
Report to the Audit Committee

ACTIVITIES AND ACCOMPLISHMENTS OF THE OFFICE OF THE CITY AUDITOR - JANUARY 2020 THROUGH DECEMBER 2020

**Office of the City
Auditor**

City of San Diego



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OFFICE OVERVIEW & MISSION

The Office of the City Auditor (OCA) is an independent office that reports to and is accountable to the Audit Committee and City Council. OCA's 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 OCA's recommendations has resulted in significant financial benefits to the City; substantial improvements in the delivery of critical City services; increased oversight of City programs; and has increased the City's transparency and accountability to those it serves.

OCA conducts performance audits of City departments, offices, and agencies in accordance with government auditing standards. OCA also administers the Fraud, Waste, and Abuse Hotline and performs fraud investigations. OCA makes recommendations to City Management to mitigate issues identified in our audits and investigations.

Some common issues our audits have found include:

- Insufficient strategic planning to facilitate efficient and effective execution of City initiatives and mitigate risks;
- Lack of communication and meaningful information-sharing between departments;
- Lack of data analytics to make informed decisions or to determine the root cause of issues;
- Insufficient oversight, monitoring, and reporting to governing bodies, such as the City Council and Council Committees; and
- Lack of policies and procedures.

OFFICE OF THE CITY AUDITOR CY 2020 ACCOMPLISHMENTS

OCA persevered through the challenges posed by the COVID-19 public health emergency and had a very productive year. Below is a summary of accomplishments for calendar year (CY) 2020:

- **We issued 16 reports containing 117 recommendations to improve the economy, efficiency, and effectiveness of City operations, including:**
 - **14 performance audit reports;**
 - **1 agreed-upon procedures review; and**
 - **1 hotline investigation report.**
- A complete listing of all reports issued during this period, with the number of recommendations made and links to the public reports, can be found in the **Summary of Work Performed** table below. Summaries of the most significant reports we issued can be found in **Appendix A**.
- City Management agreed or partially agreed with **97 percent** of our recommendations.
- We issued **2 recommendation follow-up reports** to track and validate implementation. During our recommendation follow-up process, we followed up on approximately 200 outstanding audit recommendations.
- **OCA Fraud Investigators managed 234 reports that were filed with the Fraud, Waste, and Abuse Hotline.** We determined 82 of these reports were not within the purview of the Fraud Hotline since they did not relate to the City and they were referred to other agencies when possible and closed. We assigned 28 of the 152 new reports received during the year to be investigated by the OCA's two Fraud Investigators, and the remaining 124 were referred to City departments for investigation and resolution.
 - **A total of 164 reports were closed during the year: 20 were substantiated, 23 resulted in corrective action, and 121 were determined to be unsubstantiated or closed with no further action necessary.**

In CY 2020, OCA made recommendations that, when implemented, will help:

- Improve the administration of the Development Services Department's deposit accounts for development projects to **reduce deficit accounts balances that totaled \$4.6 million as of July 2019**;
- Improve the City's **planning, coordination, oversight**, and **outreach** to better address homelessness;
- Strengthen the City's **human capital management** by:
 - Adopting a more **data-driven approach** to monitor and communicate core metrics of the City's workforce, such as compensation and turnover;
 - **Respond strategically** to workforce needs; and
 - Enhance **incentive and accountability controls**;
- Develop a proactive Enterprise Risk Management approach to effectively **reduce public liability costs** that totaled \$220 million from FY 2010 to FY 2018, and **mitigate risks** to the City's major strategic initiatives;
- Ensure that the Public Utilities Department's Industrial Wastewater Control Program's **costs are tracked, fees are regularly reviewed and updated, billing is timely**, and cost recovery practices **comply with City regulations and state law**;
- **Improve the efficiency of Street Sweeping operations** by using data to effectively monitor and make timely adjustments to route priorities and sweeping frequencies;
- Enable the San Diego Police Department to **better use its existing data** to evaluate and improve its operations, **improve the completeness of the data** reported by officers, and **improve its process for accepting citizen complaints**;
- Improve the Purchasing and Contracting Department's Small Local Business Enterprise Program's design and oversight to **increase diversity in contract awards and promote small business development**; and
- **Formalize the City's Data Management Program** to improve data classification and security, and improve controls to identify, track, and monitor use of legacy IT systems and prioritize their replacement.

