



DATE: December 22, 2025

TO: Honorable Members of the City Council  
Honorable Members of the Audit Committee

FROM: Andy Hanau, City Auditor

SUBJECT: **Office of the City Auditor's FY2027 Proposed Budget**

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## Summary

During the recent discussion on my reappointment as City Auditor, Councilmembers repeatedly noted that they consider the Office of the City Auditor (OCA) to be one of the most important City departments and commended the excellent work of my staff in identifying opportunities to increase the efficiency, transparency, and equity of City operations. My staff and I greatly appreciated those comments, and I could not agree more with them.

OCA is Charter-mandated to audit and investigate all City departments, offices, agencies, and officials, totaling approximately \$6.1 billion in annual expenditures, 13,000 City employees, and hundreds of contracts. At the same time, OCA is one of the smallest City departments, making up less than \$1 of every \$1,000 the City spends.

Despite OCA's large and growing responsibilities, to assist with General Fund budget mitigation, OCA proposed—and the City Council approved—\$184,799 in one-time reductions for FY2026. While these reductions are moderate, they have still impacted OCA's ability to complete important work, as we have had to leave several part-time positions vacant and delay filling two permanent positions in order to balance our budget this year. As a result, despite receiving over 120 requests for audits in FY2026, we could only include 8 new audits on our workplan, and audits in progress have been delayed. This means that crucial opportunities to improve City operations for our residents and taxpayers are being missed or delayed because we do not have the resources to accommodate even 10 percent of the audit requests we receive.

OCA's work is even more important when City budgets are in deficit and options to decrease costs, improve efficiency, and increase revenues are urgently needed. **Therefore, we respectfully request that previous, one-time reductions to OCA's budget for personnel and independent legal counsel expenses be restored in FY2027 and that \$54,910 in other non-personnel reductions be made only on a one-time basis.**<sup>1</sup>

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<sup>1</sup> Notably, as further discussed below, the City Council approved the \$54,910 in NPE reductions on a one-time basis in FY2026, but the Administration has implemented this on an ongoing basis.

### Overview of OCA's Projected FY2027 Baseline Budget

For background, **Exhibit 1** includes the Office of the City Auditor's projected FY2027 baseline budget. This is an estimate based on currently available information to show what OCA's FY2027 budget would be if no changes are made. As shown below, approximately 86 percent of OCA's budget is comprised of personnel expenses; this means the only way to achieve substantial reductions to OCA's budget would be to reduce staffing, which would even further reduce the audit and investigative work we can complete.

#### **Exhibit 1**

#### Office of the City Auditor's FY2027 Projected Baseline Budget

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BUDGET ITEM	EST. BUDGET AMT	% OF TOTAL BUDGET
Salaries and Wages	\$ 3,772,442	62.5%
Fringe Benefits	\$ 1,391,423	23.1%
<b>TOTAL PERSONNEL EXPENSES (PE)</b>	<b>\$ 5,163,865</b>	<b>85.6%</b>
ACFR Contract (Charter-required external financial audit)	\$ 310,000	5.1%
Non-Discretionary	\$ 279,666	4.6%
Misc. Discretionary	\$ 71,964	1.2%
Independent Legal Counsel (Measure A)	\$ 180,000	3%
Compliance Line (Hotline Service / Software)	\$ 14,887	0.3%
MK Insight (Audit Management Software)	\$ 15,219	0.3%
<b>TOTAL NON-PERSONNEL EXPENSES (NPE)</b>	<b>\$ 871,736</b>	<b>14.4%</b>
<b>TOTAL PROJECTED FY2027 BASE BUDGET</b>	<b>\$ 6,035,601</b>	<b>100.0%</b>

## **Budget Savings from Reducing OCA Staffing Would Cost Residents and Taxpayers Far More**

As the City Council and Audit Committee are aware,<sup>2</sup> the City and our residents and taxpayers benefit from our performance audits and Fraud Hotline investigations, which provide increased operational revenue, efficiencies, savings, and accountability.

