

Accomplishments Report



March 2010

Report to the Audit
Committee

ACTIVITIES AND
ACCOMPLISHMENTS
OF THE OFFICE OF
THE CITY AUDITOR
JULY 2008 THROUGH
DECEMBER 2009

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THE CITY OF SAN DIEGO

DATE: March 30, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Activities and Accomplishments of the Office of the City Auditor
July 2008 through December 2009**

This is a report on the Activities and Accomplishments of the Office of the City Auditor for the period July 1, 2008 through December 31, 2009.

The year and a half covered in this report have 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 the inception of our department beginning July 1, 2008 through December 31, 2009.

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 benefitted 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 July 1, 2008 through December 31, 2009, the Office produced 40 reports with 274 recommendations. Our Office identified \$7,425,271 in potential monetary recoveries and cost saving for the City, which equates to \$3 in saving for every \$1 of audit costs. We are in the 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 \$3 billion a year, 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 the City and City Agency 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 overseeing 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, and administers the City's contract with the outside audit firm.

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 internal control over financial reporting;
- 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 required 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.

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 a City Auditor analysis of the impact the additional proposed audit will have on the other audits on 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 will undertake a semi-annual recommendation follow-up process to track the status of all previous audit recommendations. The City Auditor has recently established a process with the City Comptroller whereby Comptroller staff tracks the implementation status of audit recommendations, and provides weekly status updates to the City Auditor beginning in March 2010. The City Auditor's first recommendation follow-up report will cover all open recommendations for audit reports issued prior to December 31, 2009. Subsequently, the City Auditor will prepare 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 will present the results of follow-up reports to the Audit Committee.

Non-audit Services

The Yellow Book establishes that audit organizations that provide nonaudit 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 nonaudit services must evaluate whether providing nonaudit 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 Office of the City Auditor assumed all administrative responsibilities for the Fraud Hotline on July 21, 2008. 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 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 July 1, 2008 through December 31, 2009, the Office of the City Auditor received 169 complaints, and issued eight Hotline Investigative Reports with 13 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' 2008 Report to the Nation, Hotlines are a very effective tool for fraud detection. Nearly half of the fraud cases in their 2008 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, and 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 July 1, 2008 through December 31, 2009, the City Auditor's Office completed 23 performance audits, 5 agreed-upon procedures reviews, 8 hotline investigations, and we administered 4 outside audit contracts, which produced 40 audit reports. These reports contained 274 recommendations to improve economy, efficiency, and effectiveness within City government. As shown in the Summary of Work Performed (**Attachment I**), our Office identified \$7,425,271 in potential monetary recoveries and cost saving to for the City, which equates to \$3 in potential savings for every \$1 of audit costs. We are working with the Administration to follow up on recommendations and ensure they are implemented as intended.

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, personnel, property, equipment, and space in an economical and efficient manner; and (c) identify causes or inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, use of resources, allocation of personnel, purchasing policies, and equipment.

- **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 40 audit and investigative reports issued by the City Auditor from July 2008 through December 2009, and the 274 recommendations made.

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 2010 approved budget for the Office of the City Auditor includes eighteen staff members at a budgeted cost of approximately \$2.3 million for salaries, fringe benefits, and non-personnel expenses such as office equipment, training and supplies. The City Auditor's Fiscal Year 2010 budget also includes costs 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 and oversees the CAFR audit contract. During Fiscal Year 2010, the Office of the City Auditor will have 14 Principal Auditors to conduct audits and investigations.

The following tables represent the departmental budget for FY09 and FY10.

DEPARTMENT SUMMARY

	FY 2009	FY 2010
Positions	11.00	16.50*
Personnel Expenditure	\$ 1,562,609	\$ 2,118,468
Non-Personnel Expenditures	\$ 115,019	\$ 412,949
TOTAL	\$1,677,628	\$ 2,531,417

*The City Auditor's FY10 budget authorized the hiring of three (3) audit staff with a start date after January 2010 for a total of 18 staff members. The City Auditor's FY11 budget will show a total of 18 positions.

Comparative Audit Cost Analysis

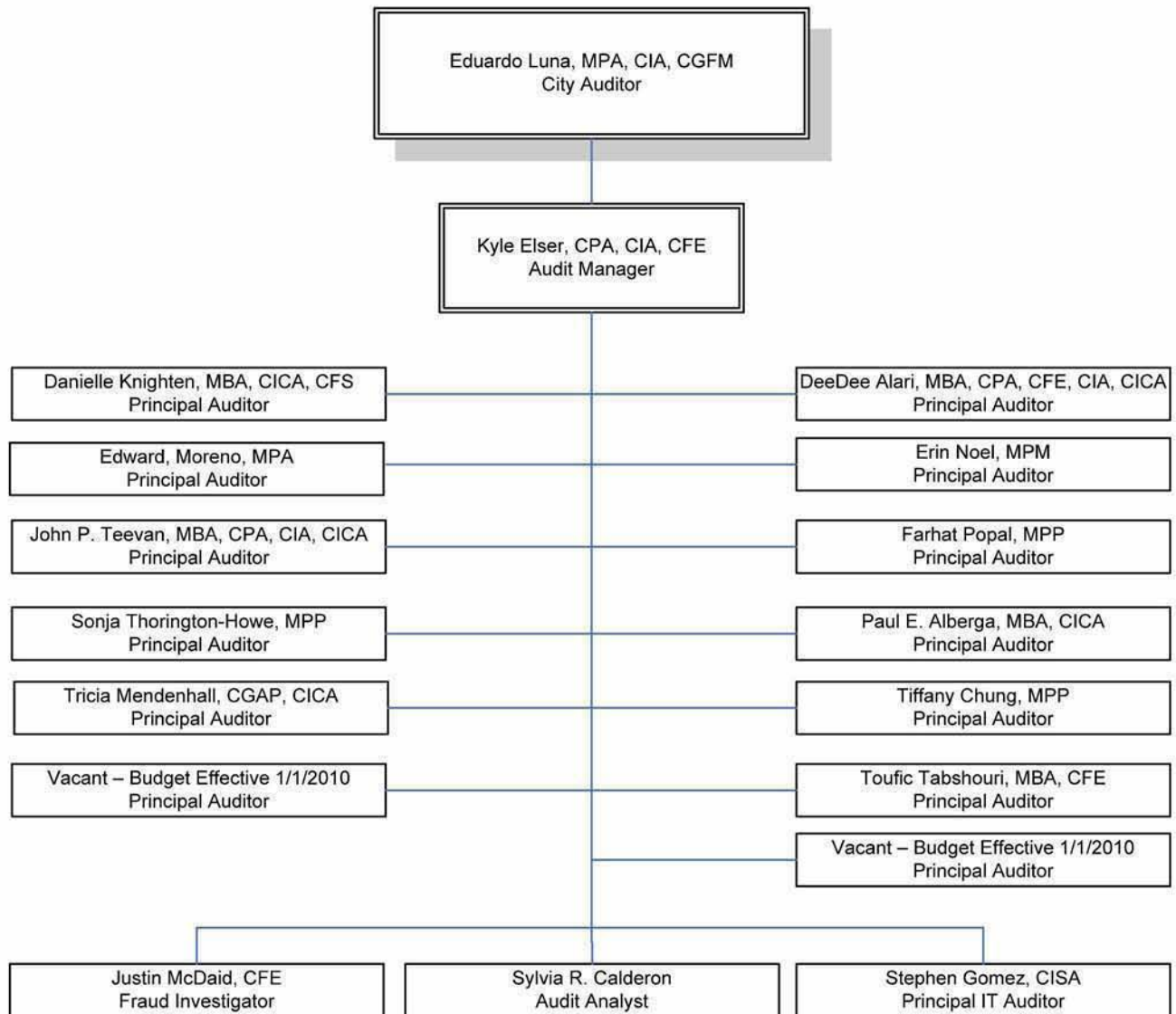
We have provided some comparative data to show the cost efficiency of the Office of the City Auditor. The City Auditor's average cost was \$88 per audit hour. This is based on the City Auditor's total actual expenditures¹ (including management, administrative and personnel fringe costs) of \$2,491,230 for the period July 2008 through December 2009, and 28,414 audit hours that were used during the same period. The average hourly rate charged by external auditors hired by the City to conduct financial and performance audits ranged from \$132 to \$198, with an average hourly rate of \$162. The Office of the City Auditor's cost to perform audit services is on average 38 percent less than the cost of external auditors hired by the City.

¹ These are actual departmental budgeted expenditures and do not include the cost of the CAFR or City Allocations such as rent.

The City Auditor’s Office is currently staffed with the City Auditor, 14 Principal Auditors (with one vacancy), two Audit Managers, and one Audit Analyst. However, during this reporting period ending December 31, 2009, the Office was staffed with 13 Principal Auditors, one Audit Manager, and one Audit Analyst as shown in the organization chart below.



City of San Diego Office of the City Auditor FY 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, international studies, liberal arts, and computer applications and networking. Further, most 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, and federal, state, and local government. This wide range of 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 Fraud Examiner (CFE)	4
Certified Internal Auditor (CIA)	4
Certified Internal Control Auditor (CICA)	4
Certified Public Accountant (CPA)	3
Certified Fraud Specialist (CFS)	1
Certified Government Financial Manager (CGFM)	1
Certified Governmental Auditing Professional (CGAP)	1
Certified Information Systems Auditor (CISA)	1
Graduate Degrees for Professional FTEs:	
Masters in Business Administration (MBA)	5
Masters in Public Policy (MPP)	3
Masters in Public Administration/Affairs (MPA)	2
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 Fraud Examiners (ACFE), Information Systems Audit and Control Association (ISACA), and Association of Certified Fraud Specialists (ACFS).

Leadership, Professional Development and Other Accomplishments

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

- During the 2009 Association of Local Government Auditors (ALGA) annual conference, the Auditor's Office received an Honorable Mention for the **2009 ALGA Website Awards**.
- During the 2009 ALGA Annual Conference, the City Auditor presented a session entitled "Signs of Trouble – Red Flags To Look For When Auditing Non-Profits"
- The Comptroller General of the United States appointed the City Auditor to serve on the United States Comptroller General's Domestic Working Group. 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.
- During the International Law Enforcement Auditors Association training seminar, the City Auditor presented "How to Develop and Track Effective Audit Recommendations" (October 2009).
- The Audit Manager participated on an ALGA Peer Review team to assess compliance with Government Auditing Standards by the City of Denver's Audit Department (October 2009).
- City Auditor contributed to the article entitled "Ethics and the Agency Auditing Function" for Western City magazine (December 2009).

City Auditor Website

In July 2008 – The City Auditor Website was initiated. The 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
 - Audit Memorandums and Presentations
 - Hotline Reports and Statistics
- Resources
 - Links to various auditing organizations
- FAQs

During calendar year 2009, the City Auditor's Office Website received over 1,200 visits per month from individuals and organizations. During the 2009 Association of Local Government Auditors (ALGA) annual conference, the Auditor's Office received an Honorable Mention for the **2009 ALGA Website Awards**.

The City Auditor's Website address is <http://www.sandiego.gov/auditor/>

Summary of Work Performed - July 2008 through December 2009
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Reports Issued	Date	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	Jul - 08	Agreed-Upon Procedures Review of the Increase in San Diego Water Rates Pursuant to the San Diego County Water Authority Water Rate Increases	\$0	0	0
2	Aug-08	Agreed-Upon Procedures Review of the Water Department's Proposed Rate Increase for the Indirect Potable Reuse (IPR) Demonstration Project, and the Combined Proposed IPR Rate Increase in Conjunction with the Previously Reviewed SDCWA Pass Through Rate Increase Calculations	\$0	0	0
3	Aug-08	Audit of Internal Controls Remediation Related to the San Diego Employees Retirement System	\$0	6	5
4*	Sep-08	SEDC Performance Audit of Operations	\$872,404	33	32.5
5	Oct-08	Audit of the Accounts of Mark Foreman, Former Family Justice Center Director	\$0	0	0
6	Oct-08	Audit of the Accounts of Anna Tatar (Martinez), Former Library Director	\$458,262	4	0
7	Nov-08	Audit of the San Diego Public Library Fee Collection Process	\$400,410	9	9
8	Nov-08	Audit of the San Diego Public Library Cash Handling	\$0	18	16
9	Dec-08	Audit of 2007 Wildfire Debris Removal Project	\$502,223	14	13

Reports Issued	Date	Description	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
10	Jan-09	Hotline Investigation of the Junior Lifeguard Program's Deposits of Fundraiser Monies	\$0	1	1
11	Jan-09	Hotline Investigation of the Handling of Scrap Metal at the Point Loma MWWWD Facility	\$0	1	1
12	Feb-09	Hotline Investigation of the Duplication of Water Meter Box	\$30,728	2	1
13	Feb-09	Audit of the Central Stores Inventory (FY08)	\$0	7	7
14	Apr-09	Hotline Investigation of the Fourth District Senior Resource Center	\$0	1	1
15	Apr-09	Agreed-Upon Procedures Review of the City of San Diego Water Department's Proposed Water Allocation Over-Use Penalty Rate	\$0	0	0
16	Apr-09	Audit of the Accounts of Gregory Levin, Former Comptroller	\$0	0	0
17	Apr-09	Audit of the Accounts of Michael Aguirre, Former City Attorney	\$131,085	2	2
18	Apr-09	Audit of the Accounts of Scott Peters, Toni Atkins, Brian Maienschein and James Madaffer, Former Council Members	\$0	1	1
19	May-09	Audit of San Diego Data Processing Corporation's Compensation and Budgeting Practices	\$1,336	6	6
20	May-09	The City of San Diego Faces Unique Operational and Administrative Challenges in Managing Qualcomm Stadium	\$0	9	8.5
21	May-09	Park & Recreation Pool Audit	\$1,200	17	15.5

Reports Issued	Date	Description	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
22	May-09	Hotline Investigation of a City Employee	\$0	1	1
23	Jun-09	Audit of the SAP ERP Implementation – Current to Integration Testing, Cycle 1	\$0	6	6
24	Jun-09	Audit of Accounts of Wendi Brick, Former Customer Services Director and Audit of Accounts of Elmer Heap, Joanne Sawyer-Knoll, and Jill Olen, Former Deputy Chief Operating Officers	\$662,319	3	3
25	Jun-09	Hotline Investigation of Promote La Jolla, Inc.	\$112,070	4	4
26	Jun-09	Hotline Investigation of a Development Services Department Employee	\$0	1	1
27*	Jul-09	Performance Audit of CCDC	\$0	24	24
28	Jul-09	Agreed-Upon Procedures Review of the Water Department's Increase in City of San Diego Water Rates	\$0	0	0
29	Jul-09	Metropolitan Wastewater Department Contract Compliance Audit	\$80,500	12	12
30	Jul-09	Performance Audit of San Diego Housing Commission, Part I	\$0	19	18
31	Jul-09	Performance Audit of San Diego Housing Commission, Part II	\$0	12	12
32*	Jul-09	Audit of San Diego Convention Center Corporation	\$0	12	12
33*	Aug-09	Review of the Hiring Process of the Director of Purchasing and Contracting	\$0	5	4

Reports Issued	Date	Description	Identified Opportunities To Increase Revenues Or Reduce Costs	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
34	Sep-09	Agreed-Upon Procedures Central Stores Inventory Count – FY2009	\$0	0	0
35	Sep-09	Office of The City Attorney Proposition 64 Funds Audit	\$0	7	6.5
36	Oct-09	Performance Audit of the City's Street Maintenance Functions	\$0	4	3.5
37	Nov-09	Hotline Investigation of a City Comptroller Employee	\$0	2	1.5
38	Nov-09	San Diego Data Processing Corporation Follow-Up Audit	\$0	16	12
39	Dec-09	Performance Audit of the City Treasurer's Delinquent Accounts Program – Development Services Department Deposit Accounts	\$3,394,902	14	14
40	Dec-09	City Charter Requirements for Unclaimed Funds	\$777,832	1	1
		Totals	\$ 7,425,271.00	274	255

* City Auditor's Office managed the contract for the outside audit performed.

