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# Activities and Accomplishments of the Office of the City Auditor

CALENDAR YEAR 2011

MAY 2012

Report to the Audit Committee  
Office of the City Auditor  
City of San Diego



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## THE CITY OF SAN DIEGO

May 1, 2012

Honorable Members of the Audit Committee  
City of San Diego, California

Transmitted herewith is a report on the Activities and Accomplishments of the Office of the City Auditor for the period January 1, 2011 through December 31, 2011.

The calendar year covered by this report has been productive, challenging, and rewarding. I am very grateful to the Audit Committee for the support given to this Office. I am also grateful to the City Administration for its cooperation during the conduct of our audits.

Respectfully submitted,

Eduardo Luna  
City Auditor

cc: Honorable Mayor Jerry Sanders  
Honorable Members of the City Council  
Jay M. Goldstone, Chief Operating Officer  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst

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# Executive Summary

This report summarizes the activities and accomplishments of the Office of the City Auditor from January 1, 2011 through December 31, 2011. Our principal goal is to increase the economy, efficiency, and effectiveness of the City through audits and investigations and their recommendations. From January 1, 2011 through December 31, 2011, the Office produced 22 reports with 129 recommendations. Our Office identified \$37.8 million in potential monetary recoveries, cost savings, and quantifiable increases in efficiency for the City, which equates to \$15 in savings for every \$1 of audit costs. Since the establishment of the Office in July 2008, our Office has identified a cumulative savings of \$51 million, which equals to \$7 in potential savings for every \$1 in audit cost. We have issued 76 reports and made 542 recommendations. We have an ongoing process of performing follow-up procedures to determine how many of the recommendations have been implemented.

The Office of the City Auditor is an independent office that reports and is accountable to the Audit Committee and City Council. The City Auditor conducts performance audits of City departments, offices, and agencies in accordance with government auditing standards, and performs fraud investigations using procedures recommended by the Association of Certified Fraud Examiners. Our mission is to advance open and accountable government through accurate, independent, and objective audits and investigations that seek to improve the economy, efficiency, and effectiveness of City government. Our performance audits and investigations have benefited the City in many ways. Some audit reports recommend ways to reduce costs or increase revenues, while other reports identify opportunities to increase effectiveness, use resources more efficiently, and improve internal controls. In addition, our investigations of Fraud Hotline complaints have identified waste and abuse of City resources. For all of the issues that have been identified in our audit and investigative reports, we have made recommendations for City management to implement to mitigate the problems found.

# Introduction

With the City of San Diego (City) having an operating budget of \$2.7 billion, the members of the San Diego City Council need an effective means to monitor the use of tax dollars and City activities and programs. As an independent audit function, the Office of the City Auditor (Auditor's Office) plays an integral role in the oversight process. Findings and recommendations developed through the audit process have helped save tax dollars, increase revenues, and improve the management of City programs. Additionally, our independent reviews have served as an important, objective information source for the City Council, City management, and the general public.

## **City Auditor's Authority and Responsibility**

The San Diego City Charter prescribes the powers and duties of the Auditor's Office. Section 39.2 outlines the duties of the City Auditor as follows:

- The City Auditor shall report to and be accountable to the Audit Committee.
- The City Auditor shall prepare annually an Audit Plan and conduct audits in accordance therewith and perform such other duties as may be required by ordinance or as provided by the Constitution and general laws of the State.
- The City Auditor shall follow Government Auditing Standards.

The City Charter grants the City Auditor the following access and authority:

- The City Auditor shall have access to, and authority to examine any and all records, documents, systems and files of the City and/or other property of any City department, office or agency, whether created by the Charter or otherwise.
- It is the duty of any officer, employee or agent of the City having control of such records to permit access to, and examination thereof, upon the request of the City Auditor or his or her authorized representative. It is also the duty of any such officer, employee or agent to fully cooperate



with the City Auditor, and to make full disclosure of all pertinent information.

- The City Auditor may investigate any material claim of financial fraud, waste or impropriety within any City Department and for that purpose may summon any officer, agent or employee of the City, any claimant or other person, and examine him or her upon oath or affirmation relative thereto.
- All City contracts with consultants, vendors or agencies will be prepared with an adequate audit clause to allow the City Auditor access to the entity's records needed to verify compliance with the terms specified in the contract.

The San Diego Municipal Code Section 22.0711 makes it unlawful to mislead the City Auditor. This Improper Influence Ordinance states:

- It shall be unlawful for any elected official, officer, or employee of the City, or anyone acting under their direction, to take any action to coerce or fraudulently influence, manipulate or mislead the City Auditor or any member of his or her staff in the conduct of an audit with the specific intent of obstructing such audit or rendering any report of such audit materially misleading.
- Any person who violates this section, or who counsels, aids, abets, advises, or participates with another to commit such violation, is guilty of a misdemeanor which is punishable by a fine up to one thousand dollars (\$1,000) and/or by imprisonment in the County Jail for up to six months.

**Mission and Core Service** The Mission and Core Service of the City Auditor's Office are as follows:

*Mission Statement* To advance open and accountable government through accurate, independent, and objective audits and investigations that seek to improve the economy, efficiency, and effectiveness of City government.

*Core Service* Through performance audits, attestation audits, and special investigations, the Office of the City Auditor provides essential information to assist the City Council in its decision-making process. The Office of the City Auditor also provides valuable

information to City management and the general public. Our mission is to independently assess and report on City operations and services while providing objective and technically correct information.

**Audit Services** The Office of the City Auditor issues reports that identify ways to increase the economy, efficiency, effectiveness, and accountability of City government and provide independent, reliable, accurate, and timely information to the City Council and other stakeholders.

**Role of Auditing In City Government** The City Auditor's audits and reviews provide insight into City departments, offices, agencies, and their programs. Such audits and reviews are but one step in the process of establishing City programs, evaluating their performance, providing the City Council and City Administration with needed information, and making any necessary changes to ensure that City programs are as efficient and effective as possible.

# Auditing City Departments and Programs

The Auditor's Office performs or coordinates audits and studies according to Government Auditing Standards promulgated by the Comptroller General of the United States. The following describes the scope of work performed.

## **Performance Audits**

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Performance audits that comply with Generally Accepted Government Auditing Standards (Yellow Book) provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support the conclusions reached. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions.

A performance audit is a dynamic process that includes consideration of the applicable standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

**Annual Citywide Risk Assessment**

Accepted auditing practices and the Institute of Internal Auditors' Standards require the chief audit executive to establish a risk-based approach to determine the priorities for audit activities. The City Auditor conducts an Annual Citywide Risk Assessment as the basis for the Annual Audit Plan. Our risk assessment was developed by using the Institute of Internal Auditors' recommended procedures as well as risk assessment models used by other government entities. The City's budget data and the component unit information in the City's financial statements are used to define the audit universe (all of the City's potential audits that could be performed). The City's significant Departments and City Agencies and their primary Activity Groups are assigned a risk score based on a management questionnaire with ten weighted "risk factors," such as the amount of budgeted expenditures, the level of cash handling, and the extent regulations impact operations. The results of the management surveys are tabulated in the Annual Citywide Risk Assessment, which ranks the City's activities with the highest risk factors that may warrant and benefit from audit review.

