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# Report to the Audit Committee

## ACTIVITIES AND ACCOMPLISHMENTS OF THE OFFICE OF THE CITY AUDITOR JANUARY 2018 THROUGH DECEMBER 2018

Office of the City  
Auditor

City of San Diego



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## OFFICE OVERVIEW

The Office of the City Auditor (OCA) 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. OCA identifies opportunities for improvement in City programs, and implementation of our recommendations has resulted in significant financial benefits to the City; substantial improvements in the delivery of critical City services; and has increased the City's oversight, transparency, and accountability to those it serves.

For example, in CY 2018 OCA made recommendations that, when implemented, will:

- Improve equity in the distribution of economic development incentives, and help ensure that incentives are only provided to qualifying businesses that will provide significant benefits to the City;
- Improve efficiency and generate revenues to close an approximately \$500 million funding gap (at the time of our audit) in the Storm Water Division, which currently threatens the City's ability to adequately maintain infrastructure and meet water quality requirements;
- Help ensure that residents are accurately billed for the water they use;
- Improve efficiency, productivity, and oversight of the Water Meter Cover Replacement Program, allowing the City to respond to customer requests from box and lid replacement requests more quickly; and
- Improve oversight of major IT system implementations, which will help the City avoid major cost overruns and project delays.

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.

## OFFICE OF THE CITY AUDITOR CY 2018 ACCOMPLISHMENTS

Below is a summary of accomplishments and highlights from some of our significant reports for calendar year 2018:

- **We completed 16 performance audits, one agreed-upon procedures review, and six hotline investigations. These 23 reports contained 88 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 Economic Development Department's Business and Industry**

**Incentives Program** – We found that significant improvements in outreach, tracking, and evaluation are needed to ensure that BII incentives are distributed appropriately and equitably. Specifically, we found:

- Although one of the program's goals is to incentivize businesses in older developments and underserved communities, very few businesses in these areas received BII incentives between FY 2011 and FY 2016. A more robust outreach program is needed to advertise the incentives available through the BII and ensure program benefits are more equitably distributed across the City.
- EDD has not maintained adequate records of businesses that have requested incentives through the BII, or of the incentives that were provided. As a result, EDD was unable to produce a complete list of businesses that benefitted from the BII program and the incentives they received, and the information that was provided was frequently unreliable.
- EDD collects minimal information from most businesses requesting BII incentives and does not perform complete document analysis justifying why BII incentives are granted. As a result, EDD could not demonstrate that incentives were justified, and, in several cases, we found businesses that were assisted provided questionable economic benefits to the City and may not have qualified.
- EDD does not require agreements outlining benefits the City should realize from the vast majority of business that receive incentives, even when the business receives incentives of substantial value. Furthermore, EDD has not established performance measures for the BII, does not require most beneficiaries to provide any information such as capital investments or jobs created after the incentive is provided, and does not conduct any monitoring to evaluate the overall effectiveness of the BII.
- Council Policy 900-12, which governs the BII, has not been updated since 2001. As a result, the incentives offered by the program are outdated and do not align with the City's current economic development goals and industry trends.

We made a total of 10 recommendations to address the issues identified above.

**Performance Audit of the Storm Water Division** – We conducted a performance audit focusing on opportunities to improve storm water asset management, to increase storm water revenues, and to enhance the efficiency of storm water code enforcement case management, monitoring, and reporting. We had three findings:

- **Finding 1:** *To More Quickly and Efficiently Replace Corrugated Metal Pipes, Storm Water Division (SWD) Should Complete a Detailed Analysis to Further Support Its Plans to Optimize the Size of Its In-House Pipe Repair Crew*

Failure to adequately fund maintenance of the City's storm drain system in years past has resulted in a very large storm water infrastructure backlog, which has caused an increase in public liability costs and costly emergency repairs. While SWD has recently implemented

cost-saving measures, such as establishing an in-house crew to conduct some repairs in lieu of using a contractor, we found some limitations to SWD's ability to maximize the benefits of these efforts. Specifically, without conducting a detailed analysis to determine the optimal size of the in-house crew, SWD may continue to over-rely on more costly contracted repairs.