Summary of Audit Reports

The following summarizes the audit reports that the Office of the City Auditor issued from July 2008 through December 2009:

#1 AGREED-UPON PROCEDURES REVIEW OF THE INCREASE IN SAN DIEGO WATER RATES PURSUANT TO THE SAN DIEGO COUNTY WATER AUTHORITY WATER RATE INCREASES July-08

We verified the proposed rate increase calculations were mathematically accurate.

RECOMMENDATIONS

We did not make any audit recommendations.

#2 AGREED-UPON PROCEDURES REVIEW OF THE WATER DEPARTMENT'S PROPOSED RATE INCREASE FOR THE INDIRECT POTABLE REUSE (IPR) DEMONSTRATION PROJECT, AND THE COMBINED PROPOSED IPR RATE INCREASE IN CONJUNCTION WITH THE PREVIOUSLY REVIEWED SDCWA PASS THROUGH RATE INCREASE CALCULATIONS August-08

We verified the proposed rate increase calculations were mathematically accurate.

RECOMMENDATIONS

We did not make any audit recommendations.

**#3 AUDIT OF THE INTERNAL CONTROL REMEDIATION RELATED TO THE
SAN DIEGO CITY EMPLOYEES RETIREMENT SYSTEM August-08**

We have tested the 29 remedial recommendations from the August 8, 2006 Kroll Report and the 1 recommendation made by KPMG in their March 12, 2007 Independent Auditor's Report that relate directly to SDCERS. Of the 30 recommendations (items) tested, 16 items are the responsibility of SDCERS to implement and the remaining 14 items are the responsibility of City management to implement.

Based on our testing of 30 SDCERS related items that have been reported as remediated by management, we determined that 21 of the items have been fully remediated, 8 items need additional action to be taken by management, and 1 item was not implemented as recommended by Kroll; however, we agree that it is not necessary for this recommendation to be implemented.

We have made 3 recommendations to be implemented by SDCERS and 3 recommendations to be implemented by City management. Our 6 recommendations pertain to:

- adding language to SDCERS Board rules and policies to ensure:
 - proper administration of the contract for the performance of its actuarial valuation;
 - vendor disclosure requirements for investment consultants and fund managers are adequate;
- finalizing the "Improper Influence" ordinance;
- filling vacancies on the SDCERS Board and improving the Board selection policies/procedures;
- changing the reported status of 4 Kroll items from "Completed" to "Not to be implemented" in order to more accurately portray their actual status.

RECOMMENDATIONS

Recommendation #1 SDCERS should amend its Board policy to include a ten year limitation on continuous service on contracts for actuarial valuation services, and ensure future renewals with Cheiron, Inc are in compliance with this policy

Recommendation #2 SDCERS should modify their Investment Policy Statement to provide a requirement for all contracts with investment consultants and fund managers to include a clause requiring an annual written disclosure of all financial and personal relationships that may give rise to an actual or perceived conflict of interest and any failure or delay in filing the annual disclosure will result in a penalty, including termination of services

- Recommendation #3 SDCERS should notify City management that they do not intend to include in their CAFR a report from each of its standing committees on significant activities during the year, and that the remediation status of this item should be changed from "Complete" to "Not to be implemented"
- Recommendation #4 Mayor's Office should take appropriate actions to resolve the outstanding issues with the draft "Improper Influence" ordinance so that the City Council can pass/adopt the ordinance
- Recommendation #5 The Mayor's Office should take the steps necessary to fill all SDCERS' Board vacancies as soon as possible. The status of Kroll items 115-117 should be changed from "Complete" to "Not to be implemented"
- Recommendation #6 The Office of Appointments to Boards and Commissions should incorporate into their Board selection policies/procedures language requiring that all applications for final candidates to serve on the SDCERS' Board be forwarded to the SDCERS Business and Governance Committee

**#4 SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
PERFORMANCE AUDIT OF OPERATIONS (Macias Consulting)
September-08**

Internally, the extent of operational weaknesses, problems, and other issues that exist at SEDC justify governance and organizational changes. The problems stem, in part, from an outdated operating agreement that had too few requirements to ensure appropriate accountability over operations. The problems also result from processes rooted in the past that have not evolved as standards and practices for business operations changed. Moreover, even when SEDC's operating budget grew, internal controls were not added leaving greater vulnerability on how City loans and tax increment were spent. Given this, there needed to be greater reliance on the City for oversight of these public funds. The internal controls at the City did not always work and when they did work that led to denials for requested salary increases, SEDC circumvented them. Between fiscal years 2004 and 2008, SEDC's President authorized a total of \$872,404 in supplemental compensation to SEDC employees and to herself.

While it would appear that the existing governance structures (e.g., City Council, the City Redevelopment Agency, and the SEDC Board of Directors) were in place to provide additional layers of oversight of the agency, the SEDC Board of Directors had the ultimate authority over the agency. The SEDC Board of Directors could not provide effective oversight because SEDC reduced the Board's ability to do so because there was insufficient transparency of information and of SEDC internal operations to fully and adequately inform key officials at all levels. No matter how well-designed and operated, controls cannot provide absolute assurance that all City and SEDC objectives are met when critical data is systematically omitted. These omissions have circumvented the specific governance structures and other requirements in place, which in turn, provided a substantial and direct financial benefit to SEDC employees that rose to the level of fraud. One of the most troublesome aspects of our review was that SEDC management believed that its practices were acceptable because they were adhering to its operating agreement, or to general budgeting requirements imposed by the City, or to activities consistent with nonprofit agencies.

Externally, SEDC organizational goals in its redevelopment and implementation plans, approved by the City Redevelopment Agency (CRA) are appropriate given the requirements of CRA. While SEDC has made notable accomplishments in increasing tax increment, employment, and bond issuances, SEDC could benefit from operational improvements regarding redevelopment activities by implementing a formal strategic management process, defining a formal project management process and incorporating best practices in the areas of communication and procurement. SEDC could do more to strengthen its efforts to educate the community and key stakeholders. Increasing the availability of documentation of its project management process and providing regular updates on project status would also help increase the transparency needed.

Successfully addressing the challenges that the SEDC faces in improving efficiency and effectiveness requires new redevelopment leaders who are committed to achieving results, and who integrate performance-based management into the culture and day-to-day activities. SEDC needs leaders capable of effectively managing and developing its human capital by providing the institutional tools, structures, processes, and accountability to achieve these results.

RECOMMENDATIONS

Recommendation #1 Amend and update SEDC's operating agreement to include representatives of the City on the SEDC Board, limitations to the SEDC President's authority; specific requirements for holding Board of Director meetings, as well as establishing requirements for SEDC Board of Directors' training, budgeting practices, communication activities, project management, financial management, performance outcomes, and mandating leave utilization; or, integrate/merge SEDC under the direct control of the RDA or integrate SEDC with CCDC depending on the results of the anticipated CCDC study; or, fully operate SEDC as a public agency within the City

- Recommendation #2 City should require in SEDC's Operating Agreement the position classification of a CFO who reports to the Board of Directors and fill the newly-created position through competitive and open recruitment
- Recommendation #3 SEDC Board of Directors should approve all salary increases to the SEDC President. Incentive pay increases should be documented in the SEDC contract with the President and directly tied to annual performance evaluations provided by the full Board of Directors
- Recommendation #4 SEDC should fill the Manager of Projects and Development position as soon as possible
- Recommendation #5 SEDC should fill a Vice President of Operations position to help oversee day-to-day operations and be responsible for SEDC's adherence and compliance to internal controls
- Recommendation #6 SEDC should establish a part-time formal Human Resources Manager position to oversee SEDC's recruiting, hiring, staff development and termination activities
- Recommendation #7 SEDC should ensure that its Board of Directors receives all the training necessary to fully perform their fiduciary responsibility of the Agency
- Recommendation #8 SEDC should immediately develop policies and procedures for ensuring proper record keeping and storage that include: documentation of Board member opposition to agenda item, preparation of the Board minutes should be accomplished within specific timeframes, and posted on the Agency's web site, filing of tape recordings of SEDC Board minutes in locations fully accessible by the public
- Recommendation #9 SEDC should require the reporting of quarterly expenditure reports for professional and technical services to the SEDC Board of Directors that include the types of services provided
- Recommendation #10 SEDC, in conjunction with the City's Personnel Department, should develop formal procedures for approving pay-outs of accrued leave, including the requirement of the SEDC Board of Directors approval for leave buy-outs of SEDC executive officers
- Recommendation #11 SEDC should develop policies for expenditure allowances. These policies should define the types of allowable and unallowable expenditures. These policies should be streamlined with the City policies and take into consideration that the money being utilized are public funds and should not be used for non-governmental business

- Recommendation #12 SEDC should formalize policies and procedures that describe the segregation of duties for the fiscal operations and authorization procedures
- Recommendation #13 SEDC should amend its merit pay policy and establish maximum award amounts
- Recommendation #14 SEDC should ensure that the SEDC Board of Directors approves all policies
- Recommendation #15 SEDC should amend its consultant policy and lower the threshold that would trigger SEDC Board of Director approval for professional and technical services contracts/letters of agreement to \$10,000
- Recommendation #16 SEDC should eliminate the authority provided to the SEDC President to implement agency policies at her discretion
- Recommendation #17 The Office of the CFO should review and approve all of SEDC's newly-developed fiscal policies and procedures prior to their finalization
- Recommendation #18 SEDC should discontinue all forms of supplemental income payments to SEDC staff, except for merit pay as described under current policies
- Recommendation #19 SEDC should communicate on a monthly basis, a financial position report to the Board of Directors. This report would show current expenditures as they relate to each budget line item. This would include a report of current financial status as compared to the budget
- Recommendation #20 The new SEDC Chief Financial Officer, in the budget presentation of the Board and supplementary submission to the City, should include a minimum of three years of budget versus actual data for revenues and expenditures, for both project budgets and corporate budgets, including variances. The budget should include detailed and precise information on base salary and other forms of compensation by employee position and estimated overtime
- Recommendation #21 The SEDC Chief Financial Officer should include project goals and accomplishment information by project into the City's budget presentation, which will require SEDC to tie program goals and objectives to their budget
- Recommendation #22 The SEDC Board of Directors should ensure that cost of living increases that are provided to SEDC employees are consistent with City cost of living increases

- Recommendation #23 SEDC should clarify and further develop its real estate acquisition policy. This should include, but not necessarily be limited to, detailing when SEDC should use Request for Proposal and when it should go back to its Board of Directors or the City Redevelopment Agency Board for subsequent approval of acquisitions
- Recommendation #24 SEDC should correlate implementation plan goals with redevelopment plan goals and present the revised documents for formal Board approval
- Recommendation #25 Annual work plans should include a timeframe for completion of work plan tasks
- Recommendation #26 Accomplishment reports should link specific accomplishments back to the operational goals in project area work plans and include information on remaining work to be completed
- Recommendation #27 In accordance with best practices, SEDC should develop an agency-wide strategic plan. This process should include City and community outreach to solicit strategic planning feedback
- Recommendation #28 SEDC should ensure the agency-wide strategic plan links to the Mayor's vision for the City
- Recommendation #29 SEDC should make its consultant selection process more transparent by:
- a. Documenting consultant need in the files, including a justification for selecting a sole source consultant, when such a consultant is used; and
 - b. In accordance with SEDC's policies and procedures, the President should disclose all new consultant contracts, including contract extensions, at the monthly meeting of the Board of Directors
- Recommendation #30 The City should consider examining the feasibility and the extent to which supplemental compensation that was not properly authorized should be reclaimed by the City
- Recommendation #31 The City should determine the full impact of 403B contributions on the City stemming from the supplemental compensation increases
- Recommendation #32 The City's Internal Auditing function should conduct an audit within 18 months to review the status of SEDC's efforts to implement the recommendations contained in this report
- Recommendation #33 The City should examine the appropriateness of SEDC's charitable contribution activities
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**#5 AUDIT OF THE ACCOUNTS OF MARK FOREMAN, FORMER FAMILY
JUSTICE CENTER DIRECTOR October-08**

We conducted a close out audit of the former Family Justice Center Director. We found that Mr. Foreman 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.

**#6 AUDIT OF ACCOUNTS OF ANNA TATAR (MARTINEZ), LIBRARY
DIRECTOR October-08**

We conducted a close out audit of the former Library Director. We found that Ms. Tatar used a total of 584 hours of old sick leave charged to job order 971127 “Old Sick Leave (Family),” during the period March 2004 – March 2008, and her remaining old sick leave balance was .4 hour at the time of her final paycheck. Old sick leave is defined as sick leave accumulated prior to September 4, 1981, when Ordinance No. 15553 established an annual leave program replacing the vacation and sick leave program. One of the permitted uses of old sick leave is listed under Personnel Regulation, Rule X, Section 4 and Personnel Manual, Index Code I-3, Section II (H), which states that the use of accumulated old sick leave is limited to 40 hours per instance when used for family illness or death. Ms. Tatar had used old sick leave under this provision. We reviewed her charges to the old sick leave job order 971127 and found several occasions where more than 40 hours were charged per instance. We determined that of the 584 hours used, 304 hours were above the 40 hour per instance limit.

