City of San Diego

AUDIT REPORT

PERFORMANCE AUDIT OF THE CENTRE CITY DEVELOPMENT CORPORATION

July 10, 2009

Office of the City Auditor
Eduardo Luna, CIA, CGFM, City Auditor

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THE CITY OF SAN DIEGO

July 10, 2009

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Enclosed is the Performance Audit of the Centre City Development Corporation (CCDC) conducted by Sjoberg Evashenk Consulting Inc. The report contains 24 recommendations for improving CCDC's operations and strengthening City oversight. CCDC's and City management's written responses are attached to the report at pages 85 and 92 respectively. A rebuttal prepared by Sjoberg Evashenk to CCDC's written response can be found at page 88.

We would like to thank the CCDC staff, as well as representatives from other City departments for their assistance and cooperation during this audit.

Respectfully submitted,

Eduardo Luna

Eduardo Luna
City Auditor

cc: Fredric S. Maas, Chairman of the Board and CEO, CCDC
Frank Alessi, Vice President and Chief Financial Officer, CCDC
Jay M. Goldstone, Chief Operating Officer
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CONSULTING, INC

July 10, 2009

Eduardo Luna, City Auditor
City of San Diego
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We respectfully submit our report on the Performance Audit of the Centre City Development Corporation. This report was prepared on behalf of the City Auditor of the City of San Diego by Sjoberg Evashenk Consulting, Inc., and includes our findings, recommendations and responses from the Centre City Development Corporation and representatives of the Redevelopment Agency of the City of San Diego. This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Sjoberg Evashenk Consulting was pleased to work with the Office of the City Auditor on this important project, and appreciate the direct assistance we received from you and members of your team throughout the audit.

Respectfully submitted,

Kurt Sjoberg

KURT R. SJOBERG
Chairman

City of San Diego

Office of the City Auditor

Performance Audit of the
Centre City Development Corporation

July 10, 2009

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Executive Summary

On behalf of the San Diego City Auditor, Sjoberg Evashenk Consulting completed a performance audit of the oversight, operation, and administration of the Centre City and Horton Plaza project areas by the Centre City Development Corporation (CCDC). The objective of this audit was to evaluate the efficiency and effectiveness of CCDC, and to determine if organizational goals are being achieved. The scope of this audit included assessments of CCDC's mission and vision, core redevelopment activities, and its business practices, including procurement and expenditure activities, fiscal controls, budgeting and reporting practices, potential conflicts of interest, compensation practices, and controls over equipment and fixed assets.

Introduction and Background

In 1958, the San Diego City Council created the Redevelopment Agency of the City of San Diego (Agency). In 1975, the Agency created the non-profit CCDC to administer redevelopment activities within the Horton Plaza Project Area in Downtown San Diego. The project area overseen by CCDC was later expanded to include the Columbia, Marina, Gas Lamp Quarter, Little Italy, Cortez Hill, and East Village project areas.

Staffed by 55 employees, CCDC administers a Fiscal Year 2008-2009 budget allocation of $235.5 million, including an operating budget of nearly $10 million. CCDC's total budget—primarily funded through tax increment revenues—approached nearly $500 million in Fiscal Year 2008-2009 with an additional $258 million in prior year budget carryovers. CCDC is governed by a seven-member Board appointed by the Mayor and City Council; this Board serves both as the Design Review Board for Downtown San Diego and as a policy-setting body providing oversight of CCDC's operations. During the period under review—the three fiscal years between July 1, 2005 and June 30, 2008—CCDC was actively engaged in managing, administering, or reviewing a myriad of development projects in Downtown San Diego, including:

- Administering approximately 30 public-private redevelopment agreements, including the execution of Disposition and Development Agreements (DDA) and Owner Participation Agreements (OPA);
- Managing nearly 20 public works construction contracts—totaling approximately $58.5 million—including building parks, street improvements, sidewalks and streetlights, a pedestrian bridge, and a variety of public improvement projects;
- Executing and managing over 200 professional service and consulting contracts —valued at approximately $32.4 million—for a wide array of expertise including engineering and architecture, environmental and geotechnical services, various needs assessments and studies, and legal services;
- Processing over 300 development, conditional use, and neighborhood use permits while serving as the Design Review Board for Downtown San Diego, and

establishing a "one-stop shop" for design review and permit processing for private development and public-private redevelopment projects;

- Managing a portfolio of 43 loans as well as an additional 18 leases valued at $62.4 million, resulting in revenues of approximately $19 million during Fiscal Year 2007-2008; and,
- Engaging in a variety of current- and advanced-planning activities, such as the completion of numerous studies on critical community issues such as parking, open space and parkland, traffic, lighting, and retail strategies.

Summary of Results

Overall, we found that CCDC's redevelopment activities are well suited to achieve success, though we identified several areas where CCDC could expand its approach to address economic improvement and community concerns. CCDC has been successful in streamlining the design review and permitting processes, incorporating public improvements into redevelopment plans, and maintaining a broad repertoire of lending and subsidy options to lure private development. As a result, certain CCDC successes are evident, including contributing to increasing property values in Downtown San Diego at a level that exceeds San Diego's other redevelopment project areas, and increasing the inventory of affordable housing in the Centre City and Horton Plaza project areas by as much as 28 percent between fiscal years 2005 and 2009. Many stakeholders interviewed strongly supported the work of CCDC and cited a range of examples demonstrating its successes, from facilitating the construction of Petco Park to updating the Downtown Community Plan in 2006. We also found that CCDC is meeting the requirements defined in its operating agreement with the Agency and has established a broad strategic vision for Downtown San Diego, and that the existing governance structure provides CCDC with the authority and flexibility to achieve redevelopment goals.

Prior to our review, in mid-2008, CCDC's President and Chief Operating Officer (COO) resigned under allegations of potential conflicts of interest; as of June 2009, CCDC was still without a president or COO. Yet, during this time, CCDC management and its Board have taken significant steps to change the way business operations are managed and overseen. In response to our audit and citywide discussions of governance and reorganization, CCDC has acknowledged the need for improved controls, has begun self-assessments of its operations—including re-evaluating current controls in place, updating policies, and implementing new processes—and has already taken some corrective actions. Beginning as early as November 2007, CCDC's Board issued a memorandum requiring enhanced public transparency, and established additional protocols requiring increased Board oversight. In April 2009, CCDC updated its *Cash Disbursement, Procurement, and Contracting Policy* to further restrict sole-source procurement. In May 2009, CCDC established a corporate ethics policy; updated its conflict of interest reporting policy; and created a Board Audit Committee for the purpose of reviewing contracts, internal functions, compensation, and financial statements. During this same time, CCDC Board members—acknowledging a need for increased oversight and familiarity of CCDC's operations—began to increase their individual involvement in

CCDC's day-to-day activities, including participating in management and project team meetings. This is in addition to CCDC's regularly held Board and committee meetings, resulting in the dedication of a significant amount of time and effort on the part of CCDC's voluntary Board.

Nevertheless, opportunities remain for CCDC to increase public transparency and tighten controls to provide reassurance that public funds are used responsibly and efficiently. Some improvements can be made with relative ease and at little to no cost to the Agency; internal controls can be tightened in a manner that will not impede the productivity, flexibility, or innovation necessary for a well-managed redevelopment organization. According to CCDC managers, other improvements such as enhancing performance reporting methods may require additional resources or expertise. Key issues are summarized below.

CCDC's Redevelopment Activities Have Been Successful, but Opportunities for Improvement Exist

Since its inception, CCDC has employed many best practices—such as design review and permitting, public works project management, and long range planning—often exceeding the level of involvement of other redevelopment organizations. CCDC has utilized successful methods to mitigate blighting conditions in the downtown project areas by constructing numerous public improvements, encouraging private investments, and creating "catalyst" projects, such as the Horton Plaza Shopping Center and Petco Park. However, we found that CCDC was not as engaged in economic development activities as were other peer redevelopment organizations, and we found that CCDC did not meet its projected goals for affordable housing production in the Centre City and Horton Plaza project areas—two areas requiring CCDC's consideration.

Further, with the expiration of CCDC's project areas in sight—perhaps within 13 years—CCDC is faced with a multitude of planned projects, including more than $500 million in public improvements such as parks, fire stations, sidewalk and lighting improvements, and more. However, stakeholders expressed concerns that CCDC's substantive vision for Downtown San Diego will be left incomplete when CCDC's project areas expire. Enhancing the manner in which CCDC reports its progress and achievements, as some benchmark organizations have done, would provide a more complete picture of CCDC's performance and its progress as the potential expiration of the Centre City and Horton Plaza project areas approaches.

Indicators of CCDC's Success

- ✓ Property Value Increased in Redevelopment Project Areas
- ✓ Ratio of Public Investment to Increased Property Values of 1:9
- ✓ Increased Affordable Housing Inventory by 28% between 2004 and 2009
- ✓ High Levels of Customer Satisfaction

CCDC's current framework for measuring and reporting performance in relation to organizational goals is not sufficient to account for the full range of goals addressed in the City's Downtown Community Plan, Agency's Redevelopment Plan and Implementation Plan, and CCDC's annual Work Plans; nor does it cover the breadth of activities performed by CCDC. While planning efforts conducted by CCDC have established a substantive vision for downtown, and a broad context in which CCDC pursues redevelopment, existing methods of reporting performance—whether through its annual budget, through the Implementation Plan's Mid-Term Achievements Report, or the Community Plan Task Force—do not provide an adequate basis upon which the CCDC Board, Agency, City or the public can assess CCDC's overall performance. To bridge this gap, we recommend that CCDC incorporate, at a minimum, the following into its planning and reporting documents:

- Identifying specific and measurable goals, including estimated project start and completion dates, estimated costs and actual project costs, and reasons for delays or for exceeding project budgets;
- Measuring CCDC's timeliness in performing design review and permit processing activities, as well as the costs associated with these activities;
- Demonstrating at a macro-level CCDC's success in completing projects on time and within budget, as well as measuring CCDC's delivery costs as a ratio of project budgets;
- Measuring how well CCDC leverages public resources to lure private investment; and,
- Developing more accurate indicators of jobs created and employment trends resulting from redevelopment activities.

To provide a sound basis upon which CCDC, the Agency, and the public can evaluate CCDC's progress in achieving its redevelopment goals, CCDC should develop a strategic plan setting forth priorities and achievable schedules for future projects—similar to a public capital improvement plan. This plan should also begin to address how some of CCDC's core activities—including design review and permitting, management of public improvement projects, long-range planning, loan portfolio management, etc.—will continue to be carried out after the project areas expire.

Existing Internal Controls over CCDC's Business Practices Require Improvement

While CCDC has exhibited a number of best practices as a redevelopment organization, our evaluation of the corporation's business practices revealed multiple instances where internal controls were inadequate or inconsistently followed. It is important to note, however, that this audit did not reveal any evidence of theft, fraud, or misuse of funds. The invoices and agreements reviewed generally reflected the types of expenditures expected of a redevelopment organization. The inconsistencies noted, however, indicate a lax control environment in which inappropriate or unauthorized expenditures could occur undetected. Specifically, we found CCDC:

- Could not consistently demonstrate that it sought adequate competition where feasible or practical for corporate (operating) expenditures or for professional service and consulting contracts; though we found that construction contracts were subjected to sound procurement practices employed by CCDC and the City. Of a sample of 13 professional service agreements and 19 purchasing agreements that required competitive sourcing, CCDC could not demonstrate that five service agreements and five purchasing agreements—totaling 10 (or 31 percent) of the 32 agreements—were subjected to sufficient competitive procedures. In many instances, it appeared CCDC did not document the competitive processes that were followed, disposed of procurement documentation after the procurement was complete, or did not formally justify or explain sole-source procurements in a manner that provided a public record supporting the awarding decision. While we did not identify instances in which sole-sourced contracts were used to procure inappropriate or unauthorized goods or services, fair and open competition is necessary to guarantee that CCDC engaged the most qualified firms at the most competitive price.

- Lacked formal record-keeping and document retention polices, and did not require project managers to maintain procurement or project-related records after key phases of development agreements were completed. For instance, in two of three development agreements reviewed where competitive sourcing was required (two of which dated back to 2000), CCDC did not maintain records to sufficiently demonstrate how competitive procedures were employed by staff. While Board reports indicate that the projects were competitively procured, without supporting documentation CCDC cannot demonstrate after the fact the manner in which competition was employed, and that key project management decisions were in the best interest of CCDC, the Agency, or the public.
- Employed insufficient controls to prevent or detect unauthorized or inappropriate expenditures, particularly over corporation expenditures. A review of 33 corporation expenditures and 18 employee reimbursements revealed the following: in 27 cases where prior authorization was required, 6 (or 22 percent) expenditures were not pre-authorized; for 19 purchases requiring a purchase order or a formal agreement, an agreement was not established in 2 cases; and of the 33 corporation expenditures, 9 did not include sufficient evidence or verification by a reviewing party that goods and services were delivered as invoiced and as required by the agreement (through a 3-point match). Further, of the 12 professional service direct payments reviewed associated with the contracts in our sample, we found 4 instances in which CCDC paid for work or paid rates that were not adequately specified in the agreements.

We further found that CCDC meets City and State Conflict of Interest Code requirements, and has recently implemented significant improvements to curb potential conflicts of interest in the future—including maintaining copies of Statements of Economic Interests on site, adopting an internal ethics policy, and commissioning independent reviews of the corporations conflict of interest policies and practices. However, while staff appeared to diligently complete and file Statements of Economic Interests, as required, our review of filed statements revealed instances where CCDC personnel accepted gifts and gratuities from contractors, firms, or developers doing business with CCDC. This practice is incongruent with CCDC's fiduciary responsibility to assure it engages in objective, "arms-length" transactions that are free from conflicts of interest in fact and appearance.

The absence of key written policies and procedures, minimal Board oversight of some of CCDC's internal business processes, and the inconsistencies identified in our review create an environment where risks of potential conflicts of interest and abuse are increased. These weaknesses are of particular concern given the significant volume of transactions processed by CCDC, the magnitude of its redevelopment budget, and the high-profile nature of its operations.

Existing Oversight of CCDC Must be Improved to Enhance Transparency and Accountability

CCDC's organizational structure splits governance and oversight responsibilities among the independent CCDC Board and the Agency Board. The CCDC Board is primarily responsible for the governance of CCDC, while the Agency is primarily responsible for providing sufficient oversight to ensure that CCDC is compliant with its operating agreement, performs as desired, and meets the redevelopment needs of Downtown San Diego. In delegating redevelopment powers and responsibilities to CCDC, the Agency also imputed significant fiduciary responsibility to CCDC and its Board—including the responsibility to administer a redevelopment budget approaching $500 million in Fiscal Year 2008-2009.

Responsible for the governance of CCDC and for serving as the Design Review Board for the Centre City and Horton Plaza project areas, we found that CCDC's seven-member volunteer Board meets regularly and as often as its peers. Our review of CCDC Board reports, agendas and minutes revealed that the Board provides significant project-focused oversight, with nearly 20 meetings annually and additional monthly committee meetings. CCDC exercised oversight related to long-range and current planning, implementation strategies, programs and activities, project development, design review, financial planning and forecasting, budgeting, and contracting and business opportunities. In addition to this, individual Board members have also recently become more active in CCDC's day-to-day operations, participating in management and project team meetings in order to increase their oversight and familiarity with CCDC's operations.

However, we found that the CCDC Board focused primarily on project-related matters and less so on CCDC's internal operations. More direct oversight is needed over CCDC's internal controls and management's performance as it related to CCDC's key support functions such as project management, procurement and expenditure processing, payroll, fixed asset tracking, and monitoring potential conflicts of interest. As discussed previously, the Board has already taken significant steps to improve oversight in these areas.

Further, while operating primarily in an oversight capacity, the Agency requires CCDC to report on its activities and its use of Agency monies, undergo annual financial audits, and obtain approval for annual budgets and redevelopment projects before expending Agency resources. Therefore, much of the Agency's oversight is dependent upon the reports prepared and submitted by CCDC.

Recognizing that the level of oversight exercised in the past did not provide sufficient assurances, the City of San Diego has vigorously sought potential remedies. As of May 2009, a series of recommendations were being considered by the Mayor and City Council addressing improvements including requiring CCDC to develop substantive policies and procedures for key business processes, granting the Mayor authority to appoint the CCDC president and a voting representative on the CCDC Board, and formally establishing the Agency's right to inspect and audit CCDC's records and activities. Similarly, this audit revealed deficiencies that require attention; specifically the operating agreement between the Agency and CCDC:

- Does not mandate that CCDC employ an internal control structure sufficient to safeguard public assets;
- Does not include sufficient specificity and updated provisions regarding allowable (or disallowable) expenditures;
- Lacks specific performance measures and requirements for reporting progress toward attaining established goals; and,
- Does not clearly delineate the reporting relationship between CCDC and the Executive Director of the Agency.

In order to address these issues, we set forth several recommendations designed to improve the manner in which CCDC plans for and reports on its performance; increase the level of internal controls over CCDC's business practices, particularly over procurement and expenditures; and enhance the level of oversight of CCDC's redevelopment and business practices. These recommendations are detailed at the end of each chapter in this report.

In some cases, such as procurement, CCDC has begun establishing new policies and procedures that it hopes will mitigate the concerns identified through this audit. In other cases, such as improving reporting to the Board, Agency and the public, improvements can be made that would enhance transparency and accountability without significant expense to CCDC or the Agency. In many cases, we found that internal controls can be tightened in a manner that would not impede the productivity, flexibility, or innovation necessary in a redevelopment agency.

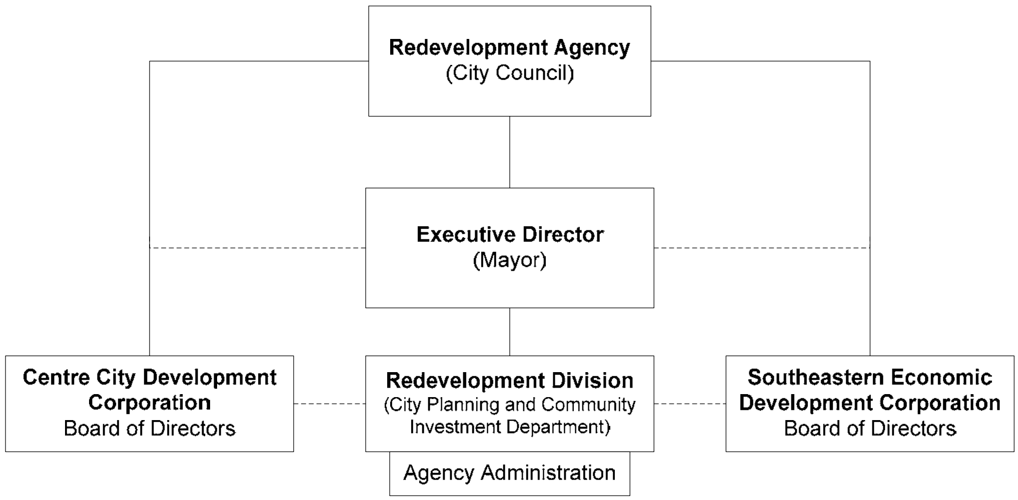
Introduction and Background

Enacted in 1952, California Redevelopment Law established the authority for local governments to create independent redevelopment agencies with the direct responsibility to improve existing blighting conditions and to revitalize communities within their jurisdictions. Redevelopment Law empowers these agencies to assemble land for development (including the use of eminent domain), utilize Tax Increment Financing (TIF) and issue bonds, invest in public improvements, and create affordable housing opportunities. The predominant funding source for redevelopment agencies is TIF, which results from property taxes collected on any growth in assessed property values that occurs in a project area after redevelopment begins. According to the California Redevelopment Association, there are currently over 400 redevelopment agencies within the State of California. While the goals of redevelopment are generally consistent among local governments, the means by which agencies pursue redevelopment can vary significantly. Therefore, the success of redevelopment activities largely depends on how well those responsible for conducting redevelopment manage outcomes and demonstrate performance.

More than half a century ago in 1958, the San Diego City Council created the Redevelopment Agency of the City of San Diego (Agency) to eliminate slums and reduce blight in select areas throughout the City. To assist in administering and implementing the Agency's redevelopment plans in Downtown San Diego, the City of San Diego created the Centre City Development Corporation (CCDC) as a non-profit corporation in 1975. While it initially focused on the Horton Plaza Project Area, CCDC's purview was subsequently expanded to include the Columbia, Marina, Gas Lamp Quarter, Little Italy, Cortez Hill, and East Village project areas—a 1,445 acre area providing an estimated 68,000 jobs and serving an estimated 30,000 residents. Currently, the Agency is comprised of three discrete components: the Redevelopment Division, housed within the City's Department of City Planning and Community Investment, and two non-profit corporations, CCDC and the Southeastern Economic Development Corporation (SEDC). The City Council serves as the Redevelopment Agency Board, and the Mayor serves as the Agency's Executive Director.

To fulfill its mission "to create a 24-hour livable community in Downtown San Diego by eliminating blight, providing housing, and stimulating the economy with the creation of jobs through public and private development," CCDC operates under a written operating agreement with the Agency and manages or administers the development of retail, residential, office, hotel, cultural and educational, and public improvement projects in Downtown San Diego. The structure of the Agency is illustrated in Exhibit 1.

Exhibit 1: Organization of the Redevelopment Agency



Source: Auditor Generated

Authority and Oversight of Redevelopment

Three governing documents establish the authority and responsibility of CCDC—CCDC's Articles of Incorporation, CCDC Bylaws, and its operating agreement with the Agency. CCDC's Articles of Incorporation establish its status as an independent non-profit corporation, while its Bylaws establish the City of San Diego as the "sole member" of the corporation. The operating agreement with the Agency renders CCDC wholly accountable to the City of San Diego, San Diego Redevelopment Agency, and residents of the City. The operating agreement between CCDC and the Agency was established with the expressed belief that the best interests of San Diego would be served by an arrangement in which a non-profit corporation would "assume responsibility for the development of and formulate the policy for the implementation of the project."

Appointed by the Mayor and City Council to three-year terms, the seven-member Board of Directors is responsible for providing oversight of CCDC's operations. To ensure the Board is able to provide adequate oversight of redevelopment activities, CCDC's Bylaws grant the Board of Directors the responsibility for selecting and removing the CCDC president; conducting, managing, and controlling the affairs and business of the corporation; borrowing money and authorizing payments, notes, and other indebtedness for redevelopment efforts; and establishing an Executive Committee and other committees. Appointed by the Board, the CCDC President is responsible for supervision, direction and control of the day-to-day business and management of CCDC, and is empowered to appoint and remove all employees of the corporation. The Mayor and members of the City Council may attend and participate in deliberations or make recommendations at any meeting or committee of the Board, as well as compel CCDC to report to the Agency on all its activities—in accordance with the operating agreement. CCDC must also abide by actions taken, directives given, and policies adopted by the Agency.

As the contracting authority, the Redevelopment Agency has the authority to amend its operating agreement with CCDC, or to terminate the agreement at will. Additionally, acting in its capacity as the sole member of the corporation, the City Council may amend the Bylaws of the Corporation.

CCDC Activities and Operations

Under its Bylaws and operating agreement, CCDC engages in several core activities designed to facilitate development in Downtown San Diego, including:

- ✓ *Redevelopment Activities:*

  CCDC facilitates private development through its ability to acquire and dispose of real estate, incur debt and receive TIF, and provide "gap financing" on behalf of developers. Agreements between developers and CCDC are memorialized in one of two types of agreements—Owner Participation Agreements (OPA) and Disposition and Development Agreements (DDA).

- ✓ *Design Review & Permit Processing:*

  Unlike the Agency's Redevelopment Division and SEDC, the City of San Diego designated the CCDC Board as the Design Review Board for the Centre City and Horton Plaza project areas. This enabled CCDC to establish itself as a "one-stop" redevelopment organization, virtually eliminating the need for developers seeking opportunities downtown to navigate potentially burdensome and slow administrative processes typically resulting from the involvement of multiple agencies.

- ✓ *Planning Activities:*

  CCDC is intricately involved in Agency and City planning functions, including planning future redevelopment activities, developing and monitoring the City's Downtown Community Plan and the Agency's Redevelopment Plan, soliciting and incorporating feedback from stakeholders, and overseeing various needs assessments and studies.

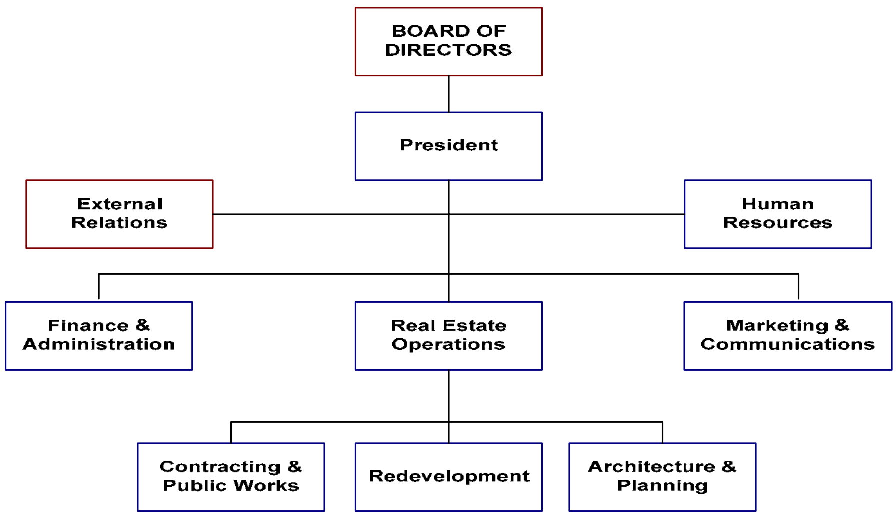
- ✓ *Public Improvement Project Management:*

  Also unlike the Agency's Redevelopment Division and SEDC, CCDC manages public works and public improvement projects within its project areas, including parks, fire stations, bridges, street lighting, and sidewalk repairs—projects that would typically be managed by the City's Department of Engineering and Capital Projects.

Moreover, as an independent non-profit corporation, CCDC performs typical administrative and support activities necessary to support the four core functions described above, including marketing and communications; bond issuance; fiscal management, procurement, contracting and accounts payable; human resources and payroll; and budget preparation and annual reporting.

To complete these activities, CCDC employs 55 employees organized into the following functional areas, as illustrated in Exhibit 2.