**Annual Audit Work Plan (July through June)**

The City Auditor develops an Annual Audit Work Plan by considering the audits mandated by the City Charter and the San Diego Municipal Code as well as the results of the Annual Citywide Risk Assessment. We design our work plan to address what we consider to be the highest priority areas, while limiting the scope of work to what we can realistically accomplish with the staff resources available. The Audit Work Plan includes our scheduled Performance Audits as well as our other audit activities. Included is the proposed audit objective for each assignment and estimated audit hours. We perform an in-depth risk assessment on each activity group selected for audit to ensure our audit objective covers the areas of highest risk for that activity group and adjust the audit objective, procedures, and hours accordingly. Our estimated audit hours are based on our knowledge of the complexity of the activity groups selected for audit. We should note that actual hours can vary from estimated due to changes in audit scope, expanded audit testing related to identified findings, and previously unforeseen situations.

**Mid-Year Additions to the Audit Work Plan** Any requests to add audits to the Audit Work Plan mid-year are presented to the Audit Committee with analysis from the City Auditor of the impact the additional proposed audit will have on the current Audit Work Plan. Audit priority will be given to those requests that pertain to the health and safety of citizens, potential for significant financial savings or increased revenues, and/or issues of integrity.

**Audit Recommendations Follow-up** To ensure recommendations are implemented by City management on a timely basis, the City Auditor undertakes a semi-annual recommendation follow-up process to track the status of all previous audit recommendations. The City Auditor has established a process with the City Comptroller whereby the Comptroller staff tracks the implementation status of audit recommendations, and provides weekly status updates to the City Auditor. The City Auditor prepares semi-annual follow-up reports on the status of all open recommendations for audit reports issued through the periods ending June 30<sup>th</sup> and December 31<sup>st</sup>. The City Auditor presents the results of follow-up reports to the Audit Committee.

**Non-audit Services** The Yellow Book establishes that audit organizations that provide non-audit services (professional services) must communicate to management that the scope of work performed does not constitute an audit under the Yellow Book. Further, audit organizations that provide non-audit services must evaluate whether providing non-audit services creates an independence impairment in fact or appearance with respect to the entities they audit.

**Fraud Hotline (866-809-3500)** The Office of the City Auditor administers the City's Fraud Hotline program. The Fraud Hotline provides a means for City of San Diego employees and citizens to confidentially report suspected instances of fraud, waste, or abuse. The Network Inc., an independent third-party provider, accepts calls from City employees and the public, providing complete confidentiality. The caller can choose to remain anonymous. The Network issues a report for each complaint to the Office of the City Auditor. The Office of the City Auditor investigates all material complaints received related to fraud, waste, and abuse using procedures recommended by the Association of Certified Fraud

Examiners. Any non-fraud or immaterial complaints made to the Fraud Hotline are reviewed by the City Auditor's Hotline Intake and Review Committee, which is composed of the City Auditor, the Personnel Director, and the Labor Relations Director or their designees. In most cases, non-fraud related or immaterial complaints are referred to City departments for further review and investigation.

During the period January 1, 2011 through December 31, 2011, the Office of the City Auditor received 65 complaints, and issued four (4) Hotline Investigative Reports with three (3) recommendations regarding complaints that were substantiated or corrective actions were needed. The City Auditor issues quarterly reports to the Audit Committee summarizing Hotline activities. According to the Association of Certified Fraud Examiners' 2010 Report to the Nation, Hotlines are a very effective tool for fraud detection. Over 40 percent of the fraud cases in their 2010 study were uncovered by a tip or complaint. The Office of the City Auditor is dedicated to investigating all of the reported claims of material fraud, waste and abuse.

## Benefits to the City of San Diego

The City Auditor's expanded audit approach has benefited the City of San Diego in a variety of ways. Some audits have resulted in recommendations to reduce costs or increase revenues. Other audits have resulted in recommendations to increase effectiveness, use resources more efficiently, improve internal controls, or provided objective, timely information to the City Council, City Administration, and the public.

### **Cost Savings and Increased Revenues**

Our principal goal is to increase the economy, efficiency, and effectiveness of the City through audits and investigations and their recommendations. From January 1, 2011 through December 31, 2011, the City Auditor's Office completed 17 performance audits, one (1) agreed-upon procedures review, and four (4) hotline investigations, which produced 22 audit reports. These reports contained 129 recommendations to improve economy, efficiency, and effectiveness within City government. As shown in the Summary of Work Performed (**Appendix A**), our Office identified \$37.8 million in potential monetary recoveries, cost saving, and quantifiable increases in efficiency for the City, which equates to \$15 in potential savings for every \$1 of audit costs.

At the conclusion of each audit, we determine if there are any quantifiable monetary benefits derived from our audit findings and recommendations. If the monetary benefits reoccur in future years, we calculate the benefit for up to a 5 year period. These monetary benefits are an estimate and are contingent on our recommendations being successfully implemented by City management. We are working with the Administration to follow up on recommendations and ensure they are implemented as intended.

Since the establishment of the Office in July 2008, our Office has identified a cumulative \$51 million, which equals to \$7 in potential savings for every \$1 in audit cost. We have issued 76 reports and made at 542 recommendations. The following table summarizes the work performed as reported in previous Activities and Accomplishments reports.

**Exhibit 1**

**Summary of Work Performed as Reported in Previous Activities and Accomplishments Reports**

Period	Number of Reports Issued	Identified Opportunities To Increase Revenues Or Reduce Costs <sup>1</sup>	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
July 2008 to December 2009	40	\$7,425,271	274	255
January 2010 to December 2010	19	\$5,963,823	139	127
January 2011 to December 2011	22	\$37,841,357	129	118
<b>Total</b>	<b>76</b>	<b>\$51,230,451</b>	<b>542</b>	<b>500</b>

We should note that we do not include the potential monetary cost savings from some recommendations where the effort to identify a specific monetary value would not be easily calculated and would consume valuable audit resources. As a result, overall savings do not reflect the impact of these savings. The details of our previous Actives and Accomplishments reports as well as all of our audit reports can be found on our website at: <http://www.sandiego.gov/auditor/reports/>.

**Audit Recommendations**

In addition to identifying cost savings and increased revenues, the City Auditor’s Office has also made audit recommendations that benefited the City in the following ways:

*Improved Economy or Efficiency*

Audit recommendations identified ways to (a) maximize revenues or identify opportunities for new revenues or cost savings; (b) manage or utilize its resources including public funds and personnel in an economical and efficient manner; and (c) identify causes for inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, use of resources, allocation of personnel, and purchasing policies.