Upon retirement, Ms. Tatar “cashed out” her leave balances. Old sick leave is paid out at 50% of hourly rate, while annual leave accrued after 1981 is paid out at 100% of hourly rate. We reviewed her final paycheck for pay period ending July 11, 2008 and we analyzed data going back to December 29, 2006 at the time of her final pay. We found 64 hours of old sick leave were over the 40 hour per instance limit, and as a result, her annual leave was reduced by 64 hours and 64 hours of old sick leave was added to her final pay out. This reduced her final paycheck by \$1,954.05. We subsequently reviewed payroll data available going back to March 2004, and determined that the City overpaid Ms. Tatar \$7,327.68 for an additional 240 hours that were above the 40 hour limit.

We then expanded the scope of our audit to include a high level review of old sick leave Citywide. We reviewed the Old Sick Leave (Family) payments using job order 971127 during the period July 1, 2004 to October 8, 2008 to determine if there were many other instances of other City employees exceeding the 40 hour limit. We found 7 individuals totaling a potential overpayment of approximately \$9,300. We referred these cases to the Comptroller's Payroll Division for review. Also, based on data provided by the Payroll Division, we found there are 193 current employees with 10,037.1 hours of old sick leave valued at \$439,680. However, many of these employees have only a small balance of hours. There are 92 of the 193 employees with old sick leave hours with a value greater than a \$100. The amount of old sick leave on the City's books as of September 19, 2008 is \$439,680.

We determined there is a future potential loss to the City if the remainder of the old sick leave is inappropriately used in lieu of the annual leave accrued after 1981. The opportunities identified to reduce costs to the City as a result of this audit totaled \$458,262.

RECOMMENDATIONS

- Recommendation #1 The Office of the City Comptroller and Labor Relations Department should determine the practicability of recouping the \$7,327.68 overpayment from Ms. Tatar
 - Recommendation #2 The Office of the City Comptroller, Payroll Division should research the other 7 individuals for potential overpayments
 - Recommendation #3 The Personnel Department should educate Payroll Specialists and City Supervisors on the provisions related to the limited use of old sick leave for family illness or death
 - Recommendation #4 Include controls within SAP to alert users of the proper usage of old sick leave when the system is implemented
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**#7 AUDIT OF THE SAN DIEGO PUBLIC LIBRARY FEE COLLECTION
PROCESS November-08**

Due to the failure of the ILS Offline Process, the Library accounts were inaccurate; past due accounts could not be referred to Collections; the Library was not in compliance with City regulations; and revenues decreased.

In our opinion, best practices were not utilized when testing disaster recovery procedures. Due to the lack of testing, there was an increased risk that continuity of business operations would be negatively impacted during network outages.

The purpose of referrals to Collections is to assure maximum collection in a timely manner of all monies due to the City, including recovering the cost of lost Library materials. Based on ILS data as of April 2008, there were 179,894 delinquent accounts totaling \$2.8 million. If fees are not recovered, this may impact the Library's ability to have a diverse, well-managed collection readily available to customers.

The Library has poor cash handling controls. Deposits are not timely; cash receipts are not reconciled to ILS; and there are not procedures for waiving fees due. In our opinion, these practices are not adequate to prevent or detect theft of funds.

The total estimated loss of revenue in fiscal year 2008 was approximately \$361,670. In addition, general fund revenue decreased \$38,740 due to interest and penalties on Library accounts not referred to Collections for a total of \$400,410 in opportunities identified to increase revenues.

RECOMMENDATIONS

Recommendation #1 Develop disaster recovery policies and procedures to ensure data will be updated efficiently if future information technology system outages interrupt normal operations

Recommendation #2 Consult with SDDPC to determine if there is recourse against the vendor, SirsiDynix, for the losses the City incurred when the Offline Process failed to perform as claimed by the vendor

Recommendation #3 Ensure past due accounts are referred to Collections in accordance with the City Charter and the Administrative Regulations or obtain authorization from the City Treasurer to suspend referrals

Recommendation #4 Develop policies establishing the standards for documentation of system testing at the Library

- Recommendation #5 In conjunction with the Treasurer's Collections Division, determine the cost and benefits of implementing a fully automated interface with the Collections software applications to automate the exchange of data between the Library and Collections on payments made by customers
- Recommendation #6 Work with City Treasurer staff to design and implement adequate internal controls over cash handling and ensure the branch libraries deposit cash within 7 days of receipt
- Recommendation #7 Determine if daily revenue and waiver reports can be designed to report revenues by branch based on transactions in ILS. If so, reconcile revenue reports to the register Z-tape; and retain copies of the revenue reports. If revenue reports cannot be generated, ring all transactions on the register and provide customers a receipt from the register, in addition to ILS. Post signs stating that all Library customers will receive receipts for payments
- Recommendation #8 Perform a periodic reconciliation of total receipts deposited by Central and all branches to total revenues posted in ILS to determine the materiality of and reason for differences, if any
- Recommendation #9 Establish procedures limiting the dollar amount of waivers that can be authorized by staff without secondary approval and implementing a process to review waivers granted at least monthly

**#8 AUDIT OF THE SAN DIEGO PUBLIC LIBRARY CASH HANDLING
November-08**

This was a Confidential Audit Report that was not distributed publically due to the potential damage that could be caused by the misuse of the detailed cash handling information provided in the report. In summary we found that the controls over some cash transactions are weak. Strong internal controls over cash and checks are necessary to minimize the risk of theft and to ensure that cash collected is properly deposited with the City.

RECOMMENDATIONS

We have made 15 recommendations to improve cash handling controls and three recommendations related to sales to raise funds

#9 AUDIT OF THE 2007 WILDFIRE DEBRIS REMOVAL PROJECT
December-08

In October 2007, the City of San Diego faced devastating wildfires that destroyed homes and burned over 400,000 acres across San Diego County. To deal with the aftermath, the City established a centralized program to remove fire debris. As part of this program, the City awarded contracts to Granite Construction Company and A.J. Diani Construction Company to clean up affected properties in the Rancho Bernardo area. The debris removal work was completed in February 2008, and the total amount paid to the contractors was approximately \$9.4 million. The City's portion of these costs is expected to be \$658,000 after receiving Federal, State and homeowner insurance reimbursements.

Allegations were made that Granite Construction Company and A.J. Diani Construction Company did not accurately bill the City for costs associated with the fire debris removal program. In response to these allegations, the Mayor requested the Office of the City Auditor review the supporting documentation for these costs. Based on our review, we found the rates paid to the contractors appear to be generally reasonable, but the billings to the City contained mistakes and omissions; and from a contract management perspective the City was not prepared to administer a large-scale debris removal program. We identified \$2,223 in overbillings to be recouped and opportunities for future Federal funding for similar future projects. We made 14 recommendations to correct the weaknesses identified.

RECOMMENDATIONS

- Recommendation #1 City staff should ensure that future service contract amendments are reasonable, and do not allow reimbursable expenses to include overhead and profit
- Recommendation #2 ESD should invoice Granite Construction Company \$2,223 for weigh tickets that were overbilled to the City
- Recommendation #3 ESD should review all of Granite's weigh tickets involving debris disposed of at Lakeside Land Company and determine if the City was overbilled because the type of material was inaccurately described
- Recommendation #4 If the review yields an over billing due to inaccurate material types, the City should invoice Granite Construction Company the amount of over billings
- Recommendation #5 ESD should determine if the City should have been billed for the weigh ticket that was also charged to the County. If the billing was not applicable to the City's debris removal, ESD should invoice Granite \$678 for the duplicate billing

- Recommendation #6 ESD staff should work with A.J. Diani staff to determine the best course of action pertaining to the potential under billings for 336.65 tons of debris and for the questionable billings of 85.52 tons of debris. If the determination results in additional payment to A.J. Diani, ESD staff should request funding from FEMA for the additional amount
- Recommendation #7 ESD staff should invoice A.J. Diani Construction Company for \$8,442 in net overbillings pertaining to billing discrepancies for a site sign and for street sweeping
- Recommendation #8 City Management should establish a comprehensive debris management plan. This plan should be approved by the Mayor and City Council. Prior to establishing the Plan, city staff should consult with the California Office of Emergency Services to ensure the Plan takes into consideration all items needed in order to qualify for Federal and State subsidies, such as pre-qualification of at least two contractors
- Recommendation #9 When preparing estimates for future contracting services, City staff should use information that will provide for the most accurate and appropriate estimates
- Recommendation #10 In future debris removal programs involving numerous properties, the City should include requirements for a documented work order or checklist to be completed for each property so that all parties are in agreement regarding work to be performed. This work order could also provide a control document for staff to use prior to approving invoices for payments to Contractors
- Recommendation #11 For all contracts, ESD staff should ensure that independent verifications of billed amounts that are done by staff be documented and retained
- Recommendation #12 For all future contracts or projects that rely on processes followed by other City departments or divisions, ESD staff should be proactive in communicating the contract or project requirements
- Recommendation #13 ESD staff should contact homeowners who have not submitted copies of insurance settlement agreements and request copies of the settlement agreement in order to verify that the City received the appropriate amount
- Recommendation #14 ESD staff should ensure that all remaining insurance proceeds received are accurate based on insurance settlement statements
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#10 HOTLINE INVESTIGATION OF THE JUNIOR LIFEGUARD PROGRAM'S DEPOSITS OF FUNDRAISER MONIES January-09

The Office of the City Auditor conducted an investigation of the Lifeguard Division's Junior Lifeguard Program's deposits of fund raiser monies in response to a call made to the City's Fraud Hotline. The citizen caller alleged the Lifeguard Division held fundraiser monies for approximately two months prior to depositing.

Our investigation concluded the allegation was substantiated and the Lifeguard Division concurs. We found that approximately \$26,000 received in July and August of 2008 for the Junior Lifeguard Program was not deposited until mid-September 2008. The City of San Diego City Charter Section 86 requires City employees collecting fees to make timely deposits in the City Treasury.

RECOMMENDATION

Recommendation #1 We recommend the Junior Lifeguard Program adhere to Dept wide written policies and procedures for making deposits in a timely manner in accordance with Charter Section 86

**#11 HOTLINE INVESTIGATION OF THE HANDLING OF SCRAP METAL AT
THE POINT LOMA MWWWD FACILITY January-09**

We conducted an investigation regarding the handling of valuable scrap metal in which the allegations were found to be unsubstantiated. However, we made recommendations to address control weaknesses identified during the investigation, and corrective actions have been taken.

RECOMMENDATION

Recommendation #1 We recommend that MWWWD implement a process to manage and monitor scrap metal, specifically copper and aluminum, at Point Loma as well as any other facilities where the process might be lacking or non-existent (copper and aluminum are both contracted for recycling at significantly higher reimbursement rates.) These processes should include the following types of internal controls (at a minimum):

- A separately maintained log tracking the amount of copper placed in and taken out of the storage unit. This information should include, at a minimum: date (of occurrence); project material is related to; person involved (name and signature or initials) and description of materials (as available: weight, length, thickness, quantity, condition, etc.);
- A periodic reconciliation of contents of storage unit, including comparison to the log and evidence of review / approval (supervisors signature), to be performed at least annually;
- A routine examination for amount and quality of copper included in storage for potential disposal and recycling. Upcoming projects and needs should be evaluated to determine any excessive or otherwise unnecessary quantities to be sold as recyclable materials to generate revenue for the department;
- At the time of any recycling of copper (and aluminum), notification should be sent to the Point Loma Superintendent and City Purchasing & Contracting personnel responsible for the scrap metal recycling contract to ensure appropriate processing and reimbursement.

#12 HOTLINE INVESTIGATION OF THE DUPLICATION OF WATER METER BOX REPLACEMENT WORK February-09

The Office of the City Auditor conducted an investigation of the Water Department's meter box replacement work in response to a call made to the City's Fraud Hotline. The citizen caller alleged that the City is performing duplicate and unnecessary replacement of meter boxes causing waste of City resources. The caller indicated that the City replaced the water meter box on his property twice in the same year – once in May 2008 and then again in October 2008.

Our investigation concluded the allegation was substantiated. The Water Department confirmed that a City contractor had replaced the second box in error. As a result, we expanded our testing to determine if the duplicate replacement was an isolated incident or occurring on a greater scale. We found that approximately 92 addresses are proposed to have water meter box replacement work performed under the current contracts despite having meter boxes replaced or repaired in FY 2007 or FY 2008. We estimate the potential duplicate and unnecessary replacement costs to the City for these 92 water meter boxes is at least \$30,728.

We verified that Water Department staff has instructed the Contractor to skip over boxes in good working condition rather than replacing them. In addition, we recognize that the expected lifespan of water meter boxes is unknown – boxes should be replaced when they are broken.

RECOMMENDATIONS

Recommendation #1 We recommend the Water Department recover the cost of the unnecessary replacements from the contractor and implement more thorough procedures to monitor the project to prevent unnecessary meter box replacements

Recommendation #2 We recommend the Department monitor the project to ensure that complete meter boxes (lid and box) are not being replaced when repairs are sufficient to mitigate box problems

**#13 AUDIT OF THE CENTRAL STORES INVENTORY FOR FY 2008
February-09**

The San Diego Municipal Code (SDMC) requires an audit of the storeroom inventory be performed annually. Based on our audit testing, we found the physical inventory count has improved from the prior year. However, write-offs of missing inventory have increased and obsolete inventory has not decreased significantly. We also found that control weaknesses exist over distribution and accounting for inventory. We have made seven recommendations to improve the monitoring and controls over storeroom inventory.

RECOMMENDATIONS

- Recommendation #1 Monitor year-to-date write-offs of missing inventory at least quarterly and determine if additional control measures are warranted, such as a change in control procedures or the use of theft detection devices, if write-offs continue to increase
- Recommendation #2 Develop a written policy requiring departments to notify Storerooms immediately when there are changes in inventory needs to minimize obsolete inventory. Work with departments to identify an effective procedure for this process
- Recommendation #3 If manual requisitions are used after the implementation of ERP, use internal authorization cards for those employees using manual requisitions to request and receive supplies. If implemented, ensure controls, such as employee names on cards, an annual card expiration date and reports to departments, are put in place to prevent misuse
- Recommendation #4 Ensure ERP will include reports on Central Stores purchases to all departments. In addition to detailed reports of purchases, design summary reports in ERP for management's use in monitoring types and costs of supplies purchased from the storerooms
- Recommendation #5 Ensure ERP provides accurate inventory reports so Central Stores is able to reconcile beginning to ending inventory and provide this reconciliation to the Comptroller at year end. Ensure ERP provides accurate summary reports related to inventory accounting so Comptroller staff is able to reconcile beginning and ending inventory in the general ledger and ensure the general ledger activity matches inventory activity reports from Central Stores. Comptroller staff should review and document the reasons for any variances between inventory records and accounting records

Recommendation #6 In conjunction with the Comptroller, revise the accounting for storeroom inventory to segregate purchases from city-wide purchases and consider establishing a clearance account for city-wide purchase orders

Recommendation #7 Document storeroom policies and controls related to storeroom operational risks. Update storeroom procedures at the implementation of the ERP system

#14 HOTLINE INVESTIGATION OF THE FOURTH DISTRICT SENIOR RESOURCE CENTER April-09

The Office of the City Auditor conducted an investigation of the Fourth District Senior Resource Center (FDSRC) in response to a call made to the City's Fraud Hotline. The caller alleged that the FDSRC failed to maintain adequate accounting records, failed to provide accurate financial reports, comingled grant funds, and made personal use of FDSRC funds. In addition, the complaint included an allegation of an assault at the FDSRC.

