



DATE: May 15, 2025

TO: Honorable Members of the City Council

FROM: Andy Hanau, City Auditor

SUBJECT: **Proposed Revision to the Mayor's Fiscal Year 2026 Proposed (Draft) Budget for the Office of the City Auditor**

Summary

The purpose of this memorandum is to request that the City Council consider including the following revisions to the Mayor's Fiscal Year 2026 Proposed (Draft) Budget for the Office of the City Auditor (OCA):

- **Modify the Mayor's proposed reductions to OCA from \$287,457 to \$184,799; and**
- **Ensure the reductions to OCA are one-time and not ongoing.**

As discussed below, OCA provides a significant return on investment. The full reductions to OCA in the Proposed (Draft) Budget would cost residents and taxpayers far more in terms of missed opportunities to increase revenues, reduce costs, increase efficiency, and improve equity. In addition, the Mayor's proposed cuts are ongoing, meaning they would permanently reduce OCA's ability to provide Charter-mandated oversight and accountability for the City's \$6.1 billion budget and 13,000 employees.

Key Considerations

- OCA fully recognizes and understands the City's General Fund budget deficit and acknowledges the hard decisions the Mayor and Council are facing. Given our fiscal condition, City departments must act to address this reality.
- OCA's reality is this: We have scrubbed and dissected every line of our budget and have proposed \$184,799 in one-time cuts that are the maximum this office can absorb without severely and permanently degrading our ability to carry out OCA's Charter-mandated responsibilities.

- The Mayor's proposed cuts to OCA total \$287,457 in ongoing reductions, which, if enacted, would continue a decade-long, incremental degradation of OCA's capacity to provide independent oversight and accountability of City operations. In short, as the City's overall budget and universe of risk—which OCA is responsible for auditing and investigating—have increased over time, OCA's budget and capacity to deliver our core services have not kept pace. Notably, the Charter requires OCA to audit and investigate the entire City organization, not just the General Fund which makes up only one-third of the City's budget.
- Even with our already-limited resources, OCA has consistently provided a high return on investment for the City and taxpayers. As discussed below, our audits and investigations yield revenues, cost avoidance, efficiencies, and increased equity in the City services we review.
- Because 85 percent of OCA's budget is comprised of personnel expenditures and all OCA positions are filled (zero vacancies), OCA would need to furlough all staff to achieve the full budget reduction proposed by the Mayor, which would further limit OCA's capacity to provide Charter-mandated, independent oversight and accountability for City operations. In addition, the Mayor's proposed cuts are ongoing, meaning this reduction in our ability to identify revenues, cost savings, efficiencies, and equity improvements would be permanent.
- The Audit Committee also understands the importance of balancing the City's General Fund budget shortfall with the significant return on investment OCA provides. Specifically, per City Charter Section 39.1, the Audit Committee recommends OCA's budget to the City Council. As discussed in the [IBA's review of the Proposed \(Draft\) Budget](#), on April 23, 2025, the Audit Committee recommended that cuts to OCA be limited to one-time reductions of \$184,799 in order to achieve budgetary savings while preserving OCA's ability to conduct Charter-mandated audit and investigative work.

Supporting Evidence for OCA's Request

1. OCA consistently provides a positive return on investment for residents and taxpayers. The following are only few examples out of dozens of audit and investigative reports we have issued in recent years, showing that the benefits we provide far outweigh our budget of approximately \$5.8 million:
 - OCA's 2025 [Performance Audit of the City's Trash, Recycling, and Organics Collection and Handling](#) found that the City could recover at least \$4 million and potentially up to \$15 million more per year by increasing private hauler