<sup>1</sup> These amounts include quantifiable increases in efficiency resulting from our audit recommendations.



*Improved Operations or  
Program Effectiveness*

Audits have also helped the auditees (a) safeguard assets; (b) detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisition, use, or disposition of assets; (c) promote accountability; (d) ensure compliance with laws, regulations, policies, procedures, or generally accepted industry standards; (e) check the accuracy and reliability of accounting data; (f) achieve the desired program results; and (g) meet the objectives the City Council or other authorizing bodies established.

*Provided Objective  
Information*

Audit reports have also provided reliable, objective, and timely information to decision-makers and the public. This information has assisted the City Council and City Administration in making needed policy and administrative changes and has informed the public about the management of City government.

See the Summary of Audit Reports (**Appendix B**) for a brief summary for each of the 22 audit and investigative reports issued by the City Auditor from January 2011 through December 2011. Appendix B also includes the 129 specific recommendations made for the 22 reports.

## Office Overview

**Budget** The Office of the City Auditor was established as an independent department in July 2008 for Fiscal Year 2009. The Fiscal Year 2012 approved budget for the Office of the City Auditor includes twenty staff members at a budgeted cost of approximately \$2.8 million for salaries, fringe benefits, and non-personnel expenses such as office equipment, training and supplies. The City Auditor's Fiscal Year 2012 budget also includes \$793,739 for the City's annual financial statement audit of the City's Comprehensive Annual Financial Report (CAFR) that is conducted by an outside independent audit firm. The City Auditor administers the CAFR audit contract. During Fiscal Year 2012, the Office of the City Auditor will have 16 Performance Auditors to conduct audits and investigations.

The following tables represent the departmental budget for FY11 and FY12.

### *Exhibit 2*

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#### Departmental Budget, Fiscal Years 2011 and 2012

DEPARTMENT SUMMARY		
	FY 2011	FY 2012
Positions	18.50	19.50*
Salaries and Wages	\$ 1,633,127	\$ 1,720,154
Fringe Benefits	\$ 1,010,510	\$ 857,390
Non-Personnel Expenditures	\$ 175,169	\$ 182,241
<b>DEPARTMENTAL TOTAL</b>	<b>\$ 2,818,806</b>	<b>\$ 2,759,785</b>
CAFR – Outside Audit	\$ 942,374	\$ 793,739
<b>TOTAL BUDGET</b>	<b>\$ 3,761,180</b>	<b>\$ 3,553,524</b>

\*The City Auditor's FY 2012 budget authorized the hiring of one (1) audit staff with a start date after January 2012. Therefore, the City Auditor had 19 budgeted positions at the period end date for this report (December 2011), and twenty positions starting in January 2012.

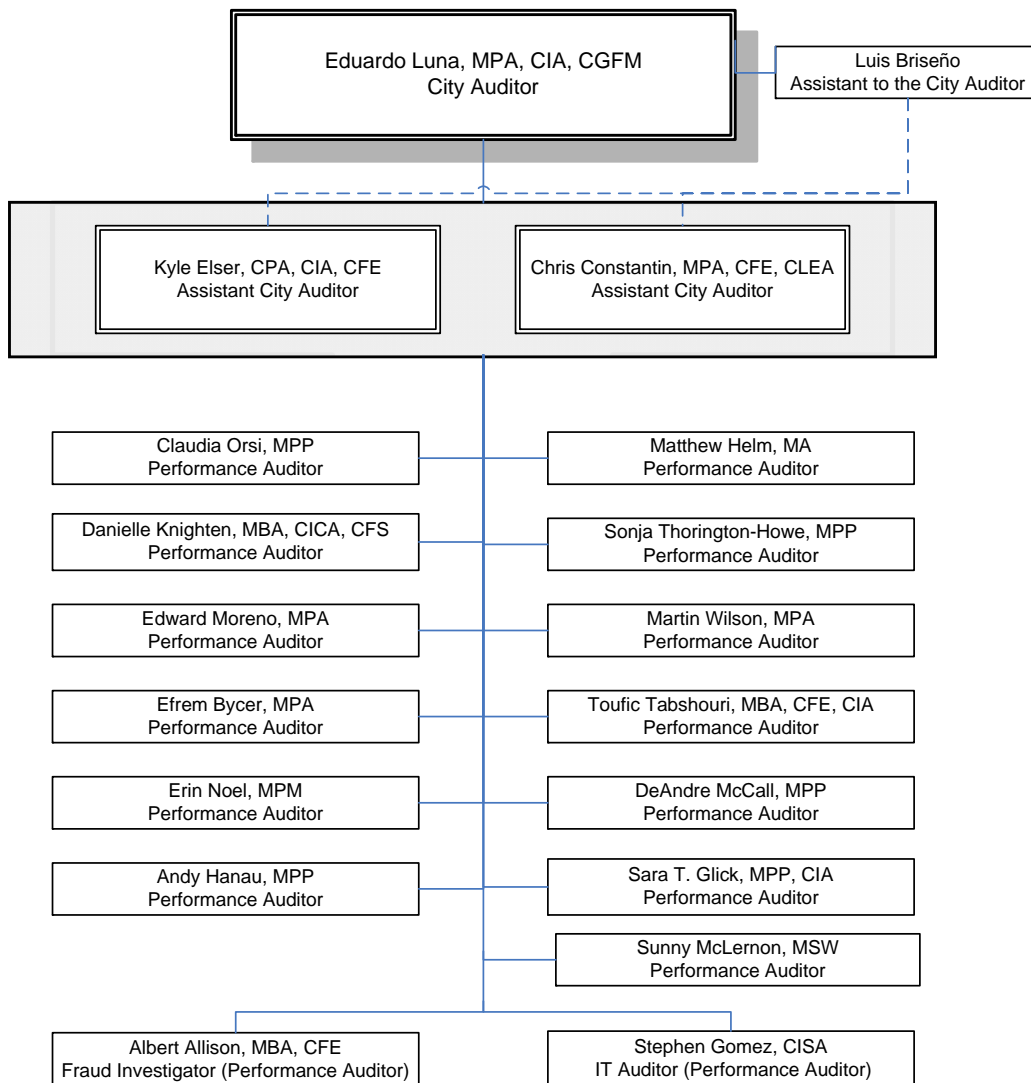
For the period ending December 31, 2011, the Office was staffed with 19 positions including 15 Performance Auditors, two Assistant City Auditors, one Assistant to the City Auditor, and the City Auditor as shown in the organization chart below.

*Exhibit 3*

**Organizational Chart**



**City of San Diego  
Office of the City Auditor  
December 31, 2011**



**Staff Background and Experience**

Eduardo Luna was hired as the City of San Diego's Internal Auditor in September 2007. Prior to joining the City, Eduardo worked in the City of San Jose's Office of the City Auditor between 1995 and 2007, and he worked for several years as an Evaluator with the U.S. General Accounting Office. With the passage of Proposition C on June 3, 2008, the independent Office of the City Auditor was created in July 2008, and Eduardo Luna was formally appointed and confirmed for a ten-year term as the City of San Diego's first City Auditor on April 14, 2009.