FDSRC is a non-profit organization that provides various services to seniors. It operates out of a Park and Recreation Department facility under a Preferential, Non-Exclusive Use and Occupancy Permit (Use Permit). In addition, FDSRC has a grant contract with the City Planning and Community Investment Department for an annual Community Development Block Grant (CDBG) allotment of \$26,910.

Our investigation concluded the allegations are substantiated.

RECOMMENDATION

Recommendation #1 We recommend the Park and Recreation Department and the City Planning and Investment Department strengthen contract oversight to ensure contractors are in compliance with all contract provisions, including those related to proper accounting and reporting, and take appropriate action based on the information provided in this report

**#15 AGREED-UPON PROCEDURES REVIEW OF THE CITY OF SAN DIEGO
WATER DEPARTMENT'S PROPOSED WATER ALLOCATION OVER-USE
PENALTY RATE April-09**

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.

**#16 AUDIT OF ACCOUNTS OF GREGORY LEVIN, FORMER CITY
COMPTROLLER April-09**

We conducted a close out audit of the former City Comptroller. We found that Mr. Levin 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.

#17 AUDIT OF ACCOUNTS OF MICHAEL AGUIRRE, FORMER CITY ATTORNEY April-09

We conducted a close out audit of the former City Attorney. We found that Mr. Aguirre had no outstanding debt to the City. However, our audit revealed that the City Attorney is the only elected City official that receives Annual Leave benefits. The City Attorney position is considered a member of the executive group in the Salary Ordinance, which allows the City Attorney to receive Annual Leave benefits. By comparison, the other elected officials (the Mayor and City Council) are paid a biweekly salary regardless of the number of hours worked, and they do not accrue Annual Leave. Additionally, the City Attorney position is part of the legislative group for retirement benefits. Annual Leave that is accrued and not used can be cashed out by the City Attorney. As a result of receiving Annual Leave benefits, the City paid Mr. Aguirre an additional \$59,162 in accrued Annual Leave that he did not use during his four year term in office. Although, no regulations or City policies were violated, the City should consider the appropriateness of having the City Attorney position in both the executive group for Salary / Annual Leave benefits and the legislative group for retirement benefits.

We determined the potential additional cost to the City if the City Attorney does not use any of the Annual Leave accrued while in Office. For example, a newly elected City Attorney will accrue approximately 704 hours in a four year term and 1,408 hours during an eight year term. Using the current City Attorney hourly wage, the City could potentially pay out an additional \$65,542 for a four year term and \$131,085 for an eight year term if no Annual Leave time is used and is subsequently cashed out. We should note that the City Attorney is also granted an additional 80 hours of Administrative Leave each year, which can be used for timeoff in lieu of regular Annual Leave.

We also found that the process used to set the City Attorney's salary is not fully in compliance with the City Charter Section 40 and the Salary Ordinance Section 7. These governing documents state the City Attorney's salary shall be fixed by Council and set forth in the Annual Appropriation Ordinance. Additionally, City Charter Section 290(a)(3) states the Annual Salary Ordinance passed by Council shall become a controlling document for preparation of the Annual Appropriation Ordinance for the ensuing fiscal year. The City Council has approved the Annual Salary Ordinance that provides a range of \$73,260 - \$292,596 for the City Attorney's salary, and approved the Annual Appropriations Ordinance, which includes the budgeted amount for the City Attorney's salary; however, there was no supporting documentation to demonstrate that City Council was involved in setting Mr. Aguirre's actual salary when he took office, and the City Attorney's actual salary amount is not included in the Annual Salary Ordinance as are the City's other elected officials. We found that Mr. Aguirre assumed his predecessor's ending salary.

We originally planned to recommend the Human Resources Department research and review the issues surrounding the City Attorney position in the salary ordinance; however based on San Diego City Charter Section 70 authority, only the City Council has jurisdiction over setting the salary and benefits of the City Attorney. Additionally, preparation and approval of the Annual Appropriation Ordinance is the responsibility of the City Council, as stated in San Diego City Charter Sections 71 and 290.

RECOMMENDATIONS

Recommendation #1 The IBA in consultation with the City Council should research and review the appropriateness of having the City Attorney position in the executive group in the salary ordinance, which allows for Annual leave and other leave benefits to be earned

Recommendation #2 The IBA in consultation with the City Council should establish a process to approve the City Attorney's salary in order to be in compliance with the salary ordinance and Charter Section 40

#18 AUDIT OF ACCOUNTS OF SCOTT PETERS, FORMER CITY COUNCIL DISTRICT 1, TONI ATKINS, FORMER CITY COUNCIL DISTRICT 3, BRIAN MAIENSCHN, FORMER CITY COUNCIL DISTRICT 5, AND JAMES (JIM) MADAFFER, FORMER CITY COUNCIL DISTRICT 7 April-09

We conducted a close out audit of former City Council members. During our audit we reviewed the information technology (IT) inventory reports for the Council members leaving office to determine if IT equipment issued to them and their staff were accounted for. The information technology support for the Council District Office is provided by San Diego Data Processing Corporation (SDDPC). A SDDPC Analyst is assigned to the Council District Office to handle any technology problems, order IT equipment, set up or disable access to City systems, cell phone accounts, office phones, etc. This Analyst also updates the SDDPC inventory reports. However, currently there is no process in place to periodically reconcile the IT equipment inventory reports to the equipment on hand at the Council Districts to ensure the inventory report is accurate and the City assets are accounted for.

As a result of our review, we determined that the controls and procedures over the Council Districts' IT equipment need to be improved. We found that Council Districts 1, 3, and 7 had some equipment that could not be accounted for, or documentation was missing to verify equipment that had been sent to the City's surplus storage facility. The equipment included six PDAs, and three laptops (one of which was intended to be sent to surplus storage), and two digital cameras.

RECOMMENDATION

Recommendation #1 Council District Administration should establish written policies and procedures to annually reconcile the SDDPC inventory reports to IT equipment on hand to ensure the City assets are accounted for

**#19 AUDIT OF SAN DIEGO DATA PROCESSING CORPORATION'S
COMPENSATION AND BUDGETING PRACTICES May-09**

Based on our audit we found that San Diego Data Processing Corporation's (SDDPC) budgeting and compensation policies could be improved. Generally, SDDPC's actual expenses for salaries and fringe benefits have not exceeded its budgeted personnel expenses. SDDPC's budget presented to its Board of Directors (Board) includes projected merit increases and bonuses for each year. However, this information is not included in SDDPC's annual budget presentation to City Council, and the City has not amended the current Operating Agreement to require this. We also found that Council approval of SDDPC's annual budget was not directly obtained as required by the Operating Agreement during the period we reviewed. Budget approval requirements have been unclear since Council delegated voting proxy to the City Manager (Mayor) without limitation over matters related to SDDPC (Resolution 299444, adopted July 13, 2004).

Additionally, our review of compensation revealed that the Chief Executive Officer's (CEO) bonus is contingent on the Board of Director's evaluation of the CEO's achievement of specific goals. However, the Board's evaluation process is conducted verbally using various documents to measure performance but does not include written documentation regarding the specifics of how the bonus amounts awarded tie to the CEO's goals achieved. We also found that the bonus awarded to the CEO in September 2007 was calculated incorrectly resulting in an overpayment of \$1,336. We have made recommendations to strengthen SDDPC's budgeting and compensation practices. Detailed information on SDDPC's salaries, bonuses, and other employee benefits for fiscal years 2006 through April 12, 2009 is also presented in this report for informational purposes.

RECOMMENDATIONS

- Recommendation #1 Amend the SDDPC Operating Agreement to include the following:
Require SDDPC to develop written budget policy and require SDDPC to submit salary and wage ranges for each of its job classifications, including actual executive salaries and benefit packages, during the annual budget process.
- Recommendation #2 Develop controls over the agency budgeting process to ensure that the required budget approvals are obtained
- Recommendation #3 Develop a policy requiring documentation of the Board's evaluation of how the CEO's achievement of goals ties to the bonus awarded
- Recommendation #4 Document in detail how the bonuses awarded to employees tie specifically to program achievements, processes or contributions
- Recommendation #5 Recover from the CEO the \$1,335.62 bonus overpayment
- Recommendation #6 Ensure Board approval of the CEO goals and objectives within 60 days as specified in the CEO contract

#20 THE CITY OF SAN DIEGO FACES UNIQUE OPERATIONAL AND ADMINISTRATIVE CHALLENGES IN MANAGING QUALCOMM STADIUM
May-09

The City of San Diego (City) has owned and operated Qualcomm Stadium (Stadium), formerly known as Jack Murphy Stadium and San Diego Stadium, since 1967. The Stadium is a high profile asset of the City and is home to a professional football team (San Diego Chargers) and a college football team (San Diego State University Aztecs). The Stadium has hosted many major regional, national, and international events including three Super Bowls, several college football bowl games, and two World Series'. Based on our performance audit, we found that the City faces unique operating and administrative challenges managing the Stadium, including:

- Stadium operations are not self-sustaining and must be significantly subsidized through Transient Occupancy Tax (TOT) revenue and other non-Stadium asset revenue;
- Complex agreements and legal settlements have significantly restricted the revenue generating performance of Qualcomm Stadium and results in payments to the Chargers;
- Early termination of the Chargers' agreement could leave the City with a \$21.4 million bonded debt obligation;
- Opportunities exist to improve the operational effectiveness of Stadium oversight;
- The City's agreement with San Diego State University (SDSU) has not been providing positive financial benefit to the City and has been subject to protracted contract negotiations;
- Limited personnel resources and recent turnover of Stadium management have impacted the effectiveness of Stadium administration;
- The Stadium's annual capital improvement budget is limited and insufficient to adequately address deferred maintenance needs;
- Special event revenue files were incomplete and authorized rates for events were not uniformly applied; and
- Ineffective invoicing practices result in delayed payments to the City.

RECOMMENDATIONS

- Recommendation #1 The Administration should proactively create a financing plan to pay down the City's Stadium Renovation Bond obligation regardless of the Chargers' tenancy at the Stadium. The plan should detail the financial strategy that the City will follow to maintain the solvency of the Stadium Fund should the Chargers terminate its agreement with the City after 2010. The Administration should continuously update the financing plan throughout the liquidation of the Stadium Renovation Bond principal
- Recommendation #2 In order to avoid significant legal settlements in the future, the City should continue to ensure that it meet its obligation to provide the Stadium to the Chargers per the terms of its current agreement. To minimize the legal and financial risks involved with managing the Stadium, the Stadium should perform a comprehensive analysis of its compliance with the key terms of the City's agreement with the Chargers and with the 2000 ADA compliance settlement. If the results of the analysis are unfavorable for the City, the City should take steps to aggressively abate the risks of non-compliance with ADA requirements and Chargers agreement terms
- Recommendation #3 To decrease its dependence on TOT tax funding, the Stadium should aggressively pursue agreements with legitimate event producers to help offset its operational costs and the City's outstanding Stadium Renovation Bond principal
- Recommendation #4 Stadium management should create a comprehensive business and marketing plan for the Stadium that addresses the following issues: a. Strengths, opportunities, weaknesses, and threats that face the Stadium in both the short and long-term, as well as provide benchmarks for the financial and operational performance of the Stadium over the next three to five years. b. An analysis of major agreements and responsibilities that the Stadium is required to provide. c. A strategic plan for the amounts and types of events the Stadium will be hosting in the future including estimates of the revenues and expenses attributable to each event. d. A capital projects prioritization schedule that the Stadium can follow while determining the use of the Stadium's annual capital improvement budget. The schedule should be reviewed by the Stadium Advisory Board, approved by the Mayor, and presented to the City Council on an annual basis

- Recommendation #5 To help alleviate the effects of administrative staff turnover at the Stadium, Stadium management should create a policy and procedure manual specific to Stadium operations. At a minimum, the Stadium should ensure that unique policies and procedures are established for the following administrative functions: a. Policies for the creation, content, retention, and approval of Stadium event files. b. Procedures that ensure accurate and timely billings for stadium events and periodic reconciliations of all accounts within the Stadium Fund
- Recommendation #6 In order to avoid delays and inaccuracies of the revenue amounts collected on behalf of the Stadium by the City Treasurer, Stadium Management should request that the City Treasurer's Revenue Audit Divisions complete audits of major Stadium tenants on a timelier basis. If the City Treasurer does not have sufficient Staff resources to perform these audits on a timelier basis, the Stadium Management should consider having its own staff responsible for ensuring all Stadium revenues are properly billed and received
- Recommendation #7 Stadium management should review the accounts receivable balance within the Stadium Fund and work with the City Treasurer's Office to ensure that all overdue accounts are being actively collected
- Recommendation #8 As part of reporting process between the Stadium and the Department of Real Estate Assets, the Stadium should include high-level performance metrics, such as net revenue generated and attendance data, for the entire reporting period. The report should also include a schedule of events currently planned to be held at the Stadium, as well as a status report of potential events and other contractual agreements being negotiated by the Stadium Manager. These reports should be archived by the Stadium and Department of Real Estate Assets, and be made available to all Stadium oversight entities including the Stadium Advisory Board (SAB) and City Council
- Recommendation #9 To improve the oversight of Stadium operations, the administration should take steps to ensure that the SAB is actively involved with making recommendations to the Mayor and City Council for all major Stadium policy decisions including long-term contract terms, capital expenditures, and long-term marketing strategy. Per the advisory capacity granted to the SAB through the Municipal Code, SAB recommendations should be formally communicated to the Mayor and City Council prior to any significant action related to Stadium policy has been taken

#21 PARK & RECREATION POOL AUDIT May-09

Based on our audit we found that the City's swimming pool revenue collection process is an outdated, manual process that is labor intensive and inefficient. As a result, citizens have to enroll in swimming programs and pay swimming fees in person. Our audit also revealed that the City's current revenue collection process contains material control weaknesses that put the Department at risk for theft and misappropriation as was discovered in 2008 when a pool employee embezzled approximately \$1,200. In addition, we reviewed the new federal pool safety regulations that require all public pools be equipped with anti-entrapment drain covers, and we found the Department is in compliance with these regulations. We made two recommendations regarding process automation and fifteen recommendations to improve controls over cash handling and to strengthen pool oversight.