**Attachment 1** provides illustrative, but not exhaustive, examples of the return-on-investment OCA routinely delivers, as evidenced by both implemented recommendations and recommendations pending implementation. The following are recent examples:

- SDPD expects to be able to reduce overtime expenditures by \$9 million in FY2026, due in part to recommendations from our [2024 Performance Audit of Police Overtime](#) to centralize and better track how overtime is used.
- Based on our recommendations from our [2024 Performance Audit of Pothole Repairs](#), Transportation has more pothole trucks available and has used mapping and other tools to increase routing efficiency, allowing the department to repair thousands of additional potholes per year with its existing budget.
- The Fleet Division has already implemented key recommendations from our [2025 Performance Audit of Fleet Maintenance](#), which has led to increases in on-time vehicle maintenance and safety inspections. This will help save money by avoiding costly breakdowns and unsafe vehicles that could injure employees or residents and increase liability to the City.

In the face of the City's budgetary challenges, OCA is a key municipal asset that helps ensure limited public funds are used appropriately, effectively, and efficiently. Moreover, OCA's mission is in direct alignment with the Mayor's stated directive in his November 2025 budget mitigation memorandum calling on City departments to prioritize opportunities for cost savings, efficiencies, and additional revenues in budget mitigation efforts. In short, diminishing OCA's operational capacity during periods of fiscal austerity is counterproductive.

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<sup>2</sup> Per Charter Section 39.1, the Audit Committee recommends OCA's annual budget to the City Council. OCA will present this budget proposal at the January 21, 2026 Audit Committee meeting.

### **OCA is Currently Under-Resourced, and Additional Cuts Would Further Limit Audit Coverage**

For further context, **Exhibit 2** shows OCA's budget as a portion of the City's budget for FY2011 through FY2025. While OCA made up approximately \$1.40 of every \$1,000 the City spent in earlier years, this has declined to only \$0.96 per \$1,000 in City spending in FY2026. This is due to years of growth in the City's overall budget, relative stagnation in OCA's budget, and reductions to OCA's budget in FY2018, FY2025, and FY2026.

At the same time, the City budget increased by 18 percent from FY2024 to FY2026 alone. In short, OCA's ability to provide sufficient audit coverage of City operations has declined over a number of years.

By comparison, our recent benchmarking study of peer audit organizations showed that those entities comprise an average of \$1.50 per \$1,000 their respective organizations spend.<sup>3</sup> In other words, peer audit shops are more than 50 percent larger, on average, than OCA as a portion of the organization they audit. Notably, to ensure sufficient funding, some jurisdictions have legal minimum funding requirements for their audit functions. San Francisco's City Charter requires that \$2.00 of every \$1,000 the City and County of San Francisco spends goes to the Office of the City Services Auditor, and the City of Chicago's Municipal Code requires that \$1.40 of every \$1,000 spent goes to the Chicago Office of the Inspector General. The City of San Diego lacks such a provision to ensure OCA has sufficient funding.