The City Auditor's staff have diverse educational backgrounds and work experience. Staff educational backgrounds include accounting, economics, political science, business administration, engineering, international studies, liberal arts, and computer applications and networking. Further, all staff members have advanced academic degrees and/or professional certifications as shown in the table below. Additionally, staff members have had previous experience in public accounting, technology, and federal, state, and local government. This wide range of educational training and experience brings a broad perspective to the variety of audit work the Office conducts.

**Exhibit 4**

**Advanced Academic Degrees and Professional Certifications**

Certifications for Professional FTEs	Number Held
Certified Internal Auditor (CIA)	4
Certified Fraud Examiner (CFE)	4
Certified Internal Control Auditor (CICA)	1
Certified Public Accountant (CPA)	1
Certified Fraud Specialist (CFS)	1
Certified Government Financial Manager (CGFM)	1
Certified Law Enforcement Auditor (CLEA)	1
Certified Information Systems Auditor (CISA)	1
Graduate Degrees for Professional FTEs:	Number Held
Masters in Public Policy (MPP)	5
Masters in Public Administration/Affairs (MPA)	5
Masters in Business Administration (MBA)	3
Masters in Public Management (MPM)	1
Masters in International Trade and Finance (MITF)	1
Masters in Social Work (MSW)	1

Members of the staff have been officers or members in the following professional organizations: Association of Local Government Auditors (ALGA), Institute of Internal Auditors (IIA), Association of Government Accountants (AGA), American Institute of Certified Public Accountants (AICPA), Association of Certified Fraud Examiners (ACFE), Information Systems Audit and Control Association (ISACA), Association of Certified Fraud Specialists (ACFS), and International Law Enforcement Auditors Association (ILEAA).

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

The Office of the City Auditor has received and participated in the following:

- The Association of Local Government Auditors (ALGA) recognized the City Auditor's Street Maintenance audit report with its prestigious Silver Knighton Award (May 2011). The Knighton Award competition recognizes the best performance audit reports submitted by government audit shops throughout the United States and Canada.
- The City Auditor was selected for Harvard University's Senior Executives in State and Local Government Program (July 2011). This intensive program was designed to bring together senior executives in state and local governments to help meet the changing needs in their communities. The program coursework utilized the case study method to promote learning and provoke insight into a wide array of government and leadership issues. A goal of the program was to provide government officials with the knowledge and skills to develop creative solutions under tight constraints and increased public scrutiny.
- The City Auditor presented at the ALPFA Leadership Summit. The topic presented was Ethics in Leadership and Retaining Integrity (February 2011).
- The City Auditor served on the United States Comptroller General's Domestic Working Group (November 2011). The group is organized to help advance the accountability community by allowing leaders in the federal, state, and local governmental audit communities to informally discuss topics of mutual concern and collaborate on issues of mutual interest.
- Assistant City Auditor presented at the ALGA National Conference (May 2011). The topic presented was Tools, Techniques, and Approaches for Effective Audit Management.
- Assistant City Auditor presented at an ALGA Webinar (June 2011). The topic presented was Performance Auditing and Law Enforcement: Identifying Cost Savings, Efficiencies and Effectiveness.
- Assistant City Auditor participated on an ALGA Peer Review team to assess compliance with Government Auditing Standards for the Deschutes County Audit

Department (September 2011).

- Assistant City Auditor was appointed chairman of ALGA's Publications Committee.
- In October 2011, the City Auditor management team held a strategic planning retreat.

City Auditor staff wrote eleven articles for ALGA's Quarterly publication during 2011 covering subjects such as attracting and retaining great thinkers, opportunities for improvement, and computer assisted audit techniques.

## City Auditor Website

The City Auditor Website is continuously updated and maintained by staff. Our website provides information on the following:

- Mission Statement
- Contact Information
- Budget Information
- Audit Committee Information
- Listserv sign up to receive audit reports
- News and Announcements
- Hotline Information
- About Us
  - Our Charter Authority
  - Improper Influence Ordinance
  - City Auditor and Staff Biographies
  - Organizational Chart
- Policies and Procedures - Audit Manual
- Reports and Documents
  - Audit Reports
  - Monthly Status Reports
  - Annual Accomplishment Reports
  - Risk Assessment and Audit Work Plans
  - Peer Review Report
  - Audit Memorandums and Presentations
  - Hotline Reports and Statistics
- Resources
  - Links to various auditing organizations
- FAQs

During calendar year 2011, the City Auditor's Office Website received over 5,910 visits per month from individuals and organizations. The City Auditor's Website can be found at <http://www.sandiego.gov/auditor/>.



## Appendix A: Summary of Work Performed January 2011 – December 2011

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs <sup>2</sup>	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
1	01/31/11	11-011	Audit of the Enterprise Resource Planning System Implementation	\$0	6	6
2	01/21/11	11-012	Audit of Accounts of James M. Barrett, Former Public Utilities Director	\$0	0	0
3	02/28/11	11-013	Follow-up Audit of the Development Services Department's Collection of Water and Sewer Fees	\$28,042 <sup>3</sup>	2	2
4	03/03/11	11-014	Hotline Investigation of Misappropriation of City Funds	\$100,998 <sup>4</sup>	0	0

<sup>2</sup> These amounts include quantifiable increases in efficiency resulting from our audit recommendations and show a \$0 where we could not reasonably quantify savings or where no savings are identified

<sup>3</sup> We found that the Development Services Department (DSD) did not collect \$28,042 in water and sewer fees owed on 14 accounts. We recommended DSD collect these fees.

<sup>4</sup> We found City employees misappropriated \$100,998. We referred this matter to the San Diego Police Department, and one employee has pled guilty and will pay restitution of \$40,000. A second employee may also be charged and required to pay restitution. Besides the restitution payments, there is an uncalculated monetary benefit by removing these employees so additional funds will not be stolen in the future.

Activities and Accomplishments of the Office of the City Auditor, Calendar Year 2011

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs <sup>2</sup>	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
5	03/15/11	11-015	Audit of Accounts of Patti Boekamp, Former Engineering and Capital Projects Director	\$0	0	0
6	04/19/11	11-016	Evaluation of Bid-To-Goal Gainsharing Goals	\$0	0	0
7	04/25/11	11-017	Performance Audit of Fire-Rescue's Emergency Medical Services	<b>\$10,900,000<sup>5</sup></b>	11	10
8	04/29/11	11-018	Audit of Accounts of Benjamin Hueso, Former City Council - District 8	\$0	0	0
9	04/29/11	11-019	Audit of Accounts of Donna Frye, Former City Council – District 6	\$0	0	0
10	05/03/11	11-020	Performance Audit of the Parking Administration Program	<b>\$2,900,000<sup>6</sup></b>	13	13
11	05/20/11	11-021	Audit of Accounts of David Jarrell, Former Deputy Chief Operating Officer, Public Works	\$0	0	0

<sup>5</sup> We found the City has not been billing San Diego Medical Services Enterprise for its full cost of Advanced Life Support services totaling an estimated \$10.9 million that the City Attorney will try to recover.