RECOMMENDATIONS

- Recommendation #1 Include Carmel Valley and Tierrasanta pools in the on-line payment pilot program proposed for fiscal year 2010
- Recommendation #2 Continue to pursue online payment and automated patron registration for all city pools
- Recommendation #3 When feasible, eliminate cashiering from staff rotation and limit register use to one staff person for an entire shift. Ensure cashiers balance the cash station according to City Treasurer cash handling procedures at the end of the shift. Instruct pool managers to verify and initial each cashier's balancing documents, and continue to prepare and make deposits. Ensure cashiering staff and pool managers attend Treasurer's Cash Handling Training
- Recommendation #4 Consider implementing daily preparation of deposits that are sealed in serial numbered, tamper-proof bank security bags that are placed in side the safe. When possible, add a second staff person verification of funds prepared for deposit prior to sealing into bag
- Recommendation #5 Turn on and use the register receipting function at all sites for all transactions and require staff to issue a register receipt to all patrons in addition to the existing forms receipt. Consider adding preprinting on the existing forms receipt that states "not valid without cash register receipt."
- Recommendation #6 Implement a sign-in sheet for all day swimmers and drop-in water fitness patrons and instruct cashiers and pool managers to reconcile the daily sign-in sheets to cash register transactions as part of cash station balancing

- Recommendation #7 Require all pool sites post signs near the register instructing patrons to make checks payable to City Treasurer only and to obtain a register receipt
- Recommendation #8 Restrictively endorse all checks immediately upon receipt
- Recommendation #9 Ensure safe combinations are properly safeguarded and changed routinely (particularly after staffing changes) and maintain a list of personnel with safe access. Remind staff to only use the "day lock" feature on a limited basis. Research the feasibility of providing all pool sites with a safe containing a drop slot for use by OCA and visiting staff
- Recommendation #10 Instruct the SRSs to perform monthly revenue forecasting for each site based on published schedules and historic attendance, and to perform a periodic comparison of forecasted revenue to actual revenue
- Recommendation #11 Implement on-site fiscal monitoring and review, such as surprise cash counts and accountability checklists, by the SRSs during unscheduled site visits
- Recommendation #12 Establish procedures for SRS tracking of all serial numbered forms for each site, and ensure all missing forms are researched and accounted for and that the sum of all uninterrupted sequence of forms reconciles to the amount deposited at the bank
- Recommendation #13 Consider scheduling site visits for delivery and pick-up of documents to avoid a wasted trip
- Recommendation #14 Ensure all sites are equipped with the supplies and equipment needed including an adequate change fund, a credit card machine, and a sufficient amount of usable forms
- Recommendation #15 Consider a water fitness pass, similar to a swim pass
- Recommendation #16 Consider making all pool fees flat rates (by class or by month) and rounded to the nearest dollar
- Recommendation #17 Consider eliminating a 100% fee waiver and replacing it with a fee discount such as 50%, to increase Patron commitment. A scholarship program could be available for Patrons unable to afford the discounted rate
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#22 HOTLINE INVESTIGATION OF A CITY EMPLOYEE May-09

We confirmed allegations that the employee used his/her City email address and position as a City employee to misrepresent himself/herself as a court official to obtain confidential out-of-state family court documents. We recommended the department take appropriate disciplinary action and the employee's City employment was terminated.

RECOMMENDATION

Recommendation #1 We recommend the Personnel Department take appropriate disciplinary action based on the information provided

#23 AUDIT OF THE SAP ERP IMPLEMENTATION – CURRENT TO INTEGRATION TESTING, CYCLE 1 June-09

As a result of the risks associated with the implementation of an Enterprise Resources Planning (ERP) system, and in accordance with the Office of the City Auditor's Fiscal Year 2008 & 2009 Audit Work Plan, we are conducting an audit of the City's SAP Enterprise Resource Planning (ERP) Implementation. The Audit work plan defines the key objectives of this review as:

First, to determine if the City's key financial activities are being adequately reviewed and documented prior to the new system implementation to ensure key financial processes are properly addressed by the new system

And secondly to determine if the system was adequately tested prior to implementation

During the course of this review, we found:

- 1) The change of scope for the Accounts Receivable module to a Pilot Implementation does not meet the business needs of the city
- 2) The Statement of Work does not clearly define the expected deliverable product in sufficient detail, which could potentially result in the city accepting an inadequate deliverable.
- 3) Draft SAP Security Strategy is missing key security components, at a point in the project where items such as the long term monitoring implementation over both financial and IT controls should be addressed in more detail than provided (April timeframe)
- 4) The Draft SAP Security Policy is not addressing key security components two months prior to go-live.
- 5) There was no Documented SOD conflict mitigation strategy provided as late as during Role Mapping roll-out

- 6) The MSA does not sufficiently define the annual SLA criteria and requirements, nor does it define the case of an expired SLA which has occurred in the past for a period of over a year.
- 7) During Audit's February and March review of Milestone Deliverables, we identified several deliverables that had not been completed on time. These have since been signed and approved through March 2009. We have verified that they have been approved, but is still in the process of reviewing the deliverable content.
- 8) During January's review of Contract Management, audit found that there had been no active Service Level Agreement since FY07, which would define how San Diego Data Processing Corporation would manage the SAP Implementation Contract. The SLA for this fiscal year has since been signed and approved as of March 4th, 2009. It is also worth noting that next year's SLA will define the service levels for the SAP Helpdesk.

RECOMMENDATIONS

- Recommendation #1 Create an implementation plan for a complete solution
- Recommendation #2 Deliverables should be defined in expected document items/contents with a more precise timeline
- Recommendation #3 Create a comprehensive and unified security strategy which will tie into the security goals of the City's IT organization
- Recommendation #4 Create a Security policy defining key areas of security.
- Recommendation #5 Create a universal methodology addressing the variety of SOD conflicts anticipated during implementation and post-implementation
- Recommendation #6 Modify current MSA to define SLA content and timeline requirements
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#24 AUDIT OF ACCOUNTS OF WENDI BRICK, FORMER CUSTOMER SERVICES DIRECTOR, ELMER HEAP, FORMER DEPUTY CHIEF OPERATING OFFICER, JILLANNE (JILL) OLEN, FORMER DEPUTY CHIEF OPERATING OFFICER, AND JOANNE SAWYERKNOLL, FORMER DEPUTY CHIEF OPERATING OFFICER June-09

We conducted a close out audit of the former Customer Services Director and three Deputy Chief Operating Officers. We found that these individuals do not have any outstanding debt to the City. However, during our audit we also reviewed the return of the employees' City identification cards and their use of terminal leave after their last day of work. Based on our audit we found some weaknesses in the administration of City policies regarding these two issues as noted below.

- City identification cards: City Administrative Regulation (AR) 95.10 requires that when an employee terminates City employment, identification cards shall be returned to the Personnel Department for deactivation. During our review it was determined that the identification cards belonging to Ms. Olen and Ms. Brick were not returned. Terminated employees maintaining ownership of a City identification card may pose a security risk; individuals with City identification cards can enter the City Administration Building without going through the security check.
- Terminal leave: All four of the employees we reviewed used terminal leave. Terminal leave is defined as the cumulative unused leave hours (vacation/sick leave hours) that were granted to employees as part of their compensation during their tenure as a City employee. The leave hours that they accrued were not paid out to them in a lump sum, but instead they were granted terminal leave. While the last day worked for these employees was during pay period ending (PPE) January 9, 2009, each employee remained on the City payroll until their annual leave hours were exhausted.

Our review of the terminal leave revealed conflicting City policies regarding the use of terminal leave and whether it is allowed. City AR 95.60 states that upon retirement or termination, a lump sum payment will be made to the terminating employee for annual leave payoffs. This AR also references Index Code I-2 of the Personnel Manual and Civil Service Rule X, Section 3 and both of these documents state that an employee can be placed on terminal annual leave.

Per the fiscal year 2009 Salary Ordinance, an employee who is placed on terminal leave prior to termination of City service, is still considered an employee, and as a result they continue to receive benefits such as holiday pay and other fringe benefits such as workers compensation, disability insurance, and employer retirement contributions. Based on this information, we expanded our review to determine the additional cost to the City to allow employees to be placed on terminal annual leave prior to their termination of City service.

We found that during the period July 1, 2008 through March 20, 2009, approximately 33,000 hours of terminal leave were used by 111 employees at a cost of approximately \$1.9 million. Of this amount, approximately \$660,000 was paid in fringe benefits, add-on pays and holiday pay, which would not have been paid had these employees received a lump sum payment for their annual leave payoff as required by AR 95.60. In addition, the average number of terminal leave hours used was 300 per employee which would extend the years of service by approximately 2 months, thereby increasing any retirement pension allowance.

In comparison, during this same period, approximately 62,600 hours of annual leave was paid via lump sum payments to 558 employees at a cost of \$2.6 million. If these employees had gone on terminal leave instead of receiving a lump sum payment, the estimated cost to the City would have been an additional \$890,000².

Depending on the years of service, City employees accrue between 5.24 hours (17 days per year) and 8.31 hours (27 days per year) each bi-weekly pay period. The maximum hours allowed to be accrued per employee is 350 to 700 hours (depending on hire date and years of service).

In addition, we noted that the auto allowance that was paid to Mr. Heap and Ms. Olen was not stopped when these employees were placed on terminal leave. After we notified the Comptroller's Payroll Division, the auto allowance payments were suspended and the previous payments recouped. However, without our notification, the City could have potentially overpaid Mr. Heap \$1,554 and Ms. Olen \$765 in disallowed auto allowance payments.

RECOMMENDATIONS

Recommendation #1 City Administration should ensure that the policies and procedures governing terminating employees are followed specifically pertaining to the return of City identification cards and the stopping of auto allowances on employees last day of work

Recommendation #2 City Administration should ensure that all unclassified employees who are terminating City employment receive a lump sum payment for their accrued annual leave hours in compliance with AR 95.60 rather than receiving terminal leave

² This calculation is based on the percentage of the additional cost the City paid to those 111 employees who went on terminal leave.

Recommendation #3 Personnel Department and City Administration should review the conflicting policies governing the use of terminal leave, and ensure that all policies are consistent and applied appropriately. Due to the additional costs associated with terminal leave, work to modify Personnel Regulations to eliminate the language allowing terminal leave usage and require lump sum payments for accrued leave upon termination from the City

#25 HOTLINE INVESTIGATION OF PROMOTE LA JOLLA, INC. June-09

We received a Hotline complaint alleging accounting irregularities and possible misuse of City funds. Our investigation concluded the allegations are substantiated. We found duplicate billings and misuse of City funds totaling \$112,070, which should be recouped by the City. We recommended the City Planning & Investment Department consult with the City Attorney's Office to take the appropriate action. We also made recommendations to help strengthen the Department's contract oversight. The Department agreed to implement the recommendations.

RECOMMENDATIONS

Recommendation #1 Conduct on site visits and other additional oversight of BID and other entities receiving City funds

Recommendation #2 Consult with the City Attorney's Office to add language in BID and other appropriate contracts to modify the existing audit provision to include a test for duplicate reimbursements between funding sources

Recommendation #3 Establish an internal review procedure designed to prevent duplicate City payments to organizations receiving City funds from multiple sources

Recommendation #4 Consult with the City Attorney's Office to take appropriate action based on the information contained in this report and to recoup the \$112,070 in inappropriate and misused City funds

**#26 HOTLINE INVESTIGATION OF A DEVELOPMENT SERVICES
DEPARTMENT EMPLOYEE June-09**

The Office of the City Auditor conducted an investigation of a Development Services Department (DSD) employee in response to a call made to the City's Fraud Hotline. The complaint alleged that the DSD employee took some merchandise without permission from a place of business during the course of an official City inspection.

Our investigation concluded the allegations are substantiated. We found the DSD employee took merchandise without permission from a job site during the course of conducting City business.

The employee admitted taking the merchandise but claims it was offered to him. In addition, the employee admitted to asking for and taking other items from job sites in the past including wood and duct tape.

RECOMMENDATION

Recommendation #1 We recommend the DSD take appropriate disciplinary action based on the information provided

**#27 PERFORMANCE AUDIT OF THE CENTRE CITY DEVELOPMENT
CORPORATION (Sjoberg-Evashenk Consulting Inc.) July-09**

On behalf of the San Diego City Auditor, Sjoberg Evashenk Consulting completed a performance audit of the oversight, operation, and administration of the Centre City and Horton Plaza project areas by the Centre City Development Corporation (CCDC). The objective of this audit was to evaluate the efficiency and effectiveness of CCDC, and to determine if organizational goals are being achieved. The scope of this audit included assessments of CCDC's mission and vision, core redevelopment activities, and its business practices, including procurement and expenditure activities, fiscal controls, budgeting and reporting practices, potential conflicts of interest, compensation practices, and controls over equipment and fixed assets.