Exhibit 2: Structure of Centre City Development Corporation



Source: CCDC Organizational Chart

CCDC performs these activities with a Fiscal Year 2008-2009 administrative budget of nearly $10 million and a redevelopment budget of more than $490 million, including prior year carryovers of $258 million—amounting to a Fiscal Year 2008-2009 redevelopment budget of nearly $500 million. More than half of CCDC's funding is generated from TIF revenue, while a substantial portion—approximately 28 percent—is also generated through bond issuances and lines of credit, interest and lease payments, and developer proceeds and advances.

Objectives, Scope and Methodology

Sjoberg Evashenk Consulting was selected by the San Diego City Auditor to conduct a performance audit of the Centre City Development Corporation. The objective of this audit was to evaluate the efficiency and effectiveness of CCDC, and to determine whether organizational goals are being achieved. The scope of this audit included CCDC's redevelopment and business activities between the three fiscal years 2005-2006 and 2007-2008, as well as recent organizational changes and activities occurring after July 1, 2008 and throughout our fieldwork. Specifically, this assessment was planned to:

- Evaluate the adequacy, appropriateness, and achievement of CCDC's goals and performance measures used, and the efficiency and effectiveness of the methods, procedures, and activities used to accomplish goals, including communication practices, use of resources, and project management procedures.
- Review and evaluate the development process, including the selection of the developer and design review processes.

- Determine if CCDC has sound budgeting practices and procedures, including whether adequate information is provided to the Mayor, City Council, and Redevelopment Agency Board.
- Evaluate if CCDC is following sound procurement practices and procedures that are compliant with relevant rules and regulations and demonstrate good business practices, including determining if any conflicts of interest situations exist.
- Review CCDC's expenditures submitted to the Agency for reasonableness, allowability, and compliance with pertinent policies and procedure and conflict of interest provisions.
- Determine whether CCDC salary and non-salary compensation programs, including benefit programs, were used over the last three fiscal years to compensate employees.
- Verify the accuracy of CCDC's reported equipment and capital assets.
- Assess whether the level of information provided by CCDC management to its board members is adequate and in compliance with board rules and regulations.
- Determine if CCDC employs adequate internal controls over financial reporting, including sufficient segregation of duties, exception reporting, and transaction review/approval.
- Evaluate CCDC's conflict of interest provisions.

To assess CCDC's success and effectiveness we identified and reviewed core business activities such as planning and permitting, redevelopment financing, and public infrastructure project management; associated policies, procedures, and protocols where they exist, as well as pertinent City and State regulations;[1] stated goals and policies of CCDC, including targeted performance measurement information; and reviewed relevant publications, audit reports, and other existing research studies discussing various best practices employed by other redevelopment agencies.[2]

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[1] To understand the legal, regulatory and governance environment, and to understand the role and responsibility of the Agency and CCDC Board, we reviewed relevant provisions of CCDC's Articles of Incorporation and Bylaws, the Operating Agreement between the Agency and CCDC, Agency Bylaws, Service Level Agreements between CCDC and various City agencies, Agency and City Council Resolutions, City Council Ordinances, San Diego City Charter and Municipal Code, California Community Redevelopment Law, California Government Code, San Diego Downtown Community Plan, Centre City and Horton Plaza Redevelopment Plan, and the 2005-2009 and 2010-2014 5-Year Implementation Plans.

[2] We obtained and reviewed relevant documents, reports and studies relating to CCDC and the San Diego Redevelopment Agency, including City Attorney memoranda and opinions; Ethics Commission memoranda; Independent Budget Analyst studies and reports; studies commissioned by, and reports developed by, the Redevelopment Division; the Agency's Annual Reports; CCDC's annual budgets and Work Plans; CCDC annual audited financial statements; monthly Corporation Reports and Staff Reports submitted to the CCDC Board; CCDC Board policies; and other related background documents. We also obtained and reviewed the State Controller's *Annual Report of Financial Transactions Concerning Community Redevelopment Agencies of California* and *Guidelines for Compliance Audits of California Redevelopment Agencies*, as well as the California Department of Housing and Community Development's report on *Redevelopment Housing Activities in California*.

We sought to obtain stakeholder input and to compare CCDC with other like organizations. Therefore, we met with dozens of San Diego stakeholders and stakeholder groups (see Appendix A), and obtained their view of CCDC accomplishments, contributions, and performance. We also selected eight cities against which to compare CCDC's activities and to assess how other agencies' processes align with those of CCDC. The eight cities we selected are:[3]

California Benchmark Cities	Non-California Benchmark Cities
1) Los Angeles	1) Baltimore, MD
2) Oakland	2) Las Vegas, NV
3) San Francisco	3) Portland, OR
4) San Jose	4) Seattle, WA

To evaluate CCDC's development and design review processes, we interviewed key redevelopment personnel regarding the planning, design review, developer selection, negotiation, land acquisition, and lending processes. We also reviewed internal reports, fiscal records, Corporation Reports and Staff Reports, CCDC's loan portfolio to identify the universe of Disposition and Development Agreements (DDA), Owner Participation Agreements (OPA), and other development agreements or plans executed by the Agency and administered by CCDC. Of the approximately 30 development agreements administered by CCDC between July 1, 2005, and December 31, 2008, we selected 10 agreements for review, and evaluated the developer selection, project management and oversight, and draw payment and loan management practices employed by CCDC for these projects.

We evaluated CCDC's contracting, procurement, payable, and payroll processes by reviewing and evaluating internal reports; evaluating fiscal records and Corporation Reports; reviewing procurement, accounts payable, payroll and personnel policies; and interviewing key personnel to identify associated processes. We identified 19 public infrastructure construction contracts—totaling approximately $58.5 million—managed by CCDC during the scope of our review. We also identified 200 professional service contracts—valued at approximately $32.4 million—managed by CCDC during the same period. We selected and reviewed in detail 13 professional service agreements, six construction contracts, and 51 additional corporate and agency expenditures and evaluated CCDC against best business practices.

To assess CCDC's budgeting practices and to evaluate whether it provides essential information to key policy- and decision-makers, we reviewed annual budget proposals, interviewed key personnel regarding the budget preparation and review process, attended public Fiscal Year 2010 budget hearings, and assessed the level of information presented to its Board and City officials. We also attended Board meetings and reviewed Corporation Reports, meeting minutes, and agendas to determine the type of information provided to the Board and level of Board involvement in CCDC operations.

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[3] To select the eight cities in our sample, we considered a variety of factors wherein "best practices" could be extrapolated, including U.S. cities of similar size, redevelopment budget, population, and geographic/urban characteristics (e.g. waterfront, urban core, etc.).

We interviewed key personnel involved in the fiscal, procurement, payables and payroll activities to identify roles and responsibilities and significant accounting processes; and reviewed contemporaneous documentation related to fiscal, procurement, payables, and payroll activities to assess internal controls. With this information we assessed potential segregation of duties issues, fiscal system security roles, and whether financial transactions were appropriately recorded in the fiscal system. Our assessment included an evaluation of CCDC's internal controls over payroll processes, such as controls designed to ensure salary and other payments or reimbursements to employees were appropriately approved, processed, and incorporated into CCDC's budget. We reviewed both salary and non-salary employee compensation, including medical and dental benefits; employer contributions to retirement plans; incentive program awards, including bonuses; management fringe benefits, including insurance premiums, parking, tax deferred annuity contributions, or equivalent cash payments for executive management; management car allowances; parking and transit reimbursements; cell phone reimbursements; tuition reimbursements; and flexible benefits. Our review did not reveal any instances of payments or other compensation or benefits provided to CCDC personnel that were not approved and processed according to formal CCDC guidelines. Further, we did not identify any payments made to personnel that were not approved by CCDC or that were explicitly deemed unallowable under the current operating agreement with the City.

To assess controls and accountability over fixed assets, we conducted a physical inventory of a random sample of equipment and assets to determine whether equipment and capital assets were properly accounted for, and interviewed CCDC staff to determine how assets were tracked, depreciated, and reported.

Finally, we reviewed CCDC's conflict of interest code, Statements of Economic Interests (Form 700) filed with the San Diego City Clerk, and recent studies commissioned by CCDC to evaluate its ethics and conflict of interest policies. Using this information, we identified reported interests derived from contractors, consultants or developers doing business with CCDC.

Fieldwork was conducted between January and May 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards required that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The findings of this report were presented to and discussed with representatives of CCDC prior to completion of audit fieldwork. On June 12, 2009, we provided a confidential draft copy of this report to CCDC management and a confidential draft excerpt of Chapter III of this report to Agency representatives. On June 30, 2009, the audit team conducted an exit conference with key representatives of CCDC to discuss this report. CCDC's response and information provided were considered and incorporated where applicable in the final report.

Chapter I – CCDC's Redevelopment Activities Have Been Successful, But Opportunities for Improvement Exist

The Centre City Development Corporation (CCDC) incorporates many best practices and demonstrated numerous successes. For instance, it contributed to an increase in property value in its project areas at a rate that surpasses its peers, and expanded the inventory of affordable housing in the Centre City and Horton Plaza project areas by 28 percent between fiscal years 2005 and 2009. Throughout its evolution, CCDC established itself as a "one-stop" community planning and redevelopment organization that successfully streamlines development downtown—a widely recognized best practice. Its public outreach model has garnered wide praise from downtown community stakeholder groups and unlike other redevelopment organizations, CCDC is intricately involved in the management of public improvement projects.

At the same time, we identified other activities that peer redevelopment organizations are engaged in—activities considered to be best practices—where CCDC could improve its operations. These include incorporating additional covenants into development agreements to further enhance economic development, and leveraging additional revenue sources—much of which will require buy-in from the Agency. We also found that while CCDC can demonstrate successes in several areas, it has not met its goals for affordable housing production between 2005 and 2009, putting CCDC at greater risk of not maintaining future compliance with legal requirements for ensuring at least 15 percent of the Centre City and Horton Plaza project area housing inventory is affordable to very low-, low-, and moderate-income households. We also identified methods employed by other agencies that could enhance CCDC's ability to report on its performance and its progress in achieving a wide range of goals. Ultimately, while CCDC established a model that incorporates many redevelopment best practices, a model that has resulted in demonstrable successes, this Chapter presents for consideration by CCDC and the Agency, several areas where CCDC can be even more successful. This includes increasing CCDC's focus on economic development activities, formalizing a strategy to ensure compliance with affordable housing requirements, reevaluating permit and development impact fees, and establishing clearly defined linkages between generalized redevelopment goals and measurable accomplishments and outcomes.

Given these opportunities and challenges, it is also important to describe the context of CCDC's lifespan as an organization. The Centre City and Horton Plaza project areas were established with "sunset clauses" requiring their termination by a designated date or when each project area or subarea generates a specified amount in Tax Increment Financing (TIF) revenues for redevelopment activities. As shown in Exhibit 3, the final TIF dates for each of the project areas or sub-areas range from 2023 to 2043—14 to 34 years from the date of our fieldwork—and the maximum amount of TIF project areas can cumulatively collect is $3.1 billion. As of June 30, 2008, the Agency collected over $798 million in TIF from the Centre City and Horton Plaza project areas over the life of each project, leaving a cumulative balance of approximately $2.3 billion in tax increment from the project areas before they are set to expire.

Exhibit 3: Redevelopment Plan Limitations for Project Areas

Project Area	Year Adopted	Final TIF Date	TIF Limitation (in millions)	TIF Received as of 6/30/08 (in millions)	Potential TIF Remaining (in millions)
Centre City					
Marina Sub-Area	1976	12/29/2027			
Columbia Sub-Area	1976	12/29/2027			
Gaslamp Quarter Sub-Area	1982	7/26/2033			
Expansion Sub-Area	1992	5/11/2043			
Total Centre City			**2,894**	**669**	**2,225**
Horton Plaza	1972	7/25/2023	**240**	**129**	**111**
Total All Project Areas			**3,134**	**798**	**2,336**

Source: CCDC's internal Long-Term Planning Analysis (as of June 30, 2008)

Each project area will expire either due to reaching the end of the project life or as a result of reaching the TIF cap. However, while the precise timing is unknown, evidence suggests that the TIF cap will be reached sooner than the final project expiration date. If the Agency's receipt of $130 million in annual tax increment funds for the Centre City and Horton Plaza project areas remain constant, the cap could be reached in as few as 18 years—resulting in the termination of two project sub-areas before they reach their final TIF date. However, according to CCDC management, the cap could be reached in as few as 13 years.

With this end in sight, CCDC is faced with critical challenges. The City's Downtown Community Plan, the Agency's Redevelopment Plan and Implementation Plan, and CCDC's Work Plans set forth hundreds of goals and resources available for achieving them are limited. Not only does it appear that CCDC will reach its TIF cap sooner than originally expected, significantly abbreviating the timeframe available to achieve these goals, but its primary funding stream could be reduced in the near future. Existing tax sharing agreements require CCDC to divert approximately 15 percent of its TIF allocation to other government agencies—amounting to $19 million of CCDC's budgeted $133 million TIF allocation for Fiscal Year 2009-2010. This percentage is expected to increase to nearly approximately 30 percent in Fiscal Year 2011-2012, amounting to $40.2 million of CCDC's estimated $138 million TIF allocation. Not only does CCDC still have much to achieve, but it now must achieve its goals in an abbreviated timeframe and with outside obligations restricting more of its funding stream. According to CCDC's projections, it will have approximately $500 million in available TIF resources within the next 13 years to complete a myriad of public improvement and redevelopment projects.

Many of CCDC's Redevelopment Activities Are Consistent with Best Practices for Redevelopment Organizations

When we compared CCDC with eight cities in the United States that engage in redevelopment activities, we found that no two redevelopment agencies were alike with regard to 'how' redevelopment activities are pursued in their respective cities. Despite this, we found that CCDC's core functions appear to be in line with established best practices, including efforts to streamline the design review process, facilitate public infrastructure improvements, offer a variety of financial assistance programs, perform needs assessments and studies, and reach out to populations impacted by redevelopment.

CCDC Successfully Reduced Barriers in its Design Review/Permitting Process

CCDC's role as the Design Review Board for Downtown San Diego is an important activity contributing to its success as a redevelopment organization; in fact, this function is relatively unique among its peers. Although redevelopment agencies are urged to improve the business climate by coordinating and streamlining local government regulations within a redevelopment project, such as those related to land use and permitting,[4] it is noteworthy that we found no other redevelopment organization to be as involved in this activity as is CCDC. In fact, this model reduced barriers by simplifying forms used to apply for a development permit, lowered or eliminated fees associated with permit applications, reduced the number of agencies or bureaucratic steps required to obtain approvals, and developed long-range plans that describe the strategic vision and design guidelines within specific geographic areas. By mitigating barriers to development and reducing the time and cost associated with obtaining entitlements, CCDC increased incentives for private developers to develop or rehabilitate property in areas suffering from blighted conditions or where incentives are otherwise lacking.

Unlike the City's Redevelopment Division and the Southeastern Economic Development Corporation (SEDC), CCDC is responsible for the permit design review process ordinarily performed by the City's Development Service Department for all discretionary permits, including development, conditional use, and neighborhood use permits.[5] CCDC used this authority to employ a "one-stop shop" to process entitlement applications, enforce design guidelines through the implementation of three discrete Planned District Ordinances, and facilitate community input and feedback by conducting public hearings and community outreach. Staff engaged in this activity developed a Centre City Development Permit Application Package that provides specific submittal guidelines to prospective applicants, and work closely with applicants to ensure design plans meet applicable design standards before a permit application is formally submitted.

According to the Development Service Department, two factors differentiate CCDC's project review approach from the City's approach. First, with regard to land use issues, Downtown San Diego is the only region of the City that is covered under a Master Environmental Impact Review; developers seeking entitlement rights are not required to conduct a full environmental impact review for each project, but are only required to conduct and provide a far more succinct secondary review. In contrast, outside the

[4] California Debt Advisory Commission, "Recommended Practices for California Redevelopment Agencies." April 1995, p. 40.

[5] In 1978, the Redevelopment Agency adopted a resolution to formalize CCDC's role as the Design Review Board for the Centre City/Horton Plaza project areas by appointing members of the CCDC Board of Directors as members of the "Design Review Board for all Centre City redevelopment projects;" and in 1992 eliminated "the Planning Commission from the Agency's design review process in order to expedite the review of plans within the Centre City redevelopment project areas." (see San Diego Redevelopment Agency Resolution No. 364, Adopted January 24, 1978; and San Diego Redevelopment Agency Resolution No. 2130, Adopted August 11, 1992).

downtown area, developers must conduct full environmental studies as part of the design review process for each development. Second, the bifurcated relationship between the Development Service Department and San Diego's Redevelopment Division and SEDC requires developers to negotiate development agreements with the Redevelopment Division or SEDC and then to navigate the design review process with the Development Service Department. CCDC has the ability to manage both processes concurrently, which can significantly reduce the time and expense associated with negotiating and executing a development agreement.

In addition to these differences, CCDC management noted certain recent improvements that it has made to its design review process. First, CCDC responded to concerns brought by the community, expressing a desire for public input into projects at an earlier stage in the process, and by developers, expressing the desire to hear about concerns of the Board and the public in a timely manner so as to avoid unexpected delays. In light of these concerns, CCDC established a "pre-design" phase in its permit review process, thereby allowing for a preliminary review of development projects by the Board's Real Estate Committee and the Centre City Advisory Committee, and facilitating forums for public comment on development projects at an early stage. In addition to this, CCDC also noted that it began employing independent architects to work with CCDC planners and developers to review plans, and established a panel of experts to meet on a quarterly or as needed basis to review plans for large projects—both with the intent of providing increased service and support to developers and to better ensure consistency with the newly-adopted 2006 Downtown Community Plan.

As a result, CCDC's model has garnered wide praise among developers and other community members for simplifying the pathway to new construction downtown. In fact, many stakeholders from the development community informed us that CCDC far exceeds other agencies in their ability to initiate projects promptly. Part of this success, according to these stakeholders, is due to CCDC's ability to process entitlements, assemble land parcels, incorporate public input, and issue permits more quickly than other city-controlled agencies—cutting costs for developers and making the process more predictable.

CCDC Facilitates Infrastructure Improvements and Exercises Strong Project Management

Similar to its design review and permitting processes, CCDC is also unique among its peers relative to its approach to implementing public improvement projects. Between 2005 and 2009, CCDC entered into 19 public improvement construction contracts, totaling approximately $58.5 million that included parks, fire stations, street improvements, sidewalks and streetlights, a pedestrian bridge, and a variety of other projects. Public improvement projects are essential to removing blight and revitalizing downtowns, business districts, industrial areas, and residential neighborhoods.

While this appears widely recognized, CCDC is the only redevelopment organization identified through our benchmark survey that actively manages public improvement projects—although other agencies provide funding for public improvements as part of their redevelopment activities. As a result, CCDC can more easily coordinate how and when public improvements are initiated, and can regularly communicate with the public regarding public improvements. Other redevelopment agencies must rely on outside departments such as city engineering or public works departments, which may have limited resources or priorities unrelated to redevelopment.

In reviewing CCDC's management of public infrastructure and redevelopment projects, we found several strong project management practices employed. Such practices include assigning project managers to oversee project delivery "from cradle to grave;" incorporating other knowledgeable CCDC personnel in the project, including design review and planning personnel; ensuring architectural and engineering expertise and using on-site inspectors through professional service agreements; and periodic reporting to the Board. While CCDC has not developed its own policies and procedures guiding project delivery protocols, project managers indicated that they adhere to the *Standard Specifications for Public Works Construction*, otherwise known as the "Greenbook," a widely recognized compilation of best practices.

Financial Assistance Programs Provide CCDC with a Variety of Useful Tools

Successful redevelopment requires agencies to devise a broad portfolio of loan programs for use in enticing private development. Common types of loan programs include amortized, residual receipt, deferred, homeownership, forgivable, and other loan options—each requiring agencies to effectively manage and monitor portfolios by ensuring payments are made, conditions are met, and delinquent accounts are identified. We found that CCDC offers a variety of loan options to developers, business owners, and homeowners with unique payment terms and below-market interest rates, including incentives for participating in the development of projects. CCDC's loan portfolio is managed internally by fiscal staff that monitor the receipt of payments and ensure borrowers comply with the terms of their notes.

As of June 30, 2008, CCDC's loan portfolio contained a combined principal balance of $62.4 million consisting of 43 loans and other forms of financial assistance. For financial reporting purposes, CCDC's loans are grouped into five categories as shown in Exhibit 4.

Exhibit 4: CCDC Loan Receivable Value and Composition as of June 30, 2008

Loan Type	No. of Loans	% of Total Loans	Loan Value	% of Portfolio Value
Amortized	6	14%	$ 1,305,697	2%
Residual Receipts	18	42%	$ 47,468,390	76%
Deferred	4	9%	$ 4,343,791	7%
Home Ownership(1)	1	2%	$ 1,020,630	2%
Forgivable	14	33%	$ 8,272,486	13%
Total	**43**	**100 %**	**$ 62,410,994**	**100 %**

Source: City Comptroller "Schedules of Notes Receivable – Forgivable & Non-Forgivable as of June 30, 2008."
Note (1): CCDC's Home Ownership loans, while reflected on the Agency's financial statements as a lump sum, are administered individually by the San Diego Housing Commission.

1. *Amortized:* Includes any loan that has fixed periodic payments. Payment terms and interest can vary depending on loan terms.
2. *Residual Receipts:* Loans that share in the residual income of the mortgaged property typically after all operating expenses are paid. Residual income can vary depending on the terms of the loan.
3. *Deferred:* Loans that permit the borrower to defer principal payments until the end of the loan term. At the end of the term, the borrower is required to pay off the principal in full. Pre-payments are typically not prohibited.
4. *Home Ownership:* Loans that are designed to assist first-time homebuyers become homeowners. These loans are not considered development loans, but they serve redevelopment goals by helping to increase homeownership in blighted communities.
5. *Forgivable:* Loans that are forgiven incrementally over time if the borrower complies with obligations or conditions set forth in the loan agreement.

In addition to its loan portfolio, CCDC also administered 18 lease agreements valued at approximately $1.5 million during Fiscal Year 2007-2008 for Agency-owned real estate. More than 80 percent of this revenue is derived from parking lots owned by the Agency and managed by third-party vendors.

Public Outreach Efforts Have Been Successful

Public participation is essential to successful redevelopment, not only for gaining public support for use of taxpayer dollars, but also for ensuring CCDC meets diverse community needs by seeking broad public involvement. Given the sometimes controversial nature of redevelopment projects, encouraging public participation conveys a clear and consistent message that the public's input is valued and critical for success. Regular progress reports provide the public information about returns on investment, key events, and meetings related to redevelopment activities. We found that CCDC's marketing and outreach activities incorporates the public's input into project discussions, design and prioritization; and plays a key role in disseminating information and progress to community project area committee, neighborhood associations, and other interested parties.

While CCDC employs dedicated marketing professionals, CCDC's public outreach efforts extend beyond this group. The design review process, for example, requires developers to notify nearby residents and business owners of pending development projects. In this capacity, CCDC project managers often attend community meetings to answer questions or address concerns. CCDC has also incorporated additional steps during the design review process to ensure that the project is discussed at the CCDC Board's Real Estate Committee meetings—an event known as a "pre-design hearing"—as well as to ensure the Centre City Advisory Committee is involved at an early stage to review design plans and provide preliminary feedback.

Most stakeholders we interviewed expressed that CCDC went above and beyond to reach out to communities affected by development activities. Stakeholders highlighted the usefulness of CCDC's public resources, such as the Downtown Information Center, board and committee meetings, and CCDC's website and e-mail notification list, as excellent sources of information about current projects and upcoming meetings and events. Stakeholders mentioned CCDC's "Paradise in Progress" and "Coffee with CCDC" outreach efforts as vehicles that provide informal forums to discuss upcoming projects and new developments with CCDC staff. Both were useful in providing opportunities for public input, building strong relationships with the community, and positioning CCDC to more easily mediate disputes when necessary. One stakeholder actively involved in the redevelopment process stated "no other place provides as much information" and noted high levels of satisfaction with the type and level of information provided during public meetings.

CCDC was also frequently commended for being a very proactive partner with other organizations throughout downtown, such as the Centre City Advisory Committee and the Downtown Parking Management Group. As a localized redevelopment organization, CCDC is perceived to be in a position to accommodate, respond to, and give voices to key stakeholders. These efforts were not only viewed as beneficial in promoting new developments, but helped CCDC stay abreast of concerns or issues raised by the communities. This perceived sensitivity to public sentiments appears to have allowed CCDC to enjoy wide support for development projects by giving a voice to individuals and groups that may otherwise be overlooked in the development process.

CCDC Puts Forth Significant Efforts to Identify Community Needs

Identifying the needs of blighted communities is critical to the success of a redevelopment organization. In addition to engaging in significant public outreach efforts, CCDC has continued to conduct needs assessments and studies related to various topics such as parking, parks and open spaces, traffic, street lighting, and retail strategies, among others. These long-range planning efforts inform CCDC's project managers, planners, executive team, and the Board regarding future redevelopment and public improvement projects.

CCDC's Model Has Contributed to Demonstrable Successes

Indicators of CCDC's Success

- ✓ Property Value Increased in Redevelopment Project Areas
- ✓ Ratio of Public Investment to Increased Property Values of 1:9
- ✓ Increased Affordable Housing Inventory by 28% between 2004 and 2009
- ✓ High Levels of Customer Satisfaction

CCDC has been a crucial driving force in the transformation of Downtown San Diego over the last several decades. Numerous stakeholders conveyed to us the chronology of how downtown was seriously impacted by widespread blighting conditions and how early efforts in the 1970s and 1980s, with the construction of Horton Plaza and redevelopment of the Gaslamp Quarter stimulated a series of improvements that transformed downtown into a desirable destination for tourism, commerce, and residential housing.

According to CCDC, during the last three fiscal years, the corporation has facilitated the development of more than 4,000 residential housing units, 2,500 new hotel rooms, 1.5 million square feet of commercial real estate, and the investment of $58.5 million in public improvements—all through the provision of design review and permitting services, redevelopment assistance programs, or public infrastructure project management. While some of these improvements may have occurred regardless of CCDC's existence, we found widespread consensus among community stakeholders that CCDC played a pivotal role in the renaissance of Downtown San Diego.

In particular, stakeholders cite CCDC as central to encouraging and facilitating development downtown; not only did CCDC provide subsidies and gap financing to encourage development, but it streamlined the design review process and minimized disincentives to development. These efforts appear to have contributed significantly to a number of positive outcomes, including substantially increased area property values and an increased affordable housing inventory in Downtown San Diego.