Summary of Work Performed – January 2020 through December 2020

Report No.	Date	Description	Recommendations to Improve the Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
20-008	2/7/2020	Performance Audit of Development Services Department Administration of Deposit Accounts for Development Projects	10	10
20-009	2/12/2020	Performance Audit of the City's Efforts to Address Homelessness	12	12
20-010	4/13/2020	Hotline Investigation of Gifts Received by a City Employee	4	4
20-011	4/23/2020	Performance Audit of Strategic Human Capital Management	14	11
20-012	5/29/2020	Performance Audit of Mission Bay and San Diego Regional Parks Improvement Funds, Fiscal Year 2019	0	0
20-013	5/29/2020	IT Performance Audit of Citywide Data Classification and Sensitive Data Encryption	5	5
20-014	5/29/2020	IT Performance Audit of Citywide Data Classification and Sensitive Data Encryption (Confidential)	3	3
20-015	6/11/2020	Performance Audit of the City's Public Liability Management	9	9
21-001	7/15/2020	Follow-Up Performance Audit of the Public Utilities Department's Industrial Wastewater Control Program	9	9
21-002	9/14/2020	Agreed-Upon Procedures Related to the Central Stores Physical Inventory - Fiscal Year 2020	2	2
21-003	9/22/2020	Performance Audit of the Transportation and Stormwater	4	4

City Auditor's Activities and Accomplishments Report for January 2020 - December 2020

Report No.	Date	Description	Recommendations to Improve the Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
		Department's Street Sweeping Section		
21-004	9/28/2020	Performance Audit of San Diego Police Department's Data Analysis	9	9
21-005	11/24/2020	Performance Audit of the Purchasing and Contracting Department's Small Local Business Enterprise Program	12	12
21-006	11/25/2020	Performance Audit of Strategic Human Capital Management II: Employee Performance Management	11	11
21-007	12/23/2020	IT Performance Audit of Legacy Applications	11	11
21-008	12/23/2020	IT Performance Audit of Legacy Applications (Confidential)	2	2
		Total	117	114

LEADERSHIP, PROFESSIONAL DEVELOPMENT AND OTHER ACCOMPLISHMENTS

- **Andy Hanau was appointed** as the City of San Diego's 2nd independent City Auditor in November 2020.
- **Multiple OCA staff members responded to the City's request for assistance in its efforts to house and care for homeless individuals** at the Convention Center during the onset of the Covid-19 pandemic. In total OCA staff members contributed 490 hours to this effort.
- OCA quickly **transitioned to near-total remote work functionality** and continued to generate substantive findings and recommendations for both fraud hotline reports and performance audits.
- OCA carried out an **internal employee satisfaction survey** and incorporated feedback and suggestions from staff.
- OCA continues its **active membership** in the Association of Local Government Auditors (ALGA), the Institute of Internal Auditors (IIA), and the Association of Certified Fraud Examiners (ACFE).
 - **OCA's Senior Fraud Investigator serves as President to the ACFE's San Diego Chapter**, which provides continuing professional education (CPE) programs and seminars and network opportunities with professionals in related fields.
- Office staff members earned **over 1,000 hours of CPE credits** via development training to ensure professional competency, and to meet Government Auditing Standards educational requirements.
- An OCA staff member earned their **Certified Fraud Examiner (CFE) certification** and an OCA staff member earned their **Certificate in Copyediting** from UCSD Extension.
- **OCA staff presented** at the City's Finance Academy **and provided content** for new employee orientation sessions **regarding the role of OCA** within the City, including the audit process and the City Auditor's Fraud, Waste, and Abuse Hotline.
- An OCA staff member led a team of auditors from other jurisdictions on an **ALGA Peer Review** for the King County Auditor's Office in Washington.

CONCLUSION

The year covered by this report has been productive, challenging, and rewarding. We issued 16 reports that contained 117 recommendations to improve the economy, efficiency, and effectiveness of City operations.

