



## THE CITY OF SAN DIEGO

DATE: November 3, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Status of Implementation of Audit Recommendations for Centre City Development Corporation**

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On July 10, 2009, our office issued a performance audit report of the Centre City Development Corporation (CCDC) with 24 recommendations. This memo provides an update of the implementation status of audit recommendations by CCDC.

The Office of the City Auditor issues semiannual Recommendation Follow-up reports reporting the implementation status on all open audit recommendations. These regular reports reflect status updates as of June 30<sup>th</sup> and December 31<sup>st</sup>. Each reporting period, the City Comptroller provides the City Auditor with a report of recommendations deemed implemented. Audit staff requests supporting evidence from auditees to support the implemented status. Based on auditor evaluation of the evidence, we report these recommendations as implemented, partly implemented, or not implemented. In cases where supporting evidence is not provided by our deadline, we report those recommendations as not implemented.

At the October 11<sup>th</sup> Audit Committee, we presented our second Recommendation Follow-Up Report based on the City Comptroller's July 2, 2010 report. We requested supporting evidence from auditees and set a deadline of August 24, 2010. While CCDC reported 16 recommendations as implemented in the City Comptroller's report, CCDC did not provide supporting evidence until September 2, 2010. As a result, we reported CCDC recommendations as not implemented.

The Audit Committee requested that CCDC come back in November with an update to the recommendation status of open recommendations. To assist the Audit Committee, we reviewed information submitted by CCDC on September 2, 2010 to determine the implementation status of all recommendations reported as implemented or in process.

Our review of CCDC evidence indicates that the status of implementation for all recommendations is as follows:

- 18 recommendations – **Implemented**
- 6 recommendations – **Partly Implemented**
- 0 recommendations – **Not Implemented**

Attachment A to this memo provides a breakdown of status updates for CCDC recommendations and includes CCDC's estimated completion dates for recommendations that are in progress.

Respectfully submitted,

A handwritten signature in cursive script that reads "Eduardo Luna". The signature is written in black ink and is positioned above a thin horizontal line.

Eduardo Luna  
City Auditor

**Attachment A**

**10-OA-001     PERFORMANCE AUDIT OF THE CENTRE CITY  
DEVELOPMENT CORPORATION (CCDC)**

# 1.1     **Implement a strategic plan linking redevelopment goals with achievements and organizational performance. This should include goals that are specific, measurable, attainable, reliable, and time-bound as a method of demonstrating whether CCDC efforts are achieving stated goals. Additional performance measures could relate to:**

- **Leveraging Private Resources**
- **Employment & Job Creation**
- **Data related to the Design Review/Permitting Function**
- **Delivery Cost Ratio & Timeliness/Budget on Public Improvements**
- **Program/Administrative Budget Comparison**

**Implemented**                      Incorporated as part of updates to the By-Laws and operating agreements which were adopted by the City Council and CCDC.

# 1.2     **Develop a strategy to ensure that the proportion of affordable units to market-rate units does not fall below the 15 percent threshold mandated by California Community Redevelopment Law.**

**Implemented**                      CCDC reports summary affordable housing statistics and provides an annual update of affordable housing activities in downtown. It also tracks completed residential projects as part of its budgeting process. CCDC reports that the current ratio of affordable units to market units is 19%.

# 1.3     **Work with appropriate officials within the City and Agency to determine the feasibility and appropriateness of exploring the introduction of new revenue streams, such as a cost-recovery model for the design review process and imposition of additional Development Impact Fees (DIF).**

**Partly Implemented**              CCDC has hired a consulting firm to assist in the analysis of a cost-recovery model for the design review process. The firm completed its study, and CCDC staff is currently conducting outreach to affected stakeholders, and will present its findings to the CCDC Board when completed. **(Target Date: April 2011)**

# 1.4 **Assess and define CCDC's role in promoting economic development and social service delivery through redevelopment efforts. This could include realigning CCDC's service delivery framework to encourage additional activities that are commonly associated with redevelopment, including providing policy guidance regarding the inclusion of economic development and social service activities commonly employed by other successful redevelopment agencies. Examples include, but are not limited to:**

- **Facilitating the development of employment-oriented facilities, such as small business incubators, which provide low-cost opportunities for small businesses and other San Diego-based start-up companies;**
- **Incorporating covenants within development agreements whereby Agency financial assistance is contingent on the provision of services that advance the economic development goals of San Diego, such as creating a balance of employment and housing opportunities; and/or,**
- **Leveraging TIF resource with other funding streams, including grant funding through the United States Department of Housing and Urban Development, to encourage or facilitate additional economic development, blight mitigation, and social service activities.**

**Partly Implemented** CCDC is in the process of hiring a consultant to assist the corporation in establishing a comprehensive economic development strategy for downtown. Additionally, staff has sought approval of the CCDC Board to negotiate to acquire a parcel for business incubator space. **(Target Date:** To be determined)