Downtown San Diego Property Values Increased Substantially, Indicating Increased Demand and Desirability

Assessing the change in property value, and resultant tax increment, within a redevelopment area is a common measure used by redevelopment agencies as an indicator of the increased demand and desirability for properties and communities benefiting from redevelopment investments. Most relevant, however, is the relative increase in property values when compared to the City's overall trends in property values. This metric is utilized by the Portland Development Commission and was identified by the California Bureau of State Audits as a critical performance measure for assessing the success of redevelopment agencies.[6] However, while increases in assessed property values is a common indicator of increased demand and reduced blight, it should be recognized that such increases are typically the result of many factors—including law enforcement activities, changes in workforce and workforce development, general economic prosperity, as well as various redevelopment efforts. Although changes in property values cannot solely be attributed to redevelopment activities, measuring such changes represents one of the common indicators used by agencies to evaluate redevelopment's contribution to improved conditions.

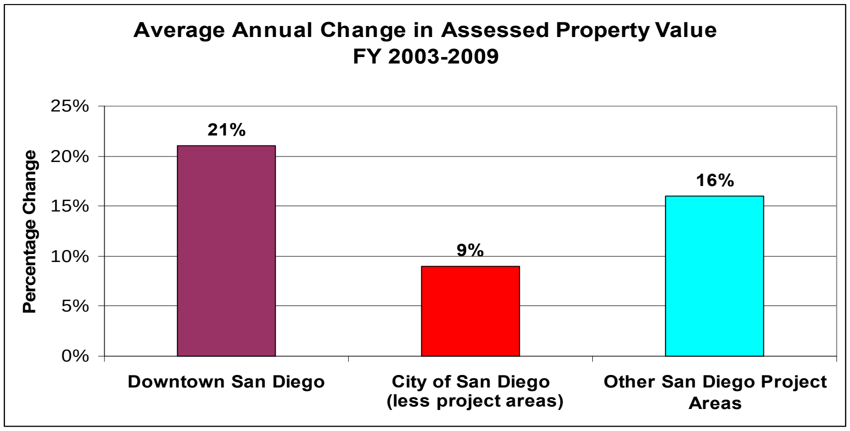
✓ *Property values have increased significantly in Downtown San Diego.*

Our analysis of assessed property values within the City of San Diego revealed that property values in the Centre City and Horton Plaza project areas rose at a greater annual rate than in surrounding areas of the City, including other redevelopment project areas. Specifically, while assessed property values generally increased on a

[6] California Bureau of State Audits, "Statewide Redevelopment Agencies: Broad Project Discretion and Inadequate Information Make Comparison and Evaluation Difficult." November 1996.

city-wide basis between fiscal years 2003-2004 and 2008-2009, the average annual rate of increase in CCDC's project areas was 21 percent whereas the rest of San Diego and the other redevelopment project areas increased by an annual rate of 16 percent and 9 percent respectively, as shown in Exhibit 5.

Exhibit 5: Property Value in City of San Diego



Source: County of San Diego Auditor-Controller

As a result of this increase, the Agency has seen a dramatic increase in TIF, the primary method for funding redevelopment activities.

✓ *Public investments in the Centre City and Horton Plaza project areas have contributed to increased property values at a ratio of 9 to 1, well within reported industry standards.*

Recognized as a valid alternative cost-benefit approach, redevelopment agencies often utilize ratios to demonstrate return on public investment. CCDC lists a 9:1 ratio for the Centre City and Horton Plaza project areas whereby for every $1 of public investment, the City is realizing approximately $9 in assessed property value from its redevelopment project areas. Given that the redevelopment industry looks for near-term private investment ratios of public dollar participation ranging from 8 to 1 up to a high of 12 to 1,[7] applying such a benchmark indicates that CCDC is performing well within a desired range. While other redevelopment agencies track and monitor the assessed property values within a particular redevelopment area, CCDC is the only agency among our benchmark cities that is also using an assessed-value-ratio to demonstrate a return on public investment.

CCDC Has Expanded the Supply of Housing for Low and Moderate-Income Residents

As a primary goal, Redevelopment Law explicitly requires statewide redevelopment agencies to set aside no less than 20 percent of TIF collected in a project area for the

[7] Economic Research Associates, "Review of Best Practices for Tax-Increment Financing in the United States." 1999.

purposes of "increasing, improving, and preserving" the community's supply of low- and moderate-income housing available at affordable housing cost.[8] Overall, CCDC has used these designated resources to expand the inventory of affordable housing units within the Centre City and Horton Plaza project areas. Furthermore, by pooling its 20 percent set-aside tax increment funds with those of other redevelopment and housing entities in San Diego under the "Notice of Funding Availability" program, CCDC was also able to facilitate the production of additional affordable units outside the Centre City and Horton Plaza project areas.

Further, during the fiscal years 2004-2005 through 2008-2009, CCDC's efforts contributed to the construction of 631 affordable housing units in the Centre City and Horton Plaza project areas—an increase of 28 percent in the project areas' total affordable housing inventory. To supplement the 20 percent tax increment set-aside, CCDC also successfully issued more than $60 million of tax allocation bonds during 2008 designated for increasing the availability of affordable housing in the Centre City and Horton Plaza project areas. Thus, CCDC has taken an active role to bolster the supply of affordable housing and complies with the explicit requirements stipulated in Redevelopment Law. However, as more fully discussed later in this chapter, despite increasing the inventory of affordable housing in the downtown area, CCDC has not met its own housing production targets and risks falling below the legal requirement for ensuring that at least 15 percent of housing units developed are for low-income households.

Community Stakeholders Rated CCDC's Overall Performance High

Based on interviews of redevelopment and community "stakeholders" from Downtown San Diego and surrounding areas, we found that most stakeholders generally rated CCDC highly as a redevelopment organization. Of particular note was CCDC's success in reducing bureaucracy and other barriers to development, expediting the design review and permitting processes, localizing redevelopment activities, encouraging community outreach and input, promoting the interests of downtown through public outreach campaigns, effectively facilitating infrastructure improvements, and taking on roles that stakeholders felt were neglected.

Respondents believed CCDC adequately fulfilled its role as the redevelopment organization for the downtown project areas, and noted that CCDC has done an excellent job facilitating development—though many stakeholders also cited opportunities for improvement such as enhancing economic development and quality of life issues. While this assessment is not meant to infer the sentiments of all stakeholders familiar with CCDC's operations, it does illustrate general satisfaction from those interviewed. Refer to Appendix A for a listing of stakeholders contacted.

[8] California Community Redevelopment Law, California Health and Safety Code §33334.2(a).

Additional Improvements Should Also Be Considered

Notwithstanding CCDC's implementation of many of the tools commonly deployed by other redevelopment organizations, we also noted areas where improvements can be made. As noted earlier, the Redevelopment Agency created CCDC with the expressed intent of expediting development projects in Downtown San Diego, which in turn would facilitate the removal of blighting influences, including incompatible and obnoxious land uses. This philosophy for redevelopment is incorporated within CCDC's various planning documents and advocated by staff and board members alike. However, our discussions with stakeholders and our review of redevelopment best practices revealed opportunities where CCDC could focus its attention so as to assure that key aspects of Redevelopment Law are not overlooked. Specifically, CCDC could incorporate additional methods to address economic development and social issues, take proactive steps to facilitate the production of more affordable housing, and consider the benefits of collecting fees and other sources of revenue.

CCDC Should Consider Activities to Encourage Economic Development and Address Social Issues

Since Redevelopment Law was first enacted in 1952, California's local redevelopment agencies have exercised special powers to eradicate blighting conditions in urban areas, such as eminent domain, TIF, and the ability to assemble and sell property.[9] While agencies may exercise these powers at their discretion, Redevelopment Law further asserts that:

> A fundamental purpose of redevelopment is to expand the supply of low- and moderate-income housing, expand employment opportunities for jobless, underemployed, and low-income persons, and to provide an environment for the social, economical, and psychological well-being of all citizens.[10]

As such, all redevelopment agencies—including organizations such as CCDC—must conduct their activities in a manner that addresses the economic and social needs of communities targeted for redevelopment. This focus is consistent with a San Diego City Council Policy on economic development, which states that "it is the policy of the City Council that the economic development program … utilize redevelopment as a major tool for revitalization of the City's urbanized areas" and calls for the inclusion of "employment, housing, infrastructure, social service, and other programs." [11]

There appears to be little disagreement that CCDC has met and often exceeded expectations related to facilitating infrastructure improvements in the Centre City and Horton Plaza project areas. However, it does not appear that CCDC has promoted

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[9] California Debt Advisory Commission, "Recommended Practices for California Redevelopment Agencies." April 1995.

[10] California Community Redevelopment Law, California Health and Safety Code §33071.

[11] City of San Diego Council Policy No. 900-01 – Economic Development.

economic development or social service delivery to the extent that CCDC's peers have—this represents one of the most cited concerns by community stakeholder groups, which at times expressed criticisms that CCDC is primarily orientated to facilitate development and thus, caters to developers.

Among the redevelopment agencies benchmarked, nearly all combine redevelopment activities with economic development and employment services in order to synergize the benefits of redevelopment. For instance, the Baltimore Development Corporation operates two business incubators that offer affordable space for early stage technology-based companies deciding to locate in the City of Baltimore. In addition to being able to take advantage of financial incentives of these "Emerging Technology Centers," businesses have opportunities to collaborate and network with other like-minded technology start-ups seeking to accelerate their growth potential.

Similarly, the San Jose Redevelopment Agency established a Software Business Cluster and an Environmental Business Center in 1994, and an Incubator Program in 2004 that created a bioscience business incubator (the "BioCenter"). San Jose reports that its Software Business Cluster in 1994 provides office space and business development services to start-up companies, and has "graduated over 120 companies, almost three quarters of which are still located in San Jose and employ over 1,500 workers;" its Environmental Business Center has assisted over 120 companies with approximately 1,000 employees; and its BioCenter is fully occupied with 24 client companies that employ 150 people.

The Community Redevelopment Agency of the City of Los Angeles fosters economic development by enforcing a living wage policy that requires developers and other contracting entities receiving financial assistance from the agency in excess of $100,000 to offer employees a higher minimum compensation for at least one year and up to five years if a recipient receives $1 million or more. This policy not only applies to contractors working specifically for the agency, but also to those receiving financial assistance as part of a development agreement such as a business owner seeking to improve the façade of a storefront. This policy serves the proprietary and societal concerns of the agency as well as addresses the intent of Redevelopment Law.

Other agencies, such as the San Francisco Redevelopment Agency, have executed discrete "Community Benefits Agreements" that require developers to provide a series of community benefit programs in exchange for development rights. The efforts pursued by other redevelopment agencies demonstrate the various methods available to CCDC to directly stimulate economic development, rather than relying indirectly on market forces and private enterprise to encourage economic growth. Other agencies' emphasis on economic development and social issues is often represented in the membership of their boards, which may include representatives of labor, education, environmental health, open space and parks, and community services.

It should be recognized that CCDC has taken some steps to address economic and social concerns in Downtown San Diego. For instance, CCDC, working in conjunction with a coalition of community partners within the City and County of San Diego, developed a

Social Issues Strategy in 1993 to address the needs of homeless individuals in the downtown area. A key component of this strategy was to address the need for affordable housing to very low-income residents by developing single-room occupancy housing. More recently, CCDC has allocated funding to social service initiatives, including the construction of a temporary homeless shelter in the East Village and CCDC's Health and Human Services Capital Funding Assistance Program. With regard to economic development, CCDC has partnered with several organizations—such as the Downtown San Diego Partnership, the Regional Economic Development Corporation, and the City's Economic Development Division—on specific initiatives and programs focused on increasing the marketability of Downtown San Diego as a livable community and an attractive destination for businesses to locate.

Often, CCDC works collaboratively with organizations that are interested in economic development and social issues; but, it does not consider this activity to be among its core functions. While CCDC has adhered to its Social Issues Strategy by developing a high proportion of very low-income housing, there has been little emphasis within CCDC to implement the remaining components of its Social Issues Strategy, which includes the provision of critical social services (related to drug counseling, mental health, and job training) as part of an overall comprehensive strategy. Similarly, other stakeholders indicated that CCDC has not sufficiently considered the needs of marginalized and at-risk groups in its planning efforts and has not fully assessed the social impacts of new development downtown, such as whether the jobs created downtown are permanent and offer a living wage and benefits.

However, this does not mean that CCDC is not fulfilling its mandate. CCDC was originally created by the Agency to facilitate downtown development as a design review and long-term planning organization; as a result, these economic and social aspects have not been a central focus of the organization. In fact, CCDC differs from the City of San Diego's Redevelopment Division and SEDC, which both appear to acknowledge the intrinsic and important relationship of economic development and redevelopment. The City capitalized on potential synergies by combining the Economic Development Division and the Redevelopment Division within the City Planning and Community Investment Department. Similarly, SEDC was largely created with the dual purpose of addressing the economic development and redevelopment challenges of Southeastern San Diego—an aspect that is memorialized in SEDC's mission statement.

CCDC, in contrast, has been principally oriented toward the more singular focus of redevelopment, which stems from the original purpose of CCDC as the Design Review Board responsible for land use and long-range planning for downtown. In particular, CCDC's Articles of Incorporation adopted in 1975 stipulate that the "specific and primary" purpose for the creation of the corporation is to provide redevelopment services—with no direct mention of economic development. As contrasted with SEDC's Articles of Incorporation, which explicitly highlight economic development and revitalization services as being among its core functions, CCDC has no formal mandate to pursue these activities.

Yet, despite this original focus, CCDC could better serve the City by considering enhancing its repertoire of redevelopment strategies to include economic development activities, especially since Redevelopment Law makes clear pronouncements regarding their importance. Although Redevelopment Law limits the use of TIF to "brick and mortar" projects that will eliminate blight or increase the supply of affordable housing, many agencies leveraged tax increment resources with other funding streams, including U.S Housing and Urban Development (HUD) grant funds to facilitate economic development. While obtaining new sources of revenue should be considered by CCDC as a way to supplement already existing tax increment receipts, this method may place additional pressure on already limited resources available to the City of San Diego. Additionally, CCDC could establish covenants within its development agreements as a means of achieving specific economic development and social service goals. According to CCDC management, "anything is possible" when negotiating the terms of a development agreement. As such, CCDC should consider ways it can more effectively use covenants to compel developers and other organizations to provide for the public good in exchange for development incentives. Examples of economic development initiatives could relate to job training and employment assistance, homebuyer assistance, or providing space for business incubators.

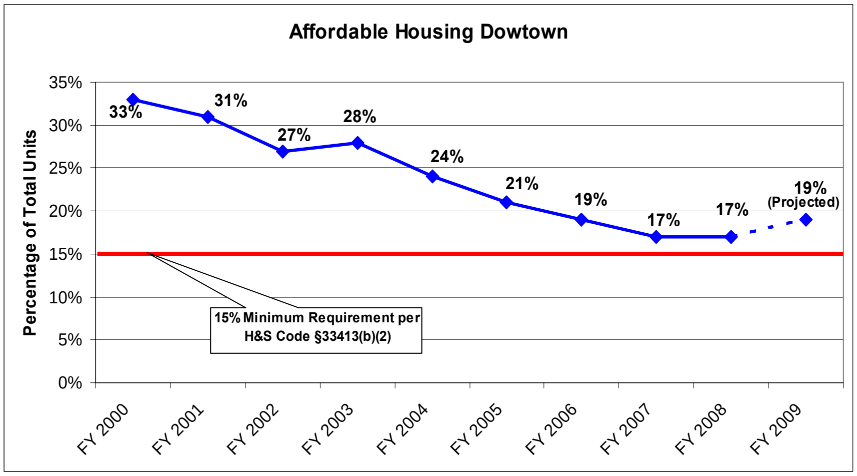
Given the immediate availability of these tools and their widespread application in other cities, CCDC should consider these techniques to enhance its services to San Diegans. While other organizations, such as San Diego's Economic Development Division and the San Diego Regional Economic Development Corporation, will remain central in the City's economic development activities, CCDC could leverage its development resources to further impact economic development in Downtown San Diego.

Despite Overall Increases in the Affordable Housing Inventory in the Centre City and Horton Plaza Project Areas, the Proportion of Affordable Housing to Market Rate Housing in these Areas has Declined by 50 Percent Since 2000

Despite demonstrable successes in increasing the supply of affordable housing in the Centre City and Horton Plaza project areas, and maintaining compliance with the 15 percent minimum requirement set forth in Redevelopment Law,[12] our review revealed that CCDC did not meet performance goals established by the Agency for delivering affordable housing between fiscal years 2004-2005 and 2008-2009. The overall percentage of residential housing in Downtown San Diego that is affordable to very low-, low-, and moderate-income residents has declined by 50 percent in a nine-year period. In 2000, affordable housing comprised 33 percent of the area's housing inventory, but by Fiscal Year 2007-2008 it had dropped to 17 percent, as shown in Exhibit 6.

[12] According to California Community Redevelopment Law (Health and Safety Code §33413 (b)(2)), "at least 15 percent of all new substantially rehabilitated dwelling units developed within a project area under the jurisdiction of an agency by public or private entities or persons other than the agency shall be available at affordable housing cost to, and occupied by, persons and families of low or moderate income. Not less than 40 percent of the dwelling units required to be available at affordable housing cost to, and occupied by, persons and families of low or moderate income shall be available at affordable housing cost to, and occupied by, very low income households."

Exhibit 6: Proportion of Affordable Housing in Downtown San Diego



Source: Center on Policy Initiatives "Priced Out: The Challenge of Affordable Housing Downtown," October 2005; and CCDC Housing Reports Fiscal Years 2004-2005 and 2008-2009

CCDC has been aware of this trend and has incorporated routine affordable housing updates into its monthly Corporation Reports to the Board; these reports highlight affordable housing projects currently in the pipeline, the projected number of units to be completed during the upcoming three-year period, and the anticipated proportion of affordable housing units in the project areas.

This decline is in part due to the significant increase in market-rate housing in the area over the five-year period between 2005 and 2009, and CCDC's difficulty in meeting its goals for affordable housing production targets to maintain parity during the same period. Specifically, while the total number of very low-income and market-rate housing units produced exceeded CCDC's projections, CCDC fell significantly short in producing housing units for low- to moderate-income residents over the aggregated 5-year period. As illustrated in Exhibit 7, CCDC produced only 33 percent of the 595 low- and moderate-income units projected to be produced between 2005 and 2009.

Exhibit 7: CCDC Affordable Housing Production Between Fiscal Years 2004-2005 and 2008-2009

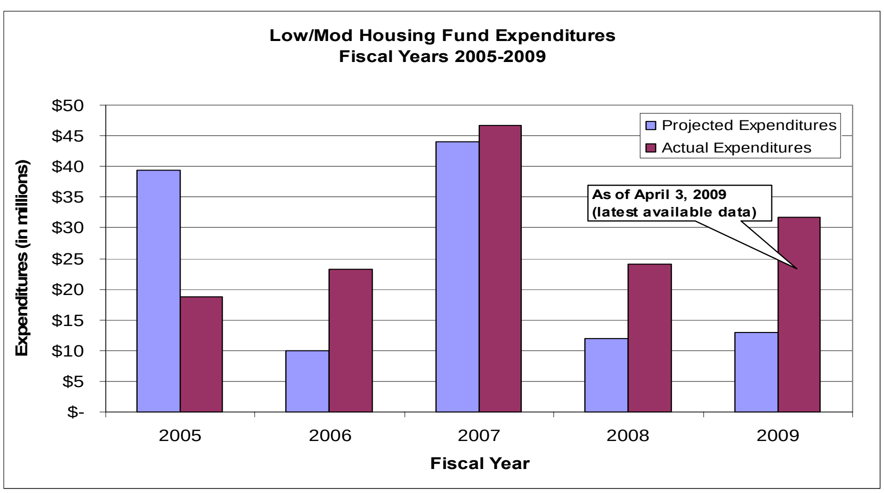
	Market Rate			Low/Moderate Income			Very Low Income			Total Units		
Fiscal Year	Goal	Actual	% Complete	Goal	Acutal	% Complete	Goal	Actual %	Complete	Goal	Actual	% Complete
2005	1,128	1,963	174%	119	27	23%	80	48	60%	1,327	2,038	154%
2006	1,128	1,034	92%	119	0	0%	80	0	0%	1,327	1,034	78%
2007	1,128	2,034	180%	119	44	37%	80	103	129%	1,327	2,181	164%
2008	1,128	909	81%	119	0	0%	80	0	0%	1,327	909	69%
2009	1,128	997	88%	119	127	107%	80	282	354%	1,327	1,406	106%
Total	**5,640**	**6,937**	**123%**	**595**	**198**	**33%**	**400**	**433**	**108%**	**6,635**	**7,568**	**114%**

Source: Goals derived from the Implementation Plans for the Centre City and Horton Plaza Redevelopment Projects (July 2004 – June 2009); actual derived from CCDC's Completed Residential Projects (July 2004 – June 2009).

Stakeholders cited steady declines in the percentage of affordable housing in the total housing inventory in the Centre City and Horton Plaza project areas as a barrier to encouraging more businesses to relocate downtown, and a key concern for future economic development. According to some stakeholders, this trend is exacerbated by CCDC's efforts focusing on very low-income and single-room occupancy housing, which is believed to be less conducive as workforce housing. Of the 631 affordable housing units developed between 2005 and 2009, 433 (or 69 percent) were designated for very low-income residents. Stakeholders further believed that the lack of affordable workforce housing downtown has pushed many workers out of downtown into surrounding communities, placing stress in outlying areas that are not equipped to handle the influx of new residents or the increased traffic congestion.

Between 2005 and 2009, CCDC estimated that it would expend $118.3 million and facilitate the production of 995 affordable housing units for very low-, low-, and moderate-income households. This figure was derived from the total estimated number of housing units (market-rate + affordable = 6,635 units) projected to be completed over the life of the Implementation Plan. Our analysis of affordable housing expenditures during the five-year period revealed a total of $144.3 million, or 22 percent more than the $118.3 million originally anticipated by CCDC in its Fiscal Year 2005-2009 Implementation Plan. According to CCDC, however, a significant portion of those expenditures—approximately $40 million—was used by the Agency for affordable housing projects outside the Centre City and Horton Plaza project areas as part of the city-wide Notice of Fund Availability (NOFA) program. As such, CCDC had less funding available to produce affordable housing units specifically within CCDC's project areas. While the total expenditures from the Centre City and Horton Plaza low/moderate housing funds exceeded CCDC's projections over the five-year period (as shown in Exhibit 8), these figures include CCDC's affordable housing expenditures as well as the portion extracted by the Agency for the NOFA program.

Exhibit 8: Projected vs. Actual "Low/Mod Housing Fund" Expenditures



Source: San Diego City Comptroller "Grant/Project Status Report"

Nevertheless, CCDC is at risk of non-compliance with Redevelopment Law if steps are not taken to facilitate the production of more affordable housing. Accordingly, CCDC management has acknowledged the necessity to ensure that the proportion of affordable units in the Centre City and Horton Plaza project areas remains above the 15 percent mandate. CCDC has already taken some steps to address this concern, including securing the availability of additional bond revenues for affordable housing production. CCDC management also indicated that if the proportion of affordable housing approaches the minimum 15 percent threshold, CCDC will implement a strategy that will place inclusionary housing requirements on future development permits or curtail the approval of new development permits for market-rate housing.

CCDC Could Increase Revenues to Offset Administrative Costs of Development Downtown

While the design review and permitting function in CCDC has received wide-ranging praise among stakeholders, two areas related to fees were raised as potential opportunities for improvement. First, fees associated with development permits can be based on full or partial cost recovery models, thereby offsetting costs incurred from processing development permits. The City's Development Services Department, for instance, uses individual deposit accounts when reviewing discretionary permits against which employees performing the review will bill their time directly. While CCDC previously eliminated all design review and permit processing fees for developers to lure private development, reinstituting these fees would help offset administrative costs incurred by CCDC and increase funds available for public improvements and redevelopment. During the course of our audit, CCDC commissioned a study evaluating the feasibility of implementing a cost-recovery model related to its design review and permit processing services. Once this study is complete, CCDC should work with the Agency and City to consider the feasibility of implementing a cost-recovery model for CCDC's design review and permitting operations.[13]

Secondly, Development Impact Fees were also suspended within specific project areas to facilitate redevelopment in Downtown San Diego. Although CCDC assesses Development Impact Fees for parks and public safety, transportation and library fees are not assessed. Again, CCDC should work with Agency and City officials in considering whether these fees could be revisited and charged to developers to help finance public infrastructure in conjunction with private development occurring in the Centre City and Horton Plaza project areas. Determining to not assess Development Impact Fees inherently impacts the general fund because there are fewer dollars available specifically for mitigating impacts of new development. Since the imposition of these fees would need to be considered by the City Council, CCDC should weigh its long-term project area goals with the need for additional funding and work with the City Council where practical to determine whether this revenue source would be beneficial.

[13] At the time of our review, CCDC staff had not finalized the release of its feasibility study.

CCDC's Success in Achieving Other Goals is Less Evident and Improvements in Performance and Progress Reporting are Necessary

Evaluating the adequacy, appropriateness, and achievement of CCDC's goals and performance measures is an exercise that requires a balance of both qualitative and quantitative evidence. Anecdotally, CCDC has garnered wide praise among community stakeholders who attribute the transformation of Downtown San Diego over the last three decades to CCDC's ability to facilitate and promote development projects such as the Horton Plaza Shopping Center in the early 1980s and the completion of Petco Park in 2004. Many stakeholders and observers of downtown agree that those projects were catalysts for an urban renaissance in Downtown San Diego. Quantitatively, CCDC reports increases in the number of residents and employees downtown, as well as increases tax revenues generated downtown. Nevertheless, CCDC can better demonstrate success, measure achievement, and attain more definitive and concrete management information by developing and tracking performance measures on an ongoing basis.

CCDC has set forth a broad mission to "to create a 24-hour livable community in Downtown San Diego by eliminating blight, providing housing, and stimulating the economy with the creation of jobs through public and private development," and has established hundreds of strategic goals for the redevelopment of Downtown San Diego. However, our analysis revealed that CCDC has not established adequate methods to define how it will achieve these goals or to measure its progress.