RECOMMENDATIONS

Recommendation #1 Implement a strategic plan linking redevelopment goals with achievements and organizational performance. This should include goals that are specific, measurable, attainable, reliable, and time-bound as a method of demonstrating whether CCDC efforts are achieving stated goals. Additional performance measures could relate to: leveraging private resources, employment and job creation, data related to the design review/permitting function, delivery cost ratio and timeliness/budget on public improvements and program/administrative budget comparison

Recommendation #2 Develop a strategy to ensure that the proportion of affordable units to market-rate units does not fall below the 15% threshold mandated by CA Community Redevelopment Law

Recommendation #3 Work with appropriate officials within the City and Agency to determine the feasibility and appropriateness of exploring the introduction of new revenue streams, such as a cost-recovery model for the design review process and imposition of additional Development Impact Fee (DIF)

Recommendation #4 Assess and define CCDC's role in promoting economic development and social service delivery through redevelopment efforts. This could include realigning CCDC's service delivery framework to encourage additional activities that are commonly associated with redevelopment, including providing policy guidance regarding the inclusion of economic development and social service activities commonly employed by other successful redevelopment agencies. Examples include, but are not limited to:

- Facilitating the development of employment-oriented facilities, such as small business incubators, which provide low-cost opportunities for small businesses and other San Diego-based start-up companies;
- Incorporating covenants within development agreements whereby Agency financial assistance is contingent on the provision of services that advance the economic development goals of San Diego, such as creating a balance of employment and housing opportunities; and/or,
- Leveraging TIF resources with other funding streams, including grant funding through the United States Department of Housing and Urban Development, to encourage or facilitate additional economic development, blight mitigation, and social service activities

Recommendation #5 Develop a comprehensive set of policies and procedures to provide guidance and increase internal controls over procurement, contracting, use of on-call agreements, accounts payable, payroll, and fiscal operations, and clarify roles and responsibilities of staff involved

Recommendation #6 Train staff on established procedures to ensure both staff and management share the same expectations

- Recommendation #7 Ensure adequate competition is sought where feasible and practical, and document key decisions surrounding contract awards to provide transparency and assurance that the contract selected provides the best good or service at the most competitive price. This includes ensuring proposals are solicited from all on-call firms
- Recommendation #8 Closely monitor trial balance detail and contract activity to identify instances where contract splitting may occur or where competitive procurements may be beneficial, identify vendors that receive multiple payments totaling greater than or equal to current policy thresholds, and determine if a formal agreement should be generated
- Recommendation #9 Provide closer oversight and monitoring of contracting practices to ensure management and CCDC's Board are aware of all contracting activities. As part of this: work with staff to ensure contract information is accurately reported to CCDC's Board and develop a process to track and monitor an inventory of contracts, which should include elements such as the vendor name, the initial and amended contract amounts, number of amendments, date executed and expiration or termination date, goods/services provided, amount expended to date, contract administrator, etc
- Recommendation #10 Ensure that invoices are well supported, comport with established agreements, and are thoroughly reviewed prior to approving payment
- Recommendation #11 Require that changes in the scope of work on professional service contracts and in the specifications on construction contracts are formally memorialized in appropriately approved and executed amendments or change orders at the time the change is agreed upon
- Recommendation #12 Create record retention protocols that clearly define the types of records that should be maintained, and for how long to support awarding decisions and to assure sufficient transparency. Document retention policies should require maintenance of key documents for a minimum of three years after the termination of the contract, and should require the inclusion of the following key documents, such as: The rationale for the method of procurement; selection of contract type; reason for contractor selection or rejection, including panel score sheets and rankings; the basis for the contract price; the complete contract, contract amendments and change orders, with rationale for changes in work and contract amount; important correspondence; invoices, payment documentation, and budget-to-actual reports; and, contract close-out and deliverables

- Recommendation #13 Consider developing a contract close-out procedure and/or checklist to better ensure necessary information is memorialized. Information could include: contract start and end date; expected completion date; initial contract amount; total change orders or amendments; total expenditures; deliverable schedules and deliverables; and, key decisions surrounding change in scope
- Recommendation #14 Segregate incompatible roles within the procurement, contracting, accounts payable and payroll processes – such as the contract administrator from the project manager
- Recommendation #15 Develop system access profiles to limit employee access to only those functions required to perform daily duties, and segregate access to incompatible high-risk transactions. This includes providing independent oversight to ensure activity within the MAS90 system is monitored
- Recommendation #16 Establish exit and position change protocols to ensure the removal of employee access upon their departure and review user access when an employee changes positions to limit access to unnecessary functions
- Recommendation #17 Strengthen controls to prevent and detect potential conflicts of interest, and to further promote a "tone-at-the-top" that discourages even the appearance of wrong-doing. 1) Establish a policy prohibiting the receipt of gifts and gratuities of a material value from those doing business with or seeking to do business with CCDC, particularly in cases where employees have a direct working relationship with the contractors. 2) Review statements of economic interest to identify potential conflicts that may arise, including reviews prior to assigning an employee to a project or selection panel. 3) Consider requiring conflict of interest affirmation statements from employees prior to participating on evaluation panels
- Recommendation #18 Strengthen controls over recording of assets upon receipt, monitoring, and management of assets. This includes: 1) Conducting an inventory of assets every one to three years to ensure all assets are accounted for and the asset listings are updated regularly to reflect current assets. 2) Storing sensitive, portable, and pilferable equipment in a secure location. 3) Reviewing CCDC's equipment inventory to identify equipment no longer in use and salvage stale equipment
- Recommendation #19 Continue implementation of the newly established Audit Committee with the purpose of providing oversight of CCDC's internal business practices and ensuring that CCDC complies with Board policies

Recommendation #20 Require CCDC management to account for specific success or reaching specific goals on a consistent basis by devising periodic performance reports to be approved by the CCDC Board and submitted to the Agency on at least an annual basis

Recommendation #21 Memorialize a formal line of succession of authority to supervise, manage and direct the business operations of CCDC to a full-time CCDC employee, not a Board member, in the event the position of the president is vacated

Recommendation #22 Require CCDC to implement an adequate system of internal controls to protect Agency assets, and establish an oversight mechanism that requires CCDC to: 1) Certify annually to its Board and to the Agency that it has established adequate internal controls over key business processes, including activities related to procurement, accounts payable, payroll, fixed assets, etc. As part of this certification, CCDC should attest as to its compliance with established, formalized policies and procedures regarding each of these areas. 2) Undergo periodic audits, at least every three years that extend beyond the scope of CCDC's annual financial audits to assess the performance of CCDC and its internal control structure

Recommendation #23 Update the operating agreement to: 1) Provide increased specificity and updated provisions regarding the allowability of corporation expenditures. 2) Require CCDC to periodically report on its performance and goal-attainment at least on an annual basis. 3) Better reflect the role of the Executive Director of the Agency, specifically addressing CCDC's obligations and reporting relationship to the Executive Director

Recommendation #24 Consider establishing a contract administrator dedicated, at least in part, to overseeing CCDC's activities as a whole to provide more cohesive oversight - in addition to existing practices requiring various agencies (Comptroller, IBA, RDA, READ, etc.) to review select CCDC records for their own purposes

#28 AGREED-UPON PROCEDURES REVIEW OF THE WATER DEPARTMENT'S INCREASE IN CITY OF SAN DIEGO WATER RATES July-09

We verified the proposed rate increase calculations were mathematically accurate.

RECOMMENDATIONS

We did not make any audit recommendations.

#29 METROPOLITAN WASTEWATER DEPARTMENT CONTRACT COMPLIANCE AUDIT July-09

In response to a request from the Metropolitan Wastewater Department (Department), we have audited a selection of contracts for general compliance in billing. Specifically, we reviewed the Olin Chlor Alkali Products (Olin Chlor), US Peroxide, and AmeriPride Uniform Services (AmeriPride) contracts.

Based on our audit testing of two purchase orders for the supply of chemicals as well as a contract for the provision and laundry service of uniforms to the Department, we found that the Department could improve the review and approval of invoices to reduce the risk of inaccurate billing and payment.

We found the following issues during our review:

OLIN CHLOR

- The Department inappropriately paid an estimated \$80,500 in sales tax for the purchase of chemicals that should have been purchased tax free.
- The Department does not have sufficient safeguards to ensure invoices are paid using appropriate funds.

US PEROXIDE

- The Department's Accounts Payable section does not adequately verify the delivery amount of chemicals charged by vendor.

AMERIPRIDE

- Invoices contained small inaccuracies and inappropriate charges.
- The Purchasing & Contracting Department does not maintain all appropriate pricing lists to ensure accurate vendor billing.
- Department staffs' processing and records management of vendor invoices are inconsistent and should be enhanced.

We made twelve recommendations for corrective action to be considered and/or taken.

RECOMMENDATIONS

- Recommendation #1 The Department should periodically review contracts for tax exempt chemicals to ensure that they are not paying unnecessary sales tax. As part of this review, the Department should ensure that Purchasing & Contracting is aware of the use of chemicals purchased for each purchase order
- Recommendation #2 The Department should request reimbursement from Olin Chlor for sales tax paid on tax exempt purchases of sodium hypochlorite for the past three years. Upon further review, the Department should request funds for any other tax-exempt chemicals identified
- Recommendation #3 Management should document and periodically review the success of the newly implemented procedures as it pertains to the effectiveness of the process in reducing the risk of inaccurate payments
- Recommendation #4 The Department should consider periodically reviewing a sample of purchase orders and invoices for its larger contracts to proactively identify and rectify issues in contracting, billing, and payments
- Recommendation #5 Point Loma staff should forward a copy of the Certificate of Analysis for each delivery with each corresponding Bill of Lading to allow invoice approval staff to verify appropriate billing
- Recommendation #6 Accounts Payable staff should utilize the formula provided by Point Loma staff to verify that the Department is being billed appropriately for deliveries
- Recommendation #7 The Department should consider consolidating EMTS AmeriPride purchase orders for efficiency in review and approval
- Recommendation #8 Invoice approval staff should make unified written requests to AmeriPride for system adjustments for all active Purchase Orders requiring changes. This practice will prevent confusion and multiple inquiries and requests from the Department. Follow-up on these requests should also be conducted
- Recommendation #9 In collaboration with AmeriPride's accounting unit and the City's Purchasing & Contracting Department, the Department's Accounts Payable staff should seek to review a number of invoices containing discrepancies and determine a clear method of invoice review and charge calculation

Recommendation #10 The Purchasing & Contracting Department should evaluate the benefits of negotiating a flat fee for services based on average expenditure

Recommendation #11 The City's Purchasing & Contracting Department should ensure that it maintains up-to-date pricing lists of all appropriate possible charges, updated in its files with each new pricing agreement or change to services rendered

Recommendation #12 Accounts Payable staff that review AmeriPride invoices should seek consistency in invoice review of charges prior to payment approval and follow procedures for invoice retention

#30 PERFORMANCE AUDIT OF THE SAN DIEGO HOUSING COMMISSION – PART I July-09

The San Diego Housing Commission (SDHC) was established by the City of San Diego City Council in 1979 and is charged with helping to bridge the gap between the high cost of housing in the City of San Diego and the high percentage of low wage earners, helping to correct an imbalance that threatens the stability of our work force. Based on our performance audit, we found that the Housing Commission faces unique administrative and functional challenges, including:

- SDHC governance is affected by excessive time delays between the Housing Board of Commissioners (Board) and Housing Authority approvals. We found that some of the delays may have been the result of inconsistencies between the Board appointment process and related legislative guidance. Furthermore, SDHC can improve the formal succession planning for its Executive Management personnel;
- Executive compensation adjustments were not always in compliance with SDHC policies, performance evaluation criteria was inconsistently applied, auto allowances were inconsistent with City practices, and the SDHC could better organize historical personnel documents;
- SDHC submitted incomplete and inaccurate Community Development Block Grant (CDBG) program related reimbursement documentation; however, the CDBG process and documentation requirements were not clearly defined. We also found that CDBG agreements for fiscal years 2008 and 2009 were not executed, and SDHC has not been reimbursed for \$1.9 million in CDBG related expenses;
- New development of Public Housing disposition related properties could potentially be delayed; and public housing disposition tenant data inconsistencies were noted.

Other Issues

We also found Housing Commission operational and managerial risks associated with the \$2 million drawdown of SDHC reserves for the De Anza Harbor Resort.

RECOMMENDATIONS

- Recommendation #1 The Executive Director of the Housing Authority should calendar matters for final action by the Housing Authority within the time parameters set forth in SDMC 98.0301 to avoid excessive time delays between Board and Housing Authority approvals and avoid jeopardizing housing business opportunities. As appropriate, the Executive Director should recommend that the Housing Authority and City Council adopt effective resolutions to delegate authority to the board on “advisory only” issues that the Housing Authority identifies as routine, which would alleviate the Housing Authority docket for more significant matters
- Recommendation #2 City Administration should formally draft, review, approve and implement adequate process documentation including procedures and communication standards between the City, the nominees and SDHC (or other City-related Board or Commission) to ensure transparency in government processes
- Recommendation #3 City Administration should clearly document the background investigation process to include roles, responsibilities, process flows and documentation and communication standards
- Recommendation #4 City Administration should either follow or facilitate the updating of the City Charter and SDMC to more accurately reflect the actual process. Any updates should include reference to the role of relevant City departments who are responsible for completing background investigations as part of the Board applicant vetting process
- Recommendation #5 The online Board member roster should be regularly updated by City Administration and SDHC to accurately reflect the current confirmed members
- Recommendation #6 SDHC management should facilitate the modification SDMC 98.0301(f)(1) to indicate that "...commissioners appointed pursuant to this section shall be tenants of housing commission units or Section 8 rental assistance program voucher recipients"

- Recommendation #7 City Administration should actively assess the status of the De Anza Harbor Resort funding and whether repayment should be expected and engage SDHC in the process as feasible, and take action as appropriate. This assessment would include a review of the status of the De Anza project and the funds utilized since being appropriated from SDHC. Furthermore, City public websites and any other referential material should be updated to accurately reflect current contact and project status information
- Recommendation #8 SDHC should take steps to develop and implement a formal succession plan or strategy for EMS level positions, with particular focus on the CEO and COO since they would appear to be the most difficult positions to fill. This plan should include ongoing efforts to capture organizational knowledge from personnel at all levels, identifying and eliminating any barrier's to the plan's success, and holding management accountable for the results
- Recommendation #9 To ensure the completeness and accuracy of centralized SDHC personnel files, SDHC should review and update the content of historical employee specific compensation and performance evaluation documentation for completeness and accuracy
- Recommendation #10 SDHC should ensure that personnel have completed performance appraisal consistently finalized and processed prior to receiving any compensation increase or to change personnel policies to reflect current performance appraisal and compensation increase practices
- Recommendation #11 SDHC should review employee job descriptions and identify quantifiable and generally applicable criteria for all employees, such as performance evaluation completion, timing and compliance. SDHC should consider the creation of a performance appraisal template for use by all levels of personnel, to include universal evaluation criteria such as the timely completion of the performance evaluations
- Recommendation #12 SDHC should develop uniform and quantifiable management performance evaluation criteria as an objective measure to aid in the performance evaluations of executive management service (EMS) of subordinate staff (e.g. track the percentage of subordinate staff evaluations that are delinquent or still outstanding by EMS employee and use this metric to objectively compare EMS employee to one another)

Recommendation #13 SDHC should segregate automobile allowances from inclusion in the base compensation of EMS personnel, or otherwise make them consistent with City practices as appropriate

Recommendation #14 City Administration and SDHC should finalize the fiscal year 2008 and 2009 CDBG service agreements as soon as possible. City Administration should also consider disbursing the CDBG program specific funding totaling \$1,277,478 to SDHC upon receipt of adequate supporting documentation, and expediting the review and disbursement approval for the remaining \$648,404

Recommendation #15 In collaboration with SDHC personnel, City Planning & Community Investment staff should clearly document the process and reporting expectation to facilitate the efficient and timely submission of reimbursement requests from SDHC. These should be in the form of formalized procedures or departmental guidelines

Recommendation #16 As part of the negotiations and communications to clarify the documentation supporting reimbursement requests, SDHC and City Planning and Community Investment staff should assess and correct any documentation inaccuracies or inconsistencies. The contract with the outside consulting firm (ICF) should clearly outline these expectations to develop appropriate and comprehensive internal controls to monitor these types of funding activities

Recommendation #17 SDHC should make the progress of the 350 required housing units a standing agenda item for discussion by the Board, which should include regular reporting from the responsible members of SDHC management

Recommendation #18 SDHC should continue to make progress on the new development to meet the 350 unit goal, within a five year timeline, and utilize existing undeveloped SDHC owned assets if necessary to accomplish that objective. These expectations should be clearly outlined in future budgetary and business planning documents, and should be included as a defined goal for the responsible members of management and staff as applicable

Recommendation #19 SDHC personnel should take actions to ensure that the data related to public housing disposition tenants are accurate within its information system. One potential solution to resolve this would be creating a data extract from the information system to identify any data discrepancies (including the above)

**#31 PERFORMANCE AUDIT OF THE SAN DIEGO HOUSING COMMISSION –
PART II July-09**

Based on our performance audit, we found that the Housing Commission faces unique challenges related to the accounting for the Affordable Housing Fund, comprised of the Housing Trust Fund and Inclusionary Housing Fund, which needs to be improved and may not have been fully funded. We found that:

- Housing Trust Fund-related commercial linkage fees are outdated, substantially lower than comparable cities, and were not adjusted as required by the municipal code resulting in an estimated underfunding of \$2.79 million for fiscal years 2006 through 2008;
- SDHC receipt of direct payments from developers is inconsistent with the municipal code;
- The City and SDHC reported, but did not reconcile, different fee revenue amounts;
- SDHC Inclusionary Housing Fund policies and regulations are inadequate or poorly defined;
- The City's Inclusionary Affordable Housing Regulations need to be updated; and,
- City and SDHC reporting, monitoring, and disbursements of Affordable Housing Fund revenues are fragmented and disjointed.

