DATE: June 22, 2026

TO: Honorable Members of the City Council

FROM: Andy Hanau, City Auditor

SUBJECT: **Office of the City Auditor Funding**

Summary

I appreciate Council President Pro Tem Lee's proposal for, and the Rules Committee's consideration of, a mechanism to protect and enhance funding for the Office of the City Auditor (OCA). The purpose of this memorandum is to provide an overview of OCA's historical funding levels, as well as how residents and taxpayers would benefit from sufficient and stable funding for OCA.

San Diego voters created OCA in 2008, following several scandals which nearly bankrupted the City. OCA is Charter-mandated to audit and investigate all City departments, offices, agencies, and officials, totaling $6.4 billion in annual expenditures, 13,000 City employees, and hundreds of contracts. OCA consistently provides a very high return on investment, with audits and investigations routinely identifying significant cost savings, efficiencies, equity and transparency improvements, and opportunities to increase revenues.

However, OCA's ability to provide appropriate audit coverage of the City's large and diverse operations has diminished over time. OCA's FY2027 budget comprises only $0.94 of every $1,000 the City spends, down from $1.39 in FY2014. This relative 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. Additional cuts have been proposed by the current and past Mayors (including in FY2027) that would have reduced OCA funding even further, but these cuts were reversed by the City Council during the budget process. We greatly appreciate the support we have received from the Audit Committee and City Council to help protect our budget.

Currently, the Mayor has the authority to propose OCA's budget, even though the Mayor oversees the vast majority of the City staff and operations we audit and investigate. According to the Association of Local Government Auditors (ALGA), decisions about funding for an audit shop should not be controlled by management subject to audit. Additionally, ALGA notes that establishing a statutory minimum funding level can safeguard the independence of the audit function by limiting management and political pressure.

Establishing sufficient and stable funding for OCA would help avoid perpetual disputes over OCA's budget, and have a variety of benefits for residents and taxpayers, including:

- **Increasing the efficiency, effectiveness, equity, and transparency of City operations:** Since FY2014, the City has added $3.7 billion in spending and 2,700 employees, while OCA has received comparatively few resources to keep pace. This means that, at current OCA funding levels, we could not include audits of critical topics, such as Transportation Department overtime, code enforcement for vacant commercial buildings, and short-term vacation rentals, and many others on our FY2027 work plan. Additional funding would allow us to include additional high-risk topics on our work plan, helping lead to improvements in those areas.
- **Improving OCA's ability to detect and deter fraud, waste, and abuse:** City employees and the public trust OCA's Fraud, Waste, and Abuse Hotline to independently investigate allegations of misuse of public resources, and the number of Hotline reports OCA receives has risen steadily over time. OCA only has two Fraud Investigators, managing a caseload of approximately 275 allegations per year (137.5 per investigator). Additional funding would help ensure allegations of fraud, waste, and abuse are addressed as quickly as possible.
- **Reducing the risk of cybersecurity threats to the City and public:** Cybersecurity is a critical concern for organizations worldwide, including local governments. OCA currently has only one IT auditor to identify and mitigate risk across the City's vast IT infrastructure. Adding additional IT audit staff would help protect the City from cyberattacks that have cost other cities millions of dollars, crippled operations, and compromised sensitive data.

The following sections discuss these issues in more detail.

OCA Consistently Provides a Very High Return on Investment

OCA's audits and investigations identify cost savings, efficiencies, and revenue improvements that far exceed OCA's cost. For example, just these limited, recent examples are expected to generate *ongoing* fiscal benefits that far exceed OCA's $6 million budget:

- SDPD estimates that overtime expenditures were reduced by $6.8 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 General Fund lease revenues beginning in July 2026.
- The Transportation Department has implemented several recommendations from our 2024 Performance Audit of Pothole Repairs, which will enable thousands of additional potholes to be fixed per year within existing budget.

- 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, unnecessary vehicle rental costs, and unsafe vehicles that could injure employes or residents and increase liability to the City.