CCDC Does Not Effectively Define or Measure How it Intends to Achieve the Agency's Vision or the Goals Critical to CCDC's Success

CCDC's planning documents—the City's Downtown Community Plan, Agency's Redevelopment Plan and Implementation Plan, and CCDC's Work Plan—effectively convey the expansive vision and overall goals for redevelopment in Downtown San Diego. These planning documents establish the general direction of CCDC's redevelopment activities, define CCDC's approach to redevelop downtown, and provide a framework within which City and Agency officials and the public can assess CCDC's performance. For instance, these plans establish goals that include, among hundreds of others:

- Preserve historical and architecturally significant structures and sites (Redevelopment Plan);
- Systematic elimination of toxic substances in soils and groundwater (5-Year Implementation Plan);
- Develop a cohesive and attractive walking and bicycle system within downtown that provides links within the area to surrounding neighborhoods (Downtown Community Plan); and,
- Acquire and install additional new technology parking meters (Fiscal Year 2009 Work Plan).

These goals help establish a strategic vision, but do not include specific measurable milestones against which to evaluate performance—e.g. start and completion dates, cost projections, or quantities such as the number of parking meters, miles of bike path, etc. The Downtown Community Plan, Redevelopment Plan, and Implementation Plan are not conducive to providing this level of detail. However, given CCDC's projections that redevelopment activities within the project areas may cease within 13 years, we believe CCDC should devise a reporting mechanism that will set forth specific milestones and goals against which CCDC management, the Agency, and the public can evaluate progress as CCDC approaches its "sunset" dates/cap. According to CCDC, there is much to achieve within the next 13 years, including over $500 million in public improvement projects. Our review of various reporting mechanisms—including CCDC's budget (project forecasts, work plans and status reports, and performance metrics), the Agency's Annual Plan, the Downtown Community Task Force, and the mid-year Implementation Plan Accomplishments Report—do not sufficiently link the corporation's accomplishments with the broad strategic goals of the redevelopment projects and the Community Plan. As such, we found that existing reporting mechanisms are not adequately designed to demonstrate CCDC's goals for this 13-year period or its progress.

✓ *CCDC's budget incorporates various performance indicators*

As required by Redevelopment Law, CCDC's annual budgets include an annual Work Plan, a status report on the prior year's Work Plan, a three-year project budget forecast, and a one-page summary of performance metrics.[14] While each provides important performance-related information, each is insufficient to provide an adequate basis upon which to evaluate CCDC's performance. First, while a Work Plan is developed, it lacks the specificity required to evaluate progress. For instance, goals such as "awarding a contract for construction of the Quiet Zone" or "beginning construction of Pedestrian Bridge at Park Boulevard" do not specify milestone dates, projected implementation costs, or measurable quantities—each of which are necessary to determine whether CCDC achieved each goal as expected.

Second, an analysis of CCDC's Fiscal Year 2008-2009 Work Plan and subsequent Fiscal Year 2009-2010 Status Report included few meaningful details about projects slated to commence or be completed during the fiscal year. While not reported in CCDC's budget in this format, we created a side-by-side comparison of CCDC's Work Plan and Status Report in Appendix B of this report to demonstrate the level of information provided. CCDC's Status Report does not sufficiently demonstrate CCDC's progress against its prior year Work Plan because it does not include the goals set forth in the prior year Work Plan, it does not address all goals set forth, and it only includes vague or general indicators of its activity or progress associated with other goals—such as "In Process" or "In Design." For example, CCDC projected that it would "complete design and begin construction of Bayside Fire Station" during Fiscal Year 2008-2009; the Status Report indicates that this project is "In Design," but offers no explanation of why construction has not commenced or whether the design is nearing completion. In another example, CCDC stated that it will "increase

[14] California Community Redevelopment Law, California Health and Safety Code §33606.

community outreach and economic development marketing program" as one of its goals for Fiscal Year 2008-2009. Similarly CCDC reported only that it was "in process," leaving several questions regarding the specific efforts that were undertaken, whether those efforts yielded quantifiable results (e.g. new businesses for the Centre City and Horton Plaza project areas) and whether these meet the expectations of the Agency.

Third, CCDC's budget includes a high-level estimation of project expenditures over the upcoming three fiscal years as a way to demonstrate how it expects to allocate resources among certain project categories, such as parks, fire stations, public art, and land acquisition. This schedule provides an indication of the projects and activities CCDC intends to pursue over a three-year period, and is useful for budgeting purposes. However, it is not sufficient to provide a basis for evaluating longer-term progress in implementing the Downtown Community Plan or in achieving established goals.

Finally, the one-page performance summary included in CCDC's budget, while highlighting several important statistics, does not provide any indication of whether CCDC met or is making progress in achieving the goals set forth by the Agency. This report focuses on reporting outputs, such as the total number of housing units, hotel rooms, and office and retail space developed; rough estimates of construction and permanent jobs created; estimated additional tax revenues resulting from CCDC's project areas; and CCDC's ratio of public investment to assessed property values. In no case are any of these tied to or compared with stated goals or objectives.

✓ *The Agency's Annual Report illustrates key activities or events occurring within each project area during the reporting period, but is not designed to demonstrate CCDC's progress in implementing the Community Plan or its Implementation Plan, or in achieving established goals.*

CCDC also incorporates information related to its activities into the Agency's Annual Report. As a requirement of Redevelopment Law, these reports are useful tools for identifying the activities and actions taken during the previous fiscal year to address blighting conditions and affordable housing within each project area. The Annual Report is compiled by the Redevelopment Division and includes project highlights, financial information from all three entities (CCDC, SEDC, and Redevelopment Division), and noteworthy accomplishments of CCDC. The annual report, however, does not serve the purpose of demonstrating progress in achieving specific goals articulated in planning documents, such as the Community Plan or Implementation Plan, and does not provide such information.

✓ *The Downtown Community Plan Task Force was instrumental in obtaining community input regarding the implementation of the Community Plan.*

CCDC recently submitted a report to the City's Land Use and Housing Committee discussing the activities of an ad hoc Downtown Community Plan Task Force, created in 2006 by the City Council, to monitor the initial implementation of the

Downtown Community Plan. While the committee served its purpose by conducting a series of public hearings to discuss concerns related to the implementation of the plan, the report provided few specific details related to progress and performance toward fulfilling more than 130 goals and 190 policies addressed throughout the Downtown Community Plan.

✓ *The Mid-Term Accomplishments Report provided an opportunity to critically assess CCDC's progress.*

In September 2006, when the Agency held a public hearing to discuss mid-term progress of the 5-year Implementation Plan. Although Redevelopment Law requires periodic hearings "for the purpose of reviewing the redevelopment plan and the corresponding implementation plan for each redevelopment project,"[15] CCDC's Mid-Term Accomplishments Report lacked critical information regarding progress toward the achievement of specific goals. With one goal to "design and implement new street lighting system … that will improve public safety and deter crime," CCDC reported that it installed 51 lights as part of its Street Lighting/Lighting Conversion project in the East Village. This alone does not provide sufficient indication of the relationship between CCDC's activities and the progress toward achieving specific goals—that is, whether the 51 installed lights fulfilled CCDC's objective or just the beginning, or whether the 51 installed lights were completed on schedule or had been delayed as well as whether actual costs were within budgeted levels. Moreover, no benchmark or outcome information is provided against which one can evaluate CCDC's performance, and determine whether goals were met to add a sufficient number of lights, make the area safer, and reduce accidents. Establishing specific and measurable goals, and assessing progress in achieving those goals is critical to determining overall success.

In the limited instances where a specific measurable goal was established related to affordable housing units, CCDC did not report its performance or progress against the established goal at the mid-term hearing or in its amended mid-term Implementation Plan. Specifically, a 2004 plan projected a goal to produce 1,715 low- to moderate-income housing units over the five-year period at a cost of $80 million. Rather than reporting on the progress related to these initial projections, including the amount expended and units produced, CCDC amended its goals by decreasing the number of projected affordable units to 995 and increasing its cost projections to $118 million. While this action may have been a prudent decision given the steep increase in housing costs in San Diego at that time, CCDC lacked a clear articulation of why the figures were adjusted for actual expenditures or unit production during the intervening period between 2004 and 2006.

In addition to these, we found that CCDC has not established performance reporting tools that would be useful in evaluating or demonstrating how well CCDC performs several of its core business activities—including design review, permitting, or public improvement project management operations. As noted in Chapter III of this report, the CCDC Board

[15] California Community Redevelopment Law, California Health and Safety Code §33490(c).

receives significant project-related information including summary information regarding the progress of individual projects and aggregate output totals for the number of projects completed and number of permits issued, among others. This information is important to provide effective management and oversight. However, we believe that additional information is also valuable, not only for effective oversight, but also to increase transparency. For instance, as discussed in Appendix C, metrics assessing the timeliness and associated costs of CCDC's design review and permitting process will allow CCDC and the City to determine the relative benefits and costs of outsourcing this design review function. While anecdotal evidence provided by stakeholders expressed satisfaction with CCDC's performance in this and other areas, neither the Agency nor CCDC is able to evaluate CCDC's performance or whether it is operating efficiently—even when compared to its counterparts within the City.

The lack of detailed performance and progress reporting carries with it a number of drawbacks, including misperceptions of activities and achievements, as well as insufficient evidence to inform the public and decision-makers and to obtain their support.

When asked about this lack of meaningful performance data, CCDC management agreed that more detailed information would be valuable, but would also require additional staff resources. Several factors place significant importance on CCDC's ability to track progress and measure performance in the upcoming years, including the limited lifespan of the project areas. Given these challenges, well-crafted performance measures would provide critical information to decision-makers as CCDC faces potential mid-course adjustments requiring funding and efforts to be shifted in response to currently unanticipated needs. These circumstances illustrate the need for CCDC to engage in strategic planning that focuses on measurable results in relation to the many goals articulated in various planning documents. As such, we advise CCDC to critically assess its current performance in relation to its stated goals and develop a mechanism of reporting progress toward the achievement of those goals. In fact, CCDC has already begun to take steps in this direction. In March 2009, for instance, CCDC began including summarized indicators in its monthly Corporation Reports showing anticipated completion dates for existing public works projects. By April 2009, CCDC also started using bar charts to graphically depict percentage complete and expected completion dates for individual public works projects.

CCDC Should Introduce a Strategic Plan to Link Goals with Performance

Implementing a strategic plan could provide CCDC with a means to clearly articulate its role in the implementation of the Community Plan and establish specific metrics focused on achieving measurable results. In our view, the current framework for measuring and reporting performance in relation to these goals is not sufficiently oriented to account for the full spectrum of topics addressed in the Community Plan or the Redevelopment Plan, and does not cover the breadth of activities engaged in by CCDC.

✓ *Strategic planning represents a best practice for redevelopment agencies.*

In 1995, the California Debt Advisory Commission issued a report recommending that redevelopment agencies conduct strategic planning on a periodic basis to provide long-term direction to projects and programs. While CCDC's planning documents provide a general framework and direction for redevelopment activities, evaluating progress against these goals is problematic because they lack objective and measurable performance benchmarks. In order to provide a benchmark against which CCDC can assess its progress, CCDC must translate these strategic goals into specific, measurable, targeted, and prioritized performance goals.

Strategic planning represents a best practice for aligning redevelopment goals with objective measures of performance and is useful for prioritizing and staging projects. CCDC's current Work Plan only provides general information about its workload and does not provide details as to which projects are receiving priority over others. Strategic planning may resolve this ambiguity by providing a clear benchmark regarding when projects are slated to begin and end.

✓ *Useful strategic plans and performance reports tie achievements to goals.*

When compared to our eight benchmark redevelopment agencies, CCDC is similar to its peers relative to the amount of information provided through formal channels. However, some other agencies are more effective at linking performance information directly to stated goals. For instance, the Portland Development Commission (PDC) published a five-year strategic plan in 2008 outlining five specific strategies designed to help the agency achieve its mission and issued accomplishment reports to demonstrate PDC's activities and achievements throughout the year relative to the five goals. In doing so, Portland devised a Strategic Plan Performance Dashboard including specific performance metrics for each goal. For instance, Portland set out to promote sustainability and social equity, healthy neighborhoods, a vibrant central city, strong economic growth and a competitive region, effective stewardship over resources and operations, and employee investment. To evaluate progress, its Dashboard included among others the following metrics:

- Job retention and creation at businesses funded by PDC loans and grants, including those within targeted industry clusters compared to other industries;
- Changes in job and wage growth of businesses in PDC target industry clusters;
- The number and percentage of LEED (Leadership in Energy and Environmental Design) certified buildings in Portland that PDC helped fund or assist;
- Number of new businesses locating to the region, and the percent of those that were assisted by PDC recruitment efforts and economic development programs;
- Minority, women, and emerging small business spending on PDC-funded construction projects and percent utilization compared to target;

- Resident satisfaction ratings relating to livability, shopping and services, vibrancy, and experience with PDC;
- Direct PDC assistance to minority home buyers and existing home owners;
- Increase in the per acre assessed value of real property in project areas as compared to rest of the city, as well as private to public investment ratios to measure PDC success in leveraging public funds; and,
- Overall assessment of PDC Board and Agency governance (including evaluation criteria relating to the executive director's performance, applicability of existing agency goals, the Board's role in reviewing performance goals, key fiscal information and audit findings, and its policy-making activities).

In addition to including these metrics in its five-year Strategic Plan Performance Dashboard, Portland also issues annual Strategic Plan Accomplishments Reports highlighting its progress and key activities during the fiscal year. A similar tool could be used by CCDC or the Agency to establish milestones and goals for CCDC as it approaches its anticipated "sunset" date/cap, and to monitor ongoing progress throughout the remaining lifespan of CCDC.

Similarly, the San Jose Redevelopment Agency issued a mid-term progress report on its Five-Year Implementation Plan that effectively demonstrated how the agency's actual performance compared with goals established at the beginning of the five-year period, especially with regard to affordable housing. For example, the San Jose Redevelopment Agency reported that it had exceeded its goal for affordable housing production for the three-year period, facilitating the production of 2,611 inclusionary housing units over a three-year period whereas its goal was to produce 501 units. Unlike CCDC's Mid-Term Progress Report, San Jose clearly demonstrated three critical elements of performance reporting: 1) the goal; 2) the actual performance to-date; and 3) the percentage remaining to complete the goal.

A strategic plan could help CCDC clarify how it intends to achieve its goals; it should also begin to address how some of CCDC's core activities—including design review and permitting, management of public improvement projects, long-range planning, loan portfolio management, etc.—will continue to be carried out after the project areas expire. Moreover, developing an effective system of performance measures tying proposed resources and efforts to outcomes, and results will provide essential tools for demonstrating successes and identifying opportunities for improvement. Although CCDC employs many best practices as a redevelopment organization and regularly reports on the status of its activities, additional performance reports would enhance CCDC's ability to provide meaningful information to stakeholders, decision-makers, and the general public. Such metrics should address (See Appendix C for additional detail):

- Tracking outcomes, including the number jobs created and types, affordable housing units produced, new businesses established, number of businesses lost, etc.;

- Setting goals, objectives, and measures for evaluating CCDC effectiveness and performance and for outlining a plan of what it will set out to achieve as it approaches its "sunset" dates/cap;
- Matching CCDC goals established in its Implementation Plan, its Work Plan, and in other Agency-approved plans to objectives and specific measures; and,
- Setting benchmarks and comparing performance of design review and permitting activities, and management of public improvement projects to counterparts in the City.

By taking additional information into account, the City would have more tools available by which it could evaluate CCDC's performance and ensure that goals and objectives approved by the Agency are being achieved.

Conclusion and Recommendations:

Overall, our review of CCDC's redevelopment activities revealed a multitude of practices and approaches that have produced measurable, positive results for Downtown San Diego. However, its lack of a strategic plan and meaningful performance measures hinders its ability to fully demonstrate whether its actions on behalf of the San Diego Redevelopment Agency are producing the results desired by existing City leadership and the public. As such, the Agency and CCDC should consider the following recommendations:

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

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.

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).

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.

Chapter II – Existing Internal Controls over CCDC's Business Practices Require Improvement

While CCDC has realized noted success as a redevelopment organization, our evaluation of business practices, policies and procedures, and internal controls in place revealed multiple instances where controls were either missing or did not provide a sufficient level of assurance that public funds were being used efficiently and appropriately. Most importantly, we found that CCDC's internal controls over procurement, contracting, and expenditures relating to professional service agreements and corporation purchases were inconsistently followed and thus, were insufficient to adequately prevent or detect potentially inappropriate or unauthorized expenditures. However, fieldwork did reveal fewer issues with Agency expenditures than with CCDC's corporation expenditures. Generally, construction contracts were subjected to the City's competitive procurement process, and our review revealed relatively minor instances regarding the timely issuance and reporting of change orders. Similarly, our review of development agreements revealed necessary improvements relating to document retention policies, but did not reveal significant deficiencies in CCDC's management of development agreements.

Further, this audit did not reveal any evidence of fraud or misuse of funds. Rather, it revealed inconsistencies in competitive procurement practices, document retention, and expenditure processing, which when combined with the significant volume of transactions processed by CCDC, unnecessarily raises the risk that unauthorized or inappropriate expenditures may occur undetected. Exacerbating this, during the period under review CCDC had not adequately segregated incompatible duties—such as contract managers maintaining full authority and responsibility for administering CCDC's contracting procedures without independent oversight. Although CCDC meets state and local reporting requirements, these issues result in an insufficient internal control framework to prevent or deter inappropriate activities.

In addition, we noted that while CCDC does not maintain a significant amount of equipment and fixed assets, minor improvements could be made to better track and monitor these assets. We also noted that CCDC appears to employ adequate internal controls to ensure salary and incentive program awards (bonuses) are appropriately approved, processed, and incorporated into CCDC's budget.

While this Chapter discusses inconsistencies and lax controls in a variety of administrative areas, we found that CCDC had already begun taking steps to increase its internal controls, and management has indicated that additional improvements are underway.

Lax Controls over Procurement, Contracting, Development Agreements, and Expenditures Increase the Risk of Inappropriate or Unauthorized Expenditures

While managing a Fiscal Year 2008-2009 administrative budget of nearly $10 million and a redevelopment budget of more than $490 million (including prior year budget carryover amounts), CCDC relied extensively on hundreds of service, construction, development, and purchasing agreements. Given the magnitude of these expenditures, contract management and administration is critical to the success of each of CCDC's core activities. Private development projects are administered through Owner Participation Agreements (OPA) or Disposition and Development Agreements (DDA); public infrastructure projects are managed through professional service and private construction firms; and planning efforts are significantly dependent upon analyses conducted by consulting firms. During the period reviewed, CCDC:

- Administered approximately 212 professional service contracts—including 38 formal "on-call" contracts—valued at approximately $32.4 million; contracted services include professional development, information technology consulting, photography services, architectural and engineering, legal, environmental and geotechnical services, and marketing;
- Managed 19 public works construction contracts, totaling approximately $58.5 million—projects included building parks, street improvements, sidewalks and streetlights, a pedestrian bridge, and a variety of other public improvement projects;
- Entered into or completed 31 development agreements with private developers for the development of retail, residential, office, hotel, cultural and educational, and public improvement projects—which includes the investment of nearly $94 million for the acquisition and conveyance of real property, gap financing, and lending activities for affordable housing; and,
- Administered a Fiscal Year 2007-2008 budget of $2.5 million for corporate purchases and related expenditures, including employee travel, business lunches, furniture, supplies and equipment, legal services, marketing, telecommunications, transportation, and other administrative expenditures.

Despite CCDC's long-standing reliance on outsourced services, the absence of key written policies, inconsistent application of the limited policies that do exist, and insufficient independent oversight of contracting and purchasing activities contribute to a lax internal control environment in which inconsistencies can occur and potential conflicts of interest or abuses may go undetected. We found that CCDC did not always seek competition for public dollars when feasible or practical, or competitive practices were not always sufficiently documented. Further, CCDC lacked adequate document retention policies and practices, and did not demonstrate that it sufficiently reviewed invoices for goods and services to ensure that expenditures were authorized and appropriate. CCDC needs to strengthen controls over these business processes not only to safeguard the public's investment for the redevelopment of Downtown San Diego, but to afford more transparency and accountability in its activities.

CCDC Could Not Consistently Demonstrate that It Sought Adequate Competition Where Feasible or Practical

CCDC lacks the policies, procedures, and protocols to ensure that professional service agreements and corporate purchases were consistently solicited based on fair and open competitive processes designed to procure the highest quality goods or services at the most competitive price. In cases when sole-sourcing is appropriate we found inadequate protocols to document the rationale or justification for the sole-source awarding decision. By establishing a strong internal control environment, CCDC management, Board of Directors, and Agency officials can be confident that agreements expending public funds are consistently awarded to firms, developers, and suppliers providing the best goods or services at the most competitive price. Audit fieldwork revealed that CCDC lacked comprehensive formal protocols to assure fair and open competition where reasonable and practical; procurement and contracting practices were often not adequately documented; and, when deviations did occur where policies and procedures exist, CCDC lacked adequate internal controls to identify the breakdown. To address these, CCDC management revised and updated its contracting policy to provide greater oversight of sole-source agreements in April 2009, and in May 2009 shifted contract administration to its Finance and Administration Division for increased independent oversight of its contracting administration.

As discussed above, CCDC employs various types of contracts and each is subject to different competitive requirements and processes. The primary solicitation processes employed by CCDC are Requests for Bids (RFBs) used to procure contracts for construction, commodities, and non-professional services; Requests for Proposals (RFPs) for professional service and consulting contracts; and Requests for Qualifications (RFQs) used to establish pools of qualified consultants.

Expenditures and agreements relating to CCDC's internal operations—equipment, furniture, supplies—are subject to CCDC's purchasing guidelines that require purchases exceeding $2,000 to obtain a minimum of three competitive quotes—for those exceeding $3,000, quotes must be formal and in writing. Further, purchases exceeding $2,000 are required to be formalized into a purchase order or a contract. Construction contracts, on the other hand, are subject to the City's competitive awarding processes whereby CCDC issues RFBs, sealed bids are opened publicly by the City's Purchasing and Contracting Department, and the lowest responsive and responsible bidder is awarded the contract.

By contrast, while CCDC typically employs RFPs and RFQs to award professional service or consulting contracts, existing polices do not explicitly require CCDC to undergo competitive solicitations for such services—regardless of whether they support CCDC's internal operations (e.g. legal counsel) or the Agency's redevelopment projects (e.g. architectural and engineering firms). Though outdated, past policies provided general guidelines requiring competitive solicitations unless competition was found to be not feasible. However, at the time of our review, formal policies only required CCDC to obtain Board approval if an agreement exceeded $250,000 or an amendment exceeded $200,000; all those below this threshold are required to be disclosed to the Board during the regularly scheduled Board meeting following the contract award.

Likewise, while CCDC frequently uses RFQs to establish on-call agreements, existing policies do not explicitly require CCDC to seek competitive proposals from pre-qualified, “on-call” firms, though we found that CCDC does employ some competitive practices. In establishing on-call agreements, CCDC does not define specific tasks to be performed, specific deliverables to be provided, or specific timeframes within which the contractor must perform services—this is consistent with standard uses of on-call agreements. Instead, on-call agreements define a general scope or type of work that a contractor may perform on an as-needed basis. Once on-call agreements are in place, establishing a list of pre-qualified firms, specific work should be awarded to firms through “work orders” that set out the specific work to be performed and must fall within the parameters established by the agreement’s scope of work—best practices require CCDC to solicit proposals from multiple pre-qualified firms for each work order.[16]

To evaluate whether CCDC employs uniform and consistent procedures that ensure fair and open competition, when appropriate for the type of procurement, we selected a sample of expenditures, contracts, and agreements for testing.

- 6 public works construction contracts;
- 13 professional service and consulting contracts, including six project-specific and seven on-call agreements; and,
- 19 corporation expenditures and agreements meeting the $2,000 threshold requiring competition.

Our review of six construction contracts revealed that CCDC appeared to follow appropriate competitive procedures as set forth by the City. However, we found inconsistencies in the manner in which CCDC awarded other types of agreements, including corporation purchases, scope-specific professional service contracts, and on-call agreements. In all, our sample included six project-specific contracts, seven on-call agreements, and 19 corporate purchases—for a total of 32 agreements—requiring competitive solicitation. Of these, CCDC could not demonstrate that two project-specific contracts, three on-call agreements, and five corporation expenditures were sufficiently subjected to competitive procedures—for a total of 10, or 31 percent, of the 32 agreements requiring competition. While we discuss these inconsistencies below, it is important to note that the goods and services procured were consistent with what would be expected from a redevelopment organization. As such, these are not indicative of wrong-doing; rather, competitive procedures should be designed to ensure transparency, proper authorizations, and that CCDC receives the highest quality of goods and services at the most competitive price. The results of our testing are presented below:

✓ *CCDC utilizes the City’s standard bid policies and procedures to select construction contractors.*

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[16] In general, the use of master agreements is considered a best practice designed to ensure that frequently used services are performed by competent, pre-qualified contractors, while minimizing the time and resources typically consumed by government agencies in outsourcing work.

Once a public improvement construction project is authorized to move forward, CCDC requests the authority to issue an RFB from the Agency. Once authorized, CCDC creates and advertises the RFB and the project manager develops the specifications for the project based on architecture consultant design plans. RFBs are advertised in local periodicals, such as the Daily Transcript, on the Blue Hornet hiring website, and on CCDC's website. CCDC hosts a pre-bid meeting to answer developer questions about the bid. Bids are received at CCDC's offices, and then delivered to the City's Purchasing and Contracting Department to be publicly opened. The lowest bid is reviewed for responsiveness and if responsive, receives the contract award; CCDC has an agreement with the City and pays the City for these services. Once CCDC receives information from the City regarding the lowest responsive bidder CCDC requests approval to award the contract from both the CCDC Board and Agency Board. Once the recommended award is approved by the Agency, a Notice to Proceed is issued authorizing the contractor to commence work as stipulated in the contract specifications.

✓ *CCDC sole-sourced 2 of 6 project-specific professional service and consulting contracts.*

Of the six project-specific contracts reviewed in our sample, we identified two cases—amounting to over $1.6 million—for which CCDC did not solicit competition or lacked adequate documentation supporting the decision to sole-source the contract award. In one instance, CCDC sole-sourced a contract for design and project management services. According to CCDC, this contract was part of a large-scale, multi-agency project for which the selected consultant had performed prior work, and was deemed the only firm capable of performing the work, CCDC management determined the necessity to sole-source with this vendor, stating that Board members were well aware of the decision. However, this explanation was not documented to memorialize the rationale behind CCDC's awarding decision as to why competition was not practical or feasible, or demonstrating that only a single vendor could meet CCDC's needs.