RECOMMENDATIONS

Recommendation #1 SDHC, in collaboration with City Administration, should perform a review of the Housing Impact fee schedule, and assess reasonableness and consistency with SDMC 98.0618. The fees should be updated through 2009 to be consistent with the SDMC. If the updates are not practical or feasible, the communication of the current intent to request updates through City Council should be clearly documented and retained by both the City Administration and SDHC

Recommendation #2 SDHC, in collaboration with City Administration, should develop and implement procedures so that Housing Impact Fee updates are recalculated March 1 of each year by the appropriate percentage increase or decrease as indicated in the SDMC and prepare recommendation to the City Council for such revision on an annual basis. If the updates are not accepted or processed by the City Council, the annual communication of the requested updates through City Council should be clearly documented and retained. If the SDMC will not be followed, then it should be amended to reflect the current fee expectations in relation to the Housing Trust Fund, a change that would require City Council action to amend the SDMC

- Recommendation #3 City Administration should facilitate the update of the SDMC to accurately reflect the current process for the collection and maintenance of the Housing Trust Fund fees by the Comptroller in a specific subaccount after collection by the City
- Recommendation #4 SDHC personnel should immediately discontinue the practice of receiving payments directly from developers. Any future attempted payments of that type should be directed to the City DSD
- Recommendation #5 SDHC should develop additional policy and departmental guidance to detail the process and documentation requirements in relation to the AHF (inclusive of both the Housing Trust Fund and Inclusionary Housing Fund), which would include reference to the proper handling of direct payments from developers and the timely reconciliation of Affordable Housing Fund funds to include comparing City-provided periodic reporting to actual payments received on a quarterly or annual basis
- Recommendation #6 The SDHC Policy "Commission Responsibilities Related to the Housing Trust Fund" (PO300.501) should be updated as needed to accurately reflect the current process including a prohibition against the receipt of direct payments from developers and the reporting relationship with the City
- Recommendation #7 City Administration and SDHC personnel should reconcile the current differences in historical reported amounts for IHF funding. If warranted, disbursements to or from SDHC or the City should be made to settle any outstanding payment discrepancies. Procedures should be established to perform this reconciliation at least annually
- Recommendation #8 A new SDHC policy should be drafted, approved and implemented to accurately reflect the SDHC "Responsibilities Related to the Inclusionary Housing Fund"
- Recommendation #9 The existing policy PO300.501 should be updated to include the requirements to account for and report separately both the IHF and the HTF in the audited financial statements, as well as the audit for compliance with the AHF Ordinances and any related policies and regulations
- Recommendation #10 The requirements to account for and report separately both the IHF and the HTF in the audited financial statements as well as the audit for compliance with the AHF Ordinances and any related policies and regulations should be implemented for the fiscal year 2009 and future annual audits

Recommendation #11 SDHC and City Administration should review SDMC 142.1310(e) and have the applicable SDMC sections updated to reflect the current fees or make reference to the source document or department for the updated fees, a change that would require City Council action

Recommendation #12 City Administration should draft, approve and implement departmental guidelines (across multiple departments as needed) to accurately identify and document the process roles and responsibilities for City departments, including the Treasurer, Comptroller, Facilities Financing and Development Services Department (DSD) in Affordable Housing Fund – related processes. These processes should include the reporting of quarterly and annual HTF and IHF activity by Facilities Financing and DSD to SDHC and the Comptroller. The Comptroller should reconcile fund levels and make disbursements based upon mutually agreed upon amounts from that reporting on a consistent and timely basis

#32 AUDIT OF THE SAN DIEGO CONVENTION CENTER CORPORATION
(Mayer Hoffman McCann P.C.) July-09

The San Diego Convention Center Corporation (the Corporation) generally followed the "Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector" that is published by the Standards for Excellence Institute. For thirty-one of the forty-two standards testing identified no recommendations for consideration by management. Recommendations resulting from the performance of procedures were as follows:

RECOMMENDATIONS

Recommendation #1 We recommend the Board of Directors formally review the SDCC's mission statement at least every 5 years to evaluate whether it needs to be amended to reflect societal or program changes

Recommendation #2 Prepare an analysis of the percentages of the SDCC's resources that are spent on program and administration to the Board during the budget review process to ensure that the Board members are fully aware of how the resources of the SDCC are being allocated between these two areas

Recommendation #3 We recommend the Corporation amend its bylaws to reflect the two-term limit for its Board members to be consistent with the City of San Diego's policy

- Recommendation #4 Closely monitor which positions are required to have ethics training and ensure that each of these employees are current on their training at all times. When a staff or board member must miss the training provided in-house, the SDCC should make other arrangements for that individual to acquire that training through other means such as self-study
- Recommendation #5 We recommend the Corporation either amend its bylaws or develop a written policy that outlines the Corporation's expectations on attendance and participation at board meetings. The amended bylaws or policy should include a process to address noncompliance. In addition we recommend that management develop a policy of board member expectations to assist in the fulfillment of their responsibilities and duties
- Recommendation #6 Written minutes be prepared and maintained for all Board Committee meetings just as they are currently being prepared for Board minutes
- Recommendation #7 We recommend that the Board of Directors is provided with a copy of the current Employee Handbook to review and formally approve. New or amended personnel policies should be submitted to the Board for approval prior to implementation
- Recommendation #8 As part of the new hire orientation the SDCC distribute copies of the Standards of Excellence to all employees to demonstrate the culture of excellence that the SDCC strives for. For all existing employees, we recommend the Standards of Excellence be provided through email or printed copies. The standard suggests all employees should be required to complete a signed acknowledgement of their receipt of the Standard for Excellence; however we believe that issue is at the discretion of management
- Recommendation #9 The fraud policy should be provided to all employees on an annual basis. Each employee should sign a written statement acknowledging that they read and understand the Corporation's fraud policy. This will reaffirm to employees the importance the Corporation places on fraud and will serve to remind employees of the proper procedures to follow
- Recommendation #10 The corporation should reactive the anonymous fraud hotline
- Recommendation #11 We recommend SDCC document and implement a financial policy governing the use of the SDCC's unrestricted net assets. The policy should be approved by the SDCC's Board of Directors

Recommendation #12 We recommend that the SDCC make the following available on its website: mission statement, most recent audited financial statements, and its most recent approved budget

#33 REVIEW OF THE HIRING PROCESS OF THE DIRECTOR OF PURCHASING AND CONTRACTING (Sjoberg Evashenk Consulting Inc.) August-09

It appears that the City of San Diego complied with existing Charter or City Regulations in appointing Mr. Pepper as the Director of Purchasing and Contracting in March 2008. Because this position is unclassified, few specific recruitment and hiring processes are required, and the Mayor is given wide latitude to choose the City's management team. This flexibility is not unique to San Diego as we have seen similarities in many municipalities throughout California. At-will or unclassified positions offer an opportunity to bring talented management from outside of the city or state government to help fulfill the vision of the respective governor, mayor or legislature. Further, at-will managers who are not successful at bringing effectiveness or efficiency to their departments can be quickly replaced. The fact that most state and municipal governments offer this type of flexibility is a testament to its value as perceived by legislative bodies and voters.

However, the pre-employment background investigations the City of San Diego conducted in hiring Mr. Pepper were minimal and inconsistent with approaches the City has used in some other unclassified position recruitments it has conducted in the past. While we did not evaluate Mr. Pepper's performance while with the City of San Diego, the CFO stated that his work has been very good.

Moreover, we did not identify any errors in his resume or background information once his tenure with the Detroit Public Schools was updated. In the matter of the Detroit Public Schools investigation, we were able to confirm many of Mr. Pepper's contentions regarding his role and he does not appear to currently be a subject in the FBI investigation nor a defendant in the school district's civil suit.

Nonetheless, the pre-employment background investigation of Mr. Pepper's employment history, education and professional certifications was insufficient for a position with the level of authority afforded the Director of Purchasing and Contracting. Additionally, critical information regarding his most recent experience with the Detroit Public Schools was not pursued until after he was offered the position. At that time, the COO allowed Mr. Pepper to become the Director of Purchasing and Contracting once he was convinced Mr. Pepper had no involvement in the Detroit Public Schools' improper wire transfers. Furthermore, because the references that were contacted had worked with Mr. Pepper at the Dallas-Fort Worth International Airport more than eight years ago, none had knowledge of Mr. Pepper's recent employment history with the Detroit Public Schools.

Consequently, we believe the City of San Diego should revamp the processes it uses to recruit and hire unclassified upper-level officials to be more rigorous, consistent and standardized.

RECOMMENDATIONS

- Recommendation #1 Re-issue the Unclassified Recruitment and Hiring Process Guidelines to eliminate the exceptions on using the Personnel Dept for unclassified recruitment and hiring activities of upper-level officials
- Recommendation #2 In addition to the CA DOJ check, conduct criminal background checks utilizing the FBI national criminal database for non-California resident candidates as well as any candidates that will be responsible for safeguarding the City's assets
- Recommendation #3 Direct the COO to assign an appropriate City Dept the responsibility to conduct the following steps in hiring upper-level officials: lead unclassified higher-level official recruiting efforts, including creating posting, and advertising job announcements and gather resumes. Obtain candidate statements of authentication regarding qualifications and background in writing (use City application as a guide). Validate and verify education, experience and credentials as well as conduct media/Internet background searches prior to conducting interviews. Screen applicants and forward to hiring departments the best qualified candidates based on resume experience prior to formal interviews
- Recommendation #4 Direct Assistant COO to assure the departments hiring upper-level officials follow these interview and selection process: using an interview panel of persons knowledgeable of the position being filled. Establishing a preset list of questions to ask each candidate, including asking about successes and challenges faced in prior employment. Recording or taking notes of questions asked and answered by all interviewees. Assuring that the interview panel reaches a consensus decision prior to offering a position. Maintaining appropriate documentation to support selection decisions
- Recommendation #5 Assure that Assistant COO participates with the hiring dept in the negotiation of salary, benefits and miscellaneous expense, such as moving costs, for all unclassified upper-level officials
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**#34 CENTRAL STORES AGREED-UPON PROCEDURES INVENTORY COUNT-
FY2009 September-09**

We found that the City storerooms were short 35 items with a total value of \$16,577.33. As a percentage of the sample inventory value, this amounts to approximately 5.3 percent. The Purchasing Department advised that some of the inventory items that could not be located by Central Stores personnel during the count were later found. We did not make any audit recommendations.

**#35 OFFICE OF THE CITY ATTORNEY PROPOSITION 64 FUNDS AUDIT
September-09**

Proposition 64 (Prop 64) requires that civil penalties awarded are to be used exclusively to strengthen enforcement of consumer protection laws. The Consumer and Environmental Protection Unit within the City Attorney's Criminal Division handles cases that fall under the jurisdiction of Prop 64. The purpose of our audit was to determine if the Prop 64 funds received by the City were properly recorded and utilized by the former City Attorney's Office administration, and to ascertain if the receipt and expenditure of Prop 64 funds were consistent with City policy, including the proper budgeting for these funds.

Our review of the former City Attorney's handling of Prop 64 funds found that the expenditures appeared to be reasonable and within state law parameters. However, as of June 30, 2008, our audit also revealed the following:

- The City Attorney's Office had not expended \$1.8 million of the Prop 64 funds;
- Some control weaknesses existed for the handling of funds including inadequate written policies and procedures and the lack of a case management system;
- The City Attorney's Office did not account for Prop 64 funds within its budget;
- The City Attorney's Office lacked adequate controls to ensure the proper accounting of Prop 64 funds;
- Deposits for Prop 64 funds were not being made timely; and
- The efforts to provide public consumer protection information could have been improved.

We made 7 recommendations to address the issues and control weaknesses indentified, to help improve the handling of Prop 64 funds, and to increase the consumer protection information provided to the public.

RECOMMENDATIONS

- Recommendation #1 The City Attorney's Offices should review and revise the current policies and procedures for the management of Prop 64 funds. The policies and procedures should include details on how the funds will be properly recorded, tracked, and expended
- Recommendation #2 The City Attorney's Office should develop a centralized case management system, with detailed policies and procedures, to record, document and reconcile awards received
- Recommendation #3 The City Attorney's Office should work with FM to develop a strategy to incorporate the Prop 64 funds in their departmental budget to help enforce consumer protection laws
- Recommendation #4 City Attorney management should review the disposition of dormant funds and determine how they should be used and if related funds should be closed. Include the proper management and documentation of funds in your detailed written policies and procedures
- Recommendation #5 Consult with City Comptroller to determine if there are any other funds with inactive balances that could be used by the department and subsequently closed
- Recommendation #6 Include a requirement that money received be deposited daily in your written policies and procedures, or take action to amend the SDMC 22.0706 to include an exception for the City Attorney's Office, so as to not violate the City Charter's requirement for daily deposits
- Recommendation #7 The City Attorney's Office should provide additional consumer protection information via the City's website and other means such as distributing newsletters and/or consumer tips and alerts
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#36 PERFORMANCE AUDIT OF THE CITY'S STREET MAINTENANCE FUNCTIONS October-09

The streets within the City of San Diego (City) are critical public assets that require high levels of resources to construct and maintain. Deferred maintenance needs for streets within the City continue to persist at a relatively high level, and the costs associated with mitigating these needs have greatly increased over the past decade. In response to this, City management has made the maintenance and improvement of City streets a high priority within the City's five-year outlook by allocating unprecedented amounts of resources for this purpose.