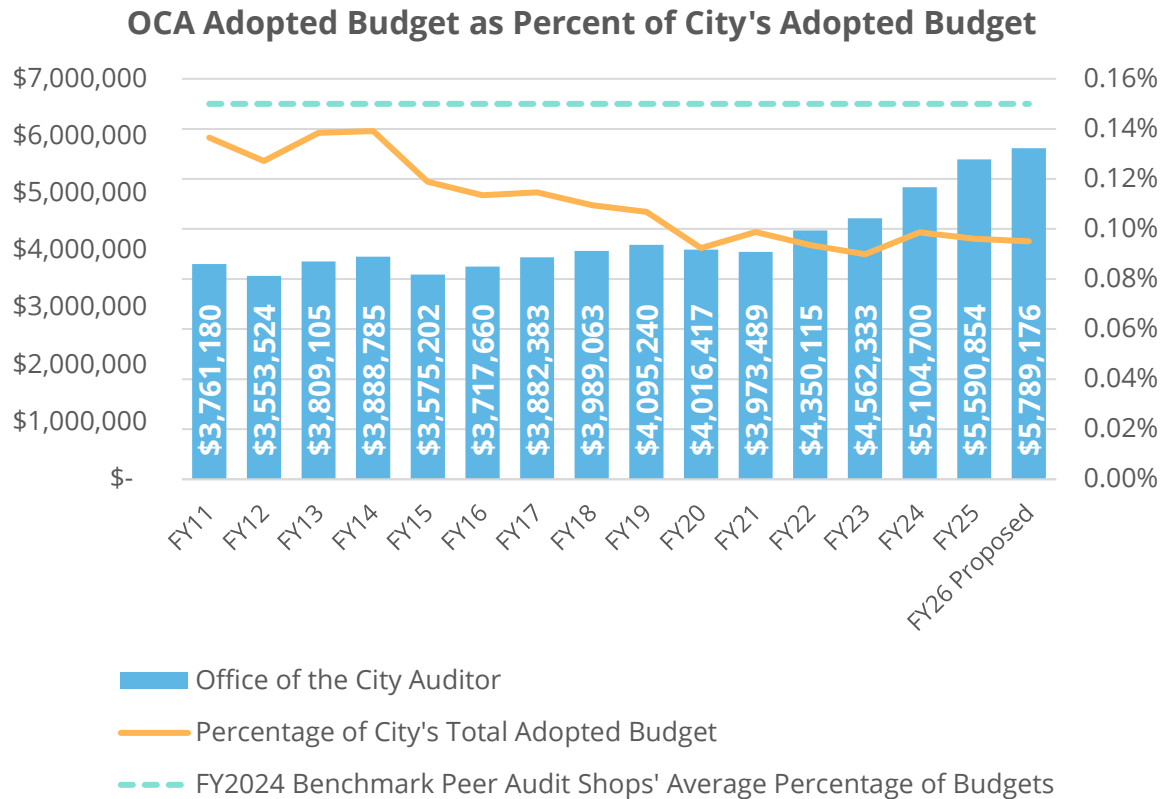
franchise fees by inflation and setting fees to recover City street maintenance and other costs related to franchised waste hauling;

- OCA's 2024 [Performance Audit of Pothole Repairs](#) found several ways to improve the efficiency and productivity of the Pothole Repair Program by at least 20 percent, which will help reduce backlogs, speed response times, and provide more equitable service for residents;
- OCA's 2023 [Performance Audit of Brush Management on City-Owned Land](#) found opportunities for the City to improve brush management to reduce the risk of wildfires that have cost lives and caused billions of dollars in property damage in San Diego; and
- OCA's 2021 [Performance Audit of the City's Major Building Acquisitions](#) found additional oversight and transparency would help the city avoid the types of failed building acquisitions that have cost taxpayers hundreds of millions of dollars and impacted City services.