# 2.1 **Develop a comprehensive set of policies and procedures to provide guidance and increase internal controls over procurement, contracting, use of on-call agreements, accounts payable, payroll, and fiscal operations, and clarify roles and responsibilities of staff involved.**

**Partly Implemented** Staff presented a tentative schedule for updating policies to the CCDC Audit Committee. Staff also submitted revisions to the Contracting and Purchasing Policy to the CCDC Audit Committee in June 2010. **(Target Date:** November 2010)

# 2.2 **Train staff on established procedures to ensure both staff and management share the same expectations.**

**Partly Implemented**

Staff committed to training employees on updated policies in a report to the CCDC Audit Committee outlining the timeframe for updating policies. Additionally, the new Bylaws require that CCDC staff and board members receive training on policies, ethics, governance, and fiduciary duties. (**Target Date:** June 2011)

# 2.3 **Ensure adequate competition is sought where feasible and practical, and document key decisions surrounding contract awards to provide transparency and assurance that the contractor selected provides the best good or service at the most competitive price. This includes ensuring proposals are solicited from all on-call firms.**

**Implemented**

Contracting oversight was taken out of the direct control of the department working with consultants and the oversight vested in the Finance Department. An Audit Committee was also established, and now reviews the basic terms of every contract including the selection process, contract amount, and last time the contract was publicly bid. CCDC has also recreated an internal database to track requests for quotes/proposals to ensure competition is sought on a regular basis for the reoccurring contracts.

# 2.4 **Closely monitor trial balance detail and contract activity to identify instances where contract splitting may occur or where competitive procurement may be beneficial, identify vendors that receive multiple payments totaling greater than or equal to current policy thresholds, and determine if a formal agreement should be generated.**

**Implemented**

Oversight for contracts has been assigned to the CCDC Finance Department which is monitoring for contract splitting. Furthermore, a review of all contracts is now being performed by the CCDC Audit Committee.

# 2.5 **Provide closer oversight and monitoring of contracting practices to ensure management and CCDC's Board is aware of all contracting activities. As part of this:**

- **Work with staff to ensure contract information is accurately reported to CCDC's Board.**
- **Develop a process to track and monitor an inventory of contracts, which should include elements such as the vendor name, the initial and amended contract amounts, number of amendments, date executed and expiration or termination date, goods/services provided.**

**Implemented**

CCDC's Audit Committee now reviews the basic terms of every contract including the selection process, contract amount, and last time the contract was publicly bid. CCDC has also created a database to track current contracts.

# 2.6 **Ensure that invoices are well supported, comport with established agreements, and are thoroughly reviewed prior to approving payment.**

**Implemented**

CCDC reports that its Accounting Department reviews the invoices for accuracy, compliance with contract terms, verifies that the amounts are within the contract limits, and that appropriate back-up is supplied for the services listed on the invoice. Invoices are then forwarded to a project manager and the department vice president for review and approval.

# 2.7 **Require that changes in the scope of work on professional service contracts and in the specifications on construction contracts are formally memorialized in appropriately approved and executed amendments or change orders at the time the change is agreed upon.**

**Implemented**

CCDC has established a new process wherein any changes in a contract scope or individuals that are added to the fee schedule must be approved by the Executive Vice President/CFO. Any change orders to construction contracts must be approved by a series of individuals and presented to the CCDC Audit Committee.

# 2.8 **Create record retention protocols that clearly define the types of records that should be maintained, and for how long to support awarding decisions and to assure sufficient transparency. Document retention policies should require maintenance of key documents for a minimum of three years after the termination of the contract, and should require the inclusion of the following key documents, such as:**

- **The rationale for the method of procurement—RFP, RFQ, Sole-source;**
- **Selection of contract type—on-call vs. project or task specific;**
- **Reasons for contractor selection or rejection, including interview panel score sheets and rankings;**
- **The basis for the contract price;**
- **The complete contract, contract amendments and changes orders, with rationale for changes in work and contract amount;**
- **Important correspondence;**
- **Invoices, payment documentation, and budget-to-actual reports; and,**
- **Contract close-out and deliverables.**

**Partly Implemented**      The new By-Laws and Operating Agreement require CCDC to establish a record retention policy. Development of a new policy is in progress. (**Target Date:** November 2010)

# 2.9 **Consider developing a contract close-out procedure and/or checklist to better ensure necessary information is memorialized. Information could include:**

- **Contract start and end date;**
- **Expected completion date;**
- **Initial contract amount;**
- **Total change orders or amendments;**
- **Total expenditures;**
- **Deliverable schedules and deliverables; and,**
- **Key decisions surrounding change in scope.**

**Partly Implemented**      CCDC has created a new position of Contracts Manager and expects to fill it in September 2010. The Contracts Manager will be responsible for developing a contract close-out procedure. (**Target Date:** January 2011)

# 2.10 **Segregate incompatible roles within the procurement, contracting, accounts payable and payroll processes—such as the contract administrator from the project manager.**

**Implemented**

CCDC reports that certain roles have been separated, while other functions cannot be separated due to the small size of staff. However, compensating checks and balances have been developed to ensure proper internal controls.