- **Finding 2:** *Storm Water Funding is Insufficient to Fund Current and Future Storm Water Needs and the City Has Not Taken Action to Develop and Pursue a Long-Term Funding Strategy*

While SWD can cut costs by improving maintenance efficiency and continuing to refine the methods it uses to meet water quality requirements, the current gap between SWD's revenues and funding needs is so large that it cannot be closed through efficiencies alone. In just the next five years, SWD needs to spend approximately \$891 million to fully fund infrastructure and water quality needs. However, SWD has only identified \$433 million in available funding, leaving a shortage of \$459 million. This shortage will fuel additional deferred maintenance and potential underfunding of water quality requirements. Although this severe and growing storm water funding shortage has been well-documented, City officials have not taken sufficient action to inform the public or increase storm water revenues in over 20 years.

- **Finding 3:** *A New Tracking System and Re-Inspection Fees Will Improve the Efficiency and Effectiveness of Storm Water Enforcement Efforts*

SWD's current tracking system for its code enforcement activities does not have sufficient capabilities to facilitate efficient case management, monitoring, and reporting. Additionally, SWD does not issue re-inspection fees to help recover excessive inspection costs and compel compliance more quickly.

We made nine recommendations to address the issues identified above.

**[Performance Audit of the City's Financial Condition](#)** – The City of San Diego's financial health is subject of continuous scrutiny by the public, news media, and policy makers. For most City residents, independently assessing the City's financial health is a daunting task requiring detailed analysis of the City's Comprehensive Annual Financial Reports and Fiscal Year Budgets. These documents can be technical, lengthy, and not particularly designed for public consumption. Financial analysis through the use of financial ratios can be used to draw meaning and thus give a voice to financial statements.

In an attempt to objectively assess and report the City of San Diego's financial condition, we used a well-regarded 10-point test presented by Dean Mead in *Public Financial Management* (2006). This test is comprised of ten financial ratios designed to assess performance in four areas: financial position, revenues, debt, and capital assets. The test includes both short-term and long-term aspects of financial well-being and relies on audited financial data published in cities' Comprehensive Annual Financial Reports. To give the ratios context, ratios are tracked for multiple years (FY 2007–FY 2016 in our test), and compared to other cities similar in population (Philadelphia, PA; Phoenix, AZ; San Antonio, TX; Dallas, TX; San Jose, CA; and Austin, TX in our test).

The City of San Diego's financial ratios overall indicate consistent positive financial health from FY 2012 through FY 2016. The City's financial condition has been among the best for the last 10 years when compared to six other cities with comparable populations. Overall, the City ranked either 1st or 2nd for each of the years tested.

While the ten-year trend from FY 2007 to 2016 is positive for all the City's financial ratios, we identified some short-term changes that management should consider monitoring more closely. These include:

- Ratio 2 – Liquidity was consistently above the average for benchmark cities from FY 2009 through FY2015. However, liquidity dropped from close to 4.0 in FY14 and FY15 to 3.2 in FY16 (higher is better). The decline was due to a \$40 million reduction in cash & investments combined with a \$10 million increase in accrued wages;
- Ratio 4 – Solvency, while strong compared to benchmark cities, it has risen from 1.42 in FY 2014 to 1.88 in FY 2016 (lower is better). This increase is mainly due to the pension liability now being included in the financial statements. Other cities are experiencing an even larger impact due to this change in financial reporting;
- Ratio 10 – Net Change in Capital Assets Value is now trending in a positive direction over the ten-year review period, but it remains as the City's lowest ranking metric. One-time spikes due to the addition of large capital projects can be anticipated, but long-term under-performance in this metric can be an indication that the City is under investing in its infrastructure when compared with other cities.