OCA's Benefits to Residents and Taxpayers Also Include Increased Equity, Effectiveness, Transparency, and Accountability in City Government

While the direct fiscal benefits of OCA's work significantly exceed OCA's cost, we provide a variety of equally-important benefits that add to OCA's return on investment (ROI):

- **Improved equity:** For example, our audit of Equity in Recreation Programming identified several ways the City can help ensure more equitable access recreation opportunities, and our audit of Vehicle Towing found that the City should consider equity when setting vehicle towing policy.
- **Enhanced transparency:** For example, our audit of the City's Major Building Acquisitions made recommendations to ensure public disclosure of due diligence materials to improve transparency and decision making when making major real estate investments.
- **Increased effectiveness:** For example, our audits of Brush Management on City Property and Private Property identified several ways the City can more effectively reduce the risk of wildfires that have cost lives and caused billions of dollars in property damage in San Diego.
- **Ensuring Accountability:** OCA oversees the City's Fraud, Waste, and Abuse Hotline, which helps ensure accountability for inappropriate or unlawful activity by City employees and contractors. Our two investigators manage a caseload of approximately 275 allegations per year to help detect, respond to, and deter fraud, waste and abuse within City government.

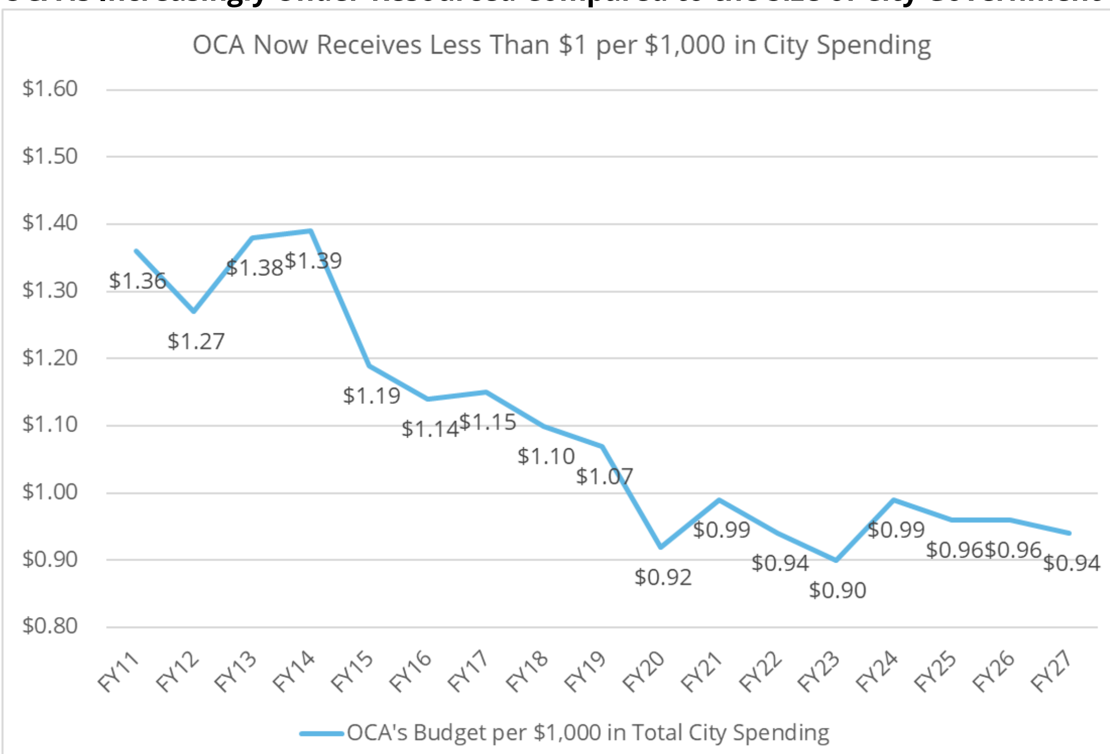
OCA's Budget Has Declined Relative to the City Budget, Reducing OCA's Ability to Provide Oversight

While OCA has a proven track record of helping to improve the efficiency, effectiveness, equity, and transparency of City operations, the City organization has grown significantly over the past 10+ years and OCA does not have the resources to keep pace. As a result, OCA's ability to provide sufficient audit and investigative coverage of City operations has declined over a number of years.

Exhibit 1 shows OCA's budget as a portion of the City's budget for FY2011 through FY2027. While OCA made up approximately $1.40 of every $1,000 the City spent in earlier years, this has declined to only $0.94 per $1,000 in City spending in FY2027. 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. Additional cuts have been proposed by the current and past Mayors (including in FY2027) that would have reduced OCA funding even further, but these cuts were reversed by the City Council during the budget process. We greatly appreciate the support we have received from the Audit Committee and City Council to help protect our budget.[1]

Exhibit 1

OCA is Increasingly Under-Resourced Compared to the Size of City Government



Source: OCA generated based on City budget data.