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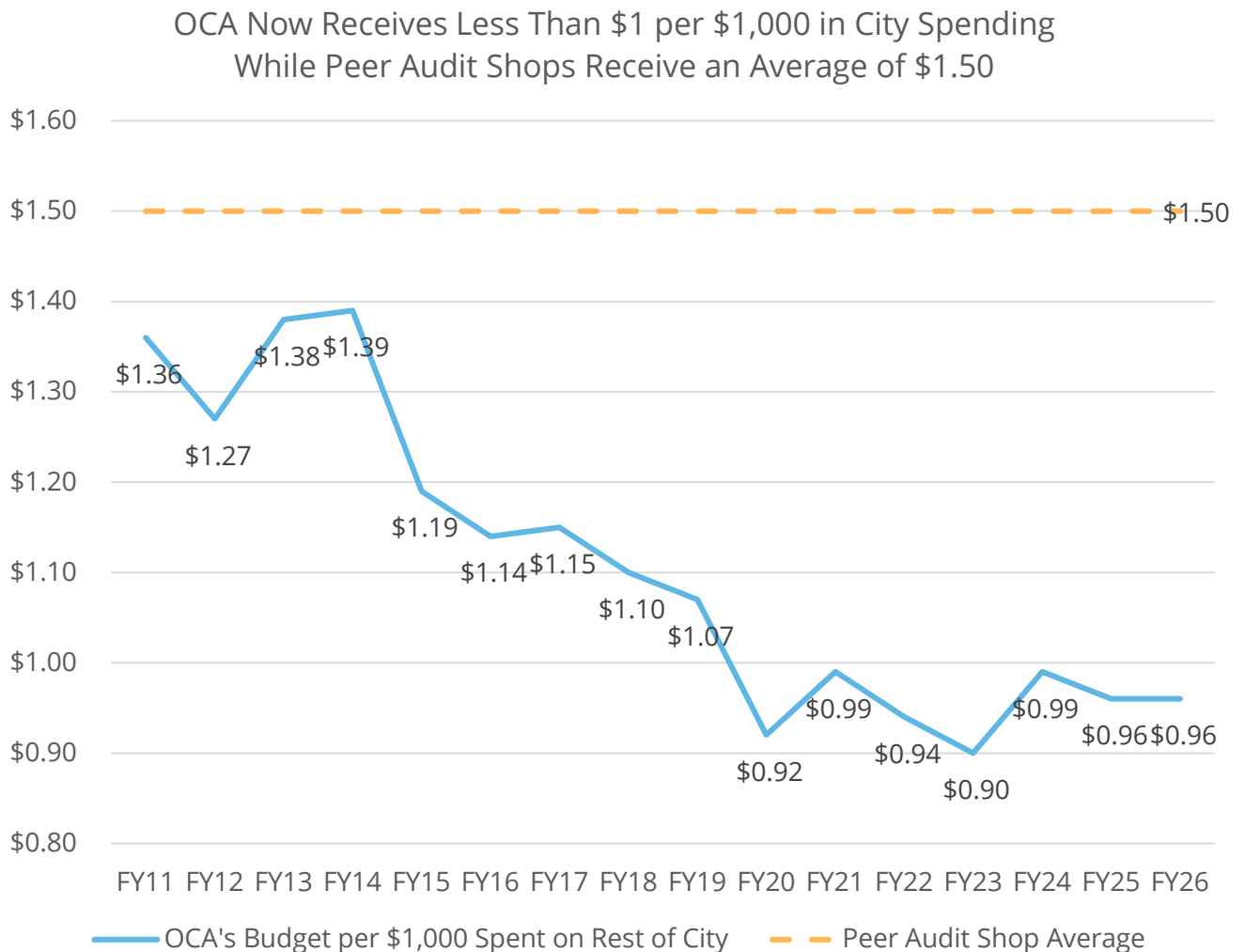
<sup>3</sup> We benchmarked with 15 peer audit organizations: Atlanta Office of the City Auditor, Austin Office of the City Auditor, California State Auditor, Chicago Office of the Inspector General, Dallas Office of the City Auditor, City and County of Denver Office of the Auditor, King County Auditor's Office, Long Beach City Auditor's Office, Oakland Office of the City Auditor, Portland City Auditor's Office, Sacramento Office of the City Auditor, San Diego Association of Governments Office of the Independent Performance Auditor, City and County of San Francisco Office of the Controller, San Jose Office of the City Auditor, and Seattle Office of the City Auditor.

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**Exhibit 2**

**Peer Audit Shops Are More Than 50% Larger Than OCA compared to the Size of the Organizations They Audit**

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Source: OCA generated based on City and peer organizations' budget data.

**OCA is Already Unable to Provide Sufficient Audit and Investigative Coverage of City Operations**

Because OCA only receives 96 cents of every \$1,000 the City spends, we do not have the resources to provide appropriate audit and investigative coverage of City operations. For example:

- OCA currently has 18 audit staff, including the City Auditor and Assistant City Auditor. By contrast, the Denver Office of the City Auditor has 42 audit staff, and

the Austin Office of the City Auditor has 20 audit staff, despite both of these cities having similar overall budgets and staffing levels to the City of San Diego.<sup>4</sup>

- In FY2026, we received approximately 120 requests for audits from a variety of sources, including City Councilmembers, Audit Committee members, and the public. Due to our limited staffing, we were only able to include 8 of these audits on our FY2026 workplan. That means that we were unable to include critical topics—such as Library Operations Equity, Short-Term Vacation Rentals, Developer Affordable Housing Compliance, and many other critical topics—on our workplan and identify opportunities in those areas to improve efficiency, equity, and accountability of related City programs.
- Like OCA, the Austin Office of the City Auditor also oversees its city's Fraud, Waste, and Abuse Hotline. OCA currently has two Fraud Investigators managing a caseload of approximately 275 hotline reports per year (137.5 per investigator). The Austin Office of the City Auditor has six Fraud Investigators overseeing approximately 400 hotline reports per year (67 cases per investigator). In other words, OCA's Fraud Investigators manage more than 2.5 times as many cases as Austin's. OCA needs more Fraud Investigators, not less, to ensure investigations are completed timely and employees are held accountable for misconduct.
- Cybersecurity is a critical concern for organizations worldwide, including local governments. While cybersecurity audits are essential to protecting an organization from cyberattacks, OCA currently has only one IT auditor to identify and mitigate risk across the City's vast IT infrastructure. Both the City of Baltimore and the City of Atlanta have fallen victim to cyberattacks, costing each city nearly \$20 million to restore their systems. This cost does not include the loss of services to residents or other negative impacts—for example, due to the cyberattack, the Atlanta Police Department lost years of dashboard camera video, which made it more difficult to prosecute some cases.