Since the inception of the City Auditor's Office over eleven years ago through December 2020, we have issued 255 public and confidential reports with 1,288 recommendations. As of June 30, 2020, City Management has implemented 1,012 of these recommendations, while 89 recommendations were not implemented because City Management disagreed with the recommendations or they were deemed no longer applicable. As of December 31, 2020, there were 247 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 City Management's cooperation and assistance during this period. City Management continued to provide information needed for our audits and investigations despite the challenges posed by the pandemic, and agreed or partially agreed to implement 97 percent of all audit recommendations in 2020. I believe City Management and City staff should be commended for their continuous efforts to utilize the audit process to improve City operations.

Respectfully submitted,



Andy Hanau
City Auditor

cc: Honorable Mayor Todd Gloria
Honorable Members of the City Council
Honorable City Attorney Mara Elliott
Jay Goldstone, Chief Operating Officer
Matthew Vespi, Chief Financial Officer
Matthew Helm, Chief Compliance Officer
Andrea Tevlin, Independent Budget Analyst

Appendix A: Summary of the Most Significant Reports Issued in CY 2020

[Performance Audit of the Development Services Department's Administration of Deposit Accounts for Development Projects](#)

– Our audit objective for this project was to determine the efficiency and effectiveness of the Development Services Department's (DSD) billing process for these deposit accounts. Specifically, our objective was to determine if deposit accounts have sufficient project accounting and reconciliation procedures and to determine if the deposit accounts are closed in a timely manner with any outstanding dollar amounts collected by DSD.

DSD requires some customers to set up a deposit account to recover costs for development projects with unpredictable costs. Customers make initial and subsequent deposits to maintain a minimum required balance (MRB) to pay for ongoing project costs. If accounts go into deficit, City staff must stop working on projects to prevent extending City credit. DSD has over 4,000 individual deposit accounts which can be for discretionary or ministerial projects.

We found that DSD does not follow its own policy in setting the MRB for ministerial and discretionary projects with deposit accounts. We reviewed the MRB amounts in July 2019 for all DSD's 4,012 deposit accounts and found that 61 percent of the deposit accounts for ministerial and discretionary projects had an MRB of \$0. Accurately setting and enforcing the MRB is essential to ensure that projects have enough money to cover ongoing project expenses incurred by City staff who review projects. DSD management views the use of discretion as a necessary aspect of providing good customer service. As a result, deposit accounts frequently fall into deficit and City staff continue working on projects with deficit account balances, despite the requirement to stop working on projects with deficit balances. The use of discretion creates inequity between what customers pay, with some paying more than others for the same level of service. We also found that DSD does not effectively identify and pursue money owed to the City because it has not established an efficient and effective process to do so. As of July 2019, there were 1,384 deposit accounts with deficit balances totaling \$4.6 million. Although \$3 million had been invoiced and remained outstanding, we identified another \$1.4 million that should be invoiced immediately.

We made 11 recommendations to improve the administration of deposit accounts. For setting the MRB, we recommended they include policy and procedure revision and clarification, staff training, and implementation of automated controls. For monitoring and invoicing of deficit accounts, we recommended establishing review and invoicing procedures,

direct invoicing of deposit accounts and immediate invoicing of past due accounts. We also recommended implementing procedures and controls for stopping work on projects with deficit balances.

Performance Audit of the City's Efforts to Address Homelessness – Our audit objectives were to evaluate the City's strategic planning efforts to address homelessness, including its organizational structure, outreach efforts, and use of alternative or interim housing solutions and short-term measures.

We found that although the City has made significant efforts to address homelessness in recent years, until recently, the City had been operating without a strategic plan or specific goals to guide its actions. Recognizing the need for a more strategic approach, the City Council adopted a new Strategic Plan on Homelessness in October 2019. We commended the City for adopting the new Strategic Plan on Homelessness, but we found that the City needed to take several additional actions to ensure that staffing levels, coordination, funding, and performance monitoring are sufficient to successfully implement the plan.

Although the City's homeless outreach efforts had recently improved and continue to evolve, we found the City lacked a comprehensive outreach strategy, there was no regional system in place to take the lead on homeless outreach, and the region lacked the capacity and resources to implement a comprehensive outreach program. The City also lacked a sufficient number of non-law enforcement outreach personnel to provide person-centered outreach effectively on a large scale. In addition, the City's data collection and sharing related to the reasons for refusing outreach workers' offers of service had not been formalized, and the City was not utilizing that information to drive operational improvements.