[1] Administrations have asked OCA to provide budget reductions in 8 of the last 12 fiscal years—FY2016, FY2018, FY2021, FY2022, FY2023, FY2024, FY2026, and FY2027.

By comparison, our recent benchmarking study of peer audit organizations showed that those entities comprise an average of $1.18 per $1,000 their respective organizations spend.[2; 3] In other words, peer audit shops are 26 percent larger, on average, than OCA as a portion of the organization they audit.

See **Attachment 1** for more information on audit shop benchmarking. 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.

Council President Pro Tem Lee's proposal sets minimum funding levels as a percentage of the last three years of General Fund revenues, as opposed to our benchmarking, which is based on total organizational spending. We have worked with the Office of the Independent Budget Analyst to convert our benchmarking to a percentage of General Fund revenues, and agree that gradually increasing OCA funding to 0.37 percent of General Fund revenues would bring our funding level to the peer average.

Stabilizing OCA Funding at a Level Comparable to Peer Audit Shops Would Yield Additional Benefits for Residents and Taxpayers

Because OCA's funding has declined relative to the size of the City and is currently only 94 cents of every $1,000 the City spends, we do not have the resources to provide appropriate audit and investigative coverage of City operations.

Stabilizing OCA funding and gradually increasing it to benchmark levels would avoid perpetual disputes about OCA funding, and would automatically adjust OCA funding to match growth in the organization we are Charter-mandated to audit and investigate. This will enable us to provide a variety of additional benefits to residents and taxpayers, including:

[2] 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.

[3] This is an update of benchmarking originally conducted in 2022. 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 than OCA is currently charged with. After adjusting for those factors, we determined that peer audit shops are budgeted at an average of $1.18 for every $1,000 their agencies spend—26 percent more than OCA is budgeted for in FY2027.

Increasing the efficiency, effectiveness, equity, and transparency of City operations: As described above, OCA audits identify both fiscal and non-fiscal benefits that far exceed what they cost. However, OCA does not have the resources to include many topics on our annual work plans that would have a positive ROI for the City.

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.

In FY2026, OCA received over 100 requests for audits from a variety of sources, including City Councilmembers, Audit Committee members, City Management, and the public. Due to our limited staffing, we were only able to include 8 of these audits on our FY2027 work plan. Adding audit staff would allow us to include other critical topics—such as Transportation Department overtime, short-term vacation rentals, and code enforcement for vacant commercial buildings—on our work plan and identify opportunities to improve efficiency, equity, and accountability of related City programs.

Improving OCA's ability to detect and deter fraud, waste, and abuse: OCA currently has only two Fraud Investigators managing a caseload of approximately 275 hotline reports per year (137.5 per investigator). By contrast, 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. Adding investigative staff would reduce the risk that serious issues remain unaddressed or delayed unnecessarily, and help ensure that employees and contractors are held accountable for misconduct as quickly as possible.

Reducing the risk of cybersecurity threats to the City and the public: 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. Adding IT audit staff would help identify and mitigate these types of cybersecurity risks before they materialize.

Conclusion

We appreciate Council President Pro Tem Lee's proposal to establish sufficient and stable funding for OCA, and the Rules Committee's consideration. As described above, protecting OCA funding and gradually increasing it to benchmark levels would have a variety of benefits for residents and taxpayers. Please contact me with any questions.

Respectfully submitted,

Andy Hanau, MPP, CIA, CFE

City Auditor

cc: Honorable Mayor Todd Gloria

Honorable Members of the Audit Committee

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

Attachment 1: OCA Benchmarking of Peer Audit Shops

OCA benchmarked the budgets of 14 peer audit shops. These shops were selected because they primarily conduct performance audits similar to OCA, and most have been recognized for excellence by the Association of Local Government Auditors as OCA has. The raw average of peer audit shop budgets as a percentage of their organization's total budget comes to $1.27 per $1,000, compared to OCA's current budget of $0.94 for every $1,000 their organizations spend. However, no two shops are the same, and some peer shops have responsibilities beyond OCA's work, and some have fewer responsibilities than OCA. When adjusting peer shops' budgets for these factors, the average peer shop budget is $1.18 per $1,000 their organization's spend—26 percent higher than OCA's current funding level.

