



DATE: April 20, 2026  
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 Draft Budget**

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## Summary

The Office of the City Auditor (OCA) is Charter-mandated to audit and investigate all City departments, offices, agencies, and officials, totaling over \$6 billion in annual expenditures, 13,000 City employees, and hundreds of contracts. At the same time, OCA is one of the smallest City departments—OCA's current budget comprises only \$0.96 of every \$1,000 the City spends, down from \$1.39 in FY2014. The proportional decline in OCA funding 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.

Although the Audit Committee and a majority of City Councilmembers recommended protecting OCA's funding, the Mayor's Draft FY2027 Budget would continue to further erode OCA's funding to only \$0.91 per \$1,000 in City spending. As in past years, this is because the overall City budget will grow to \$6.4 billion (a 5.2% increase), while OCA's funding is proposed to be reduced by 3.5%, including a 5.5% reduction to OCA's salary budget. This would require OCA to reduce staffing via furloughs or layoffs, which would further limit our ability to identify cost savings, efficiencies, and equity improvements at a time when they are most needed.

OCA consistently provides a very high return on investment, meaning that cuts to OCA would ultimately cost residents and taxpayers far more. For example, recent audits have helped the City reduce SDPD overtime spending by \$6.5 million per year, and will help the City generate an estimated \$2.5 million per year in additional revenue from leased golf courses. Just those two audits total approximately \$9 million a year in ongoing benefits, compared to OCA's \$5.8 million per year budget. There are many other examples of revenue generation, cost savings, efficiencies, equity, and transparency opportunities identified by our audits and investigations, which further increase our ROI.

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 the FY2027 budget include the restoration of \$208,228 in personnel expenses, and that \$54,910 in other non-personnel reductions be restored and then cut on a one-time basis.**<sup>1</sup>

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<sup>1</sup>As discussed below, OCA's NPE budget was cut by \$54,910 on an ongoing basis in FY2026. While we are able to continue operations in FY2027 at current NPE levels, ensuring this is modified to a one-time reduction in FY2027 will help avoid the permanent loss of funds that are needed to provide high-quality training mandated by Government Auditing Standards.

**Overview of Mayor’s Draft FY2027 Budget for OCA**

**Exhibit 1** shows the Mayor’s Draft FY2027 Budget for OCA. As shown below, the vast majority of OCA’s budget is made up of personnel expenses for OCA staff performing Charter-mandated audit and investigative work. The draft reduces OCA’s salary budget by 5.5%, which could only be achieved by reducing staffing via furloughs or layoffs. Reductions would limit OCA’s capacity to identify efficiencies, cost savings, and equity and transparency improvements at a time when they are needed most. In addition, the Draft Budget maintains cuts to NPE on an ongoing basis, which leaves very limited budget for staff training that is required by Government Auditing Standards and no budget for items such as replacing staff computers.

**Exhibit 1: The Draft FY2027 Budget Cuts to OCA’s Salary Budget by 5.5%**

BUDGET ITEM	FY2027 DRAFT BUDGET	% OF TOTAL OCA BUDGET	NOTES
Salaries and Wages	\$3,560,312	60.40%	<b>\$208,228 Draft Reduction (5.5% of OCA salary budget)</b>
Fringe Benefits	\$1,470,026	24.94%	
<b>TOTAL PERSONNEL EXPENSES (PE)</b>	<b>\$5,030,338</b>	<b>85.34%</b>	
Contracts and Services (including Charter-required external financial audit contract, Independent legal Counsel (Measure A), audit and Hotline software, and training required by Government Auditing Standards)	\$611,419	10.37%	<b>NPE cut \$54,910 in FY2026, leaving limited budget for required CPE training and no budget for critical expenses such as computers</b>
Information Technology (primarily non-discretionary)	\$237,862	4.04%	
Supplies and Other Expenses	\$14,661	0.25%	
<b>TOTAL NON-PERSONNEL EXPENSES (NPE)</b>	<b>\$863,942</b>	<b>14.66%</b>	
<b>TOTAL PROJECTED FY2027 BASE BUDGET</b>	<b>\$5,894,280</b>	<b>100.00%</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. For that reason, the Audit Committee recommended protecting OCA funding in FY2027 at its January meeting. Subsequently, six Councilmembers also recommended protecting OCA funding in their Budget Priority Memoranda.

**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 \$6.5 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.
- Our [2026 Performance Audit of the City's Management of Leased Golf Properties](#) identified an opportunity for the City to generate an estimated \$2.5 million per year in lease revenues beginning in July 2026.
- The Fleet Division has already implemented key recommendations from our [2025 Performance Audit of Fleet Maintenance](#), which has helped the City more than double the rate of 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 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 the Draft FY2027 Budget. 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. Should the draft cuts to OCA be approved for FY2027, this would further reduce OCA's funding to only \$0.91 per \$1,000 in City spending, nearly the lowest level since voters created OCA in 2008.

At the same time, the City budget will increase by 24 percent from FY2024 to FY2027 alone. In short, OCA's ability to provide sufficient audit coverage of City operations has declined over a number of years.