CCDC's Equal Opportunity Handbook for Business Contracting and Employment states that regardless of whether a contract is sole-sourced or competitively procured, staff should prepare a staff report that includes the rationale and justification for the selection and awarding decision, the outreach efforts utilized, the number of respondents, the basis of selection and award decision, and the cost of services and time of performance. Although this is in line with best contracting practices and would formally memorialize awarding decisions in public record, we found that CCDC did not always prepare such reports. According to CCDC, Staff Reports were only prepared for contracts and contract amendments meeting the dollar threshold requiring Board approval; information regarding all other contracts and amendments is limited to the monthly corporation reports previously described.

Furthermore, even though CCDC management recognized that the total amount of the contract would ultimately exceed $1 million, CCDC initially executed the contract at $248,500, just below the $250,000 threshold requiring Board approval, to expedite the procurement process. As of May 2009, the contract amounted to over $1.2 million. This is consistent with a general practice we noted in our review of CCDC's professional service contracting practices; during the period under review we noted multiple instances where CCDC entered into contracts at lower dollar amounts, only to issue multiple amendments significantly increasing the contract amount. Although we did not identify contracts that appeared to be inappropriate, the contracts were initially entered into at dollar amounts below the threshold requiring Board approval, in some cases reducing the Boards ability to provide oversight over CCDC's contracting practices. In general, by awarding and amending contracts in this manner, CCDC increases risk that contracts could be executed in a manner that circumvents Board approval, and ultimately diminishes the Board's discretion to review contract award decisions of this magnitude.

The second case involved a sole-source contract for traffic engineering services, initially executed for $45,000. Documentation supporting this award was limited and did not sufficiently memorialize the selection of this consultant in public record. CCDC personnel indicated that the consultant was originally designated as a sub-consultant on another contract for one project, and was subsequently selected as a sole-source prime contractor to perform work on a separate, but related long-range planning study. Following this, CCDC issued two amendments increasing the sole-source contract by $400,000, and allowed the consultant to be used on an on-call basis; CCDC subsequently awarded additional work to the consultant to perform work on a third, but also related study. However, the scope of the agreement was never changed to reflect this additional work and each amendment fell just below the threshold requiring CCDC Board approval. According to a project manager for this contract, CCDC had developed a positive working relationship with the consultant and services provided were believed to be specialized. Nonetheless, even if the services were specialized and sole-sourcing was appropriate, CCDC should have justified the decision initially and documented the justification for the awarding decision in public record.

Competition Could Be Enhanced By:

- ✓ Ensuring policies are followed
- ✓ Soliciting RFPs from all on-call consultants for project task orders
- ✓ For multi-phase projects, disclosing total estimated contract award for all phases
- ✓ Documenting key decisions

As discussed further in this Chapter, CCDC management has already begun to take steps to provide increased oversight of sole-sourced contracts—including requiring the Chief Financial Officer to approve all sole-sourced contracts and the Board to approve all sole-sourced contracts exceeding $50,000. If fully implemented, this practice could better ensure proper authorization and transparency in awarding decisions.

To ensure sole-sourced contracts are justified and appropriate at the state level, sole-sourced contracts are also required to be submitted for approval with supporting documentation, including the cost information (budget) with sufficient detail to support and justify the cost of the contract; cost information for similar services (differences between the proposed and similar services should be noted and explained); special factors affecting the costs under the contract; and an explanation of why the awarding agency believes the costs are appropriate.[17]

✓ *While CCDC often employed on-call consultants, it did not regularly seek competition among on-call consultants when awarding work to assure that the most qualified firm was selected at the most competitive price.*

CCDC selected each of the seven on-call consultants for inclusion on CCDC's on-call master agreement listing through appropriate RFQ procedures—though in some cases contemporaneous documentation demonstrating CCDC's review of qualifications when creating its list of pre-qualified on-call firms was not maintained in contract files.

Our review of specific work performed under these seven agreements revealed two instances where projects were awarded without obtaining quotes from other pre-qualified on-call consultants. The dollar amount of each is minimal; nonetheless, competitive procedures were inconsistently applied. In one case, CCDC selected a consultant to provide $63,400 in environmental consulting services without obtaining proposals from any other pre-qualified environmental consultants. In the second case, CCDC amended a contract with an environmental remediation consultant to include $2,000 for the initial phase of an environmental remediation assessment on a different project without soliciting proposals from other pre-qualified consultants.

In a separate case, CCDC selected a contractor for appraisal services from the City of San Diego's pre-qualified list of 10 appraisers without soliciting quotes from the other nine pre-qualified appraisers.

We also identified an additional on-call agreement where only one vendor was pre-qualified for a specific type of service. In this case, although CCDC received five responses and interviewed two consultants for Historic Architectural consulting services, CCDC selected only one vendor for inclusion on the list and awarded a contract valued at $100,000 to that vendor. In fact, CCDC's list of on-call consultants reveals several instances in which only one vendor had been prequalified to perform services by CCDC. While in some cases, such as legal services, continuity of services requires CCDC to work with only one firm; nevertheless, by allowing only one pre-qualified firm to compete for work on future projects, CCDC effectively eliminated competition for other types of work for which competition may be beneficial.

The purpose of developing lists of on-call consultants is to secure through open competition a group of qualified consultants to perform certain types of work. As work orders are developed, the organization should obtain proposals from a number

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[17] Department of General Services. State Contracting Manual California.Vol. 1. California, 2005. §5.70 Non-Competitively Bid Contract Justification.

of the pre-qualified vendors to ensure the best value for specific work.[18] Ensuring the selection of the most qualified firm for a specific project, and assuring the most competitive pricing, requires the solicitation of multiple proposals. While CCDC lacks a formal policy regarding its use of on-call contracts, it appears that its intent is clear; the on-call contracts themselves state that "when opportunities arise," firms on the on-call list "will be sent a Request for Proposal." This is meant to guarantee qualified firms an opportunity to compete. Further, according to CCDC management, informal protocols are to rotate the usage of on-call consultants, or demonstrating intent to seek competition among on-call consultants. Because CCDC does not track its use of on-call consultants, or document its rotation practices, it could not demonstrate that this informal policy was actually put in practice. Although on-call agreements can afford organizations great flexibility and timesavings, such contracts must be used appropriately and not substituted for competitive contracting practices. Without adequate competition, CCDC cannot be assured it is receiving the best price, or that the selected firm is the most qualified to perform the specific work required for the project.

✓ *Policies requiring competitive procurement of goods and supplies were not always followed.*

CCDC could not demonstrate that it sought sufficient competition for five of the 19 expenditures requiring competitive solicitations—amounting to approximately $28,900 in corporation expenditures.

In one instance, we found that CCDC procured over $18,500 in furniture from one vendor without soliciting quotes from other vendors. During fieldwork, management expressed concerns that in Fiscal Year 2008-2009, established procurement processes were circumvented by management no longer employed by CCDC to procure nearly $141,000 in office furniture from a single vendor. According to CCDC management, these purchases were made under the purview of the former president during CCDC's relocation to its current offices.

We also noted instances where CCDC procured $2,200 in furniture from another vendor, $2,160 for promotional products, and paid for 2 catered events valued at over $4,500 and $2,200 without soliciting more than one quote. In one case, CCDC contacted three vendors to cater an event, but could not demonstrate that it obtained quotes for the $4,500 luncheon; instead only menus for each of the three vendors contacted were attached to the invoice. We found no other evidence of cost calculations or other quotations, and no ability to compare prices.

In addition to the 19 expenditures tested requiring competition, our analysis of corporate expenditures revealed an instance where multiple purchases valued at less

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[18] Contracting requirements at the federal, state and local levels illustrate best practices in the use and management of on-call agreements. For instance, the Federal Acquisition Streamlining Act of 1994—Fair opportunity procedures under multiple award task order contracts, states that "all contractors awarded such contracts shall be provided a fair opportunity to be considered, pursuant to procedures set forth in the contracts, for each task or delivery order in excess of $2,500 that is to be issued under and of the contracts."

than the $2,000 threshold were made to the same vendor. When combined, these invoices exceeded the $2,000 threshold. Specifically, CCDC utilizes the services of a local courier on average twice per month; while an individual invoice may amount to only $430; annual expenditure amount to nearly $3,900—indicating competition may be practical, feasible, and beneficial, yet was not attempted.

In many cases, it appears that the absence of formally documented policies and procedures detailing the responsibility and expectations of staff and management have contributed to a lax control environment. Nevertheless, CCDC does not consistently retain critical deliberative and evidentiary support to demonstrate that its contracting practices consistently result in fair and open competition. Our review of best practices in contracting at the federal, state, and local levels of government—including the City of San Diego—indicate the following as key documentary evidence required to support awarding decisions and maintain sufficient transparency:

- Evidence of advertising or public notification efforts;
- The original solicitation document (e.g., RFP, RFQ, RFB, Work Order, etc.), which should include a clearly defined scope of work, pre-established evaluation criteria, and the selection and evaluation procedures to be employed;
- Contemporaneous scoring or evaluation documentation, including evaluation results from interviews, when applicable; and,
- A formal recommendation from the evaluation panel or selection committee to the awarding authority (i.e., CCDC's president or Board), including a final ranking of all proposers; if the contract is sole-sourced, this formal recommendation should describe the rationale to justify why competition is not practical or beneficial.

Further, contemporaneous documentation relating to the evaluation process should be maintained in contract files for a minimum of three years after the termination of the agreement.

Assuring that such controls are implemented requires independent oversight by individuals not directly involved in the awarding decisions. Instead, there were no policies requiring that these steps be followed, or that key decisions be formally documented, and CCDC lacked independent oversight of these activities.

As noted previously, in April 2009, the Board recognized the need for increased controls and oversight over contracting and, as a result, CCDC has begun to take steps in the right direction. These steps include updating its *Cash Disbursement, Procurement, and Contracting Policy* to include more stringent contract approval thresholds and additional oversight over the approval of sole-source contracts—all sole-source contracts must be approved by the CFO, and those exceeding $50,000 require Board approval. Further, in May 2009 CCDC created an Audit Committee of the Board for the purpose of reviewing contracts, internal functions, compensation, and financial statements.

Inconsistent Record-Keeping and Document Retention Practices Diminish Transparency and Accountability in Development Agreements

Throughout the course of this review, we identified inconsistent record retention practices, and a lack of any authoritative policy regarding the types of records that should be maintained and for how long. In many instances where we requested certain support for transactions or decisions, CCDC personnel had difficulties locating requested documents related to specific projects. According to staff, records may have been disposed of during CCDC's relocation to its current offices in 2008—though there did not appear to be a standard protocol dictating which documents would be destroyed and which would be maintained—alternatively, decisions for record-keeping may have been made verbally and not based upon any policy or document. This was revealed throughout our testing of corporation purchasing and CCDC's procurement of professional service and consulting firms, as well as in CCDC's selection and oversight of developers when awarding Owner Participation Agreements (OPA) or Disposition and Development Agreements (DDA). Our review of 10 development agreements revealed several instances in which CCDC did not maintain critical contemporaneous documentation that could support CCDC's activities related to these agreements.

As part of this audit, we were asked to evaluate CCDC's development processes and the selection of developers in particular. To do so, we selected a sample of 10 of the 31 development agreements CCDC identified as being in process during the scope of our audit.

CCDC does not have specific parameters guiding when to require competitive sourcing for its development agreements and we found it employs both competitive and non-competitive processes to encourage private development. In some cases, CCDC publicly solicits proposals to develop a project; such procedures are typically memorialized in DDAs and are employed when CCDC seeks to develop Agency-owned parcels. In other cases, CCDC responds to development proposals initiated by private developers or property owners, which often require "gap" or "bridge" financing or land acquisition assistance before the developer can proceed with a project. In this case, CCDC must assess the merits of the developer/owner's proposed development and associated opportunity costs prior to entering into an OPA.

Three of the 10 development agreements were selected for reveiw and underwent competitive solicitation.[19] Of the three DDAs, two of them were solicited in 2000; both remained in our sample because there were relatively few competitively solicited DDAs to review and it is common practice in general to maintain contemporaneous documentation relating to the solicitation and awarding of contracts throughout the life of the contract. For two of three development projects that required competition—projects involving investments amounting to $1 million or the conveyance of Agency real

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[19] The 31 development agreements included OPAs, DDAs, Implementation Agreements (amendments to OPAs and DDAs), as well as master plans and other agreements. Of the 31 agreements, four were DDAs that were competitively solicited; we excluded one because we were informed that the agreement was under review and subject to litigation during our review.

estate—CCDC could not demonstrate that its Request for Qualification/Proposal process ensured the fair and competitive selection of developers. According to CCDC management, documentation for these agreements was disposed of by the individual project managers, in part because the original solicitations both took place in 2000. Despite the fact that development agreements may take years to result in a completed development project, maintaining contemporaneous documentation memorializing key decisions throughout the lifespan of the agreement is essential to ensuring transparency.

While evidence suggests that development agreements were subjected to competitive awarding procedures where warranted, the actual procedures employed could not be verified because CCDC did not retain contemporaneous documentation necessary to support awarding decisions. Board reports submitted to the Board by CCDC staff provided a basis for the Board to make an award decision, and indicate that competition was solicited; however, it is through adequate supporting documentation that decision-makers can have confidence in the veracity of the information upon which they make decisions. Further, supporting documentation is essential to ensure awarding decisions can withstand public scrutiny after-the-fact.

In addition to competitive solicitations, we found a lack of contemporaneous documentation demonstrating project management and oversight activities for development agreements. Specifically:

- ✓ *CCDC could not always demonstrate that developers complied with the Schedule of Performance outlined in development agreements.*

  The Schedule of Performance is used as a tool to assist in ensuring the developer delivers and conforms to the approved schedule and construction is kept on track. Nevertheless, we found that in five of the six projects that incorporated a Schedule of Performance, project files lacked critical contemporaneous documentation to support compliance with the Schedule, including evidence of the developer's submission of design drawings, schematics, and final construction drawings—all of which are necessary to demonstrate to the project manager and to inquiring parties that the project progressed as approved by the Agency Board.

- ✓ *Two of the 10 projects selected for review were subsidized through CCDC and therefore received "Draw Payments."*

  Under OPA and DDA provisions, developers may draw down funding from CCDC based on a project's progress that is explicitly tied to specific project-related milestones set forth in a Disbursement Schedule. However, we found that neither of the files for the two subsidized projects contained a Disbursement Schedule, and staff could not demonstrate that one existed. The Disbursement Schedule is a critical project management tool that enables the Project Manager to verify that agreed-upon milestones have been completed by the developer prior to CCDC issuing payment.

Inconsistent record-keeping and document retention practices diminishes transparency; inhibits CCDC's ability to provide assurance that tax dollars are spent in the most efficient, effective, and prudent manner possible; and presents barriers to project management succession. We found that in many cases turnover in CCDC staff led to situations in which no records existed to describe what happened regarding key project activities—including how developers were selected and how draw payments were reviewed and administered—nor could remaining staff explain or fill in gaps. Further, sufficient documentation is essential because it is the primary means of detecting whether practices are consistent with Board policy, Agency requests, and best practices; it facilitates public scrutiny and accountability; and it promotes openness and deters the potential for conflicts of interest or potential abuses from occurring. Although it is likely that the awarding of taxpayer dollars to private contractors and for public projects will involve some due process and documentation, not maintaining appropriate records to support decisions breaks down the control environment.

Well-run government and quasi-government agencies as well as private businesses adopt and follow record retention guidelines and, while CCDC is an independent corporation, we believe similar practices should be employed by CCDC where it expends taxpayer dollars. This should include, at a minimum, that contract files include certain documents or records memorializing defined key milestones or events such as the rationale for the method of procurement, selection of contract type, selection evaluation including reasons for contractor selection or rejection, and the basis for the contract price. Contract close-out procedures, are particularly important, and standardized close-out reviews could better ensure the integrity of contract administration and service delivery, and can better ensure that all necessary records and data are included in the files. Such information could include solicitation documentation, project start date, expected completion date, actual completion date, initial contract amount, total change orders, amendments, final contract amount, total expenditures, remaining contingency funds, explanations for delays, deliverable and payment schedules, dates of completion for key deliverables, certificates of completion, key deliverables, invoicing and payment documentation, important correspondence, and project manager notes. The compilation of this information would be helpful for stakeholders and management to assess the efficiency and performance of CCDC in completing projects on time and within budget.

CCDC Did Not Consistently Provide All Appropriate Contract Information to its Board

Although established reporting protocols exist, our testing of professional service and public works construction contracts revealed that CCDC did not always provide its Board with sufficient and accurate information about its contracting practices—thus, reducing the Board's ability to provide oversight and assert discretion. This includes occasionally representing sole-source contracts as having undergone a competitive procurement process, or not reporting scope expansions or change orders.

✓ *Sole-source professional service/consultant contracts were occasionally represented as competitive procurements.*

As noted previously, four of the 13 project-specific and on-call agreements requiring competitive sourcing were sole-sourced. Of the four, three contracts amounting to nearly $1.7 million were reported to the Board as having undergone competitive selection through RFP/RFQ process or by being selected from CCDC's pre-qualified list of on-call firms—either when the agreement was initially reported to the Board or subsequently when CCDC sought to amend the agreement. The CCDC Board established protocols requiring CCDC management to report to the Board the manner in which a contract was awarded recognizing that conditions exist whereby a sole-source contract is appropriate. Nonetheless, mischaracterizing these contracts circumvents this oversight.

- ✓ *Change orders for public works construction contracts tested were not disclosed to CCDC's Board.*

  Five of the six public works construction contracts tested included change orders; in all five cases, change orders amounting to less than $200,000 individually or combined—the threshold requiring CCDC Board and Agency Board approval—were not reported to CCDC's Board in the monthly Corporation Report as required by CCDC policy. For instance, for one public improvement construction project, the project manager did not disclose any of the four change orders, totaling $110,000, four percent of the original contract amount, to CCDC's Board in the monthly Corporation Reports. In another example involving the development of a community park, CCDC did not disclose six change orders totaling nearly $231,000 to the Board, or 12 percent of the total contract amount.

- ✓ *Current reporting methods do not provide the Board a complete perspective on CCDC's contracting activities and may create redundancies.*

  The Board's membership is comprised of volunteer, uncompensated individuals; with limited time to fulfill their duties, Board members are required to rely on the information presented by CCDC management to exercise their oversight role. This places increased importance on the methods employed to convey information to the Board. We believe that increased oversight could be facilitated by altering the manner in which contracting activity is routinely reported to the Board.

  For the three fiscal years reviewed during this audit, CCDC regularly disclosed new contracts, and contract amendments executed during the preceding month to its Board in monthly Corporation Reports. This report provides basic information such as the vendor name, initial contract amount, total contract amount, type of service, outreach effort (i.e. sole-source, RFP, or RFQ), workforce data, and the project manager. While this practice is important and indicates the Board's desire to remain informed, the current report format and content does not provide an adequate level of detail to enable the Board (or CCDC management) to exercise sufficient oversight or to monitor contracts approaching the expiration date, duplicative contracts, or maintain a complete contract universe.

  Based on CCDC's monthly Corporation Reports, we compiled a list of all contracts reported to the Board between calendar years 2006 and 2008, and found that in some cases, due to contract amendments, total values increased between 2 to 10 times the value of the original contract; these vendors continued to receive additional contracts or amendments. For instance, one contract was initially awarded in the amount of $100,000, after 7 amendments the contract amount had increased to $608,519—six times the initial amount. In another example, the contract was initially awarded for $230,901, after 8 amendments the contract was over 10 times the original amount, totaling $2,678,994. While such amendments may be valid, the current reporting system does not easily identify rising contract amounts or reveal patterns related to CCDC's contracting activities.

We also identified instances where contracts had no expiration dates, including one instance where CCDC expended its $200,000 limit on a 2005 contract only to continue charging $3,900 against an antiquated 2000 contract executed and approved under previous management and under a previous Board.

Tracking and monitoring an inventory of open contracts would better enable the Board and CCDC management to ensure they are aware of activity occurring on individual contracts. Such a listing could include elements such as the vendor name, the initial and amended contract amounts, number of amendments, date executed and expiration or termination date, services and deliverables provided, amount expended to date, and contract administrator.

As a result, Board members lack essential data to easily determine how often certain vendors are used, assess whether work is evenly spread amongst on-call consultants, evaluate the total amount of monies designated for various services, and ensure accountability and transparency of CCDC and its contract managers.

Expenditure Approval Practices and Controls Are Inadequate to Prevent or Detect Unauthorized or Inappropriate Expenditures

To understand and evaluate CCDC's business operating environment, we reviewed a sample of CCDC's operating expenditures, including employee expense claims and travel reimbursements, office supplies and equipment, marketing, and other purchases and procurements. Our examination revealed multiple instances where invoices lacked sufficient support to demonstrate appropriate review and approval processes prior to payment. For instance, more than half of the expenditures tested lacked requisitions, purchase orders, evidence of receipt of good or service, or secondary review or approval (3-point match) prior to issuing payment. We also noted $33,000 in costs related to employee entertainment and business lunches, and a lack of established guidelines regarding the appropriateness or acceptability of these expenditures. In each case, these expenditures do not appear to be an inappropriate use of public funds; rather, the lack of documentary support or evidence of detailed invoice reviews illustrates inconsistencies in how expenditures were approved, reviewed, and processed. These inconsistencies increase the risk that unauthorized expenditures could be processed. For example, we identified instances where payments were charged to incorrect accounts in the fiscal system, one instance where an invoice was charged to the incorrect agreement or contract, and occasions where CCDC paid invoices that included work or rates that were not reflected in approved agreements.

According to CCDC, upon receipt invoices are sent to the requesting employee to verify that the good or service were received. Invoices are then reviewed by the Finance Manager, who conducts a 3-point match and are then processed in the fiscal system by the Business Manager. All corporation expenditures require two signatures on the check before payment is released. Our review of expenditures revealed several inconsistencies that diminish the effectiveness of CCDC's established controls. These are discussed below.

✓ *Multiple corporation expenditures tested lacked sufficient support, including appropriately approved requisitions, purchase orders, or evidence of a "3-point match" prior to approving payment.*

A review of 51 expenditures revealed several inconsistencies. Specifically,

- In 27 cases where prior authorization to purchase goods or services was required, we found that evidence of prior authorization was missing for six (or 22 percent) of the cases, including purchases relating to furniture, promotional materials, a holiday event, training, and awards. Existing CCDC policies require purchases over $500 be pre-authorized through a formal requisition. In several cases, a requisition was completed and submitted only after the purchase was made and the invoice was received, thus, negating the substance of the requirement. In addition, of the five travel expense claims requiring pre-approval (i.e. all out-of-town travel with the exception of the annual Urban Land Institute Conference) only two were pre-approved.

- For 19 purchases requiring a purchase order or a formal agreement, we found that CCDC did not issue a purchase order or agreement in two cases. CCDC policy requires that a purchase order be generated for all purchases over $2,000. In a third case—payments to San Diego's Data Processing Center—a memorandum of understanding to establish the services to be provided and agreed-upon rates did not exist. This is discussed further in this section.

- For the 33 non-employee reimbursement corporation expenditures reviewed, we found that nine did not contain evidence that a "3-point match" was performed by accounts payable personnel prior to issuing payment, including verifying that goods or services invoiced were received and ensuring that rates charged were consistent with a formal agreement. In one case, a corporation expenditure was charged to an on-call professional development contract, but a formal budget and schedule of performance was not established for the work as requested by the contract. According to CCDC accounts payable personnel, the work was unrelated to the contract, but records indicate $1,040 for training was charged to the contract nonetheless. As a result, the invoice was approved for payment without tying the service invoiced back to a requisition or a schedule of performance.

An appropriate control environment requires that in all procurements, verification of receipt of goods or services should be evident before approving payment. This verification should be provided by the individual responsible for overseeing the agreement and the delivery of the goods or services. Once receipt is confirmed by the individual responsible for overseeing delivery of the goods or services, the individual performing the accounts payable function must perform a 3-point match, which includes verifying that goods/services were received (usually using a shipping or packing list, or verification by an appropriate party that invoiced services delivered); the goods/services were authorized in the agreement (either the contract, purchase order, or requisition document); and the invoice appropriately reflects the cost provisions of the agreement.

Further, while CCDC requires two signatures on corporation checks, the inconsistencies identified during our review of expenditures minimizes the effectiveness of this control. Without the 3-point match, two signatures will ensure fiscal personnel are aware of the payments, but will not ensure the payments comport with existing agreement provisions.

We noted that neither the contract managers nor accounts payable personnel consistently reviewed invoices with the appropriate level of scrutiny to ensure all documentary evidence is in place prior to issuing payments.

✓ *CCDC Occasionally Approved Payment for Work or Rates that were not Reflected in Formal Agreements*

We found a few occasions where CCDC approved payments for work or rates not specified in contracts or purchasing agreements. While the dollar amounts approved for this work was relatively small, the significant volume of transactions processed by CCDC and the inconsistencies identified in this review suggest an unnecessary risk level. For instance, 4 of the 12 direct payments made against the professional service contracts in our sample revealed that CCDC paid for work or paid rates not adequately reflected in the contracts.

- We selected 12 direct payments (in some instances there were multiple invoices included in a direct payment) from the 13 professional service contracts and work orders in our sample. In four of the 12 payments, we identified instances where CCDC paid for services that were not included in the scope of work. For one invoice of $40,300, the invoice included rate changes and additional units of work, which resulted in the invoice exceeding the agreed-upon amount by $900; as such, the approved invoice did not comport with the contract. Although CCDC was able to provide a reasonable explanation for the additional work provided, these changes in scope were not memorialized through an amendment. In another payment of nearly $48,600, CCDC paid $4,700 for a sub-consultant that was not authorized in the contract or pre-approved by CCDC. In a third instance, an invoice of $3,220 reflected additional traffic engineering services that were not covered in the original contract—the contract scope of work was never amended to reflect the changes. In the fourth example, the consultant provided $5,060 in additional work that was billed to the contract contingency. According to CCDC, due to the complexity of the project the contract included a 10 percent contingency for additional unforeseen work; while this explanation appears reasonable, additional work performed was never formalized in amendments, supplemental work orders, or other means that under this "as needed" provision would allow a 3-point match review to ensure the invoice agreed with the contract prior to payment.