To enhance the efficiency of both homeless outreach and the encampment abatement process, it is in the best interest of the City to take advantage of all opportunities to conduct effective outreach during contacts with homeless individuals, including during homeless encampment abatements.

However, in practice, the City's pursuit of its various goals and responsibilities can conflict with its goals directly related to homelessness. For example, the City's encampment abatement process focused on removing waste and preserving public order and safety, but did not include sufficient coordination with outreach workers, and the outreach provided during an abatement did not always reach each individual affected by the abatement or connect each individual to shelter or services. If the City does not conduct effective outreach when abating encampments where individuals are found to be present, homeless individuals

may relocate to another location that may later also require abatement—thereby sometimes resulting in a repetitive and costly cycle of abatement and inefficient use of City resources. Furthermore, frequent displacement without effective outreach may impact homeless individuals' ability to successfully resolve their homelessness and does not support the Homelessness Strategies Division's goal of broadening access to resources and addressing the needs of people experiencing homelessness.

We made 12 recommendations to address the issues we identified. The key recommendations were that the City should:

- Develop a strategy to fund the identified needs in the Strategic Plan, and ensure staffing resources and coordination are sufficient to implement the plan;
- Monitor and report on progress to ensure accountability, transparency, and effectiveness, and periodically reassess the Strategic Plan to adapt to a changing environment;
- Develop a comprehensive outreach strategy, direct and train all City-funded outreach workers to ensure outreach is coordinated and conducted in line with best practices, and ensure resources are sufficient to allow for persistent, person-centered outreach;
- Formalize the collection, analysis, and sharing of data on reasons for refusal of service when outreach is offered; and
- Develop an encampment abatement protocol that allows for persistent, person-centered outreach to be conducted by non-law enforcement outreach workers far enough in advance of encampment abatement to allow sufficient time for relationship building and connection to shelter and services, whenever possible.

[Hotline Investigation of Gifts Received by a City Employee](#) - On September 30, 2015, the Office of the City Auditor received a Fraud Hotline Report alleging fraud by a City employee. The case was referred to law enforcement for additional investigation, and on March 11, 2019, we reopened the case after obtaining documents related to that investigation. Prior to that date, the information contained in the law enforcement documents could not be disclosed to City management. The law enforcement investigations were ultimately closed without criminal charges. The information contained in the law enforcement documents relates to undisclosed gifts to a City employee from contractors the employee managed.

Our investigation determined that an employee accepted gifts from vendors who did business with the City and did not disclose the gifts on annual SEI disclosures until the gifts were revealed in the investigation. In some of the years, the gifts exceeded the legal limit as

set forth in the California Code of Regulations. In addition, the employee failed to disclose all the gifts received on their SEIs, and they under-reported the value of the gifts by over \$1,600.

We made recommendations designed to hold the employee and the vendors responsible and to improve City operations. We recommended the Chief Operating Officer:

- Present a revision of the San Diego Municipal Code to the City Council to include Classified employees who file Statement of Economic Interests under the jurisdiction of the Ethics Commission for both education and enforcement purposes;
- Review the details from our Confidential report, conduct an independent investigation, and take the appropriate corrective action with respect to any identified City employees; and
- Consider permanent debarment for Vendor A and Vendor B for lack of business integrity.

Performance Audit of the City's Strategic Human Capital Management – Our audit objective was to evaluate the City's efforts to collect, monitor, and analyze the reasons for employee separation trends and compensation competitiveness issues, with ongoing future audit work examining issues of employee performance. Utilizing the City's workforce data to proactively monitor and respond to workforce trends is a best practice in the field of human resources and is referred to as Strategic Human Capital Management.

We found that widespread uncompetitive compensation posed a growing short- and long-term risk to the City's ability to maintain and attract a high-quality workforce for providing public services, and had likely contributed to several negative effects on the City workforce and public services, including:

- Increased recruitment and retention challenges;
- Damage to the City's brand as an employer;
- Employee dissatisfaction; and
- Increased risk of fraud, waste, and abuse.

We also found that the City's overall monitoring and reporting of workforce data could be substantially improved. For example, the City had not comprehensively tracked or analyzed overall turnover rates, voluntary turnover ("quits") rates, job classifications with the highest turnover or quits rates, and recruiting trends.