Financial decisions can only be as sound as the information upon which they are based. Therefore, a government's financial condition must be continually monitored and regularly evaluated to help ensure the City's decisions are fully informed and financially responsible. Financial ratio analysis should raise questions that seek to explain the differences between cities and evaluate the reasons for change over time. The discussion of financial ratios can lead to meaningful answers for policy-makers and stakeholders.

***[Citywide Human Capital Fact Book](#)*** – The objective of the Citywide Human Capital Fact Book report was to provide an informative, educational overview of the City's workforce across a variety of dimensions, including the number of workers, their ethnic and gender diversity, and employee recruitment, development, retention, compensation, and satisfaction. The exhibits throughout the Fact Book represent a diagnostic assessment of the City's human capital across a range of dimensions, such as demographics, employee satisfaction, retention patterns, compensation, management opinions, etc. Using the research conducted for the Fact Book, OCA has identified a series of high-risk areas for review in future audits, including City employee pay equity and pay competitiveness, employee discipline and incentives, and employee satisfaction.

***[Performance Audit of The Public Utilities Department's Water Billing Operations](#)*** – We conducted a performance audit of the Public Utilities Department's (PUD) customer billing operations. In response to resident concerns about increasing water bills and requests by City Council President Pro Tem Barbara Bry and Mayor Kevin Faulconer, we: 1) assessed whether PUD had internal controls that detect errors in the billing system; 2) evaluated how the meter reading and meter install processes

impacted customer billing; and 3) evaluated if PUD's response to the Citywide billing issue was timely and appropriate.

The City of San Diego's Public Utilities Department (PUD) delivers treated water to more than 1.3 million customers in the cities of San Diego, Del Mar, and the California American Water Company, which serves the cities of Coronado and Imperial Beach. To meet the costs associated with providing water service to its customers, PUD generates revenue primarily from water sales to customers. Customer complaints about increases in water bills garnered public attention in January 2018. In news reports, customers complained of high water bills with some customer charges exceeding \$1,000 and other charges more than doubling average costs. Complaints spanned various geographical areas.

We found that there were multi-causal factors that contributed to bill increases, including a one-time extended billing cycle from 60 to 70 days and meter reading inconsistencies. We found that generally PUD obtains accurate meter readings and bills customers correctly. However, there were exceptions for a small proportion of customer billings.

Potential factors that led to inaccurate meter readings include human error, meter read estimations, a lack of management oversight and meter read performance metrics, and meter readers not entering trouble codes that would help to identify meter issues in the field that need resolution.

We also found that the extended billing cycle did place customers in higher usage tiers. Because of the extra days in the billing cycle, customers averaged higher water use during the billing period. However, PUD prorated the charges based on per day use. By prorating the charges, customers paid earlier for what they would have used in the next billing cycle.

Lastly, we found that did not communicate bill-impacting activities with customers in advance. Advanced communication would have allowed customers to plan for bill increases and lessened some of the confusion regarding their water bills. PUD also did not provide timely access to customer service representatives with a customer-first approach which exacerbated public outcries.

We made ten recommendations to address the issues identified above.

**[Performance Audit of the Public Utilities Department's Water Meter Cover Replacement Program](#)** – The Public Utilities Department (PUD) owns and is responsible for approximately 281,500 water meters – and accompanying covers (boxes and lids) throughout the City of San Diego (City). Quickly addressing box and lid maintenance issues is essential to meet customer expectations, reduce the City's liability for trip and fall injuries, protect water metering infrastructure, and enhance the appearance of the City's public right-of-way. We found that although PUD has a goal of addressing box and lid maintenance issues within six months after they are reported, this goal is rarely met. In FY 2017, only 25 percent of box and lid replacements were completed within PUD's six-month goal. Lids took approximately 321 days (11 months) to replace, while boxes took significantly longer, at an average of 630 days (1.7 years).