As a result, each of the invoices could not be tied back to the contract or request for additional work to ensure costs were appropriate and authorized when approved by contract management or accounts payable personnel. Further, in each case, the contract files were incomplete and missing contract amendments memorializing changes in scope, or amendments were not issued at all.

- We also noted one example in which CCDC received and was billed for services provided by the San Diego Data Processing Center, an independent corporation providing information technology and systems services to the City of San Diego. Similar to a City department, the Data Processing Center provides services to other departments and bills them for services provided. Typically in this situation, an independent entity such as CCDC would have a Memorandum of Understanding in place to memorialize the services to be provided and the agreed-upon rates to be charged. No such agreement exists; as a result, CCDC is in a position where it cannot sufficiently review and scrutinize the invoices it is required to pay. In this instance, CCDC was billed more than $2,400 for monthly data processing services. CCDC should work with the City to formalize this and other relationships with City departments to memorialize agreed-upon services and associated rates to be charged.

CCDC does not always ensure contracts appropriately reflect or are amended to include the full scope of services to be delivered, or seek proper authorization in the form of amendments. In each case, these do not appear to be instances in which CCDC intended to circumvent competition by adding unrelated work to existing agreements. Nevertheless, CCDC should implement appropriate controls to ensure invoiced services and amounts agree with established agreement.

✓ *Although business and entertainment expenses are allowed under CCDC's operating agreement with the Agency, such expenditures should be limited and closely regulated by CCDC policies.*

During our review of CCDC expenditures, we identified numerous instances where CCDC reimbursed staff for expenses relating to marketing and fundraising events, business lunches and other meals, conferences and seminars, and other related events—but lacked sufficient policies or guidelines to regulate such expenditures. In Fiscal Year 2007-2008, CCDC expended nearly $18,000 for marketing events, tables at fundraisers for different causes, and miscellaneous functions. During the same period, CCDC paid nearly $67,700 for membership dues to a multitude of professional organizations, conferences, and seminars. However, CCDC lacks sufficient guidelines regarding the types of personal expenditures associated with these events that CCDC will reimburse, and we noted several instances in which staff did not obtain prior approval for these expenditures. Given CCDC's not-for-profit status and position in Downtown San Diego, these activities and expenses are not unexpected. Nevertheless, given their frequency, CCDC should implement improved controls and oversight of these expenses.

We also found numerous payments for in-town meals and business lunches, particularly lunches between employees, without adequate policies providing guidelines for such expenditures. A high level review of one year of CCDC's general ledger for Fiscal Year 2007-2008, revealed expenditures of nearly $15,400 for in-town meals—one third of this was used to pay for meals for the Centre City Advisory Committee and for the Downtown Information Center, while the remaining two-thirds was for business meals and meeting lunches.

Given the nature of CCDC, some level of community event sponsorship and organizational marketing is appropriate. Buying a table at a community fundraiser, providing volunteer meals, and supporting a professional membership such as Rotary International may be part of CCDC's business plan.

In fact, none of these expenditures are explicitly contradictory to CCDC's operating agreement with the Agency. The operating agreement specifically allows for general business expenses, "including travel, entertainment, membership dues, attendance at meetings and conferences, subscriptions, technical books and materials, garage expenses, transportation, including taxi fares, mileage and automobile rental, and the like." Nevertheless, guidelines should be established and such expenditures should be monitored.

Neither CCDC nor the Agency have established more detailed guidelines governing the allowability of corporation expenses funded through Agency monies—though CCDC does recognize the need for controlled spending and "per diem" caps on meals for its contractors. CCDC should do the same for its own staff by developing guidelines for meals and entertainment to ensure funds are not used inappropriately or excessively.

Overall, a key factor contributing to lax controls over expenditures is the lack of guidance provided by management indicating the types of allowable expenditures and the processes for procuring and approving such expenses. CCDC has not developed documented policies and procedures sufficiently delineating the roles and responsibilities of staff involved in CCDC's procurement and accounts payable activities, including differentiating the distinct responsibilities of project managers when reviewing and approving invoices with those of accounts payable personnel.

Incompatible Duties are not Adequately Segregated, which is Compounded by Broad Access to CCDC's Fiscal System

For the three year period under review, we found that CCDC did not sufficiently segregate conflicting duties among staff performing these functions. The inconsistencies identified during our review of CCDC agreements and expenditures, combined with inadequately segregated duties among staff and broad user access within CCDC's fiscal system, pose an increased risk of inappropriate and unauthorized expenditures. One of the primary contributing factors is the lack of comprehensive procedures that set forth the roles and responsibilities of key positions involved in the various business cycles, establish rules and expectations for reporting, assure compliance with Board policies, and memorialize the corporate tone and expectations.

CCDC Management Had Not Adequately Segregated Duties among Its Staff

In order to ensure public funds are appropriately spent and managed, it is important to adequately segregate conflicting duties so that no one person has access to a full business cycle. Segregating key duties provides important control features as well as additional layers of oversight, thus reducing the risk of inappropriate or unauthorized expenses. Our review of the controls and processes surrounding procurement, accounts payable, and payroll processes for the three year review period, revealed instances where a single employee performed incompatible duties, including the following:

✓ *Procurement activities were not adequately segregated among CCDC personnel.*

  In the area of professional service contracts, we noted that project managers were responsible for overseeing the solicitation and contract award, administering contract amendments, acting as contract administrators, overseeing delivery of services, and managing the contracts on a daily basis. Strong internal control guidelines and best business practices employed at the state, federal, and local government levels require that these functions be conducted by different individuals. Separating the duties not only reduces the perception that project managers could unfairly award projects to favored consultants, but also ensures that no one person can award, amend, and approve contracts; oversee the delivery of goods and services; and also sign off on invoices and payments. Requiring such segregation also assures that contracting processes maintain the appearance and reality of "arms-length" transactions, which is particularly important, as discussed later in this chapter, because we noted instances where CCDC personnel received gifts and gratuities from the contractors with which they were working.

  Actions taken by CCDC management after audit fieldwork was complete will segregate these responsibilities by maintaining the existing role of contract managers and reassigning the role of contract administration to CCDC's Finance and Administration Department. If implemented, this reassignment should provide adequate segregation of duties and sufficient management oversight of the contracting activities within CCDC.

  In addition, while less significant, we noted that the same employee ordering supplies is also responsible for receiving the goods without a second level review. While the invoice is reviewed by fiscal personnel prior to payment, there was no evidence of requests for supplies ordered attached to the invoice. Although we did not identify any inappropriate purchases during our review, this practice results in unnecessary and easily mitigated risks of potential fraud, waste and abuse—risk that could be reduced by segregating the receiving function from the procurement function and attaching the requisition request to the invoice for review prior to payment of the invoice.

- ✓ *Accounts payable activities were not adequately segregated.*

  We noted in an earlier discussion inconsistencies in the accounts payable process, resulting in invoices being processed without evidence of a thorough review or 3-point match, and that incompatible functions were not adequately segregated. The procurement function should be segregated from the receiving and accounts payable functions to assure that one person cannot initiate and process expenditures without the knowledge of another individual. In CCDC, the employee procuring goods, issuing the purchase order, receiving goods, processing payments, also has the ability to add, delete, and modify vendor information in the fiscal system—significantly increasing this risk.

- ✓ *Payroll processing activities were not adequately segregated.*

  In reviewing payroll operations, we found that one individual was responsible for entering the payroll information, generating the payroll register, approving the register, and printing the payroll checks. Even though two other individuals are required to sign payroll checks and deposit slips, this separation alone affords only a minor mitigating control and does not mitigate all unnecessary risk. Without reviewing the payroll register the check signers cannot be aware or appropriately informed about any overtime, penalty pay, or other adjustments to an employee's bi-weekly payroll amount to determine whether changes are justified or appropriate. Since the conduct of our audit fieldwork, CCDC has taken some corrective actions, now requiring that the payroll register be reviewed by a second employee prior to processing of payroll. Nonetheless, we found that underlying support, such as timesheets for hourly employees, were not included with the register, and there was no evidence on the register that it was reviewed prior to payroll processing.

CCDC management indicated it has recently reassigned duties to better segregate conflicting functions. For example the Finance Manager now reviews all corporation invoices and signs invoices indicating a review occurred prior to processing the vendor payment and the Human Resources Manager reviews the payroll register prior to processing payroll. Further, CCDC indicated that it recently updated its accounts payable process to better segregate conflicting functions. Because these reassigned responsibilities were not in place during the period under review we could not assess the changed processes. Nevertheless, it appears that, if followed, CCDC's new process would better mitigate the risk of inappropriate or unauthorized expenditures.

Access to CCDC's Fiscal System is Not Sufficiently Restricted

CCDC utilizes the fiscal system MAS90 to manage its corporate or operating funds. Generally, we noted that the data recorded in CCDC's fiscal system appears accurate, although testing revealed a few minor instances where transactions were recorded to the wrong account within MAS90. Based on CCDC's annual financial audit, which did not identify any similar errors, these coding errors did not appear to be systematic. However, we did find inadequate safeguards over access to the MAS90 system. Specifically, access granted to CCDC employees did not adequately segregate conflicting functions; employees were granted access to functions that were not necessary to perform daily duties and were assigned multiple user profiles; and former employees no longer with CCDC continue to have user profiles within the system. These are discussed in detail below.

✓ *System access is overly broad and grants access to functions that are unrelated to employees' assigned duties.*

The Finance Manager and Business Manager have complete access to the fiscal system—both have the ability to enter, update, modify, and delete vendor information, employee payroll information, park and post payments within the system, print checks, create new users, and add/modify/delete payments. Allowing such broad access significantly weakens the control environment by allowing an individual to potentially execute transactions without any oversight. In addition, by allowing access to both the accounts payable module and the procurement area sets up incompatible responsibilities—an individual performing accounts payable function should not have the ability to enter, modify, or delete vendor information in the system (procurement or vendor maintenance). Such permissions could enable a user to create a ghost vendor and generate a payment. While the risk is reduced because the Chief Financial Officer is required to sign all checks, during expenditure testing we found invoices lacked evidence of review prior to the Chief Financial Officer signing checks. Contributing to CCDC's overly broad system access is that three employees have been assigned multiple user profiles, a practice that increases the risk of one employee performing conflicting functions.

System Control Weaknesses:

- ✓ Access profiles are overly broad
- ✓ Users are granted multiple profiles
- ✓ Previous employees still have system access

✓ *User profiles do not sufficiently limit access to only those functions necessary to perform one's assigned duties.*

Our evaluation over MAS90 system controls revealed that employees generally have access to more functions than necessary to perform their daily duties. For instance, the Finance Manager and Business Manager, who fulfill primary roles in the procurement, payroll, or fiscal processes, have access to the system administrator function—providing unrestricted access to all areas of the system without any oversight or audit trail. For instance, the Finance Manager prepares CCDC's financial reports but as a system administrator also has the ability to purge the general ledger history or void transactions—a high-risk situation. To protect the security of information technology systems, system administrators are typically prohibited from holding user level responsibilities in the system they administer. As such, parallel access as a functional user and as the administrator poses a risk to the security of CCDC's financial assets.

According to management, due to CCDC's small number of fiscal staff, employees are often granted additional access for back-up purposes. Given CCDC's limited staffing, we acknowledge the need for multiple users to have access to the system; however, it must be recognized that doing so increases the risk of inappropriate or unauthorized expenditures.

✓ *User profiles for two former employees remained in the corporation fiscal system.*

Although no longer in CCDC employment, we noted that two former employees still had active user profiles within the MAS90 system. One employee has the highest levels of system access while the other has accounts payable system access. According to CCDC management, while the user profiles for each individual remain in the system, the system is sufficiently password protected to preclude unauthorized access. Nevertheless, an important component in an organization's control environment is the "exit process" in which access to systems and other secure areas once required to perform assigned functions is eliminated for employees changing positions or terminating employment.

These weaknesses in system security further exacerbate the already compromised internal controls identified in this report. In order to ensure the integrity of data recorded in the fiscal system and strengthen the overall control environment, CCDC should review user access, remove prior employees' access to the system, limit users to one active profile, restrict access to only those employees who require access to perform daily functions, segregate conflicting functions among different personnel, and review system access to ensure access is restricted to functions necessary for daily tasks.

Additional Protocols are Required to Prevent or Detect Conflicts of Interest

As part of this review, we were asked to evaluate CCDC's conflict of interest provisions, and to determine whether conflict of interest situations existed as it relates to CCDC's procurement or expenditure activities. We found that CCDC's process and requirements for disclosing conflicts of interest were in concert with City policy and meet State reporting requirements; we also found that CCDC—designated employees filed Statements of Economic Interests when required and reported gifts on their Statements, as required by law. Prior to audit fieldwork, CCDC management commissioned independent reviews of the corporation's conflict of interest policies and practices. As a result of these reviews, CCDC management initiated several additional improvements to strengthen its controls over conflicts of interest. Between November 2008 and January 2009, CCDC developed additional guidance for employees regarding the types of information employees are required to disclose, established an internal tracking system to ensure all designated employees appropriately file Form 700—the Statement of Economic Interests—and began maintaining Statements on site for management and public review. In addition, CCDC's Board recently adopted a formal Code of Ethics, approved the creation of an internal audit committee, and established a whistle-blower program. These are all significant steps in improving CCDC's controls over conflicts of interest.

We reviewed Statements of Economic Interests filed with the City Clerk by CCDC's designated employees. In accordance with the operating agreement between CCDC and the Agency—which states that "no officer, director or employee of the Corporation shall acquire any financial interest, direct or indirect, in any land or property which may be acquired by Agency in the Project area"—we found no instances in which current employees or Board members reported owning real estate within the Centre City and Horton Plaza project areas. This is consistent with Redevelopment Law, which states that no agency employee that is in a position to make or influence decisions regarding the approval of plans or policies, or the formulation of a project area, shall acquire any interest in any property within the project area, with the exception of owning real property for residential use.[20] According to Redevelopment Law, "notwithstanding any other provision of law, an officer, employee, consultant, or agent of the agency or community, for personal residential use, may purchase or lease property within a project area after the agency has certified that the improvements to be constructed or the work to be done on the property to be purchased or leased have been completed, or has certified that no improvements need to be constructed or that no work needs to be done on the property"[21]

Our review of Statements of Economic Interests filed by designated employees did reveal, however, instances in which CCDC personnel received gifts and gratuities from contractors doing business with CCDC—creating the appearance of a potential conflict of interest. Examples of some of the gifts and gratuities reported by employees in their SEIs include:

- Sporting and Cultural events valued at $75 to $320 each;
- Golf tournaments valued at $100; and,
- Parties, award dinners, and grand opening events valued at $80 to $390 each.

To assure that the organization stands up to ethical principals in appearance and in fact, it is imperative that persons in decision-making positions avoid even the appearance of a conflict of interest, particularly evaluation panel members and contract managers. Best practices as demonstrated at the federal, state and local levels explicitly require a higher level of accountability among procurement and contract administrators with authority to

[20] California Community Redevelopment Law, California Health and Safety Code §33130.

[21] California Community Redevelopment Law, California Health and Safety Code §33130.5.

expend public funds. For instance, Federal Acquisition Regulations state, in no uncertain terms:

> As a rule, no Government employee may solicit or accept, directly or indirectly, any gratuity, gift, favor, entertainment, loan, or anything of monetary value from anyone who (a) has or is seeking to obtain Government business with the employee's agency, (b) conducts activities that are regulated by the employee's agency, or (c) has interests that may be substantially affected by the performance or nonperformance of the employee's official duties.[22]

While the City of San Diego Ethics Ordinance does not set forth provisions that are quite as specific, the intent is clear:

> It is the purpose and intent of the City Council of the City of San Diego … to assure that individuals and interest groups in our society have a fair and equal opportunity to participate in government, to embrace clear and unequivocal standards of disclosure and transparency in government so as *to avoid conflicts of interest and the appearance of conflicts of interest*; to increase understanding of the City Charter, ordinances, and the roles of City Officials; to help reinforce public trust in governmental institutions; and to assure that this Division is vigorously enforced. (emphasis added)[23]

In order to ensure the avoidance of conflicts of interest, in fact or appearance, no employee should solicit or accept gifts or gratuities of more than an immaterial value from those doing business with or seeking to do business with CCDC.

Improvements Can Be Made to Enhance Controls over Equipment and Fixed Assets

In general, CCDC employs many good practices to track and manage assets. We noted an online equipment check-out system and asset listings for both furniture and equipment falling below the $10,000 threshold as well as fixed assets. CCDC also appears to be appropriately reporting and recording real estate property to the Agency. Additionally, our inventory testing of fixed assets and highly sensitive, portable, and pilferable items—such as laptops, computers, and cell phones—did not identify any instances in which the asset was absent.

However, we noted a few opportunities to improve internal controls over the tracking, management, and storage of assets. These include the following.

✓ *Updating CCDC's equipment and asset inventory.*

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[22] Federal Acquisition Regulations §3.101-2.

[23] San Diego Municipal Code §27.3501.

While CCDC actively updates its inventory of fixed assets and its information technology assets, its “Fixture and Equipment Inventory” has not been updated since 2004, contains equipment dating back to 1978, and may include stale items that are no longer in use or were disposed. Further, management was unsure of the last date a physical inventory was conducted. With the recent move from CCDC’s previous office to CCDC’s new location, some items may not be accounted for, may have been redistributed to a different employee, or placed in off-site storage.

✓ *Sensitive, portable, and pilferable equipment could be better secured.*

We found that equipment, such as laptops and miscellaneous information technology equipment, was stored in unsecure locations—including the Computer Information Specialist’s office, server room, and an unused office—and CCDC’s online information technology tracking system had not been updated to include new equipment. While employees were required to “check-out” equipment through the online system, this system may be circumvented and equipment lost, stolen, or damaged without CCDC’s knowledge.

Best practice would be to first establish a policy for the recording of assets upon receipt, monitoring, and management of assets, and second to conduct an inventory of assets every one to three years to ensure assets are accounted for and are accurately recorded. To safeguard assets, CCDC should store equipment not in use in a locked and secure location. In addition, if equipment is no longer in use CCDC should consider salvaging old equipment. This is particularly important due to the fact that the agreement between CCDC and the City states “all supplies and equipment purchased shall be and remain the property of the Agency.” Under the current environment, the City may not be able to easily identify Agency assets and property.

Employee Salaries & Compensation Appear to be Appropriately Processed and Reported in CCDC’s Budget

The Centre City Development Corporation (CCDC) appears to employ adequate internal controls to ensure salary and incentive program awards (bonuses) are appropriately approved, processed, and incorporated into CCDC’s budget. In fact, our review of employee compensation, both salary and non-salary, did not reveal any instances of payments to personnel that were not approved and processed according to CCDC guidelines. We did not identify payments made to personnel that were inappropriately reflected in the approved CCDC budget, nor did we identify any that were explicitly deemed unallowable under the current operating agreement with the City.

As part of this audit, we were asked to identify the various forms of compensation provided by CCDC to its employees. During this review, we found that in addition to salaries, CCDC also provides the following benefits:

- Medical/Dental: CCDC offers employee Medical and Dental benefits; Fiscal Year 2007-2008 expenditures amounted to approximately $463,000. In addition to Medical and Dental Benefits, CCDC expended $540 during the same period to reimburse executive management for the “cost of annual physical examination by a licensed physician, hospital, or health clinic not covered under a group insurance plan offered by the Corporation” (e.g., “co-pays” and other fees not covered under CCDC’s medical and dental plans).

- Employer Contributions to Retirement Plans: Retirement benefits, including a “401(k)” plan and a tax deferred annuity, are fully funded by CCDC.
- Management Fringe Benefit Package: CCDC covers “supplemental life insurance premiums, premiums for dependent health insurance, parking, and/or tax deferred annuity contribution, or alternatively an equivalent cash payment” for executive management. Fiscal Year 2007-2008 expenditures amounted to nearly $22,000.
- Management Car Allowances: CCDC provides executive-level employees with monthly Auto Allowances ranging from $400 to $750. In Fiscal Year 2007-2008, CCDC expended $27,700 for Auto Allowance reimbursements.
- Parking and Transit Reimbursements: In Fiscal Year 2007-2008, CCDC expended $51,700 for parking and transit reimbursements for its employees.
- Cell Phone Reimbursements: 28 CCDC employee classifications are eligible to receive either a company paid cell phone or a one-time $50-$100 equipment reimbursement and monthly cell phone reimbursements ranging from $15 to $50.
- Tuition Reimbursements: CCDC reimburses “job-related education course costs;” for Fiscal Year 2007-2008, CCDC expended $800 for tuition reimbursements.
- Flexible Benefits: In Fiscal Year 2007-2008, CCDC expended approximately $2,000 on its flexible benefit plan.

All benefits provided were delineated in CCDC’s formal Human Resources Manual, and all but two types of compensation are reflected in the “Benefits” line item in CCDC’s budget. The two that were not included in the “Benefits” budget line item were Auto Allowances and Cell Phone Reimbursements, which were reflected in reasonable budget categories—Auto Expense and Telephone/Communications, respectively.

Conclusions and Recommendations

This audit did not identify any instances of fraud, waste, or abuse; nor did it reveal expenditures inconsistent with the operation of a non-profit or a redevelopment organization. At the same time, it did reveal inconsistencies in CCDC’s internal controls over procurement, contracting, development agreements, and expenditures, rendering them insufficient to adequately prevent or detect potentially inappropriate or unauthorized expenditures. When coupled with inadequately segregated duties, loose access to high-risk transactions in CCDC’s fiscal system, and the absence of detailed policies and guidance from management, CCDC management and Board lack a sufficiently strong control environment to ensure public funds are adequately safeguarded and potential conflicts of interest are prevented or detected.

To enhance internal controls and ensure CCDC is meeting its fiduciary responsibilities, CCDC should consider the following recommendations:

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.

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

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.

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.

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, amount expended to date, contract administrator, etc.

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

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.

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.

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.

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

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.

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.

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 wrong-doing.

- 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.

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.

Chapter III – Governance and Oversight Must be Strengthened to Enhance Transparency and Accountability

Subject to an operating agreement between CCDC and the Agency, CCDC is responsible to plan and perform all redevelopment activities in Downtown San Diego, and to manage a Fiscal Year 2008-2009 administrative budget of nearly $10 million and a redevelopment budget of more than $490 million (including $258 million in prior year budget carryovers). In delegating redevelopment powers and responsibilities to CCDC, the Agency is primarily responsible for oversight and approval of CCDC's redevelopment and design review activities. We found that CCDC is complying with its operating agreement and has created a successful model for redevelopment; at the same time, we found potentially significant internal control weaknesses and a limited ability to demonstrate progress toward achieving specific redevelopment goals through existing reporting methods. These factors have persisted because, in part, CCDC's Board and the Agency Board have not required CCDC management to track and report on key performance measures related to specific goals on a consistent basis, and have not required CCDC to employ an internal control structure sufficient to safeguard public assets. Several steps have already been taken by both CCDC and the Agency to substantially increase the level of oversight provided over CCDC's redevelopment activities and business processes. The following chapter further outlines areas where both the Board and the Agency can continue to increase the level of oversight provided to better ensure CCDC is performing as expected.

Governance of CCDC is Primarily the Responsibility of its Board, While the Agency Provides Additional Layers of Oversight

Unique among the largest redevelopment agencies in California, CCDC's organizational structure splits oversight responsibilities among the CCDC Board and the Agency Board. Although the non-profit CCDC is an independent corporation governed by its independent Board, CCDC is housed within the Redevelopment Agency of the City of San Diego (Agency). The City Council serves as the Redevelopment Agency Board, and the Mayor serves as the Agency's Executive Director—giving both elected bodies general oversight responsibilities related to CCDC.

Governance of CCDC is the Responsibility of the CCDC Board

Established in CCDC's Articles of Incorporation, CCDC's Board exists to govern and guide CCDC's activities through its oversight function. Precluded from accepting compensation for their role as Board members, CCDC's seven member volunteer Board is responsible for the governance of CCDC and for serving as the Design Review Board for the Centre City and Horton Plaza project areas.

To ensure the Board is able to provide adequate oversight of these activities, CCDC's Bylaws grant the Board of Directors the powers to:

- Conduct, manage and control the affairs and business of the corporation;
- Borrow money and incur indebtedness for the purpose of the corporation;
- Appoint an Executive Committee and other committees, and to delegate any powers and authority of the Board to the Executive Committee; and
- Designate individuals authorized to sign and endorse corporation checks, orders for payment of money, notes or other indebtedness.

The Board is further authorized to appoint and remove the President, who provides supervision, direction and control of the day-to-day business and management of CCDC, and holds the authority to appoint and remove all employees of the corporation. While CCDC's Bylaws explicitly grant the President this responsibility, it also designates the Board Chair as the Chief Executive Officer (CEO) of the corporation, and grants him/her "general" supervision, direction and control of the business and officers of the corporation. In addition to the responsibilities of the Board outlined in CCDC's Bylaws and operating agreement with the Agency, the Agency also required the CCDC Board—as the Design Review Board for the Centre City and Horton Plaza project areas—to provide direct review and approval authority for all projects governed by an Owner Participation Agreements (OPA) or Disposition and Development Agreements (DDA) or development permits reaching certain thresholds.

The Agency is Responsible to Oversee CCDC Activities

While CCDC is an independent non-profit corporation, its existence and authority is subject to the will of the City. In 1975, the City created CCDC for the purpose of administering redevelopment activities and established the City as the sole member of the corporation. As such, the City may, at its discretion, amend the Bylaws to grant or restrict the powers of the corporation, or eliminate the corporation altogether.

Established pursuant to Redevelopment Law, the Agency Bylaws designate members of the City Council as the Chairman, Vice Chairman and members of the Board. Annual redevelopment budgets and all redevelopment projects require Agency Board approval. The Agency Bylaws further establish the position of Executive Director of the Agency, a position—currently assigned to the Mayor of San Diego—that has general supervision over the administration of the business and affairs of the Agency.

The Agency delegated certain powers provided to it by Redevelopment Law to CCDC through an operating agreement established in 1981. This agreement empowers CCDC to:

- Perform redevelopment activities, including managing assigned project areas;
- Acquire and dispose of real estate, and ensure residential and business relocation services when required;
- Administer the review process for private and public construction projects;
- Administer the design and construction of site improvements, as well as work to be performed by other City departments;

- Provide planning services required for project execution, as well as other long range planning activities;
- Employ personnel and contracted consultants, and provide staff resources and project information to the Agency;
- Report to the Agency, including submitting budget proposals, accounting, and other prescribed and ad hoc reports to the Agency; and,
- Prepare recommendations to the Agency.