<sup>6</sup> We identified 34,344 citations totaling approximately \$2.9 million that were not being referred to the City Treasurer's Collection Program. As a result of our audit, these citations are now being pursued for collection.

Activities and Accomplishments of the Office of the City Auditor, Calendar Year 2011

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs <sup>2</sup>	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
12	05/31/11	11-022	Audit of Accounts of Naresh Lachmandas, Former Department of Information Technology Director	\$0	0	0
13	06/17/11	11-023	Hotline Investigation Report of Employee Malfeasance	\$6,707 <sup>7</sup>	2	2
14	06/24/11	11-024	Performance Audit of the Animal Services Agreement Between the City of San Diego and the County of San Diego	\$3,243,959 <sup>8</sup>	10	9
15	06/28/11	11-025	Central Stores Agreed-Upon Procedures Inventory Count – FY2011	\$0	0	0
16	06/29/11	11-026	Performance Audit of the Take-Home Use of City Vehicles	\$3,054,650 <sup>9</sup>	15	15

<sup>7</sup> We found an employee over charged the City \$6,707 for work not performed based on documents reviewed. We recommended a fact finding be conducted and the City recoup the overpaid funds.

<sup>8</sup> We recommended changing the unfavorable terms of the animal services contract. As a result we estimate the City could save \$3.2 million over a five year period.

<sup>9</sup> We identified 76 vehicles that the City should consider eliminating from take home assignment saving the City \$568,525 annually, amounting to \$2,842,625 over a five year period. We also found that the City should seek \$212,025 in reimbursement for costs incurred on vehicle operated by San Diego Medical Services Enterprises that were never claimed by the City, which brings the total cost saving to \$3,054,650.

Activities and Accomplishments of the Office of the City Auditor, Calendar Year 2011

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs <sup>2</sup>	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
17	06/29/11	11-027	Performance Audit of the Capital Improvement Program	\$11,150,000 <sup>10</sup>	24	19
18	09/27/11	12-001	Performance Audit of Public Utilities Capital Improvement Program	\$0	18	14
19	09/30/11	12-002	Performance Audit of the San Diego City Employees' Retirement System	\$4,367,125 <sup>11</sup>	12	12
20	10/25/11	12-003	Hotline Investigation Report of False Request for Reimbursement	\$24,925 <sup>12</sup>	1	1

<sup>10</sup> We made recommendations to improve planning, coordination, and oversight of the CIP process to make the process more efficient. Improved oversight could bring project delivery costs in line with the state average for smaller projects. Currently, the City's project delivery cost for smaller projects with (total construction cost between \$100,000 and \$2 million) is 56% of the total cost, which is 13% higher than the state average. We estimate that bringing project delivery costs for small projects in line with the state average would save the City \$11.15 million over a five year period.

<sup>11</sup> We made recommendations for the San Diego City Employees' Retirement System (SDCERS) to work with the City to reduce fiduciary insurance premiums, which could result in an estimated annual cost saving of \$300,000 or \$1.5 million over 5 years. We also recommended that SDCERS should consider eliminating five positions when the new pension system is implemented, which could result in an estimated \$1,950,625 cost saving in salary and fringe benefits over five years. Additionally, we recommended that the City should consider offsetting Industrial Disability Retirement benefits by income earned by retirees from other employment, which could save an estimated \$880,000 over five years. Finally, we recommended that SDCERS correct inaccurate benefit payments identified in a previous audit report, which could result in an estimated savings of \$36,500. The combined estimated potential cost saving from these recommendations is \$4,367,125 over a five year period.

<sup>12</sup> We recommended the City issue a demand letter to the non-profit organization requesting the return of \$24,925 that was paid for work that appears to have been completed prior to the executed agreement.

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs <sup>2</sup>	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
21	10/31/11	12-004	Performance Audit of the San Diego Police Department's Permits and Licensing Unit	\$2,061,975 <sup>13</sup>	15	15
22	12/15/11	12-005	Hotline Investigation Report of the Pacific Beach Community Development Corporation	\$2,976 <sup>14</sup>	0	0
			<b>Totals</b>	<b>\$37,841,357</b>	<b>129</b>	<b>118</b>

<sup>13</sup> We recommended the City reduce instances of false alarms and increase the collection of permit fees and penalties. We estimate that by implementing these recommendations the City could save \$2,061,975 over five years. This estimate is based on reducing false alarms by 10% per year from the previous year and increasing the collection rate by 5% each year over a five year period.

<sup>14</sup> We recommended the City Treasurer staff perform their verification procedures for 23 businesses that were identified in a complaint as allegedly being non-compliant with reporting employee count for Business Tax and Business Improvement District (BID) assessments. As a result, the businesses employee count rose from 52 to 297 generating an additional \$2,976 in BID assessments and business taxes.

## Appendix B: Summary of Audit Reports

The following summarizes the audit reports that the Office of the City Auditor issued from January 2011 through December 2011:

### 11-011 AUDIT OF THE ENTERPRISE RESOURCE PLANNING SYSTEM IMPLEMENTATION

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The City completed the Enterprise Resource Planning implementation project that began in February 2007. We audited this implementation since October 2008 due to the risk inherent to a project of this size and scope. We found management was generally quick and proactive in identifying and addressing risks in project management, integration testing, and data conversion, cut-over, and retiring legacy systems. However, we found some improvements are need in security and payment controls. We also found that the City requires more focus on employee training in order to fully utilize the City's significant investment in the system.

#### *RECOMMENDATIONS*

- #1 Implement targeted security monitoring over ERP support staff access in the production environment. Specifically, management should:
  - A. Perform a risk assessment/cost benefit analysis over the access and system functions that pose the greatest risks to determine which controls merit the associated expense of generating logs or using personnel's time to regularly review. Automated review, such as the use of scripts to identify certain unauthorized or high risk activity should be used wherever possible to cut back on personnel time and log retention requirements.
  - B. Critical controls should have an automated trigger or alert such as an email generated from the use of a critical transaction, and sent to the appropriate party for review.
  - C. Risks, controls implemented/mitigated risk, method of implementation, and frequency of review should be documented in the monitoring portion of the SAP Security Policy.
  - D. Documented reviews of monitoring controls should be performed at least semi-annually over the implemented monitoring to ensure that the monitoring defined through this exercise are adequate, effective and consistently in place.
  
- #2 We recommend the security group clearly document technical roles within the SAP environments and enforce Segregation of Duties between technical roles wherever possible. Specifically, we recommend:
  - A. Access for each ERP support department staff should be restricted to only the access that user requires to perform their day to day functions.
  - B. ERP support department staff access should be reviewed at defined regular intervals on a semi-annual basis, at a minimum.