We found that PUD's delayed response to box and lid maintenance issues resulted from a lack of management oversight and accountability; a variety of process inefficiencies; and inadequate strategic planning. Specifically:

- PUD has not ensured adequate oversight and accountability for Box and Lids Group staff - crews spend an average of only 3.6 hours in the field per workday, and complete far fewer box and lid replacements than could be reasonably expected;
- Trips to repair box and lid issues are frequently wasted because issues are not correctly diagnosed or sufficiently communicated by other PUD crews;
- PUD's legacy service request system did not have sufficient controls to prevent duplicate service requests;
- Service requests are often grouped inefficiently, leading crews to spend an excessive amount of time driving between work locations; and
- PUD has not adjusted staffing levels to compensate for increased box and lid workload generated by the AMI implementation project.

We made 11 recommendations to address the issues identified above.

***Performance Audit of Development Services' Accela Permitting System Implementation*** – We found DSD and City management bypassed fundamental steps early in the implementation to speed up the process, which resulted in an over-reliance on the PTS system's architect as the project manager and technical lead and compounded previously identified issues with a poorly documented home-grown system. This over-reliance has resulted in a prolonged system implementation, which initially had insufficient department involvement by users during the creation of the Accela blueprints. The implementation sustained further delays when the project manager with the institutional knowledge retired prior to completing the most complicated portions of the blueprints. Shortly after, the Accela project manager also left the project, causing additional delays. We identified weaknesses in the implementation governance that has significantly increased the cost and implementation timeline for replacing the existing system because the Department of Information Technology does not have the proper authority to enforce IT governance best practices and ensure department's follow best practices in compliance with procurement and implementation requirements.

We made four recommendations to address the issues identified above.

***Fraud Hotline Investigations*** – We issued six fraud hotline investigation reports and four status reports. One fraud investigation identified two employees were improperly using Disabled Person Placards to park in Disabled Persons' Parking spaces at a City-owned facility. We recommended management perform a Fact Finding and take the appropriate corrective action with respect to the identified employees. We also recommended City management evaluate employees' use of Disabled Persons parking spaces at City facilities to determine if there should be a policy to deter fraud, save Law Enforcement resources, and identify the need for Disabled Persons' parking spaces.

Another investigation reviewed potential weaknesses in the City's payroll procedures related to jury duty that could allow employees to receive compensation for service that was never performed. We identified an employee who received two weeks' salary for jury duty that apparently was not performed. We also identified a risk that City employees may be performing jury duty service more



frequently than required by the state and federal courts. We identified 137 employees who performed jury duty service more frequently than required by the courts, which is equivalent in hours to one year of full-time work that may not have been necessary and a potential waste of City time. We recommended management perform a Fact Finding into the employee identified and take appropriate corrective action. We also recommended that management consider whether City employees should serve the minimum frequency of jury duty required, to provide training to payroll staff regarding jury duty service document requirements, and update instructions related to jury duty reporting procedures and requirements.

In addition, we conducted an investigation into City Youth Sports League Referee Background Checks and determined that the Parks and Recreation Department does not perform criminal background checks for a City-sponsored youth sport's referees. We recommended that future contracts include background checks to better protect the City from liability. City management agreed to implement the recommendations from all six of our fraud hotline investigation reports.

### **Leadership, Professional Development and Other Accomplishments**

- The City Auditor, prior to his departure in September 2018, 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 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 2018, along with the Western Intergovernmental Audit Forum regional conference in San Diego.
- The Office staff members were provided 905 hours of professional continuing education training to ensure professional competency, and to meet Government Auditing Standards educational requirements. Additionally, we had staff members obtain certifications during 2018. One staff member earned his Certified Internal Auditor certification and another staff member earned her Certified Information Systems Auditor certification.

## Conclusion

The year covered by this report has been productive, challenging, and rewarding. Our office was subjected to construction and we were eventually evacuated from our office because airborne asbestos was detected. We were displaced for several months with audit staff scattered in various locations. I am extremely proud of my staff for working through all the disruption to carry on and have a productive year. We issued 23 reports that contained 88 recommendations to improve the economy, efficiency, and effectiveness of City Operations.