The Special Salary Adjustment process is a control for addressing compensation competitiveness, recruitment, and retention issues; however, its methodology leads to undercounting of turnover, and the process for identifying positions at risk is inefficient and strategically erratic.

While the SSA process is strategically intentioned, its effectiveness is limited by several methodological and process issues. For example, the methodology undercounts true turnover because many separating employees are excluded. As a result, the Personnel Department's turnover calculations could not be benchmarked with other organizations, and stakeholders such as HR and employee labor groups stated an inability to replicate Personnel's calculated turnover calculations.

Further, by waiting on operational departments or employee labor groups to identify at-risk positions, the City may have been under-identifying or mis-identifying job areas facing recruitment and retention challenges.

We made 14 recommendations to mitigate some of the issues outlined in the report and ensure the City can support and strengthen its workforce—while planning for fiscal sustainability and high-quality public services. Key recommendations included:

- Developing a Compensation Strategy;
- Expanding relatively low-cost solutions that employees still highly value, such as increasing flex work opportunities;
- Requiring HR and Personnel to jointly present an annual workforce report to City leaders and the public; identifying key City positions facing challenges related to recruitment, retention, and other metrics;
- Ensuring that information related to compensation increases for employees is put into comparative context and made publicly available; and
- Ensuring accurate calculations of turnover and quits rates which conform with standard methodology employed by the U.S. Bureau of Labor Statistics.

[Performance Audit of the City's Public Liability Management](#) - Our audit focused on the City's approach to public liability identification, mitigation, and corrective action. The overall objectives of this audit were to:

1. Determine whether the City is administering risk management and corrective actions efficiently and effectively to include:

- a. Whether the City is utilizing risk management and internal control best practices to cost effectively decrease annual claims against the City;
- b. Whether the Risk Management Department is presenting City departments sufficient information regarding City liabilities to allow departments to design adequate risk management strategies; and
- c. Whether the Risk Management Department adequately coordinates with City departments to identify, record, implement, and monitor corrective actions to reduce potential liabilities.

We found that while some departments had taken an effective approach to proactively avoid the realization of risk events, the City's public liability risk mitigation efforts were largely decentralized and siloed within individual City departments, resulting in a lack of coordination and information-sharing and inconsistent and reactive risk mitigation processes for public liabilities. To determine whether the City's decentralized approach was effective at minimizing its public liabilities, we reviewed trip and fall and City vehicle accident claims in more detail. Specifically, we found:

- The City did not sufficiently prioritize sidewalk defect repairs in high pedestrian usage areas where future trip and fall liabilities were most likely to occur; and
- The City's vehicle accident risk mitigation efforts could include additional proactive vehicle trainings tailored specifically to operational departments and provided to all City vehicle drivers on a consistent basis.

We found the City did not systematically and consistently identify, assess, and develop mitigations for risks to the City's strategic objectives. The absence of a robust and proactive risk management framework likely resulted in unnecessarily high-risk exposure, such as inefficiencies, failure to achieve strategic goals, and higher costs.

We made nine recommendations to address the issues outlined in the report and ensure the City is reducing its strategic and operational risk exposure as well as minimizing the number of public liability claims and costs. Key recommendations included:

- Designating an executive position to serve as the City's ERM manager, and providing this official and the City's Risk Oversight Committee with sufficient authority and resources to implement and lead an enterprise-wide risk management framework;
- Requiring operational departments to complete risk assessments on an annual basis and regularly review and adjust risk mitigation plans as needed;
- Documenting and implementing a procedure to prioritize sidewalk repairs in high pedestrian usage areas;

- Expanding the availability of proactive driver training that is customized based on each department's most common causes of vehicle accidents, and the types of vehicles involved;
- Developing a dashboard to provide City departments with comprehensive and department-specific claims data on-demand; and
- Recording and tracking public liability-related corrective actions in a manner that is accessible to City departments and personnel.

[Follow-Up Performance Audit of the Public Utilities Department's Industrial Wastewater](#)

[Control Program](#) – Our overall objectives of this audit were to review the implementation status of our 2013 recommendations and publicly report on the issues we had identified in 2013 through both our public audit and our confidential audit memorandum.

