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# Report to the Audit Committee

## ACTIVITIES AND ACCOMPLISHMENTS OF THE OFFICE OF THE CITY AUDITOR JANUARY 2017 THROUGH DECEMBER 2017

Office of the City  
Auditor

City of San Diego



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The Office of the City Auditor is an independent office that reports and is accountable to the Audit Committee and City Council. 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 San Diego City government. In many instances, implementation of our recommendations results in significant financial benefits to the City. In other cases, our recommendations aim to improve policies and procedures, increase transparency and oversight, and enhance the City's accountability to those it serves.

The City Auditor conducts performance audits of City departments, offices, and agencies in accordance with government auditing standards. We also administer the Fraud, Waste and Abuse Hotline and perform fraud investigations. For all of the issues identified during our audits and investigations, we have made recommendations for City management to implement to mitigate the problems found.

Below is a summary of accomplishments and highlights from some of our significant reports for calendar year 2017:

- **We completed 16 performance audits, one agreed-upon procedures review, and seven hotline investigations. These reports contained 102 recommendations to improve the economy, efficiency, and effectiveness of City operations.** The Administration agreed with **100 percent** of our recommendations. We also issued two recommendation follow-up reports to track and validate implementation. A complete listing of all the reports we issued during this period, with the number of recommendations made, can be found in **Appendix I**.
- ***Performance Audit of The San Diego Convention Center (SDCCC)*** – We found that the San Diego Tourism Authority (SDTA) contract includes limited measurable performance targets and lacks a robust corrective action clause. Since SDCCC pays SDTA with City funding, it is imperative that they monitor SDTA's performance by improving oversight of SDTA's services through strengthened performance measures and corrective action protocols. We also identified a large funding gap for Convention Center capital projects, and that the City and the Unified Port of San Diego should collaborate to address these capital needs. Lastly, we found that SDCCC could better manage and maximize the funding it receives from the City by updating its invoice payment authorization procedures to reflect appropriate practice and prioritizing capital needs when there is available City funding. We made six recommendations, and management agreed to implement all of them.
- ***Performance Audit of City Gas and Electric Utility Billing*** – Approximately \$51 million has been budgeted in Fiscal Year 2017 for gas and electric utilities expenses. We found that the City has not developed a sufficient internal control framework over gas and electric utility account management. The City does not have a program to provide assurance that the City is charged the lowest qualifying utility rate, and does not adequately evaluate the accuracy of utility invoices. Without a comprehensive control framework for reviewing gas and electric utility account information, the City misses opportunities to identify potential cost savings and SDG&E invoice errors. City management should establish a comprehensive control framework to ensure the City is not overpaying for gas and electric utility services. We made three recommendations and Management agreed to implement all of them.
- ***Performance Audit of The City's Management of Its Advisory Boards*** – We found several ways the City can improve its processes for identifying candidates and filling available Advisory Board positions, increasing Advisory Board transparency, promoting public awareness and participation in board activities, and monitoring Advisory Boards to ensure

they are operating efficiently and providing a valuable service. We found that over half of the 334 member positions on the City's active Advisory Boards were either vacant or filled by members serving on expired terms, and the City does not require all Advisory Board members to receive training on the Brown Act. We also found there is no a standard analysis of potential new boards, and many boards are not required to regularly report to the City Council. This increases the risk of overlap, inefficient organization, and other issues reoccurring. We made 14 recommendations and management agreed to implement all of them.

- ***Performance Audit of the City's Quality Management of Street Repaving Projects*** – The City hires a private contractor to perform street repairs known as asphalt overlay. A robust quality management process is needed to verify and maintain a desired level of quality. Under the City's quality management process, the contractor performs quality control activities while the City Laboratory and City Engineers verify these activities through inspections. Based on our review, we found that the City's quality management process does not require the contractor to have a well-defined quality control plan, the contractor and City Engineers are not required to record key activities related to the quality of work, and City Engineers' inspections are limited to observations when they are onsite. Without a requirement to record key quality activities, the City cannot ensure that street repaving meets specifications. Also, the lack of recorded information precludes evaluation of the City's quality control process. We made two recommendations and management agreed to implement both of them.
- ***Performance Audit of the Economic Development Department's Business Cooperation Program*** – Since the creation of the Business Cooperation Program (BCP) in 1996, Economic Development Department's (EDD) operation of the BCP has successfully captured more than \$3.9 million in net new sales and use tax revenue for the City. However, since peaking in the mid-2000s, program revenues have declined significantly. The City is in the midst of a construction boom, and the City has likely missed out on potentially hundreds of thousands to more than \$1 million in additional tax revenues. Instead, these revenues have been distributed to other taxing jurisdictions throughout San Diego County. We also found that EDD had not developed a sufficient internal control framework over the BCP because it lacked documented procedures, did not establish appropriate segregation of duties, and did not conduct supervisory review to verify payment accuracy. We made four recommendations to improve BCP revenues and improve internal controls over rebate payment processing, and management agreed to implement all of them.
- ***Fraud Hotline Investigations*** – We issued seven fraud hotline investigation reports and four status reports. One fraud investigation identified significant internal control weaknesses in the City's Transportation Alternatives Program (TAP) that resulted in overpayments, unreconciled cash collections, and contracting deficiencies. We made twelve recommendations to strengthen internal controls, to automate TAP's processes by implementing payroll deductions, and to recover underpayments or reimburse overpayments where appropriate. In another investigation we determined that Park and Recreation Department employees undercharged their coworkers over \$6,500 for permits. We reviewed 44 permits issued by 10 different employees and a majority of the permits were incorrectly calculated. We identified potential improvements that could improve the accuracy of future permit fee calculations. Also, one investigation found that a vendor made material false statements during the bidding process and submitted potentially-fraudulent documents to the City after the contract was awarded. We recommended the City initiate permanent debarment proceedings for this vendor, and for Purchasing and Contracting Department to develop risk-based document validation procedures.