- C. Additional access beyond standardized support staff roles must be approved by management external to the ERP support department staff, and should be provided through a monitored account such as a Firefighter account.
  - D. Unmonitored generic accounts should not exist in the production (live financial) environment.
  - E. Logs generated from monitored accounts (such as firefighter accounts) should be reviewed at defined points and signed off by the supervising manager when they are in use. Simplified automation can be employed such as automating the generation and sending of the log to the manager via email, whose reply can serve as his auditable electronic sign-off.
  - F. Security logs should be stored in a location where the SAP IT teams do not have access to modify the logs.
- #3 Ensure that production client authentication settings meet and continue to meet the City Standard authentication requirements defined in the City Security Policy (Section 2.5.1).
- #4 Management should take precautions to ensure that no user can increase or modify their own access. If it is not feasible to limit this capability to users required to provision access, controls such as monitoring their account permissions for modifications using a standardized methodology should be implemented to mitigate this security risk.
- #5 To mitigate the control weaknesses related to the vendor database, we have made the following recommendations:
- A. Create and run a periodic report across non PO invoices looking for duplicate payments similar to the previous mitigating controls report that was in place prior to the implementation of SAP.
  - B. Analyze the City's vendor database and remove all duplicate vendor data.
  - C. Implement a required "unique identifier" for a vendor/business, such as the tax ID, for new vendors and create a process for adding the unique identifier to existing vendors.
- #6 Complete an evaluation for providing centralized continuing education, and ensure that at a minimum, classes addressing the core functions of SAP should be provided on a periodic basis, and made available to the appropriate departments. Specifically, management should:
- A. Develop a training schedule for specific requirements based on the results of the survey they conducted.
  - B. Make the training schedule available to City Employees, using means such as email or the OneSD intranet site. Further, a method for feedback after each training should be provided, such as a survey, to ensure the trainings remain effective.
  - C. Ensure enough resources are dedicated to provide on-going training.
  - D. Ensure that skilled employees have scheduled dedicated time to train users in their

respective proficiency.

**11-012 AUDIT OF ACCOUNTS OF JAMES M. BARRETT, FORMER PUBLIC UTILITIES DIRECTOR**

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We conducted a close out audit of the former Public Utilities Director. We found that Mr. Barrett had no outstanding debt to the City and no issues came to our attention requiring further review.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-013 FOLLOW-UP AUDIT OF THE DEVELOPMENT SERVICES DEPARTMENT'S COLLECTION OF WATER AND SEWER FEES**

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We conducted a Follow-up Audit of the Development Services Department's Collection of Water and Sewer Fees. We issued a report in June 2010 that found over \$170,000 in uncollected water and sewer fees. At that time, we reported that additional testing of water and sewer fee data would be performed and the results reported in a separate memorandum. Based on our follow-up testing, we found 14 additional accounts with uncollected water and sewer fees due totaling \$28,042. During our testing, we also found that the procedures to record, track, and monitor capacity credits are not well-documented.

*RECOMMENDATIONS*

- #1 The Development Services Department should notify customers of the fees due and take appropriate actions to resolve these unpaid accounts.
  
- #2 The Public Utilities Department in conjunction with the Development Services Department should examine and document the controls over the assessment, recording, collection and monitoring of water and sewer capacity fees, including credits issued in lieu of capacity fees. Design processes in SAP to automate and facilitate the assessment, tracking and monitoring of capacity credits.

**11-014 HOTLINE INVESTIGATION OF MISAPPROPRIATION OF CITY FUNDS**

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We conducted an investigation of Park and Recreation employees in response to a complaint made to the City's Fraud Hotline. The complaint alleged that an employee may have been



responsible for missing funds at a recreation center. We determined that the allegations of missing funds, making false entries into financial records and concealing or destroying financial records were substantiated, and the missing funds totaled \$100,998. This case was referred to the San Diego Police Department for investigation.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-015 CLOSE OUT AUDIT OF PATTI BOEKAMP, FORMER ENGINEERING AND CAPITAL PROJECTS DIRECTOR**

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We conducted a close out audit of the former Engineering and Capital Projects Director. We found that Ms. Boekamp had no outstanding debt to the City and no issues came to our attention requiring further review.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-016 EVALUATION OF BID-TO-GOAL GAINSHARING GOALS**

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At the request of the Audit Committee, we performed a review of the gainsharing goals for the Public Utility Department's Bid-to-Goal Program. The purpose of the review was to assess the extent to which the goals 1) have clearly-identified outcomes which benefit ratepayers, 2) have specific and measurable performance measures that relate to goal outcomes, and 3) have a clear target which indicates exceptional performance will be achieved. Overall, we believe that Public Utilities has invested significant effort and made good progress in the development of a robust performance management system. We encourage Public Utilities to continue to refine and improve its performance measurement efforts.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-017 PERFORMANCE AUDIT OF FIRE-RESCUE'S EMERGENCY MEDICAL SERVICES**

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The City's Fire-Rescue Department has partnered with Rural/Metro to form San Diego Medical Services Enterprise (SDMS) to provide the City's 9-1-1 paramedic service. We found

that the City has not adequately managed or monitored the financial activities of Rural/Metro. We identified several potential financial accounting issues for SDMS as well as potentially improper or unreasonable costs and fees that remain unresolved. These accounting issues include \$4.2 million that were not properly remitted directly to the SDMS bank account. Also, based on records we reviewed, Rural/Metro appears to have withdrawn approximately \$5.8 million from the SDMS bank account in excess of its entitled expense reimbursement amounts. According to Rural/Metro, this difference is primarily a result of patient refunds and other adjustments.

We also found that the City has not sought up to \$10.9 million per year for the personnel and non-personnel costs in providing the first responder services. In addition, eligible overhead costs or fees are not well defined, and various fees and overhead costs paid to Rural/Metro may be invalid, inflated, potentially duplicative in nature or not properly substantiated. By comparison, the City does not receive comparable reimbursement for overhead costs, nor does the City get reimbursed for the occupation or utilization of some City-owned facilities and other assets that are made available for use by SDMS in the existing contract.

Moreover, we found that the summary of City-wide emergency medical responses that is reported to the City Council does not reflect actual on-scene results. Approximately 37 percent of calls, representing periods when 12 or more ambulances are responding to calls, are labeled as "unusual system overload" and results in response time reporting that does not reflect the true performance of SDMS in responding to 9-1-1 calls.