During our performance audit of the City's streets maintenance functions, we found weaknesses in the information used by the Department of General Services: Street Division (Street Division) for the purpose of identifying and selecting streets for maintenance activity. These weaknesses include the following:

- The Street Division is reliant on street condition information that is incomplete and provides limited usefulness for effective maintenance decisions.
- Street Division staff does not uniformly update street condition information when maintenance activity is performed.
- The Streets Division has not incorporated a degradation program into its pavement management system that would automatically update street condition information on a periodic basis.

Our audit also revealed that there is significant variation in City streets conditions both geographically and functionally, and that recent efforts by the Street Division to maintain City Streets have focused into two main areas: 1) Significant improvements to major streets, and 2) preventive maintenance of residential streets. However, without formally documented policies and procedures for the identification and selection of streets for maintenance activities, the Street Division cannot guarantee that resources spent on street maintenance activity are being deployed in the most effective and efficient manner.

This report is the first of a three reports that we plan to provide related to the City's street maintenance functions and related internal controls. Within this report we provide four recommendations for the Street Division to improve its operations and information related to street maintenance. The Department of General Services agreed, or partially agreed with all of these recommendations. The department's response to our recommendations, and its corrective action plans, are provided at the end of this report.

RECOMMENDATIONS

- Recommendation #1 Expedite the performance of a complete citywide street assessment survey prior to the selection of streets for future citywide resurfacing contracts. If resources are not sufficient for this purpose, the Street Division should expedite its budget request so that resources will be available for a complete citywide assessment as soon as practicable. Data obtained from this survey should be analyzed comprehensively prior to the execution of future street resurfacing contracts, and maintained as a baseline for performance metrics when future assessments are performed
- Recommendation #2 Ensure that the condition ratings for recently resurfaced streets are effectively updated within the pavement management system in a timely manner. If the Street Division does not have the staff, resources, or expertise necessary to perform street field surveys of street conditions, then the Street Division should establish a baseline condition ratings for streets that have been recently resurfaced (e.g. OCI of 90 for streets that have been recently overlaid with new asphalt). These baseline values should be updated within the pavement management system shortly after the completion of street resurfacing activity
- Recommendation #3 Implement a degradation program into the pavement management system to update street condition ratings on a periodic basis. When formulating this program, major degradation variables such as traffic, drainage, weathering, and functional class should be prescribed for each segment within the pavement management system. If this process cannot be automated, the Street Division should ensure that condition information is manually updated on a regular basis
- Recommendation #4 The Street Division should formally document written policies and procedures for the identification and selection for inclusion into citywide street resurfacing contracts. These policies and procedures should be documented with an aim to maximize the effectiveness and efficiency of resources allocated for street resurfacing project. Written policies and procedures should be carefully crafted to ensure objectivity in the identification and selection process; yet also provide flexibility when deviation from the prescribed selection processes is warranted
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#37 HOTLINE INVESTIGATION OF A CITY COMPTROLLER EMPLOYEE
November-09

The Office of the City Auditor conducted an investigation of a City Comptroller employee in response to a complaint made to the City's Fraud Hotline. The complaint alleged that the employee submitted false information on City employment and promotional applications regarding the employee's prior work experience, and fraudulently obtained health and dental insurance benefits for an individual that was not a dependent or spouse. Our investigation concluded that the allegations are substantiated in part. We found the employee misrepresented some information on City job applications, and enrolled an individual as a spousal dependent for City insurance benefits while not legally married to the individual.

RECOMMENDATIONS

Recommendation #1 We recommend the Office of the City Comptroller take appropriate disciplinary action based on the information provided

Recommendation #2 Risk Management should implement a new process to verify spousal and dependent eligibility before City insurance benefits are provided to reduce the risk of the City incurring additional cost for ineligible claimed benefits

#38 SAN DIEGO DATA PROCESSING CORPORATION FOLLOW-UP AUDIT
November-09

The San Diego Data Processing Corporation (SDDPC), the City's sole technology agency since 1979, defines its purpose as supporting, improving, building and maintaining information technology (IT). In 2004, the Office of the City Auditor & Comptroller performed an audit of SDDPC administrative expenses in response to allegations that SDDPC's expenses for meals and corporate events were excessive. The 2004 report concluded that SDDPC lacked sufficient policies and proper oversight of administrative expenditures, specifically those related to meals and travel, and made certain corrective recommendations.

Subsequent to the appointment of the City Auditor and at the request of the Audit Committee, we have performed a follow-up audit to determine whether SDDPC fully implemented the recommendations made in 2004. During the follow-up audit, we found indicators of weaknesses in the Operating Agreement governing SDDPC's procurement function. Therefore, we took additional steps to review and assess the City's oversight of SDDPC to determine whether improvements could be made to strengthen controls. Also, we reviewed issues that came to our attention regarding compensation and budgeting approval and we issued a report on this in May 2009.

Based on our review, we found:

- SDDPC implemented most of the recommendations made in 2004;
- The contract terms between SDDPC and the City do not establish sufficient performance and reporting requirements, specifically in the areas of the budget disclosure, procurement standards and billing processes; and
- The SDDPC bylaws do not incorporate controls to enhance transparency of SDDPC operations and SDDPC's accountability to the City.

We have made 16 recommendations to strengthen the City's oversight and approval of SDDPC activities, improve SDDPC's competitive practices and transparency related to IT procurement for the city, and to ensure adequate internal controls over SDDPC's procurement, billing, and financial reporting.

RECOMMENDATIONS

Recommendation #1 SDDPC's Board should require SDDPC to have written policies related to reimbursements to vendors and the retention of bid documents

Recommendation #2 Design controls to ensure a review of compliance with the Operating Agreement terms is performed annually. Consider requiring SDDPC to self-assess their compliance with the agreement terms and submit the assessment to the Mayor, or designee, for their review prior to executing the annual Service Level Agreement

Recommendation #3 Modify the Operating Agreement to establish a process by which payments by the City that exceed costs for services are refunded by SDDPC

Recommendation #4 Modify the Operating Agreement to define costs which are unallowable without a justification of benefit to and approval by the City, including the procurement of capital assets

Recommendation #5 Consult with the City Attorney to ensure pass-through purchases are properly and clearly authorized by Council as required by the Municipal Code and Charter

Recommendation #6 The City should ensure the appropriation ordinance language clearly authorizes payments to SDDPC for pass-through expenses

Recommendation #7 Amend the Operating Agreement with SDDPC to improve best practices by requiring:

A. A dedicated public vendor webpage for posting: Requests for quotes or proposals; results of requests for quotes or proposals; and justifications for sole source / sole responder vendor contracts;

B. Standard minimum response times to requests for quotes or proposals;

C. Re-advertising for requests for quotes or proposals if an insufficient number of responses are received from vendors for contracts exceeding a specific value, such as \$250,000 unless sufficient justification is documented, presented to the Board and the justification is posted to the website;

D. Fixed terms for contracts; and

E. Annual report to the City summarizing competitive practices

Recommendation #8 City management should consider establishing policies and regulations specific to procurement of long term system maintenance contracts

Recommendation #9 The City and SDDPC should develop policies and procedures to ensure compliance with competitive standards applicable to federally funded technology projects

Recommendation #10 Add language to the City's Purchasing and Contracting Department website directing vendors to SDDPC web site for technology procurement opportunities

Recommendation #11 Either SDDPC should permit view access by City employees to their contract, invoice, and vendor payment history for procured goods and services in order to verify the accuracy of SDDPC billings, or the procurement of these goods and services should be made directly through the City's procurement process in consultation with SDDPC staff. The selected process should ensure the best operational efficiencies for the City that incorporate strong internal controls

Recommendation #12 The City should establish encumbrances for IT Business Leadership Group (ITBLG) approved new project costs procured through SDDPC to ensure actual costs do not exceed approved budgeted costs

Recommendation #13 Consult with the City Attorney and amend the Operating Agreement to a more traditional professional services contract to provide the City with specific IT services and as-needed services. The agreement should have a fixed term and incorporate appropriate levels of approval at the City prior to SDDPC processing a request for services

Recommendation #14 Amend the Operating Agreement to establish a timeline for execution of the annual SLA and to establish the level of City approval required prior to making payments if an SLA is not executed within the timeframe

Recommendation #15 City management, in consultation with the City Attorney, should advise the City Council to consider amending SDDPC's bylaws to include the following:

A. The Mayor and City Council shall approve the hiring of the CEO and the CEO's contract terms;

B. The Board shall approve the compensation of the CFO unless increases in compensation are applicable to all employees;

C. The CEO shall provide an annual report to the Mayor and City Council on SDDPC's compliance with its Bylaw requirements;

D. SDDPC shall provide to the Mayor and City Council an annual report on its performance, including its strategy, current years' goals, status of major projects, and comparison of prior year's goals to performance; and

E. SDDPC's CEO and CFO shall certify to the City that SDDPC management assumes full responsibility for the completeness and reliability of the information contained in the financial report.

Recommendation #16 City management, in consultation with the City Attorney, should advise the City Council on the appropriate action to be taken regarding delegation of member rights.

**#39 PERFORMANCE AUDIT OF THE CITY TREASURER DELINQUENT
ACCOUNTS PROGRAM December-09**

During our audit of the Delinquent Accounts Program of the Office of the City Treasurer, we found significant weaknesses in the billing and collection practices of the Development Services Department (DSD) which required immediate reporting. DSD has a decentralized and mostly manual billing and collection process for Deposit Accounts which has resulted in a significant number of Deposit Accounts falling into deficit. DSD has failed to refer these past due amounts to the Delinquent Accounts Program for collection in a timely manner resulting in approximately \$3.4 million of uncollected fees as of June 30, 2009. DSD should immediately refer existing past due accounts to the Delinquent Accounts Program and make significant changes to its billing and collection procedures. By so doing, DSD could strengthen its financial controls over its Deposit Account program and ensure applicants pay for the City services they receive.

RECOMMENDATIONS

- Recommendation #1 Review current deficit account balances and immediately refer existing past due accounts to the Treasurer's Delinquent Accounts Program
- Recommendation #2 Establish appropriate criteria and timeliness that will trigger DSD Financial Services to generate an ARIS invoice with an automatic referral to the Treasurer's Delinquent Accounts Program of unpaid invoices after the invoice due date. If the timeline for referral exceeds 30 days past due, request approval for a more appropriate time frame from the City Treasurer per City regulations. Centralize the deficit account invoicing process in DSD's Financial Services and eliminate courtesy and collection letters as well as Project Tracking System invoices
- Recommendation #3 Establish procedures for DSD cashiers to coordinate with Financial Services to ensure payments received on ARIS invoices are properly applied to the invoice so paid accounts are not referred to the Treasurer's Delinquent Accounts Program in error
- Recommendation #4 Establish procedures and strengthen controls in the Project Tracking System that prevent DSD cashiers from accepting payment on past due ARIS invoices (those referred to the Treasurer's Delinquent Accounts Program). Instruct applicants with referred accounts to make payments at Treasurer's Delinquent Accounts Program

- Recommendation #5 Reinstatement of monthly statements, for all applicants, which contain enough detail regarding charges (staff person name, description of work performed, hours spent and amount, etc.), as well as language stating that applicants have a limited amount of time to dispute any charges. Monthly statements for accounts in deficit should also contain a remittance advice, the deficit amount, the minimum positive balance required, a due date and language that clearly states that unpaid amounts will be referred to the Treasurer's Delinquent Accounts Program (based on the established criterion and timeline from #2 above)
- Recommendation #6 Implement a late penalty fee to ensure more timely payments on deficit accounts
- Recommendation #7 Require Development Project Managers (DPM's) as well as any other City staff person acting as lead on Deposit Account projects to review labor charges on all relevant projects at least bi-weekly to help identify and correct potentially erroneous charges prior to issuance of monthly statements
- Recommendation #8 Evaluate the adequacy of Deposit Account initial deposit amounts as well as the minimum required balance amounts to help minimize the frequency and speed at which Deposit Accounts fall into deficit
- Recommendation #9 Implement a policy that would prohibit applicants with an existing deficit account to open another Deposit Account until the existing deficit is paid in full
- Recommendation #10 Implement system interfaces between DSD's Project Tracking System and the current and future SAP modules to increase the automation of manual billing and collection tasks
- Recommendation #11 Assist the Development Services Department by providing a periodic report of payments received on accounts referred to the Delinquent Accounts Program
- Recommendation #12 Ensure DSD Financial Services (as well as DPMs and other project leads) are given access to data, screens and/or reports in the SAP Financial and Logistics module (FiLo) that clearly and accurately depict project balance, activity and length of time in deficit
- Recommendation #13 Ensure DPMs are given access to labor charge detail by job order number after implementation of SAP's Human Capital Management (HCM) module

Recommendation #14 Provide DSD with a sufficient number of operation accounts in SAP to ensure Deposit Account monthly statements contain enough detail regarding customer charges

**#40 CITY CHARTER REQUIREMENTS FOR UNCLAIMED FUNDS
December-09**

During the course of conducting the Purchasing and Contracting performance audit, the issue of unclaimed monies came to our attention. Although not directly related to the City's Purchasing and Contracting Department, accounts payable-related issues are an element of the purchasing or expenditure cycle and therefore warranted our review. Currently, approximately \$778,000 in unclaimed money is in the City Treasury. Based on our review we found the process followed by the City Comptroller regarding the disposition of unclaimed monies is not in compliance with City Charter section 86. The Comptroller's Office follows the California Government Code procedures for unclaimed funds, which is in conflict with the City Charter regarding the time period that must pass before unclaimed monies are transferred to the general fund.

The objective of this review was to determine if the process followed by the City regarding the disposition of unclaimed monies is in compliance with the City Charter. To accomplish this objective, we reviewed the City Charter section 86, state laws governing unclaimed monies, the process followed by the City Comptroller's Office regarding the disposition of unclaimed monies, and the current amount of unclaimed monies in the City Treasury. We evaluated internal controls related to the audit objectives. Our review focused on controls related to compliance with the City Charter.

RECOMMENDATION

Recommendation #1 We recommend that the Office of the City Comptroller consult with the City Attorney to determine the legality of transferring the \$777,832 in unclaimed money to the general fund to be in compliance with the City Charter. If compliance with the City Charter supersedes the California Government Code, the Office of the City Comptroller should ensure appropriate processes and procedures are in place to ensure compliance