## Leadership, Professional Development and Other Accomplishments

- In March 2017, the Association of Local Government Auditors completed our peer review and found that the Office of the City Auditor's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards, and no deficiencies were identified in our procedures.
- The Office implemented an automated workflow to help facilitate the Recommendation Follow-up process by sending notifications to departments when Target Implementation dates are nearing or have past. The system provides a means for the departments to update recommendation implementation status real time.
- The City Auditor served as a Local Representative to U.S. Comptroller General's Domestic Working Group and Local Government Representative to the Executive Board of the Western Intergovernmental Audit Forum.
- The City Auditor participated on a panel on organizational strategies and human capital issues related to cybersecurity at the National Intergovernmental Audit Forum.
- The Office is a member of the Association of Local Government Auditors and the Institute of Internal Auditors, and staff members participated in providing training at their sponsored events during 2017. In addition, a staff member participated in an ALGA peer review for the City of Seattle in November 2017.
- In March 2017, the Association of Local Government Auditors recognized our Performance Audit of the City's Programs Responsible for Pedestrian Safety with a Distinguished Knighton Award. This is the seventh consecutive ALGA award for our Office.
- The Office staff members were provided 841 hours of professional continuing education training to ensure professional competency. The training covered skills and information such as cybersecurity, Six Sigma for auditing, and Government Auditing Standards.

## Conclusion

The year covered by this report has been productive, challenging, and rewarding. I am very grateful to the Audit Committee and City Council for the support given to this Office. I am also very appreciative of Mayor Kevin Faulconer and his Administration's wonderful cooperation during this period. For the fourth year in a row, the Administration has agreed to implement 100 percent of all audit recommendations. I believe the Mayor and his staff should be commended for their continuous efforts to utilize the audit process to improve City operations.

Respectfully submitted,



Eduardo Luna  
City Auditor

## Appendix I: Summary of Work Performed – January 2017 through December 2017

Report No.	Date	Description	Recommendations to Improve the Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
17-013	1/18/2017	<a href="#">Performance Audit of The San Diego Convention Center</a>	6	6
17-014	1/31/2017	<a href="#">IT Audit of the City of San Diego's SAP Privileged User Access Management Process</a>	0	0
17-015	1/31/2017	Confidential IT Security Audit	5	5
17-016	3/7/2017	Confidential IT Security Audit	5	5
17-017	3/28/2017	<a href="#">Fraud Hotline Report of P-Card Abuse at the Department of Information Technology</a>	1	1
17-018	4/4/2017	<a href="#">Performance Audit of City Gas and Electric Utility Billing</a>	3	3
17-019	5/4/2017	<a href="#">Performance Audit of the Special Event Permit Application Process</a>	1	1
17-020	6/1/2017	<a href="#">Performance Audit of The City's Management of Its Advisory Boards</a>	14	14
17-021	6/12/2017	<a href="#">Hotline Investigation of Recreation Activity Permit Calculation Errors and Abuse</a>	5	5
17-022	6/26/2017	<a href="#">Hotline Investigation of a City Vendor</a>	4	4
18-001	7/13/2017	<a href="#">Performance Audit of the City's Quality Management of Street Repaving Projects</a>	2	2
18-002	8/31/2017	<a href="#">Audit of Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2016</a>	2	2
18-003	9/8/2017	<a href="#">Agreed-Upon Procedures Related to the Central Stores Physical Inventory - Fiscal Year 2017</a>	0	0

City Auditor's Activities and Accomplishments Report for January 2017 - December 2017

Report No.	Date	Description	Recommendations to Improve the Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
18-004	9/19/2017	<a href="#">Performance Audit of the La Jolla Children's Pool Lifeguard Station</a>	3	3
18-005	9/20/2017	Confidential IT Security Audit	7	7
18-006	9/25/2017	<a href="#">Hotline Investigation of Charitable Activities Conducted on City Time</a>	1	1
18-007	9/26/2017	<a href="#">Performance Audit of the Economic Development Department's Business Cooperation Program</a>	4	4
18-008	10/12/2017	Confidential IT Security Audit	6	6
18-009	10/12/2017	<a href="#">Performance Audit of the Park and Recreation Department's Maintenance Operations</a>	4	4
18-010	10/19/2017	<a href="#">Performance Audit of the Communications Department's Charges for Services to Enterprise Funds</a>	2	2
18-011	10/20/2017	<a href="#">Performance Audit of Grant Management</a>	5	5
18-012	12/4/2017	<a href="#">Hotline Investigation of an Information Technology Contract</a>	6	6
18-013	12/22/2017	<a href="#">Fraud Hotline Investigation Report of Waste in the Transportation Alternatives Program</a>	12	12
18-014	12/28/2017	<a href="#">Fraud Hotline Investigation of Water Theft</a>	4	4
		Total	102	102