While the Public Utilities Department (PUD) has made some progress, the issues we identified in 2013 remain largely unaddressed. Many fees have still not been adjusted since 1984, and program cost recovery remains very low. For example, while program costs totaled approximately \$38.8 million between FY 2010 and FY 2019, only about \$5.5 million (14 percent) was recovered through program fees charged to regulated businesses. The remaining \$33.3 million (86 percent) of program costs were passed on to other wastewater customers, including residential and commercial customers, via wastewater rates.

These cost recovery practices remain out of compliance with City regulations and policies. More seriously, the possibility remains that, by passing on most program costs to other wastewater customers, the City is not complying with Proposition 218. We also identified an additional concern with Proposition 218 compliance that is created by complexities in PUD's wastewater accounting and its agreement with Participating Agencies. Specifically, due to these complexities, the \$33.3 million needed to subsidize IWCP between FY 2010 and FY 2019 came exclusively from City of San Diego wastewater customers, even though IWCP serves the larger metro area, including 12 Participating Agencies.

While Proposition 218 does not necessarily require full cost recovery, PUD does need to thoroughly analyze the benefits of IWCP and allocate costs equitably between IWCP permittees and other wastewater customers. There are clearly benefits to the average customer—such as avoiding secondary treatment at the Point Loma wastewater treatment facility, which PUD estimated would cost ratepayers almost \$2 billion. However, PUD needs to analyze and quantify these benefits and then seek City Council approval for updated fees, which PUD has not historically done. According to PUD, this analysis is currently in process.

Even though PUD implemented our 2013 recommendation to recover costs that went unbilled between FY 2008 and FY 2012, we found that, since FY 2017, PUD again failed to bill many IWCP permittees outside the City. As in 2013, we found this was largely due to overly-complex and labor-intensive billing processes and a breakdown in billing oversight. PUD management stated that adopting a standardized billing process for all program fees, regardless of jurisdiction, was ultimately their goal. However, according to PUD management, this is something that would need to be negotiated as part of updated agreements with Participating Agencies. In addition, PUD must still propose updated program fees to the City Council for approval. Therefore, implementing a single billing procedure will likely take place further in the future.

We made a total of nine recommendations to correct the issues we identified, which are similar to the public and confidential recommendations we made in 2013. Specifically, we recommended that PUD:

- Document procedures to track IWCP costs and revenues;
- Complete the current IWCP fee study, consult with the City Attorney's Office to develop a fee proposal that is in compliance with City regulations, policies, and state law, and present the proposal to the City Council for approval;
- Document policies and procedures for periodically reviewing and updating IWCP fees moving forward;
- Consolidate and simplify the billing process for IWCP fees; and
- Seek recovery of IWCP fees that went unbilled since FY 2017.

[Performance Audit of the Transportation and Stormwater Department's Street Sweeping Section](#) – Although Street Sweeping had a comprehensive data collection process, it did not use data to analyze operations. Without data evaluation, Street Sweeping's ability to track and monitor the effectiveness of operations and make process improvements was limited. The inability to make timely adjustments to components such as sweeping priorities, frequencies, and posted routes limits Street Sweeping's potential to reduce, to the greatest extent possible, the amount of pollutants entering the City's waterways.

Without data analysis, we found that some routes with relatively high amounts of debris were swept less frequently than optimal, while at the same time, other routes with relatively low amounts of debris were swept at a higher than optimal frequency. This likely reduced the total amount of street sweeping debris collected. We also found that route priorities and sweeping frequencies should align with debris volume criteria and watershed pollutant

priorities in accordance with best practices. Moreover, Street Sweeping should consider selectively adding posted routes to maximize the effectiveness of these routes. Lastly, Street Sweeping had not updated its street sweeping program in five years.

We found that Street Sweeping's key performance indicator (KPI)—annual miles swept—did not reflect the effectiveness at achieving its purpose—removing debris and sediment from City's streets. Additionally, Street Sweeping should adjust its KPI goal to a more realistic target because it had not met this goal for the last four years. Furthermore, Street Sweeping would benefit from additional annual performance measures, such as total debris collected, and percent of miles completed. These performance measures reinforce best practices: concentrating on routes with the highest levels of debris.