#### *RECOMMENDATIONS*

- #1 The City should engage forensic experts to conduct a review of previous and current SDMS revenues and expenses to ensure all revenues were properly accounted for and reimbursements to Rural/Metro are appropriate, reasonable, and substantiated by sufficient documentation.
- #2 The City should demand that all outstanding revenue related transactions not directly deposited into the SDMS back account be immediately deposited, unless Rural/Metro can immediately prove that it has already made expense credits in the same amount.
- #3 The City and Rural/Metro should establish procedures to submit detailed invoices and appropriately supporting documentation to the other partner to justify expense reimbursements. Further, each partner should require the other's approval of disbursements before receiving reimbursement through the SDMS "lockbox" bank account.
- #4 The City should immediately evaluate the appropriateness of the contractual terms defined in any related EMS agreements for alignment with current practices.
- #5 The City should develop a comprehensive program for monitoring SDMS's financial

performance, update and sufficiently detail job descriptions and responsibilities for oversight positions, and provide the staff with appropriate training to effectively monitor its contract with SDMS.

- #6 The City should review and modify the current governance for EMS operations to ensure adequate oversight and allows for compliance with applicable agreements.
- #7 The City Administration should immediately include the costs for Priority 1 Advanced Life Support services in its monthly request for reimbursement from SDMS.
- #8 The City should review, analyze and update its current definition of “unusual system overload”. The EMS Program Manager should review all dispatches submitted for exemption to determine the appropriateness of exempting them and ensure penalties for non-compliance are assessed when applicable.
- #9 In addition to reporting on the contractual performance of SDMS, the City should immediately begin reporting actual response time results to the Mayor and City Council consistent with the response time standard specified in the EMS agreement between the City and the County of San Diego to guide system improvements. This reporting should incorporate the impact of the City’s dispatch process on the assignment of calls.
- #10 SDMS should review the adequacy of the existing Priority categories, specifically: a. The appropriateness of the current Priority 2 calls definition, treatment and compliance reporting; b. The use of Priority 3 in providing ALS transports and their appropriate response time, or obtain written authority to allow Priority 3 calls to respond to calls within 15 minutes rather than 12 minutes.
- #11 SDMS should continue to segregate the reporting on Priority 1 and 2 calls consistent with the EMS agreement. If this is not practical, an amendment to the agreement should be added to combine reporting for Priority 1 and 2 or restructure the call priority designations.

**11-018 AUDIT OF ACCOUNTS OF BENJAMIN HUESO, FORMER CITY COUNCIL - DISTRICT 8**

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We conducted a close out audit of the former Council Member – District 8. We found that Mr. Hueso had no outstanding debt to the City and no issues came to our attention requiring further review.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-019 AUDIT OF ACCOUNTS OF DONNA FRYE, FORMER CITY COUNCIL - DISTRICT 6**

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We conducted a close out audit of the former Council Member – District 6. We found that Ms. Frye had no outstanding debt to the City and no issues came to our attention requiring further review.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-020 PERFORMANCE AUDIT OF THE PARKING ADMINISTRATION PROGRAM**

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We found that opportunities exist to increase revenue collection and improve the City's management and oversight of its Parking Administration Program. We found that citations were not referred to collection for a total of \$2.9 million of uncollected accounts. The parking citation billing data system indicates that Parking Administration did not consistently send eligible delinquent parking citations to the City Treasurer's for collection within the appropriate time frame.

We also found that approximately \$3 million in parking citation revenue was collected and distributed from citations with unidentifiable agency codes. In the City of San Diego both City and non-City agencies issue manual and electronic citations. Although manual citations represent about nine percent of the citations written in the City, errors originating from manual citations cause the majority of the administrative problems. Data entry errors during the insertion of manual parking citations into the data system led to inappropriate late payment fees on violators who have already submitted payment.

Additionally, we found that City departments and non-City agencies that issue parking citations do not have standardized training and/or processes in place pertaining to the issuance, voiding, accounting, and referral of citations. Training manuals vary in details and emphasis pertaining to those subjects.

Finally, we found the City lacks an appropriate and effective replacement schedule for its parking meters to ensure a well-functioning parking meter system.

*RECOMMENDATIONS*

- #1 We recommend that the Parking Administration Program send all eligible delinquent citations to collection.

- #2 We recommend that the Parking Administration Program ensure that the responsible staff understands all applicable Department of Motor Vehicles status codes pertaining to the transfer of delinquent citations to collections, and provide updated criteria to its data system vendor.
- #3 We recommend that the Parking Administration Program develop policies and procedures to ensure that it regularly audits its parking citations data system to ensure that eligible delinquent accounts are timely sent to collection.
- #4 We recommend that the Parking Administration Program work in conjunction with their vendor to adjust the erroneous programming and capture all of the Department of Motor Vehicles status codes to send open accounts into collection.
- #5 We recommend that the Office of the City Treasurer establish a process to distribute the appropriate revenue to its contracted agencies on a monthly basis as required by contract agreement and State Law or cease contractual agreements where the City Treasurer is unable to perform in compliance with its contracts.
- #6 We recommend that the Parking Administration Program ensure that the process of review of the rejected citations fully corrects the errors that resulted in the distribution of revenues for citations with unidentifiable agency codes.
- #7 We recommend that the Parking Administration Program modify its appeals timelines and procedures to comply strictly with State Law. Specifically, the Parking Administration Program should ensure that appeals are not accepted after the State Mandate deadline of 21 days from the date of the citation issuance or 14 days from the date on the Notice of Illegal Parking.
- #8 We recommend that the Parking Administration Program develop clear performance metrics for its appeal unit to guide process improvements.
- #9 We recommend that the Storm Water Division of the Transportation Department and the San Diego Police Department draft process narratives regarding the issuance, voidance, record keeping and referrals of parking citations. This could provide a standardized model for the issuance, record keeping, voiding, and referrals of citations for every department and agency.
- #10 We recommend that the Parking Administration Program set a time requirement for delivery of manual citations for those City and non-City agencies for which the Parking Administration Program processes citations.
- #11 We recommend that the Parking Administration Program establish a comprehensive Program Operations Manual that incorporates all existing policies and procedures, newly developed policies, procedures, training materials, and resources, as well as the Parking Administration Program's purpose, values, and mission.

- #12 We recommend that the City Administration develop an effective and appropriate replacement schedule for the City's parking meters. In addition, the City Administration should ensure that an appropriate portion of the parking meter revenue is set aside to fund this program.
- #13 We recommend that the Office of the City Treasurer develop an internal process for periodic review of parking related legislation by which it would identify upcoming surcharges, and their impact on parking citations. Further, in the future, the Office of the City Treasurer should take immediate action to pass through all State-mandated parking surcharges onto violators in a timely manner.