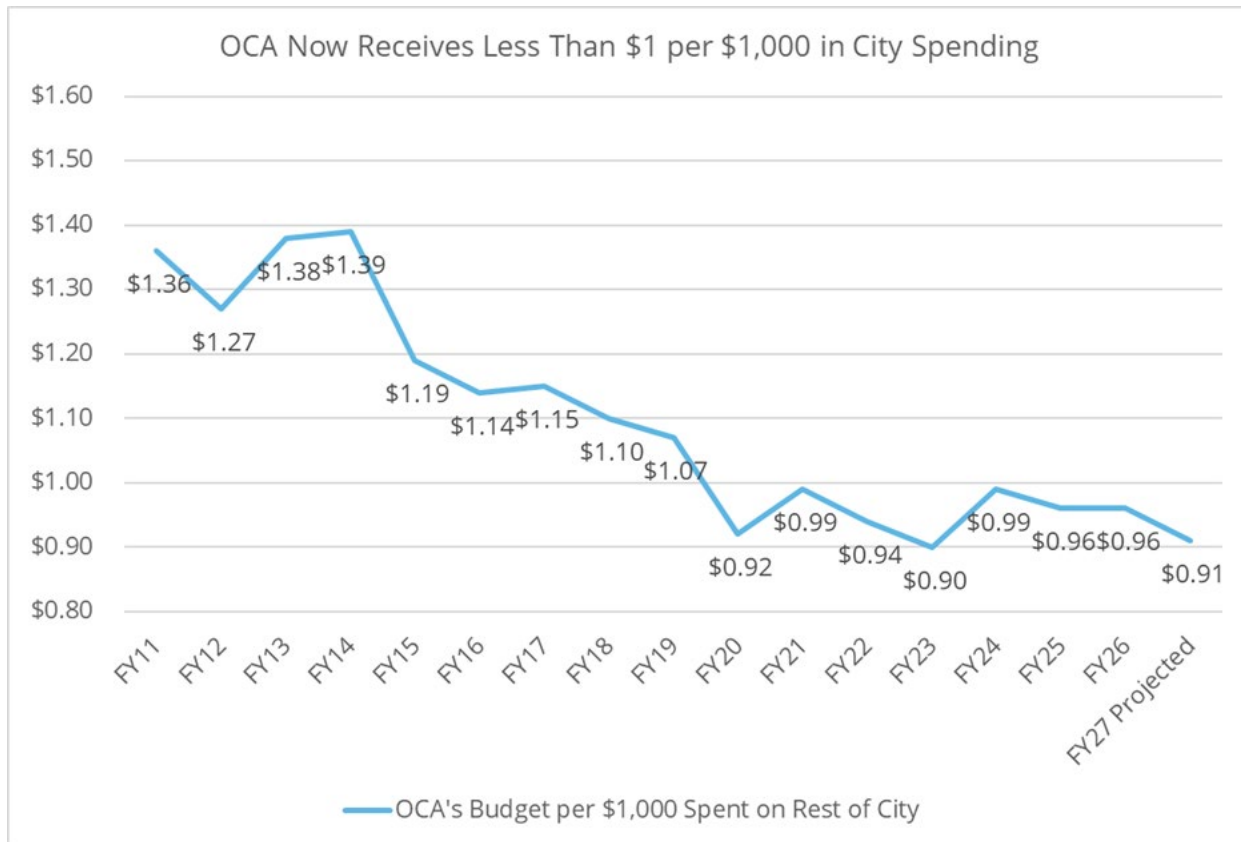
By comparison, our recent benchmarking study of peer audit organizations showed that those entities comprise an average of \$1.25 per \$1,000 their respective organizations spend.<sup>3; 4</sup> In other words, peer audit shops are more than 37 percent larger, on average, than OCA as a portion of the 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 14 peer audit organizations: Atlanta City Auditor's Office, Austin City Auditor's Office, 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 Controller's Office, San Jose Office of the City Auditor, and Seattle Office of the City Auditor.

<sup>4</sup> This is an update of benchmarking originally conducted in 2022, which found that peer audit shops were budgeted at approximately \$1.50 of every \$1,000 their agencies spend. Our current benchmarking took into account a range of factors that were not included in the 2022 benchmarking, such as whether peer agencies have greater or lesser responsibilities that OCA is currently charged with. After adjusting for those factors, we determined that peer audit shops are budgeted at an average of \$1.25 for every \$1,000 their agencies spend—37% more than OCA is budgeted for in the Draft FY2027 Budget.

**Exhibit 2: OCA is Increasingly Under-Resourced Compared to the Size of City Government**



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 (which would decline to 91 cents under the Mayor's Draft FY2027 Budget), 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>5</sup>

<sup>5</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.

- 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. Reducing OCA staffing via furloughs or layoffs would mean even more critical topics would need to be left off of our annual workplan.
- 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.

**Prior Cuts to OCA Have Already Had Negative Impacts for Residents and Taxpayers, and Cuts Included in the Draft Budget Will Further Reduce Oversight and Accountability for City Operations**

The FY2026 Adopted Budget included \$184,799 in 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. While the Mayor's Draft FY2027 budget restores the budget for independent legal counsel, it maintains the cuts to NPE, and nearly triples the salary budget reduction to \$208,228.

The \$69,889 salary budget reduction for FY2026, 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. The Mayor's Draft FY2027 Budget nearly triples the salary budget reduction to \$208,228, which will require reducing staffing via furloughs or layoffs. Given OCA's high return on investment, these impacts will ultimately cost residents and taxpayers far more than the \$208,228 in budget savings, and we request that the draft reduction be restored in FY2027.

The FY2026 budget also includes a reduction of \$54,910 in miscellaneous non-personnel expenses. While the Audit Committee recommended that this reduction be made on a one-time basis, it was ultimately made as an ongoing reduction. This means that funding for items such training that is required by Government Auditing Standards and funds to replace staff computers when needed 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 in NPE be added to the FY2027 budget, and then cut on a one-time basis. This request is budget-neutral for FY 2027, while avoiding the permanent loss of funding that will be critical to future OCA operations.

**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 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  
Trisha Tacke, Fiscal and Policy Analyst, Office of the Independent Budget Analyst  
Robert Broomfield, 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***

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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 \$6.5 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 reinspection 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.