City/Agency	City/Agency's Most Recently Adopted Budget	Audit Office Most Recently Adopted Budget	Adjusted Audit Office Budget[1]	Audit Office Budget Per $1,000 in Agency Spending
Denver[3]	$4,435,670,537	$16,196,607	$12,262,680	$2.76
SANDAG	$1,335,534,725	$2,463,556	$2,593,139	$1.94
Atlanta	$3,002,085,354	$3,908,991	$5,354,069	$1.78
Oakland[4]	$4,372,460,295	$7,162,704	$7,539,462	$1.72
Sacramento[4]	$1,675,000,000	$2,057,328	$2,165,543	$1.29
Long Beach[4]	$3,718,400,000	$4,240,637	$4,463,695	$1.20
San Francisco[4]	$16,234,417,626	$27,850,279	$17,295,970	$1.07
San Diego (OCA)[2]	**$6,474,542,690**	**$6,102,508**	**$6,102,508**	**$0.94**
Austin[4]	$6,344,246,000	$5,476,485	$5,764,548	$0.91
Dallas[3, 4]	$5,202,637,237	$3,449,793	$3,902,507	$0.75
Portland	$8,641,210,277	$14,185,501	$6,150,085	$0.71
San Jose[3]	$6,256,417,967	$3,935,541	$4,231,933	$0.68
King County[4]	$20,160,000,000	$7,492,000	$13,111,607	$0.65
Seattle[3, 4]	$8,950,522,000	$2,642,064	$5,035,987	$0.56
Chicago[4]	$18,668,568,460	$14,297,022	$10,289,590	$0.55

Notes:

[1] Peer benchmarked auditor office budgets comprise of $1.27 of every $1,000 in agency spending, on average. We found that several peer benchmarked auditor offices perform functions beyond those carried out by the San Diego Office of the City Auditor (OCA), such as administering prevailing wage compliance, serving as the City Clerk, or other functions. To ensure a fair comparison between OCA and peer jurisdictions, we included only the portion of each auditor offices' adopted budget that corresponds to audit functions comparable to those performed by OCA. Budget amounts associated with functions outside the scope of OCA's responsibilities were excluded. The budget figures presented in this column therefore reflect only the adopted budget amounts attributable to audit and investigative activities comparable to what OCA performs. For example, the City and County of Denver Office of the Auditor has a budget of approximately $16.2 million, and carries out performance auditing functions similar to OCA. However, the Denver City Auditor is also responsible for the City's prevailing wage ordinance, minimum wage ordinance and civil wage theft, so we excluded those functions from the budgeted amount we used for benchmarking. Additionally, some jurisdictions have auditing or hotline functions outside the jurisdiction's auditing office. For instance, Seattle's Office of Inspector General for Public Safety scope of work includes performance audits of the Seattle Police Departments. The budget for these additional auditing functions is incorporated into the Audit Office Budget, when applicable. Any

subsequent adjustments made as described in notes 2 and 3 below were applied to the audit specific budget amounts reflected in this column. This column also shows the calculated budget for benchmarked audit offices after including fraud hotline and ACFR adjustments, when applicable.

[2] The figures shown in the table are based on the City's and OCA's adopted FY2027 budget.

[3] Not all peer benchmarked audit offices manage a fraud hotline, which is 7.47 percent of OCA's budget. Therefore, peer benchmarked audit offices' budgets were adjusted by 7.47 percent, if the audit office did not manage a fraud hotline. Those audit organizations are: the City and County of Denver Office of the Auditor, Dallas Office of the City Auditor, San Jose Office of the City Auditor and Seattle Office of the City Auditor. The 7.47 percent adjustment reflects the portion of OCA's budget allocated to perform this function.

[4] The cost of the Annual Comprehensive Financial Report (ACFR) is 5.26 percent of the OCA's operating budget. Peer benchmarked auditor offices' budgets were adjusted by 5.26 percent if the audit office does not include the ACFR within their operating budgets. Those audit offices are: Austin Office of the City Auditor's Office, Chicago Office of the Inspector General, Dallas Office of the City Auditor, King County Auditor's Office, Long Beach City Auditor's Office, Oakland Office of the City Auditor, Sacramento Office of the City Auditor, City and County of San Francisco Office of the Controller's Office, and Seattle Office of the City Auditor. For jurisdictions where a fraud hotline adjustment was also applied, such as Dallas and Seattle, the 5.26 percent adjustment for the ACFR exclusion was applied to the adjusted budget amount.