As the sole member of the corporation, the City is authorized to appoint and remove directors, who serve three-year terms. The Mayor and members of the City Council may attend and participate in deliberations or make recommendations at any meeting or committee of the Board, and may compel CCDC to report to the Agency on all its activities. CCDC must abide by actions taken, directives given, and policies adopted by the Agency. As such, CCDC and its Board are accountable to the Agency, which is responsible for overseeing the performance of CCDC under the terms of the operating agreement.

In the Past, the CCDC Board did not Adequately Oversee CCDC's Internal Operations, but has Taken Recent Corrective Actions

While CCDC management is responsible for executing redevelopment policy and projects, it is incumbent upon the CCDC Board to oversee CCDC's activities and operations. In fulfilling that role, we found that CCDC's Board was actively involved in and well informed of CCDC's redevelopment efforts and project-related activities. However, the Board provided insufficient oversight of CCDC's internal business activities, which contributed to the inconsistencies evident in the purchasing, contracting, and expenditure processing activities cited in Chapter II of this report.

CCDC's Board Provided Significant Project-Focused Oversight, but Did Not Provide Sufficient Oversight of Business Operations

In its oversight role, CCDC's Board of Directors held nearly 20 regularly scheduled and special meetings annually, a level consistent with other redevelopment agencies. In addition, the Board's real estate and budget, finance, and administration committees also each held 10 regularly scheduled meetings annually. In addition to meeting regularly as a the full Board or in committees, individual Board members have also recently become more active in CCDC's day-to-day operations, participating in management and project team meeting in order to increase their oversight and familiarity with CCDC's operations. Despite the frequency of Board and committee meetings, and the significant involvement of individual Board members in various CCDC operations, we found that the Board's oversight focused primarily on redevelopment and project-related activities with inadequate focus on CCDC's controls and business practices.

Through its review of periodic CCDC reports and regularly docketed agenda items, the Board exercised oversight related to long-range and current planning, implementation strategies, programs and activities, project development, design review activities, financial planning and forecasting, budgeting, and contracting activities. Information regularly reviewed and deliberated by the Board is further reflected in Corporation Reports and Staff Reports submitted by CCDC management and staff, and includes:

- Briefings from prior committee meetings;
- Project status updates for projects under construction or in the pipeline, as well as a summary of the number of units developed by type;
- Summary information regarding new and proceeding permit applications;
- Summary of contract activity during the preceding month, including the type of service, contract amounts, amendments and change orders, type of competitive sourcing, and contractor workforce information;
- Pending business opportunities, including Invitations to Bid and Requests for Proposals;
- Summary of significant activities, including budget discussions and project approvals from recent Agency and City Council meetings;
- Forecasts of affordable housing percentages for upcoming fiscal years; and,
- Recent public outreach, marketing highlights, and website access statistics.

These reports are detailed and inform the Board of CCDC's monthly progress in completing specific projects and other notable activities or accomplishments, and illustrate the substantial project-focused oversight exercised by the Board.

At the same time, however, while it appears that the Budget, Finance, and Administration (BFA) Committee was intended to focus more closely on business operations—i.e., "financial planning, forecasting, budgeting, audit, contracts (and amendments) and equal opportunity" activities—the Board's involvement primarily consisted of setting policy (e.g., covering topics such as conflicts of interest, public records act, procurement and human resources). Other activities focused on reviewing the findings of the external audit of CCDC's financial statements, and reviewing individual contracts and amendments presented that meet CCDC's thresholds for Board approval. Our analysis of BFA Committee meetings held between June 2008 and May 2009 revealed that members typically discussed topics such as project agreement status, parking management agreements, budget amendments, and consent items such as changes to policies. And, in one instance, we noted management provided a three-year budget-to-actual comparison for the committees review.

However, we found no instances in which the BFA Committee inquired of staff or management regarding general controls in place to ensure compliance with Board policies or to assess internal business practices. For instance, the committee did not appear to address areas such as CCDC's controls over competitive procurement or contract administration. Similarly, there was little oversight exercised over expenditure practices, payroll processing, or potential conflicts of interest where the committee could have reviewed CCDC's practices for processing payroll and expenditures, reviewed employee Statements of Economic Interests, and various ad hoc reports detailing CCDC's expenditures.

CCDC's Board has Taken Recent Actions that Strengthen Administration and Accountability

In response to comments and criticism from the public and stakeholders, CCDC's Board began taking a more proactive approach to its oversight of CCDC's policies and practices. According to CCDC Board members and management, there was a recognition prior to hiring CCDC's most recent President that the Board was inadequately involved in or aware of CCDC's internal operations. According to some, Board members were precluded by management from interacting with CCDC personnel and engaging in operational activities. With the hiring of CCDC's former President, the Board began to take a much more active role in its oversight activities, and in some cases participated in management and project meetings. This, according to existing management, created a much more transparent and inclusive environment in which CCDC's internal operations were exposed to CCDC's oversight body and where areas of concern could be publicly addressed. For instance, the Board issued a November 2007 "Transparency Initiative Memorandum" to address key areas of public concern, including public works project budget overruns, employee compensation, Board involvement, and procurement and contracting practices.

<u>Recent Actions to Improve Oversight:</u>

- ✓ Updated Public Records Policy
- ✓ Reviewed Conflict of Interest Code and Ethics Policy
- ✓ Sought Public Feedback for Hiring of New President
- ✓ Adopted Policies for Disclosure of Interests
- ✓ Updated Cash Handling, Procurement, and Contracting Policy to Provide Additional Oversight
- ✓ Assigned Directors to Oversee CCDC Core Operations
- ✓ Created an Audit Committee to Increase Oversight
- ✓ Required CCDC's Finance Dept. to Oversee Contracts

Efforts were further expanded in September 2008 to address conflict of interest and ethics concerns raised after the departure of CCDC's President. CCDC engaged special counsel to review its conflict reporting, monitoring protocols, as well as ethics and conflicts training. As a result, the Board updated CCDC's conflict of interest and ethics policy, created the *Policy for Disclosure of Interests in Discretionary Actions and Development Agreements*, delivered additional ethics training for its Board and staff, and more recently created a whistle-blower program. Recent actions also include updating public records policy to ensure full disclosure of information in timely manner; obtaining public feedback for the hiring of a new president; updating its cash handling, procurement, and contracting policy to provide additional oversight; and assigning directors to oversee substantive areas of CCDC's core business activities.

Further, in May 2009, CCDC's CEO and Board Chair issued a memorandum setting forth additional oversight procedures. Specifically, CCDC created an Audit Committee comprised of the Board Chair, Board Treasurer, and the Chair of the Budget, Finance, and Administration Committee for the purpose of reviewing contracts, internal functions, compensation, and financial statements. CCDC's Chief Executive Officer and Board Chair also eliminated the role of contract administration and oversight from the Public Works Department, which was previously responsible for managing public improvement projects and for providing contract administration and oversight of the contracts that they managed—thereby addressing some of the segregation of duties issues raised in Chapter II. The responsibility of contract administration and oversight, as well as the responsibility to review and approve all sole-source contracts will reside with CCDC's Finance Department. These steps, if implemented, could significantly improve CCDC's oversight activities, and would better position CCDC to prevent and detect deficiencies in the future.

Additionally, management indicated that it was in the process of gathering and revising all internal policies, procedures, and administrative forms that may have become obsolete or overlooked. CCDC management indicated that it will continue efforts to review existing policies and practices, standardize them where practical, and implement processes to ensure conformity with Board policies.

More Direct Oversight of Operational Issues is Needed to Enhance Governance of CCDC

While the business practices employed to achieve redevelopment successes are appropriately left to the discretion of CCDC management, CCDC's Board has a fiduciary responsibility to be reasonably assured that CCDC management implements sound business practices and that strong management controls exist. The following recommended improvements to enhance Board oversight represents a challenge for CCDC. While additional oversight is critical, CCDC relies on a volunteer uncompensated Board membership that is already significantly involved in providing project-related oversight, and who are individually involved in certain CCDC operations. Time constraints alone will require CCDC management to work with the Board to devise a feasible method for facilitating increased Board oversight into its internal business operations. Nevertheless, given CCDC's management of multi-million dollar public improvement projects, it is imperative that the Board address the following issues:

✓ *Oversight of management's performance as it relates to each of CCDC's core activities is lacking.*

  As discussed in Chapter I, CCDC is engaged in several core business activities, including administering redevelopment projects, managing public improvement projects, performing design review and permitting activities, and managing a substantial loan portfolio. While the Board reviewed CCDC's Corporation Reports and Staff Reports on the status of projects, the number and types of projects developed, and the amount of affordable housing units and permits issued, it should mandate that CCDC provide enhanced performance reporting in these areas:

  - Macro-level information is not provided to allow the Board to assess CCDC's overall management of public improvement projects, including data demonstrating whether projects are completed on time and within budget and the efficiency of project delivery methods by the ratio of project delivery costs (project management, consultants, etc.) to the total cost of the project. While some of this information is provided on a project-by-project basis, this information is not summarized for the Board. Evaluating performance in this manner would allow the Board to determine whether CCDC is performing efficiently.

- Similarly, needed performance metrics relating to CCDC's design review and permitting processes are not provided to the CCDC Board. Consequently, information essential to evaluating the efficiency and effectiveness of CCDC's practices is lacking. For instance, determining the length of time it takes CCDC personnel to review plans and process permits, as well as the cost associated with design review and permitting activities, would enable CCDC to evaluate existing practices and to determine whether it is performing efficiently.
- Despite managing a loan portfolio of $62.4 million, we found no instances in which the Board received or inquired regarding CCDC's loan management practices. Information regarding the make-up of CCDC's loan portfolio, loans in default, loan amounts forgiven, and additional lending options, are needed for adequate consideration.
- As discussed in Chapter I of this report, CCDC has established hundreds of goals through the Downtown Community Plan, Redevelopment Plan, 5-year Implementation Plan, and its annual Work Plans. While the annual Work Plan provides the most detailed set of goals set forth by CCDC, these goals are sometimes ambiguous, as is the manner in which CCDC reports on its progress in achieving these goals.

Ultimately, each of these areas should link goals and objectives to quantitative performance metrics, thereby allowing CCDC's Board and decision makers to assess whether CCDC is operating efficiently and effectively toward meeting its mission.

✓ *Little Oversight Regarding Internal Business Operations is Provided by the Board.*

While the CCDC Board had already established high level policies regarding approval thresholds and general procurement policies, the Board does not ensure that management and staff follows those policies. The Board does not require that information regarding practices and controls in place over procurement, contracting, and accounts payable activities are reported. While the Board does receive reports identifying contracts newly executed or amended during the prior month, we identified inaccuracies in these reports—as discussed in Chapter II—and the reports are not sufficient to allow the Board to provide broad oversight of CCDC's procurement and contracting activities as a whole.

Further, we found that the Board did not regularly review or require CCDC to report on the following:

- Practices and justification for sole-source procurements to ensure adequate competition that avoids potential conflicts of interests;

- The nature of dollar values, and reasons for amendments and construction change orders to monitor the overall impact to individual project schedules and budgets as well as operations as a whole;
- Adherence to established policies and procedures, including the application of standard competitive procurement requirements to avoid the circumvention of controls.
- Duties and assignment of staff to have confidence that conflicting duties are adequately segregated among staff; and,
- Potential conflict of interests, including acceptance of gifts and gratuities from contractors, consultants, and developers doing business with the corporation periodically, among personnel that could allow undue influence over CCDC decisions and inappropriate preferential treatment to certain contractors, consultants, or developers.

✓ *No Policies Outlining a Clear Line of Succession Have Been Formalized.*

According to CCDC's Bylaws, both the President and the Board Chair are responsible for the supervision, direction, and control of the day-to-day operations of the corporation. Fieldwork revealed that in the past the President typically provided day-to-day management and oversight of CCDC's operations, while the Board's role was primarily to serve as an oversight and policy-making body in addition to its role as the Design Review Board. While the President is specifically granted the responsibility to hire, discipline, and terminate employees as well as make operational management decisions as necessary and appropriate to effectively and efficiently conduct business, the Board Chair is also the Chief Executive Officer of the corporation with authority to provide general supervision, direction, and control of the business and officers of the corporation.

In mid-2008, the President of CCDC resigned her position, leaving the Board Chair—a part-time, voluntary, and uncompensated position—wholly responsible for the day-to-day management and overall direction of the corporation, and reporting the activities of the corporation to oversight and regulatory bodies. As of June 2009, the presidency has remained vacant and the long-term delay in hiring a successor has temporarily altered the reporting relationship between CCDC and its Board, placing the Board Chair in an operational management role. Thus, the Board Chair also has significant responsibilities to ensure adequate internal controls are in place, to reduce waste and inefficiencies, and prevent and/or detect potential wrongdoing, and ensure organizational success.

While this arrangement has enabled CCDC to weather the transition between presidents, it appears impractical in the long term—especially given the added layers of responsibilities placed upon a part-time, voluntary Board position. It has also provided a catalyst for many of the positive changes and improved internal controls occurring throughout the past year, and noted throughout this report. Despite this, the Board Chair recognized this arrangement as infeasible and informed us early in our fieldwork his intent to recommend a change in CCDC's Bylaws. Standard business practice provides for delineating a clear line of succession and transfer of authority and responsibilities from the president to another executive management position with the requisite skills and expertise. This is absent in CCDC's Bylaws, and may require CCDC to work with the City to identify an alternative.

While the Agency Relied on CCDC to Provide Redevelopment Services, It Did Not Perform Due Diligence Oversight of Its Activities

While granting CCDC the responsibility to plan and perform redevelopment activities in Downtown San Diego, the operating agreement between the Agency and CCDC establishes several mechanisms through which the Agency may oversee and even participate in the redevelopment activities and business practices of CCDC. Specifically, the operating agreement assigned powers and responsibilities to CCDC and required CCDC to report regarding its activities and its use of Agency monies, undergo annual financial audits, and obtain approval for annual budgets and redevelopment projects before expending Agency resources.

While Budget- and Project-Related Matters Often Require Board Approval, Existing Oversight of CCDC Activities Primarily Consists of a Series of Reporting Requirements

Under the operating agreement, the Mayor as the Executive Director of the Agency and the City Council functioning as the Redevelopment Agency Board can compel CCDC to report to the Agency on all its activities. Specifically, the operating agreement requires CCDC to periodically submit proposed budgets, certifications of funds availability prior to entering into contracts, income and expense statements, an annual Statement of Revenues and Expenses, and annual financial statement audits in addition to any other items specifically requested by the Agency. In some cases, CCDC provided more information than required by the agreement, such as:

- Information relating to all Board meetings and committee meetings, including agendas, minutes, and corporation and staff reports;
- Design review proposals and recommendations, construction contracts, and consultant contracts exceeding $250,000 to the Agency Board for review;
- Vendor invoices and supporting documentation, as well as debt, bond, and asset reports;
- Underlying redevelopment activity data to assist in the preparation of the Agency Budget, Annual Report, California State Controller Report, California Department of Housing and Community Development Report, and the California Redevelopment Agency Property Report;
- Information regarding property acquired to assist the Redevelopment Division, the Real Estate Asset Division, and Agency's liability insurance company; and,
- Additional ad hoc reports produced by CCDC upon request.

Additionally, recent efforts have been initiated by the Agency to increase the consistency of budgetary documents that would better facilitate the review by the City's Independent Budget Analyst, as well as actions to increase the level of oversight and review of expenditures performed by the City Comptroller. In addition to these, as of May 2009, as many as 25 recommendations to improve Agency governance and oversight were under deliberation by the Mayor and City Council. These include authorizing the Mayor to appoint CCDC's president and a voting member of the Board, requiring the CCDC Board to adopt various policies and procedures regarding key business processes, and granting the Agency explicit rights to audit and inspect CCDC records and activities. The Agency's efforts, if implemented, appear to significantly increase the Agency's ability to provide oversight and hold CCDC accountable for fulfilling its redevelopment and fiduciary responsibilities.

Nevertheless, at the time of our review, much of the Agency's oversight was dependent upon the reports prepared and submitted by CCDC. As such, similar to the CCDC Board, the Agency did not have critical information regarding CCDC's internal operations and its performance—including metrics demonstrating CCDC's efficiency and effectiveness in performing some of its core functions. Nor did the Agency have critical information relating to CCDC's internal operations, including the processes employed to execute agreements, project management and oversight activities, loan portfolio management, and other internal controls. As an oversight body we would not expect the Agency to provide the same level of oversight as CCDC's Board would be required to provide as a governing body; nevertheless, the Agency should increase the breadth of oversight of both CCDC's redevelopment activities *and* its internal business practices. Thus, the Agency as an oversight body requires additional information than is currently stipulated in the existing operating agreement.

Agency's Operating Agreement with CCDC Does not Require All Information Needed by the City

While the CCDC Board is appropriately charged with oversight and decision making over CCDC management and activities, the Agency recognizes its fiduciary responsibility to the City of San Diego to monitor its operating agreement with CCDC, ensure an appropriate organizational structure and business model is in place, and provide general oversight of the expenditure of public funds and the ultimate outcomes of CCDC's redevelopment efforts.

Recognizing that the existing level of oversight did not provide sufficient assurance—particularly in light of the departure of the CCDC President in 2008—the City of San Diego vigorously sought potential remedies. Multiple reports and recommendations have been issued by the Mayor's Office, City Auditor, Independent Budget Analyst, City Attorney, Department of City Planning and Community Investment, CCDC, and San Diego County Grand Jury in both Fiscal Years 2007-2008 and 2008-2009—each of which raised critical issues pertaining to the governance and oversight of CCDC. As of May 2009, a series of recommendations were being considered by the City, addressing key issues for improvement.

We found that the existing operating agreement is antiquated and allowed CCDC to operate independently from the Agency without sufficient restrictions and oversight. Given that the Agency entered into its operating agreement with CCDC more than 25 years ago, it is critical that the agreement's provisions and requirements be revised. Numerous stakeholders within the city government also commented that CCDC's operating agreement with the City needs to be amended to include additional provisions for oversight and accountability. Specifically, we found that the existing operating agreement is lacking the following provisions or requirements:

✓ *CCDC is not required to demonstrate that it employs an internal control structure sufficient to safeguard public assets.*

Currently, the agreement does not require CCDC to employ sound business practices and internal controls or to provide assurances that its business practices sufficiently safeguard public funds. For example, the operating agreement does not:

- Require that contracts be awarded in a manner that promotes fair and open competition so that the best price and quality of service is obtained;
- Clearly define unauthorized costs to avoid inappropriate expenditures;
- Require audits or formal assessments of CCDC's compliance with terms of the agreement;
- Address the appearances of conflicts in accepting gifts and gratuities from contractors, consultants, and developers doing business with CCDC; and,
- Establish audit provisions to review CCDC's performance and operations.

As noted previously, proposed recommendations currently under deliberation by the Mayor and City Council address many of these concerns. If adopted, procedures must be put in place to ensure CCDC complies with the Agency's new requirements. While the business practices employed to achieve redevelopment successes are appropriately left to the discretion of CCDC management, CCDC's Board and the Agency Board both have a fiduciary responsibility to ensure compliance with Agency policies, and to ensure that CCDC management has implemented sound business practices and control environment.

✓ *Little specificity exists regarding allowable expenditures.*

Currently, the agreement allows a wide variety of corporation office expenses and overhead expenditures to be funded by the Agency, including "rent, taxes, furnishings, office supplies and equipment, repairs, duplicating services, postage, telephone, telegraph and other utility services, liability, casualty and fidelity insurance, moving expenses and the like." Similarly, it allows for business expenses such as "travel, entertainment, membership dues, attendance at meetings and conferences, subscriptions, technical books and materials, garage expenses, transportation, including taxi fares, mileage and automobile rental, and the like." Due to the broad and somewhat vague contract provisions, CCDC has vast discretion on spending public funds and the current agreement does not provide an adequate basis for the Agency to disallow expenditures that it may deem unauthorized or inappropriate, nor does it provide CCDC with sufficient guidance.

Government contracts commonly include provisions restricting travel and entertainment, employee meals and perquisites, and alcohol; and contracts commonly set forth per diem rates. It is also not uncommon for restrictions to be placed on tuition reimbursements, to ensure the education is related to the one's job function, or on subscriptions and conferences, to assure they are business related. Furthermore, outdated provisions and vague terms (e.g. "and the like") create ambiguities in determining the allowability of expenditures.

- ✓ *CCDC is not required to identify specific performance measures and report progress toward attaining specific and measurable goals.*

  As described in Chapter I of this report, CCDC is not required to report sufficient performance metrics to the Agency that could assist the Agency in measuring the return on its investment. Current performance reports issued to the Agency are limited, including a one-page performance summary for inclusion in the CCDC budget citing several output indicators such as the total number of housing units, hotel rooms, and office and retail space developed; rough estimates of construction and permanent jobs created; estimated additional tax revenues resulting from CCDC's project areas; and CCDC's ratio of public investment to assessed property values—though no goals or objectives are stated—as well as the status of CCDC's prior year and current year Work Plans. Without improved performance reporting, Agency and City officials, as well as community stakeholders, may not have the information they need to make key policy decisions, hold CCDC accountable for engaging in sound business practices and achieving results, and provide the level of transparency expected of a corporation managing millions in taxpayer dollars.

- ✓ *The unclear delineation of the roles and responsibilities of the Executive Director and the Agency Board regarding CCDC has become important.*

  Recent events have caused many stakeholders and Agency and City officials to clarify the role of the Mayor as the Executive Director of the Redevelopment Agency. We found that the operating agreement neglected to define and discuss the role of the Agency's Executive Director altogether. The Agency's Bylaws state that the Executive Director is responsible for general supervision over the administration of the business and affairs of the Agency. Thus, the Executive Director, more than any other position in the Agency, appears responsible for overseeing the administration of redevelopment activities throughout the Agency's project areas. The operating agreement, however, is silent on CCDC's responsibilities under the Executive Director's supervision and what, if any, reporting relationship exists between the Executive Director and CCDC.

- ✓ *Although several City agencies provide oversight or interact with CCDC, no single "contract administrator" exists.*

During our review we found that many City agencies either interact with or have purview over CCDC's operations. In some cases, these agencies provide direct oversight, including the Mayor and City Council as part of fulfilling their Agency roles. Other entities exercise oversight over limited aspects of CCDC's activities such as the City Attorney, which acts as general counsel to the Agency; the Independent Budget Analyst, which reviews and submits analyses of CCDC-related matters appearing before the Agency or City Council; and the Comptroller, which reviews and authorizes expenditure payments. Additionally, the City Planning Commission, Department of Engineering and Capital Projects, Development Services Department, Real Estate Asset Department, and Department of City Planning and Community Investment, among other agencies, play pivotal roles when interacting with CCDC's design review, public improvement, permitting, land acquisition, and long-range planning activities.

Despite this myriad of interactions, we found that no single office or "contract administrator" provided sufficient and consistent oversight of the breadth of CCDC's activities. Each entity only reviews a portion of CCDC operations—and often the results may not be shared or known by the Agency or other key departments. Yet, proper contract administration, monitoring, and oversight is essential to promote transparency, improve performance, and ensure compliance with the operating agreement. This includes considering routine or periodic reviews of corporation activities, inspecting corporate records and documents without advance notice, or conducting periodic performance audits. Other factors to consider include incorporating or evaluating existing performance standards, clearly establishing criteria for allowable or appropriate expenditures, incorporating provisions detailing oversight roles and responsibilities, and delineating specific deliverables and timeframes for the purposes of standard or periodic reporting.

Conclusions and Recommendations

In order to ensure that the Agency and CCDC Board have sufficient information to assure CCDC is performing as expected and that its assets are reasonably protected, and to better assure CCDC's Board provides sufficient oversight of CCDC's business practices, we recommend that the CCDC Board:

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.

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.

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.

We further recommend that the Agency:

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.

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.

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.

Appendix A – Listing of Stakeholders Interviewed

During the course of audit fieldwork, we interviewed representatives of the following organizations and agencies:

1) San Diego City Council/Redevelopment Agency Board
2) Office of the Mayor
3) Office of the San Diego City Attorney
4) Office of the Independent Budget Analyst
5) Centre City Development Corporation Board
6) Centre City Advisory Committee
7) City Planning and Community Investment Department
8) San Diego Redevelopment Division
9) City Development Services Department (DSD)
10) San Diego Housing Commission
11) San Diego Association of Governments (SANDAG)
12) San Diego Convention Center Corporation
13) San Diego Convention & Visitors Bureau
14) San Diego Unified Port District
15) Gaslamp Quarter Association
16) East Village Association
17) Little Italy Association
18) San Diego Downtown Partnership
19) San Diego Downtown Residents Group
20) Friends of Downtown (San Diego)
21) Downtown Parking Management Group
22) Downtown Residential Marketing Alliance
23) San Diego Regional Economic Development Corporation
24) Center on Policy Initiatives (CPI)

Appendix B – Comparison of CCDC's Fiscal Year 2009 Work Plan and Status Update

Fiscal Year 2009 Work Plan Goals	Status of FY 2009 Work Plan
Eliminate Blight (Centre City & Horton Plaza)	
• Acquire land for public parks and open space.	• In process, acquired 3 parcels in FY 09.
• Continue design and studies related to the revitalization of C Street	• Master Plan design work in process
• Assist funding for the design of C Street Master Plan, and public infrastructure in close proximity.	• In process
Improve Public Infrastructure (Centre City & Horton Plaza)	
• Complete design and begin construction of Bayside Fire Station	• In Design
• Continue design of parks and open spaces	• *[No Status Update]*
• Begin construction of Two America Plaza Park.	• On Hold
• Begin construction of Pedestrian Bridge at Park Boulevard	• Under construction
• Award contract for construction of the Quiet Zone.	• Construction Doc's Complete - Ready to Bid
• Construct improvements to sidewalks and install traffic signals	• In design
• Provide additional public parking with completion of design of a public parking facility.	• DDA Terminated (7th & Market Parking Facility)
• Implementation of the North Embarcadero Visionary Plan – Completion of Phase 1 construction documents.	• Completed Design of W. Broadway Phase
• Acquire and install additional new technology parking meters.	• Anticipate to purchase by the end of the Fiscal Year
• Assist funding for the design and/or construction of Bayside Fire Station, a public facility in close proximity to Horton Plaza Project Area.	• In Process
• Analyze the feasibility of locating public parking below a public park.	• *[No Status Update]*
Increase Affordable Housing (Centre City & Horton Plaza)	
• Complete construction of Studio 15, providing an additional 273 single-room occupancy units.	• Anticipated to be complete by end of Fiscal Year 2009
• Begin construction on Ten Fifty B (223 units) and Cedar Gateway (65 units), both emphasizing multi-family housing.	• Ten Fifty B – Under Construction • Cedar Gateway – Closed on land
• Enter into a DDA for a development of an Agency-owned site (Ninth & Broadway).	• Developer selected to enter into ENA
• Provide funding for 37 units for homeless seniors.	• Provided funding for 37 units for homeless seniors.