To address the issues mentioned above, we made four recommendations:

- Develop a periodic report to capture data necessary to analyze operations.
- Develop a process to review route frequencies to determine if route sweeping priorities need adjusting based on management analysis of debris collection data and motor sweeper operator input of results. Conduct a trend analysis, at a minimum, with each permit cycle, beginning in FY 2022.
- Request budget approval to selectively add posted routes and make other improvements identified, after completing the assessment in FY 2021.
- Create a target for planned annual miles swept (excluding special sweeps and anticipated operational limitations) and track annual miles swept as well as percent of miles completed. Add a Key Performance Indicator for annual debris volume collected.

[Performance Audit of the Purchasing and Contracting Department's Small Local Business Enterprise Program](#) –

Our audit objectives were to determine if the Small Local Business Enterprise (SLBE) program was achieving the economic benefits described in policy, determine if the cost of contracting with SLBEs was captured and weighed against the economic benefits and determine if the annual reports were an accurate and complete representation of SLBE program objectives and results.

The SLBE program sets out specific economic benefits in its objectives: enhancing competition, building new business capacity, and removing barriers to the use of available minority-owned and women-owned businesses in City contracting. To meet these objectives, the program provides preference in contracting to City-certified SLBE businesses. To ensure the program is effective at meeting its objectives, program policies require City management

to conduct regular evaluations of the program using availability and utilization data to determine if any program changes are needed to better meet the objectives.

We found that the SLBE program's performance monitoring and reporting on its performance was insufficient. We analyzed the program's performance and found that it had been stagnant over time and the benefits of the program primarily went to a handful of the City's certified small, local businesses. While the City awarded approximately \$62 million to SLBEs in FY 2019, the SLBE program had not shown to be an effective mechanism to eliminate disparities in the award of City contracts, as the vast majority of SLBE contracts went to Caucasian-owned SLBEs and male-owned SLBEs. In addition, funds awarded to women-owned and minority-owned SLBEs had largely decreased or remained stagnant from FY 2015 to FY 2019.

The City spends at least an estimated \$2.2 million on the program annually, but policy and legal constraints on the program's design, lack of oversight, and underutilization of available tools to accomplish program objectives have limited the program's economic benefits. To help the program meet its objectives, we recommended revisiting the program design, restructuring oversight, improving monitoring of program performance, and developing a business outreach plan in conjunction with program stakeholders to reach a more diverse pool of business and expand the program.

In addition to increasing the number and diversity of firms that benefit from the SLBE program, the effectiveness of the program also requires maximizing the program's participation rate, which is the percentage of total contract dollars awarded to SLBEs. However, we found ways in which the implementation of the program likely limited the dollars awarded to SLBEs below their potential. Specifically, we found:

- The City awarded more dollars in goods and services contracts than any other type of contract, totaling more than \$300 million in FY 2019. However, the SLBE program does not have any specific goals or requirements for the percentage of goods and services contract dollars that go to SLBEs, and does not include goods and services contracts when reporting the program's participation rate for SLBEs. We found that only 2.2 percent of City goods and services contract funds went to SLBEs in FY 2019, significantly reducing the overall program participation rate.
- For construction contracts, the SLBE program established specific requirements for the percentage of each contract that should go to SLBEs. However, the program capped these required percentages well below the apparent availability of many types of SLBE firms in the region, and the caps had not increased since 2011.

As a result, we found that only 12 percent of City contract dollars were awarded to SLBEs. To increase the program participation rate, we recommended setting performance goals for goods and services contracts, collecting more SLBE program information on goods and service contractors, and documenting the basis for SLBE subcontracting goals in construction contracts.

City management, oversight bodies, and the public need reliable and relevant data to make informed decisions and evaluate the program's performance in achieving key objectives. To that end, City Council Policy and the San Diego Municipal Code require the Mayor to annually report the impact and costs of the SLBE program to the City Council. Program policies also commit the City to "regularly evaluating the progress of the program using accumulated availability and utilization data to determine specific program provisions that require modification, expansion, and/or curtailment." However, we found that the Business Diversity Annual Reports from the Purchasing and Contracting Department and the Equal Opportunity Contracting Program (annual reports) to City Council did not provide sufficient information on the SLBE program for City Council to judge the efficacy of the program. Specifically, the annual reports did not include information that would allow City Council to understand basic elements of program performance, such as whether or not the program had achieved its stated objectives and what the program costs the City. Key information was missing from the annual reports, such as the diversity of available SLBE owners or program-specific data over broad time horizons. In addition, much of the data presented in the report did not have clear and consistent methodologies and errors in the report indicated a lack of quality control.