Since the inception of the City Auditor's Office approximately ten years ago through December 2018, we have issued 225 reports with 1,105 recommendations. As of June 30, 2018, management has implemented 889 of these recommendations, while 67 recommendations were not implemented because management disagreed with the recommendations or they were deemed no longer applicable. As of December 31, 2018, there were 149 open recommendations that still need to be implemented.

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 cooperation during this period. For the fifth 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,



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Kyle Elser  
Interim City Auditor

cc: Honorable Mayor Kevin Faulconer  
Honorable Members of the City Council  
Kris Mitchell, Chief Operating Officer  
Stacey LoMedico, Assistant Chief Operating Officer  
Ron Villa, Acting Assistant Chief Operating Officer  
Rolando Charvel, Chief Financial Officer  
Andrea Tevlin, Independent Budget Analyst  
Mara Elliott, City Attorney

## Appendix I: Summary of Work Performed – January 2018 through December 2018

Report No.	Date	Description	Recommendations to Improve the Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
18-015	1/16/2018	<a href="#">Performance Audit of the Economic Development Department's Business and Industry Incentives Program</a>	10	10
18-016	2/6/2018	<a href="#">Hotline Investigation of Attempted Theft of City-Provided Clothing</a>	1	1
18-017	3/29/2018	<a href="#">Fraud Hotline Investigation of City Youth Sports League Referee Background Checks</a>	1	1
18-018	5/16/2018	<a href="#">Fraud Hotline Investigation of Disabled Person Placard Fraud</a>	3	3
18-019	5/21/2018	<a href="#">Fraud Hotline Investigation of Water Theft and Theft of Cleaning Supplies</a>	1	1
18-020	6/5/2018	CONFIDENTIAL IT Security Audit	6	6
18-021	6/5/2018	CONFIDENTIAL Memo	3	3
18-022	6/5/2018	<a href="#">Performance Audit of Development Impact Fees</a>	0	0
18-023	6/14/2018	<a href="#">Performance Audit of the Storm Water Division</a>	9	9
18-024	6/18/2018	<a href="#">Performance Audit of the City's Financial Condition</a>	0	0
19-001	7/9/2018	<a href="#">Citywide Human Capital Fact Book</a>	0	0
19-002	7/23/2018	<a href="#">Performance Audit of the Real Estate Assets Department's Portfolio Management Practices</a>	4	4
19-003	7/26/2018	<a href="#">Performance Audit of The Public Utilities Department's Water Billing Operations</a>	10	10
19-004	8/30/2018	<a href="#">Audit of Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2017</a>	0	0

City Auditor's Activities and Accomplishments Report for January 2018 - December 2018

Report No.	Date	Description	Recommendations to Improve the Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
19-005	8/30/2018	<a href="#">Performance Audit of the Public Utilities Department's Water Meter Cover Replacement Program</a>	11	11
19-006	9/4/2018	<a href="#">Agreed-Upon Procedures Related to the Central Stores Physical Inventory - Fiscal Year 2018</a>	2	2
19-007	9/27/2018	<a href="#">Performance Audit of the Fleet Operations' Vehicle Acquisition Process</a>	6	6
19-008	9/28/2018	<a href="#">Hotline Report of Jury Duty Service Fraud</a>	4	4
19-009	9/28/2018	<a href="#">Hotline Report of a Mishandled Payroll Check</a>	2	2
19-010	11/16/2018	<a href="#">Performance Audit of the City's Annual Employee Compensation Reports</a>	2	2
19-011	11/16/2018	<a href="#">Performance Audit of Development Services' Accela Permitting System Implementation</a>	4	4
19-012	12/10/2018	CONFIDENTIAL IT Security Audit	4	4
19-013	12/13/2018	<a href="#">Performance Audit of Community Planning Groups</a>	5	5
		<b>Total</b>	<b>88</b>	<b>88</b>