### **OCA's Proposed FY2027 Budget**

In June 2025, the City Council approved the City's FY2026 budget, which included \$184,799 in one-time reductions to OCA. This included a \$69,889 salary budget reduction, \$54,910 in various non-personnel expenses, and \$60,000 for independent legal counsel.

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<sup>4</sup> The City of San Diego's FY2026 Adopted Budget includes \$6.1 billion in spending and 13,000 FTE. The City of Austin's budget includes \$6.3 billion in spending and 16,700 employees. The City and County of Denver's budget includes \$5.4 billion in spending and 13,100 employees.

The \$69,889 salary budget reduction, while seemingly minor, has had numerous operational impacts on OCA. To stay within budget this year, we have had to leave two positions vacant for extended periods, which has slowed audit work. In addition, we are unable to replace two other part-time employees who left OCA, requiring us to transfer full-time staff onto the project the part-time staff were working on. Given OCA's high return on investment, these impacts will ultimately cost residents and taxpayers far more than the \$69,889 in budget savings, and we request that this reduction be restored in FY2027.

A one-time reduction of \$60,000 was also made to our FY2026 budget to obtain independent legal counsel and implement Measure A, which was approved by 67 percent of voters in March 2024. We are in the final stages of the contracting process and expect to bring a contract for independent legal counsel to the Audit Committee and the City Council within the next few months. We request the one-time reduction of \$60,000 be restored to ensure we have sufficient funding to obtain independent legal advice when needed to protect the public interest.

Lastly, for FY2026, the City Council approved a reduction of \$54,910 in miscellaneous non-personnel expenses on a one-time basis. However, contrary to the City Council's approval of this reduction on a one-time basis, the Administration has implemented this reduction on an ongoing basis. This means that funding for items such training that is required by Government Auditing Standards will be permanently lost. While we can absorb this reduction for another year by having OCA staff pursue low-cost training options, this is only feasible in the short term. The City, residents, and taxpayers greatly benefit from the skills and expertise of OCA staff, and it will be important to restore this funding in future years to ensure that OCA staff are able to obtain high-quality training opportunities. Therefore, we request that this \$54,910 reduction be implemented on a one-time basis, as the City Council originally approved.

## **Conclusion**

OCA appreciates and values the City Council's and the Audit Committee's support of our Office and mission. Ultimately, when it comes to OCA, the best way to help address the City's budget challenges is not to cut resources from OCA, but to invest in our continued ability to identify critically-needed opportunities to improve efficiency, reduce costs, increase revenues and cost recovery, and provide more equitable City services. Please contact me with any questions about the Office of the City Auditor's proposed budget for FY2027.

Respectfully submitted,



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Andy Hanau  
City Auditor

cc: Honorable Mayor Todd Gloria  
Matt Yagyagan, Director of Policy, Office of the Mayor  
Rolando Charvel, Chief Financial Officer  
Benjamin Battaglia, City Comptroller and Department of Finance Director  
Charles Modica, Independent Budget Analyst  
Erin Noel, Fiscal and Policy Analyst, Office of the Independent Budget Analyst  
Kevin Smith, Chief of Policy, Council District 8  
Daniel Horton, Chief of Staff, Council District 4



## **Attachment 1 — OCA Findings with Revenue Generation, Efficiency, and Cost Reduction Opportunities**

The Office of the City Auditor (OCA) has a significant positive return on investment for residents and taxpayers. Below are selected examples of opportunities to increase City revenues, improve the efficiency of City programs, and reduce or avoid costs that have been identified in recent OCA reports. This includes both recommendations that have been recently implemented and recommendations still in process of implementation. Many in-process recommendations, once implemented, will result in additional revenues, cost avoidance, and process efficiencies that will help improve the City's fiscal condition.

