of 40 streets resurfaced during fiscal year 2009 were excavated by City departments or private entities during the moratorium period. While these cases were within the exceptions of the Municipal Code, OCA believes that effective planning and coordination of this work would have enabled the City to avoid such excavations and leverage resources for resurfacing. Without improved planning and coordination of citywide maintenance that impacts streets, continued excavations will degrade pavement conditions, increase lifecycle costs, and reduce the City’s ability to leverage resources and obtain the return on investment.

Issuing permits and collecting fees are crucial components in providing oversight and control of development and construction projects in the City;

however, the department responsible for issuing permits—the Development Services Department (DSD)—lacks complete and accurate information on permits and fees. OCA could not determine if permits were in accordance with moratorium requirements, such as receiving a waiver for new service installations, because DSD does not require that this information be recorded in its Project Tracking System. Further, excavation fees collected by DSD declined by 98 percent between fiscal years 2005 and 2010. Without effective and efficient permit issuance, the City is not overseeing and coordinating work done on or under streets by private entities. By not collecting fees, the City is losing much needed revenue to maintain and repair streets.

RECOMMENDATIONS

- #1 Assess the most effective organizational structure to manage the City’s transportation functions that will improve efficiency, enhance collaboration, and allow the new Department to implement transportation asset management.
- #2 Appoint a leader to advocate for transportation asset management and investment.
- #3 Begin to take steps to implement transportation asset management, including: a. setting well-defined policies and goals; b. establishing and reporting on performance measures; c. developing short- and long-term plans for transportation assets where the City lacks plans—such as for resurfacing, clarifying and enhancing existing plans, integrating all transportation-related plans, and making these available to the public, for example via the Department’s website; d. annually reporting the City’s various investments in transportation, including capital projects and maintenance.
- #4 Develop a 24-month Citywide excavation plan for all maintenance work and share this plan with other departments and relevant private entities to prevent and/or resolve to the extent possible conflicts involving planned projects.
- #5 Develop and implement a documented process for ensuring that City departments and private entities comply with trench cut requirements and identify conflicts in a more timely manner, including establishing policies and procedures and internal controls.
- #6 Develop suggested changes to the San Diego Municipal Code for holding nonlinear cuts into pavement or the use of trenchless technologies to the same requirements as linear trench cuts during the moratorium period.

- #7 Establish one Citywide subscription and email account for Underground Service Alert notifications within City limits that can be accessed by all relevant departments.
- #8 Establish written policies and procedures and internal controls for inspections of work performed by private entities to ensure compliance with permit requirements.
- #9 Revise City standards for trench restoration to establish more stringent requirements and ensure that public and private entities restore streets to an acceptable level, such as resurfacing curb to curb.
- #10 Enforce the formal, specific trench repair requirements and establish stringent penalties for unpermitted work, which:
 - fully cover the cost of current and future degradation,
 - are based on current costs and updated annually,
 - incentivize public and private entities to coordinate street excavations.
- #11 Require written and complete records of in lieu warranties and moratorium waivers and other information that is needed by E&CP/Field Engineering to effectively inspect, monitor, and enforce contracts, including tracking this information in PTS.
- #12 Reconcile right-of-way permits issued with excavation fees collected for fiscal years 2007 through 2010 and identify an effective method of reporting this information to the new Transportation and Stormwater Department in future years.
- #13 Revise current policies and procedures for pavement management and contracts to include conducting thorough and timely site assessments to ensure that cost estimates are as accurate as possible.
- #14 Define roles and responsibilities for managing resurfacing contracts and providing construction management services and establish a mechanism for internal control and oversight of resurfacing contracts.

11-010 MANAGED COMPETITION COST COMPARISON TOOL TESTING

The City Administration requested the City Auditor's Office assistance and expertise in reviewing the mechanism and principals that drive the Managed Competition Cost Comparison Tool. The City's Business Office designed the Cost Comparison Tool (CCT) as part of its effort to help outsource City functions. According to City Administration, the tool was submitted to our office as a draft, and it was understood that final changes and tests were being made to update the tool to include SAP-related terminology and resources. The costing tool is an essential part of calculating the cost requirements during each phase of the Managed Competition process. Managed competition requires the City to calculate the baseline cost of the organization, determine the estimated cost of the government's proposal, and conduct a fair and transparent cost comparison between the Employee Proposal Team's (EPT) proposal and proposals from independent service providers. The Business Office developed the CCT to assist departments in calculating baseline cost estimates of EPT proposals and perform the cost comparison during source selection.

This review includes recommendations on how to make the tool more objective and factual in calculating cost comparisons. The review of the CCT is specifically focused to test the CCT for appropriateness, accuracy, and user-friendliness. In general, we found most sections of the CCT accurately calculate costs. However, the CCT also has a number of areas where cells are not referenced properly, formulas do not calculate the intended values, and information is not presented as clearly as it could be. The referencing and calculation errors cause the CCT to display an inaccurate cost estimate of the testing scenario. We provided the details of the specific issues identified and suggested corrections to address them. We thank and commend the City Administration, especially the Business Office, for taking a proactive approach in reviewing this tool and providing ongoing collaboration. Their openness in reviewing this tool before deployment reduces the likelihood that our identified findings negatively impact the Managed Competition process.

RECOMMENDATIONS

- #1 The Business Office should consider making the recommended changes to improve the CCT's accuracy and user-friendliness.

- #2 The City Administration should apply the security provisions that lock and password-protect all cells in the workbook except the cells where the user is required to input information. Additionally, the City Administration should conduct verification testing after proposers submit proposals to confirm the data validity of each proposal.