We made a total of 12 recommendations to improve the structure, oversight, monitoring, and transparency of the program to help the program better meet its objectives.

[Performance Audit of Strategic Human Capital Management II: Employee Performance](#)

Management – Our audit objectives were to evaluate the extent and use of several internal controls around efforts to monitor and address employee performance issues.

Employee performance can affect an organization in multiple ways. Particularly in complex, team-based environments, if an organization does not effectively identify and address poor performance or misconduct issues, it may have a demoralizing effect on other employees, as well as ultimate impacts on serving the customer or the public. Additionally, employee appreciation and recognition can help engage employees and drive them to continue commendable performance.

The City should ensure all employees receive required performance evaluations to recognize and reward high performers as well as identify and address poor performance. We found that while most employees in the City appeared to receive timely EPRs, there were opportunities for ensuring higher completion rates among classified employees in particular. Overall, we found that an average of 1 out of every 5 classified City employees did not receive an EPR in an average year during the FY 2016 to FY 2020 period. On a more granular level, EPR completion rates varied considerably across City departments, with some departments having EPR completion rates of 100 percent, and other departments having EPR completion rates closer to 60 percent and below.

The City utilizes multiple ways to recognize and reward commendable performance among employees, but utilization of the Rewards and Recognition Program varied widely among departments and its effect on employee satisfaction and retention was unclear. We found the City utilized multiple ways to recognize and reward commendable performance among employees, including robust utilization of public recognition and promotions among the existing workforce. Additionally, while Administrative Regulation 95.91 encouraged participation in the City's supplementary Rewards and Recognition (R&R) program as a means of retaining high-performing employees, staff we spoke with in HR did not know how widely it was used across the City, how participation had changed over time, or what workforce effects the program may have had, if any.

We found that while overall participation in the R&R program had been increasing, participation appeared to be largely left up to individual departments, which used the program to widely varying degrees. In addition, the R&R program's effect on employee satisfaction and retention was unclear.

The Human Resources Department should strengthen its abilities to more strategically monitor aggregated discipline trends and issues within the City's workforce. We found that HR had made efforts to track discipline but did not maintain accurate data on the number of disciplinary actions or appeals of disciplinary action. A strategic approach to the City's discipline management can help identify trends and trouble spots in an organization's workforce. For example, identifying trends of whether total discipline cases are going up and down, skew more towards performance issues or misconduct, or are clustered in certain parts of the workforce.

Opportunities exist for the City to reform some elements of its disciplinary processes and discipline-related training for City supervisors. We found that the City has multiple internal control processes and procedures related to discipline and employee performance; however,

actual utilization rates were low for several of these controls, including probationary periods, Supplemental EPRs, and discharges.

For example, we found that from FY 2016 to FY 2020, for most positions in the City aside from Police recruits and Fire recruits, the probationary pass rate was close to 100 percent. We also found that unrepresented employees were about twice as likely to be discharged as represented employees, although the annual rates were less than 1 percent for both groups. Nevertheless, this was similar to other government data we found.

Low usage of disciplinary tools may be due in part to a high-quality workforce, and the City does a commendable job overall in recognizing and rewarding high performers. However, the low utilization rates of the controls above, and opportunities for further training requirements, availability, and guidance, raise the possibility that at least some poor performance issues may go unaddressed. Short of overhauling representation/civil service protections or adopting a different philosophical approach, City supervisors may benefit from additional training on the City's discipline policies and processes to ensure that any performance issues are addressed appropriately.

We made 11 recommendations to mitigate some of these effects and strengthen the City's capabilities to have an engaged workforce providing high-quality public services. Key recommendations included:

- Reporting Employee Performance Review completion rates among departments in the City's annual workforce report;
- Reviewing and monitoring the Rewards and Recognition Program for conformance with limits on cash awards and D/L awards, as well as the extent of program participation;
- Strengthening the City's ability to more strategically monitor aggregate discipline trends—such as discipline cases or issues over time; and
- Requiring HR and Personnel to develop a plan for actions the City can take to better utilize mechanisms such as the probationary period, if/as appropriate, as well as continuing their efforts to expand training requirements, availability, and guidance to supervising employees.