### **EXAMPLES OF RECENTLY IMPLEMENTED RECOMMENDATIONS**

- **Fleet Maintenance** ([2025 audit](#)) – The Fleet Division has already implemented key recommendations from our 2025 Performance Audit of Fleet Maintenance, which has led to increases in on-time vehicle maintenance and safety inspections. This will help save money by avoiding costly breakdowns and unsafe vehicles that could injure employees or residents and cause costly liabilities.
- **Pothole Repair** ([2024 audit](#)) – Based on our recommendations from our 2024 Performance Audit of Pothole Repairs, Transportation has more pothole trucks available and has used mapping and other tools to increase routing efficiency, allowing the department to repair thousands of additional potholes per year with its existing budget.
- **Police Overtime** ([2024 audit](#)) – SDPD expects to be able to reduce overtime expenditures by \$9 million in FY2026, due in part to recommendations from our 2024 Performance Audit of Police Overtime to centralize and better track how overtime is used.
- **CARES Act Overcharge** ([2021 audit](#)) – We found \$1.12 million in overcharging for portable showers, which the City Attorney's Office recovered from the vendor through a settlement in 2023.
- **Major Building Acquisitions** ([2021 audit](#)) – We found that Management did not provide the City Council and public with complete and accurate information on several past building acquisitions, leading to major cost overruns and limiting the usefulness of some acquisitions to the City. We recommended the City adopt a Council Policy requiring checklists of due diligence and best practices that should be conducted, and that the IBA retain a real estate consultant to assist the City Council in evaluating proposed acquisitions. These have been implemented and will

provide the City Council and the public with essential information to evaluate the costs, benefits, and risks of proposed major building acquisitions.

## **RECOMMENDATIONS PENDING MANAGEMENT IMPLEMENTATION**

### **Revenue Generation:**

- **Leases of City-Owned Property** ([2022 audit](#)) – At the time of the audit, the City had more than 100 properties (25%) in holdover and the City's property portfolio collected about \$80 million in lease revenue annually. Based on the agreements we reviewed, renewal would result in an average 11% increase in rent. Economic Development recently reported that 25% of leases still remain in holdover. Based on the information available, updating these leases could result in approximately \$2.2 million in additional revenue annually.
- **ESD Franchise Fees** ([2025 audit](#)) – We found that the City has not conducted a legally-required hauler franchise fee study to protect the current \$14 million in franchise fee revenues. We also found the City charges much lower franchise fees than most other jurisdictions. The Administration indicated a fee study would take 3 years to complete, meaning that additional revenues cannot be generated for 3 years. We also found that franchise hauler recycling rates are stagnant, and the City has not increased hauler recycling requirements to align with CAP goals.
- **Boat Storage** ([2024 hotline investigation](#)) – We found that the City only collects about \$30,000 per year in revenue for the boat storage program because fees are lower than other jurisdictions, and because the City did not issue over 100 available permits. Increasing fees to reflect benchmarking with other agencies and correcting clerical errors to ensure all permits are issued could increase revenues to approximately \$108,000—nearly four times the amount currently collected.
- **Stormwater Reinspection Fee** ([2018 audit](#)) – We found that Stormwater does not charge a reinspection fee when storm water violations are not corrected timely by property owners. A reinspection fee would help recover staff costs associated with inspection of storm water violations and help encourage timely compliance. Stormwater engaged a consultant that developed a re-inspection fee, a fee implementation schedule, and standard operating procedures. According to Stormwater, the program will initially recover 50% of its costs in the first year and increase by 10% each successive year until it reaches full cost recovery (in 6 years)—potentially millions of dollars per year in cost recovery. However, according to Stormwater, it has not received the resources to implement the fee.

- **Workplace Safety ([2022 audit](#))** – We found that costs associated with City employee workplace injuries—when including both direct and indirect costs—could exceed \$220 million. Given the magnitude of these costs, even moderate reductions in workplace injuries could save the City millions of dollars annually. Recommendations to improve controls around potential workers compensation fraud have been implemented, but recommendations to improve workplace safety policies Citywide to prevent injuries remain in process.
- **Unsafe Driving by City Employees ([2023 hotline investigation](#))** – We received numerous Hotline complaints of unsafe driving by City employees, and upon investigation found that liability claims for City vehicle accidents cost the City \$31.2 million from FY2017 to FY2021. The investigation also found that the City did not utilize existing technology or follow existing policy to proactively identify and correct unsafe driving by City employees.