Fiscal Year 2009 Work Plan Goals	Status of FY 2009 Work Plan
Economic Development (Centre City & Horton Plaza)	
• Increase community outreach and economic development marketing program.	• In process
• Implementation of DDA for mixed-use development (Seventh & Market)	• DDA Terminated
• Review and process for approval a Master Plan Development for the Horton Plaza Retail Center.	• In process
Neighborhood Preservation (Centre City & Horton Plaza)	
• Begin implementation of DDA for the rehabilitation of an historic structure (Cedar Gateway)	• Closed on land
• Complete restoration of the Historic Balboa Theatre – 4th floor build out.	• In design
Community Planning (Centre City & Horton Plaza)	
• Complete design for Area wide Wayfinding System.	• In process to release RFQ
• Complete additional plans and studies for Community Plan implementation.	• *[No Status Update]*
• Prepare Parks Needs Assessment.	• Anticipated to be complete by end of Fiscal Year 09
• Complete Comprehensive Parking Plan.	• Anticipated to be complete by end of Fiscal Year 09
• Prepare Neighborhood Design Guidelines, Lighting Plan and Sustainability Guidelines.	• Neighborhood Design Guidelines – In process • Downtown Lighting Plan – In process • Sustainability Guidelines – In process
• Administer funds allocated for the completion of the Barrio Logan Community Plan	• In process
Public Participation (Centre City & Horton Plaza)	
• Continue educational forums and other community outreach, encouraging public participation and involvement	• *[No Status Update]*
Fiscal Stewardship (Centre City & Horton Plaza)	
• Encourage affordable housing developers to utilize additional sources of funding, leveraging the Agency's contribution.	• *[No Status Update]*
• Seek additional sources of funding for infrastructure projects, such as local, state, and federal grants.	• *[No Status Update]*
• Manage Agency-owned properties	• *[No Status Update]*

Appendix C – Additional Performance Evaluation Tools

Many of the agencies we reviewed that engaged in strategic planning also used the following metrics to convey key information to stakeholders and decision-makers about how redevelopment activities were contributing to positive community outcomes.

- ✓ *Leveraging Private Resources:* Some agencies evaluate their performance by tracking how well they were able to enhance the utility of public resources by leveraging private investment dollars. Since CCDC often works with private developers and other not-for-profit organizations to facilitate specific development projects, it would be beneficial for CCDC to evaluate and demonstrate the ratio of public (i.e. Agency) funds contributed versus all other funding sources. This is an important measure because it exhibits how well CCDC is able to maximize public resources on behalf of the public good, such as affordable housing or commercial developments. While CCDC already tracks the total public investment in its project areas as a ratio of the total assessed property value, this measure does not reflect how well public resources are leveraged to lure private investment on a project-by-project basis. As such, we recommend measuring the direct public and private investment on individual projects to provide an indicator as to how well CCDC is leveraging limited public dollars to lure private investment.

  An example of this technique can be gleaned from the Portland Development Commission,[24] which conducts on-going strategic planning and demonstrates its effectiveness at leveraging resources across a spectrum of redevelopment activities. Specifically, the Portland Development Commission tracks its investment related to specific "programs," such as rental housing assistance and commercial property redevelopment, which amounted to $23 million and $4.7 million respectively during Fiscal Year 2007-2008. They also report on the total leverage ratio in each of these categories to demonstrate how well they were able to enhance the utility of redevelopment funds across those categories (1:4 and 1:24 respectively). These figures reported by the Portland Development Commission clearly demonstrate how resources were allocated and whether the agency was successful in meeting its goal of enhancing public resources through leveraging private investments.

  Since CCDC does not track the total (public and private) expenditures related to development projects, we were unable to perform a similar analysis of public-to-private investment ratios for the different types of projects that CCDC handles. We did, however, examine the investments made on select affordable housing projects processed by CCDC during Fiscal Year 2007-2008 and noted an average ratio of 1:3, wherein CCDC leveraged $3 of private investment for every $1 of Agency investment.

[24] Portland Development Commission, "Strategic Plan Accomplishments Report, Fiscal Year 2007-2008."

- ✓ *Employment & Job Creation:* We believe CCDC could develop a more accurate and meaningful method of tracking jobs created in its project areas. CCDC uses a formula derived from a market research study completed in 2002 to calculate the total number of construction and permanent jobs associated with new development projects. While valuable, this formula does not account for fluctuations in the job market, whether the jobs created are benefited or pay a living wage, and whether housing opportunities are available for these employees. To make this measure more meaningful, CCDC could also identify the types of jobs created (full-time vs. part-time) and whether those jobs could be classified according to wage (living wage vs. minimum wage) or occupational category (e.g. retail, financial services, manufacturing, etc.). If CCDC is able to understand the types of jobs created downtown, it may be able to identify the creation of better paying jobs through its redevelopment activities.

  The Southeastern Economic Development Corporation, for instance, employs an interesting technique to acquire data related to jobs created as a result of redevelopment activities. Specifically, a recent audit report released by the San Diego City Auditor revealed that SEDC inserts provisions into its development agreements allowing it to collect job-related information relating to its development projects. Specifically, the audit report states:

  > For businesses that are located within the project areas as a result of specific development projects, each quarter a SEDC staff person collects job creation data through a survey. The survey collects data from businesses or the developer of the site on the number of jobs created and the characteristics of the employees holding those positions. Developers in the development agreement … require that businesses provide this information to SEDC after completion of the project. The characteristics reported include type of position held (skilled, semi-skilled, professional, technical, administration or other); whether or not the employee is a resident of Southeastern San Diego; and the employee's ethnicity (reported as percentage or employees considered ethnic). SEDC management presents these employment statistics each quarter in a written report to the SEDC Board for informational purposes.[25]

  Similarly, the Las Vegas Redevelopment Agency hired a consulting firm to conduct an analysis of the economic and fiscal impacts of the City's redevelopment projects.[26] This report examined the types of employment created as a result of redevelopment, the number of jobs created, the economic output of those employees, and the amount of salaries and wages earned. CCDC should consider developing similar mechanisms for gathering employment information.

[25] Office of the City Auditor, "Southeastern Economic Development Corporation: Performance Audit of Operations," p.55. September 10, 2008.

[26] City of Las Vegas Redevelopment Agency, "Economic Impact Analysis." January 16, 2009.

Considering CCDC's emphasis on reporting annual job creation, CCDC should implement a clear, concise method for tracking the number and types of jobs created and/or retained in order to clearly demonstrate the Corporation's success in a reliable and meaningful way.

- ✓ *Design Review/Permitting:* Despite acknowledging its success, we found that CCDC lacks sufficient performance standards and measurement techniques to validate whether it can, in fact, process permits faster than other permitting/planning agencies, such as the City's Development Services Department (DSD)—and at what cost. According to CCDC management, it does not track processing time or associated costs because it does not assess fees for design review services—which are typically based on a cost-recovery model. As a result, CCDC cannot demonstrate that it processes permits expeditiously or in a manner that is less costly than peer organizations or DSD, or whether potential increases in cost is offset by significantly improved service delivery. While CCDC staff does report regularly to its board on the status of development permits under review, there are no defined benchmarks or performance goals established by management that may indicate whether CCDC's planning staff is meeting targets or exceeding cost estimates. In contrast, DSD uses a customized permit tracking database to record key processing milestones and produce reports demonstrating staff performance in relation to established processing goals.

  During the course of our fieldwork, CCDC commissioned a study[27] to evaluate the feasibility of implementing a cost-recovery model related to its design review and permit processing services. Because design review and permitting constitutes a core business process for CCDC, developing a set of measurable performance benchmarks is essential to enable management to track and evaluate workload, productivity, and efficiency. This should include the number of permits processed per FTE, the average length of time it takes to process a permit application from start to finish, and the total cost per permit issued. This type of management information is valuable irrespective of whether cost-recovery fees are charged.

- ✓ *Delivery Cost Ratio & Timeliness/Budget on Public Improvements:* Since CCDC is one of the few redevelopment organizations that manages public improvement projects as one of its core activities, it should consider implementing a method of evaluating and reporting whether projects are completed on-time and within budget, and whether its costs of delivering public improvement projects is commensurate with the City's Department of Engineering and Capital Projects and other public works agencies. This information would provide a valuable tool for management to assess the level of effort required to deliver specific projects and whether that effort aligns with industry standards. CCDC has already taken steps in this direction. During audit fieldwork, in March 2009, CCDC began including summarized indicators in its monthly Corporation Reports showing anticipated completion dates for exist public works projects. By April 2009, CCDC also started using bar charts to graphically depict percentage complete and expected complete and expected completion dates for individual public works projects. This method enhances

[27] At the time of our review, CCDC staff had not finalized the release of their feasibility study.

CCDC's ability to monitor and publically disseminate summarized performance information regarding its progress in completing public works projects.

Further, most municipal public works agencies, including the City of San Diego, develop a capital improvement program (CIP) as a way of budgeting resources and demonstrating how resources will be allocated, when projects will be started, and whether any changes in scheduled project delivery are anticipated. A CIP is typically a public document and, as it is in the City of San Diego, is part of the overall budget. A CIP also serves as a critical benchmark against which CCDC's performance could be measured. While CCDC has an informal CIP that is for internal budgeting purposes, we suggest the development of a public CIP that could be used to inform stakeholders, decision-makers, and the general public of CCDC's long-term public improvement plans.

✓ *Program/Administrative Budget Comparison:* Another common measure for evaluating whether CCDC is operating its organization efficiently is by assessing the administrative budget as a proportion of the total budget available for program activities. Indirect costs, or overhead costs, are typically associated with common shared business expenses, such as office space, administrative salaries, and equipment that cannot easily be attributed to a specific activity and often benefit more than one program or project. While the proportion of these costs vary widely among our benchmark redevelopment agencies (see Exhibit 1), it is important to note that CCDC's administrative budget—reflected here as 4.3 percent of its total project budget—may not encompass all the "soft" costs that are commonly associated with redevelopment, such as external consultants and legal services.

Exhibit 1: Overhead Cost Comparison

Agency	Number of Employees (FTE)	FY 2008 Administrative Budget (thousands)	FY 2008 Total Redevelopment Budget (thousands)	% of Total Budget for Admin	Project Areas	Project Acreage
SDRA						
CCDC	**55**	**$ 9,356**	**$ 217,500**	**4.3%**	**2**	**1,445**
SEDC	14.5	$ 2,600	$ 52,000	5.0%	4	1,150
Redevelopment Division	28	$ 3,662	$ 135,300	2.7%	11	7,613
Baltimore	62	$ 6,268	$ 12,000	52.2%	31	N/A
Las Vegas	26	$ 4,000	$ 18,755	21.3%	1	3,948
Los Angeles	270	$ 51,100	$ 670,800	7.6%	32	23,833
Oakland	126	$ 45,851	$ 236,162	19.4%	10	14,594
Portland	225	$ 20,673	$ 316,068	6.5%	11	13,252
San Francisco	115	$ 21,000	$ 337,000	6.2%	11	2,659
San Jose	116	$ 21,604	$ 326,641	6.6%	21	18,687

Conversely, CCDC's administrative budget includes additional costs associated with functions and services not commonly performed by peer agencies, such as project management for public improvements and permit design review. As such, making a determination regarding CCDC's performance in relation to its overhead costs is not addressed in this report. Rather, it is important to consider the level of administrative resources necessary to facilitate redevelopment activities despite the fact that each agency performs a different array of activities. Such measures address the input or resources dedicated to CCDC's operations, and the relative efficiency with which it operates.

Appendix D – Response From Centre City Development Corporation

Centre City Development Corporation

SD AUDITOR '09 JUL 08 PM03:53

July 8, 2009

Mr. Eduardo Luna, CIA, CGFM, City Auditor
Office of the City Auditor
1010 Second Avenue
14th Floor (East Tower)
San Diego, CA 92101

Dear Mr. Luna:

Thank you for the opportunity to respond to the Draft Performance Audit of the Centre City Development Corporation ("Corporation"). First and foremost, the Corporation will comply with any and all recommendations of the Redevelopment Agency, its Executive Director and the Audit Committee and welcome any measures to enhance our performance and transparency.

Secondarily, we are heartened by the Audit's findings of no evidence of "theft, fraud or misuse of funds," and "instances of compensation, benefits or payments to personnel" that were inappropriate, and indeed, offered significant compliments of the Corporation's programs and policies. Furthermore, the period of review, July 2005 through June 2008, was under the tenure of our former President who was not interviewed. Since her departure we have made significant changes to the organization and continue to update procedures and policies.

As to the specific chapters of the report:

1) Performance: We will, of course, adopt any recommendations, as stated previously, but fear that the auditor's failure to fully consider fundamental issues regarding the Agency/Corporation relationship, as well as the implications of our tax increment dollar cap, skews the prism through which an objective analysis should be viewed;

2) Contracting Procedures: We are pleased that our internal performance evaluations in advance of the audit surfaced many of the examples identified and note that we have recently made significant internal changes, including establishment of an Audit Committee, to resolve these issues. Moreover, we appreciate Sjoberg's collaboration and in-depth review of materials we presented to them; and,

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3) Governance: While we await a resolution of these issues by the Redevelopment Agency, we'd like to note that the Audit did not take into account the volunteer nature of our Board, which meets officially 10 times per year, and relied on comparative organizations with significantly greater staff and administrative dollars.

I would also like to address the Audit's contention that our "policies" create appearances of conflict. Unfortunately, the Audit did not fully explore our Ethics Ordinance, Ethics Commission oversight and our significant disclosure requirements. The very existence of these ethics policies enabled them to discover the "appearances" they illustrate. Moreover, it would have been instructive to the Agency if the Auditors had interviewed the Center for Government Studies which conducted an independent audit of our Conflict of Interest procedures.

Sincerely,

Fredric J. Maas
Chairman of the Board & CEO

Appendix E – Auditor's Response to CCDC's April 8, 2009 Letter

SJOBERG EVASHENK
CONSULTING INC

July 10, 2009

Eduardo Luna, City Auditor
City of San Diego
1010 Second Avenue, Suite 1400
14th Floor East Tower, MS 614B
San Diego, CA 92101

Dear Mr. Luna,

Thank you for the opportunity to review and respond to the July 8, 2009, letter submitted by the Centre City Development Corporation (CCDC) in response to our Draft Report. We have highlighted below a few statements made in relationship to the audit for which we wish to provide additional clarification. They are as follows:

1) **"... the auditor's failure to fully consider fundamental issues regarding the Agency/Corporation relationship ..."** (CCDC Response Letter, Line 14, Page 1)

   The audit was commissioned with 10 specific objectives, as noted on pages 4-5 of the report. These objectives include:

   - Evaluating the adequacy, appropriateness, and achievement of CCDC's goals and performance measures used, and the efficiency and effectiveness of the methods, procedures, and activities used to accomplish goals, including communication practices, use of resources, and project management procedures;
   - Reviewing and evaluate the development process, including the selection of the developer and design review processes;
   - Determining if CCDC has sound budgeting practices and procedures, including whether adequate information is provided to the Mayor, City Council, and Redevelopment Agency Board;
   - Evaluating if CCDC is following sound procurement practices and procedures that are compliant with relevant rules and regulations and demonstrate good business practices, including determining if any conflicts of interest situations exist;

- Reviewing CCDC's expenditures submitted to the Agency for reasonableness, allowability, and compliance with pertinent policies and procedure and conflict of interest provisions;
- Determining whether CCDC salary and non-salary compensation programs, including benefit programs, were used over the last three fiscal years to compensate employees;
- Verifying the accuracy of CCDC's reported equipment and capital assets;
- Assessing whether the level of information provided by CCDC management to its board members is adequate and in compliance with board rules and regulations;
- Determining if CCDC employs adequate internal controls over financial reporting, including sufficient segregation of duties, exception reporting, and transaction review/approval; and
- Evaluating CCDC's conflict of interest provisions.

We addressed issues of governance and the relationship between the Agency and CCDC as required by the objectives; this included (1) the reporting relationship between CCDC, as a contractor, and the Redevelopment Agency (Agency), and (2) the level of existing oversight facilitated by the type of information provided by CCDC to the Agency (as described in the objectives above). We also recognize in our report that the City of San Diego has sought through a multitude of studies and internal deliberations a variety of alternatives to address potential shortcomings or areas for improvement in the existing relationship between the Agency and CCDC; these alternatives are a matter of public policy and were not the subject of this audit.

2) **"... the auditor's failure to fully consider ... the implications of our tax increment dollar cap ..."** (CCDC Response Letter, Lines 14-15, Page 1)

On pages 8-9 of the audit report we discuss the tax increment dollar cap, and the potential that it will significantly abbreviate the timeframe and resources available to implement the many goals outlined in the Redevelopment Plan, Implementation Plan, and Downtown Community Plan. This fact places increased importance on implementing our recommended actions in devising a strategic plan with specific and measurable goals, and creating a reporting mechanism that will allow Agency officials and the public to monitor progress as CCDC begins to approach the cap.

3) **"... the audit report did not take into account the volunteer nature of our board ..."** (CCDC Response Letter, Line 2, Page 2)

The final audit report fully recognizes the volunteer, uncompensated nature of the Board, as well as the already significant involvement of CCDC's Board members; see pages iii, 46, 63, 65, and 68.

4) **"... the Audit did not fully explore our Ethics Ordinance, Ethics Commission oversight and our significant disclosure requirements. The very existence of these ethics policies enabled them to discover the 'appearances' they illustrate."** (CCDC Response Letter, Line 7, Page 2)

The audit report states that CCDC complies with City reporting requirements, notes the two studies commissioned by CCDC, and recognizes that the gifts and gratuities received from contractors were disclosed by CCDC personnel as required in Form 700. The audit report further recognizes the improvements that have been implemented by CCDC during audit fieldwork. However, additional steps are required to further avoid the appearance of conflicts of interest, such as precluding CCDC personnel from soliciting or accepting gifts or gratuities from businesses doing business with CCDC. (see pages iii, vi, 55-56)

5) **"Moreover, it would have been instructive to the Agency if the Auditors had interviewed the Center for Government Studies which conducted an independent audit of our Conflict of Interest procedures."** (CCDC Response Letter, Line 9, Page 2)

The audit report recognizes that CCDC commissioned two studies relating to its conflict of interest provisions. The audit team reviewed and considered the conclusions and recommendations outlined in the report prepared by the Center for Government Studies, and we found that it addressed several critical improvements that CCDC had been in the process of implementing. The study did not address, however, practices relating to the acceptance of gifts from businesses doing business with CCDC.

Respectfully submitted,

Kurt Sjoberg

KURT R. SJOBERG
Chairman

Appendix F – Response From the Office of the Agency Executive Director

THE CITY OF SAN DIEGO

July 8, 2009

Mr. Eduardo Luna, City Auditor
1010 Second Avenue, Suite 1400
San Diego, CA 92101

Dear Mr. Luna:

The Office of the Mayor has reviewed the Draft Section III Excerpt of the Performance Audit of the Centre City Development Corporation (CCDC) prepared by Sjoberg Evanshenk Consulting, Inc. Specific responses to the Section III Excerpt recommendations are presented below. We received a draft copy of the full audit report on Tuesday, July 7 therefore have not had adequate time to review and prepare detailed responses for Sections I and II and Appendix A, B and C .

A preliminary review of Sections I and II reflects that Section I, Recommendations 1.1 and 1.2 contains reasonable recommendations as to potential performance measures. Section I Recommendations 1.3 – 1.4 focus on altering and expanding the role and activities to be carried out by CCDC. These recommendations would require detailed study and consideration by the Mayor's office, the legislative body and the public. Greater study would also be required relating to the illustrative examples found in Section I, pages 19-22 as to the focus, programs, activities, requirements of other redevelopment and development bodies in other cities, including those cited in Section I.

Sections II, Recommendations 2.1 – 2.14 generally appear to warrant consideration to enhance CCDC's internal controls to meet its fiduciary responsibilities to the City, Redevelopment Agency and public at large.

We are generally in agreement with the findings and recommendations found in the Draft Section III Excerpt. The following provides specific responses to Section III, Recommendations 3.1 – 3.6.

<u>SECTION III RECOMMENDATIONS TO CCDC BOARD:</u>
In order to ensure that the Agency and CCDC Board have sufficient information to assure CCDC is performing as expected and that its assets are reasonably protected, and to better assure CCDC's Board provides sufficient oversight of CCDC's business practices, we recommend that the CCDC Board:

RECOMMENDATION 3.1:
Establish a committee with the purpose of proving oversight of CCDC's internal business practices and ensuring that CCDC complies with Board policies.

MANAGEMENT RESPONSE:
Agree. CCDC has established an Audit Committee to increase oversight of the corporation's business practices. A number of additional measures to increase oversight, reporting and monitoring of the corporations are embodied within the Mayor's recommended changes to each of the corporation's bylaws and operating agreements.

RECOMMENDATION 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.

MANAGEMENT RESPONSE:
Agree. Periodic performance reports will provide the corporation Board, the Agency and the public with real time status of priority projects and activities approved through the annual budget process and 5-Year Implementation Plans.

Pursuant to California Redevelopment Law Section 33606 the San Diego Redevelopment Agency's annual budget documents include by project area, the proposed expenditures, indebtedness to be incurred, anticipated revenues, the work program for the coming year, and an examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program. Greater detailed information in reporting the goals, work programs and achievements will increase transparency and clarify performance measures.

In addition, every five years, pursuant to California Redevelopment Law, 5-Year Implementation Plans are prepared, considered and approved by the Agency for each redevelopment project area. The implementation plans contain specific goals and objectives and specific programs proposed to occur during the five years, as well as an explanation of how these will eliminate blight with the project area and implement the low and moderate-income housing requirements. The plans are developed through an interactive public process in each project area. The Agency conducts a noticed public hearing relating to each 5-Year Implementation Plan to solicit public input on the progress of implementing the five-year plan at least once during the five-year term of the implementation plan, no earlier than two years and no later than three years after adoption. These plans serve as the framework, from which the annual budget goals, objectives, work programs, and expenditures are built and accomplishments measured. As with the annual budget documents, further enhancement of these plans will be of great benefit.

RECOMMENDATION 3.3:
Memorialize a formal line of succession of authority to supervise, manage and direct the business operation of CCDC to a full-time CCDC employee, not a board member, in the event the position of the president in vacated.

MANAGEMENT RESPONSE:
Agree. Historically CCDC's staffing structure has provided a hierarchy of positions providing for a line of authority and experience to manage and direct the business of the corporation in the event of a short or long term absence of the corporation president. We agree that the corporation should have a formalized structure to provide a formal line of succession of authority within the CCDC employee structure.

SECTION III RECOMMENDATIONS TO THE REDEVELOPMENT AGENCY:

RECOMMENDATION 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 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.*

MANAGEMENT RESPONSE:
- First Bullet:
  Agree. Included in the Mayor's recommended changes to each of the corporation's bylaws and operating agreements are a number of additional reporting requirements and control systems. These recommendations include requiring the City's Chief Financial Officer (CFO) to review and approve corporation policies and procedures, corporation board member training in ethics, fiduciary duties and governance, availability of key documents and information on corporation web sites, and that the City have the right to inspect all corporate documents and records. These and other requirements will strengthen internal controls to protect the Agency's assets.

- Second Bullet:
  Agree. In addition to the annual corporate financial audits and Agency annual financial reports, the Mayor's recommended changes to each of the corporation's bylaws and operating agreements would provide that the City or Agency have the right to order a performance audit, to be paid for by the corporation, no more than once per year.

RECOMMENDATION 3.5:
Update the operating agreement to:

- *Provide increased specificity and updated provisions regarding the allow-ability of corporation expenditures.*

- *Require CCDC to periodically report on its performance and goal-attainment at least 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.*

MANAGEMENT RESPONSE:

- First Bullet:
  Agree. As discussed in the Management Response to Auditor Recommendation 3.4, the City's CFO's review of fiscal and contracting policies and corporation review of financial statements and verification with certification by board, CFO and CEO will establish greater control over corporate expenditures.

- Second Bullet:
  Agree. As discussed in the Management Response to Auditor Recommendation 3.2, requiring periodic performance reporting, greater detail with the annual budget documents and 5-Year Implementation Plans will provide the corporation Board, the Agency and the public with real time status of priority projects and programs and activities approved through the annual budget process and 5-Year Implementation Plans.

- Third Bullet:
  Agree. The following Mayor's recommended changes to the each of the corporation's bylaws and operating agreements will formally establish the Mayor's role and reporting relationship as the Agency Executive Director:
  - the Mayor shall serve as the Agency Executive Director and the City CFO shall serve as the Agency CFO;
  - one Mayoral appointee shall immediately begin serving on the corporation board;

- the Mayor shall be designated as the appointing authority of each corporation's CEO, subject to City Council confirmation and that a candidate selection committee would be created with representation from the Mayor, Council and corporation board;
- the Mayor shall have authority to suspend or terminate the corporation CEO, subject to a right of appeal to the City Council and authority to replace the CEO with an interim officer during the appeal process; and
- the Mayor shall perform annual performance evaluations for the CEO and consult with the corporation board.

RECOMMENDATION 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.

`MANAGEMENT RESPONSE:
Agree. The oversight of the corporation activities will be implemented through the Mayor's office as the Mayor's role in Redevelopment and relationship with the corporations is formally established through amended corporation bylaws and operating agreements. There will be an employee with responsibilities that would include coordinating the oversight with the various agencies and departments involved in monitoring and review processes as well as facilitating collaboration to successfully implement the redevelopment plans, programs and activities.

Sincerely,

Jay M. Goldstone
Chief Operating Officer

Cc: Honorable Mayor Jerry Sanders

Chief Operating Officer
202 C Street, MS 11
San Diego, CA 92101
619.236.7080