2. The Mayor's proposed reductions for OCA could only reasonably be achieved through mandatory staff furloughs, which would reduce OCA's audit and investigative capacity at a time when it is needed most. This would also diminish OCA staff morale and retention, especially because, as far as we are aware, only one other department is contemplating mandatory furloughs as a budget mitigation measure. Mandatory furloughs to meet the Mayor's proposed cuts would, in effect, force OCA to subtract at least one audit from our annual workplan and constrain fraud, waste, and abuse investigations at a time when OCA is receiving record numbers of audit requests and investigative hotline complaints.
3. OCA is already under-resourced. As noted in the [IBA's review of the Proposed \(Draft\) Budget](#), OCA currently makes up less than 0.10% of the City's budget, meaning that for every \$100 the City spends, less than 10 cents are spent on the independent oversight and accountability that OCA provides. This is because of a decade-long trend where the City's budget has increased by 116 percent, while OCA has received comparatively few additional resources to provide independent audit and investigative coverage of the City's growing operations.

As shown below in **Exhibit 1**, we benchmarked with 15 peer audit shops and found that those shops make up an average of 0.15% of their organizations' budgets. This means that peer audit shops are about 50 percent larger than OCA relative to the size of their organization.

Exhibit 1: OCA Is Under-Resourced Compared to Peer Audit Organizations



Source: OCA based on City budget documents and benchmarking with 15 peer audit shops.

4. OCA's proposed modification demonstrates our commitment to addressing the General Fund challenges in a way that best serves the public interest. Consistent with the Audit Committee's April 23, 2025 recommendation, we are proposing targeted cuts totaling \$184,799, which we believe is the maximum achievable without significantly impacting OCA operations. In contrast, the Mayor's proposed cuts total \$287,457 (only about \$102,000 more), but would necessitate a mandatory furlough of all OCA staff. Given the significant return on investment OCA provides, the additional \$102,000 cut would cost residents and taxpayers far more. **Exhibit 2** shows a comparison of the Mayor's proposed reductions to OCA and the Audit Committee's recommendation.

Exhibit 2: The Audit Committee Recommends Limiting OCA's Fiscal Year 2026 Budget Reductions to a Total of \$184,799 on a One-Time Basis

REDUCTIONS	Mayor's Proposed (Draft) Budget [Ongoing]	Audit Committee Recommendation [One-Time]
Salary Budget Reduction	\$ 232,547	\$ 69,889
NPE Reduction	\$ 54,910	\$ 54,910
Legal Counsel Budget Reduction	\$ -	\$ 60,000
TOTAL REDUCTIONS	\$ 287,457	\$ 184,799

Source: OCA based on the Fiscal Year 2026 Proposed (Draft) Budget, May Revise, and Audit Committee action.

Note: The one-time reductions recommended by the Audit Committee include a \$69,889 salary budget reduction, \$54,910 in miscellaneous non-personnel expenses including contracts and supplies, and a \$60,000 reduction the budget to implement Measure A given the anticipated contracting timeline for independent legal counsel.

Conclusion

We recognize the City's budget constraints in the coming year and going forward, and OCA is committed to helping the Administration achieve a workable budgetary solution without sacrificing OCA's ability to serve the public interest. Given the composition of OCA's budget, the total proposed budget reductions of \$287,457 would necessitate a mandatory furlough of all OCA staff, which would increase the City's risk and diminish our ability to serve the City and our residents and taxpayers by identifying savings, potential revenues, and efficiencies through our audits and investigations.

OCA appreciates and values the City Council's support of our mission and encourages your consideration of the Audit Committee's recommendations for OCA's Fiscal Year 2026 budget and limiting cuts to \$185,799 on a one-time basis. Please contact me with any questions.

Respectfully submitted,



Andy Hanau
City Auditor

cc: Honorable Mayor Todd Gloria
Honorable Members of the Audit Committee
Matt Yagyagan, Director of Policy, Office of the Mayor
Matthew Vespi, Chief Financial Officer
Rolando Charvel, City Comptroller and Department of Finance Director
Charles Modica, Independent Budget Analyst
Erin Noel, Fiscal and Policy Analyst, Office of the Independent Budget Analyst