# 2.11 **Develop system access profiles to limit employee access to only those functions required to perform daily duties, and segregate access to incompatible high-risk transactions. This includes providing independent oversight to ensure activity within the MAS90 system is monitored.**

**Implemented**

CCDC has segregated duties between the Accounting and Information Technology (IT) departments. Accounting no longer has the ability to create, modify, or delete users and access profiles. These functions have been transferred to the IT Department, which cannot process transactions.

# 2.12 **Establish exit and position change protocols to ensure the removal of employee access upon their departure and review user access when an employee changes positions to limit access to unnecessary functions.**

**Implemented**

CCDC has created check lists to be utilized by the Human Resources and Information Technology departments for processing employee changes during hiring, terminations, or position changes. The checklists include items such as network access and computer program access.



# 2.13 **Strengthen controls to prevent and detect potential conflicts of interest and to further promote a “tone-at-the-top” that discourages even the appearance of wrongdoing.**

- **Establish a policy prohibiting the receipt of gifts and gratuities of a material value from those doing business with or seeking to do business with CCDC, particularly in cases where employees have a direct working relationship with the contractors.**
- **Review statements of economic interest to identify potential conflicts that may arise, including reviews prior to assigning an employee to a project or selection panel.**
- **Consider requiring conflict of interest affirmation statements from employees prior to participating on evaluation panels.**

**Implemented**

The CCDC Board has adopted a no gift policy and has updated CCDC’s Conflict of Interest Code. All Fair Political Practices Commission Form 700 filers are required to submit their Form 700 to Human Resources, which reviews, audits, and files the form with the City Clerk.

# 2.14 **Strengthen controls over the recording of assets upon receipt, monitoring, and management of assets. This includes:**

- **Conducting an inventory of assets every one to three years to ensure all assets are accounted for and the asset listings are updated regularly to reflect current assets.**
- **Storing sensitive, portable, and pilferable equipment in a secure location.**
- **Reviewing CCDC’s equipment inventory to identify equipment no longer in use and salvage stale equipment.**

**Implemented**

CCDC completed a full inventory of all assets in 2009 and has updated the records accordingly. CCDC will complete a full inventory at least annually before the end of each fiscal year. Additionally, CCDC has developed a database for tracking fixed assets. Fixed assets will be tagged and placed into inventory as they are received and removed from the inventory listing when disposed. Sensitive and portable equipment are controlled by an Information Technology Specialist and are documented as items are checked in and out for use.

- # 3.1 **Continue implementation of the newly established Audit Committee with the purpose of providing oversight of CCDC's internal business practices and ensuring that CCDC complies with Board policies.**

**Implemented** The Audit Committee has been meeting monthly since May 2009, and the CCDC Board adopted an Audit Committee charter in April 2010.

- # 3.2 **Require CCDC management to account for specific successes or reaching specific goals on a consistent basis by devising periodic performance reports to be approved by the CCDC Board and submitted to the Agency on at least an annual basis.**

**Implemented** CCDC is including specific goals in the annual work plan in its annual budget, as well as reporting on the prior year's work plan results.

- # 3.3 **Memorialize a formal line of succession of authority to supervise, manage and direct the business operations of CCDC to a full-time CCDC employee, not a Board member, in the event the position of the president is vacated.**

**Implemented** The new By-Laws and Operating Agreement designate the CFO as the Executive Vice President in the event that the position of the president is vacant.

- # 3.4 **Require CCDC to implement an adequate system of internal controls to protect Agency assets, and establish an oversight mechanism that requires CCDC to:**

- **Certify annually to its Board and to the Agency that it has established adequate internal controls over key business processes, including activities related to procurement, accounts payable, payroll, fixed assets, etc. As part of this certification, CCDC should attest as to its compliance with established, formalized policies and procedures regarding each of these areas.**
- **Undergo periodic audits, at least every three years that extend beyond the scope of CCDC's annual financial audits to assess the performance of CCDC and its internal control structure.**

**Implemented** These recommendations have been incorporated with the new By-Laws and Operating Agreement.

# 3.5 **Update the operating agreement to:**

- **Provide increased specificity and updated provisions regarding the allowability of corporation expenditures.**
- **Require CCDC to periodically report on its performance and goal-attainment at least on an annual basis.**
- **Better reflect the role of the Executive Director of the Agency, specifically addressing CCDC's obligations and reporting relationship to the Executive Director.**

**Implemented**

These recommendations have been incorporated with the new By-Laws and Operating Agreement.

# 3.6 **Consider establishing a contract administrator dedicated, at least in part, to overseeing CCDC's activities as a whole to provide more cohesive oversight—in addition to existing practices requiring various agencies (Comptroller, Independent Budget Analyst, Redevelopment Division, Real Estate Asset Division, etc.) to review select CCDC records for their own purposes.**

**Implemented**

Oversight with appropriate controls has been incorporated into the By-Laws and Operating Agreement. For example, the Mayor now has direct control over hiring and firing the CCDC President.