**11-021 CLOSE OUT AUDIT OF DAVID JARRELL, FORMER DEPUTY CHIEF OPERATING OFFICER, PUBLIC WORKS**

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We conducted a close out audit of the former Chief Operating Officer. We found that Mr. Jarrell had no outstanding debt to the City and no issues came to our attention requiring further review.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-022 AUDIT OF ACCOUNTS OF NARESH LACHMANDAS, FORMER DEPARTMENT OF INFORMATION TECHNOLOGY DIRECTOR**

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We conducted a close out audit of the former Department of Information Technology Director. We found that Mr. Lachmandas had no outstanding debt to the City and no issues came to our attention requiring further review.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-023 HOTLINE INVESTIGATION REPORT OF EMPLOYEE MALFEASANCE**

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We conducted an investigation of an Environmental Services employee in response to a complaint made to the City's Fraud Hotline, and determined that the allegations of employee malfeasance were substantiated. We found that an employee did not notify and obtain approval from the Department Director for outside employment per City regulations. In addition, we found documents indicating the employee was on paid City duty while also being

paid by a vendor for the employee's work at a location away from the employee's City job site for the same days. The payments in question total \$6,707.

*RECOMMENDATIONS*

- #1 Conduct an independent fact-finding to: determine the extent to which the employee used City emails for outside employment activities; determine the extent to which the employee inappropriately charged the City for time worked while away from the City job site and recoup all payments made for time not worked; determine the extent to which the employee performed outside employment activities that were not approved by Department management; and take appropriate disciplinary action based on the results of the fact-finding.
- #2 Issue a reminder to all Environmental Services staff regarding their responsibility to notify and obtain approval from the Department Director for any outside employment or business activity per Personnel Manual index Code G-6, Council Policy 000-4, and Administrative Regulation 95.60 §3.5.

**11-024 PERFORMANCE AUDIT OF THE ANIMAL SERVICES AGREEMENT BETWEEN THE CITY OF SAN DIEGO AND THE COUNTY OF SAN DIEGO**

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We found the Animal Services Agreement contains numerous provisions that are unfavorable to the City. These unfavorable contract provisions cost the City about \$1.9 million from fiscal year 2008 through fiscal year 2010. The first unfavorable provision, the formula that assigns costs to Animal Services' seven contract jurisdictions based on proportional shares of population and service requests, cost the City over \$1.1 million for services provided to the County. The second, a provision that applies the formula to Animal Services' budgeted costs and does not take into account Animal Services' actual expenditures, means that when Animal Services actual expenses are below budgeted expenses, all the savings goes to cover the County's share of animal service cost and is not reimbursed to contract cities. This second provision cost the City about \$750,000 over three years.

Furthermore, we found numerous opportunities for operational enhancements that could improve Animal Services. More specifically, our analysis shows disparity in the ratio of service requests to license activity throughout Animal Services' coverage area. By not conducting geographic analyses, Animal services is unable to quantitatively identify these at-risk areas, explain why these areas are at-risk, or develop programming to address the wide disparity between these areas and other areas in the Animal Services coverage area.

Additionally, given the rising costs of the contract, the City needs to consider strategies to improve its cost recovery rate. To achieve this end, the City needs to engage in more robust contract oversight to ensure adequate performance and make strategic decisions that will improve both public health and cost recovery for the City.

*RECOMMENDATIONS*

- #1 The City Administration should enter into negotiations with the County for a new cost allocation formula that reflects the City's actual use of services.
- #2 The Police Department should obtain an opinion from the City Attorney's Office regarding the feasibility of recovering surplus payments and seek full reimbursement from the County for the City's overpayment during fiscal years 2008 through 2010.
- #3 The City Administration should renegotiate the Animal Services Agreement to ensure the Agreement clearly delineates the allocation of actual savings based on the same formula to allocate cost to contract jurisdictions.
- #4 The City Administration should request that Animal Services send "failure to license" citations to each resident who does not inform Animal Services of a change in the status of their dog or does not submit a renewal license application following the second delinquency notice.
- #5 The City Administration should request the County to identify opportunities to increase dog license compliance through other points of animal contact.
- #6 The Police Department should request the City Attorney's Office to provide a formal opinion on the permissibility of low-cost clinics on City recreation lands.
- #7 If clinics are permissible on City recreation lands, the Police Department should communicate the availability of that public space to County Animal Services.
- #8 The City Administration should review the Animal Services Agreement and negotiate changes to bring the Agreement into compliance with the General Fund User Fee Policy. This should include: providing analysis and justification for not recovering 100% of the Animal Services Agreement, establishing a standardized and regular fee review to ensure fees match applicable costs, increasing cost recovery targets each year to maintain or improve the cost recovery rate, and providing analysis and justification for not increasing revenue when costs increase
- #9 The Police Department should instruct contract management staff to conduct more in-depth analysis related to Animal Services' performance, including: conducting testing to verify the County is accurately reconciling the City's revenue account on the second quarter bill, working with the County to verify the annual license and shelter revenue figures, requesting reports on the number and value of fee waivers/adjustments granted by Animal Services staff, and requesting reports on the number and value of accounts sent to the County Auditor and Controller for discharge.
- #10 The City Administration should consider requiring cats residing in the City be properly vaccinated against rabies and negotiate with the County for the addition of cat registration services to the portfolio of services provided to the City. The City Administration should bring before the appropriate City Council committee reports and actions to implement these



vaccination and registration requirements.

**11-025 CENTRAL STORES AGREED-UPON PROCEDURES INVENTORY COUNT – FY2011**

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This inventory count is required by San Diego Municipal Code §22.0501. The review consisted of comparing the City's physical inventory in its storerooms to the inventory stock record. We found that the physical count of items on hand did not match the City inventory records in 30 instances. As a result, the actual inventory value of stock items tested is \$1,312, or .65%, less than Central Stores' records.

*RECOMMENDATIONS*

We did not make any audit recommendations.

**11-026 PERFORMANCE AUDIT OF THE TAKE-HOME USE OF CITY VEHICLES**

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We found that the City lacks a review process for take-home vehicle assignments and associated costs, and many units do not have clearly defined response time expectations. The City assigns take-home vehicles to some employees who rarely respond to emergency call backs, who do not have any special skills, or do not require any special equipment when responding to emergencies. As a result, during fiscal year 2010, SDPD and Fire-Rescue take-home vehicles logged about 2.5 million commute-only miles, with an estimated annual cost to the City of \$2.1 million. We believe that the City could save up to \$569,000 annually, while maintaining the ability to respond to emergencies, by reducing the quantity of its SDPD and Fire-Rescue take-home fleet by 76 vehicles or 23%. We identified an additional 23 vehicles that we recommend SDPD and Fire-Rescue review for potential elimination based on employees' self reported information. Eliminating the take-home use of these 23 vehicles would save the City an additional \$149,000 per year.

We also found that the City does not have processes and procedures in place to review fuel card transactions and does not collect driver identification information on some purchases. As a result, Fleet Services, SDPD, and Fire-Rescue do not review fuel card purchases consistently. While we did not identify any specific cases of fraud and abuse, we found that Fire-Rescue employees use fuel cards excessively at private gas stations when less expensive City fuel stations are located nearby, costing the City \$2,685 in fiscal year 2010.

Additionally, we found that the City's established procedure to determine and report vehicle-related taxable fringe benefits is inadequate. As a result, the City may have not reported the personal use of at least 13 take-home vehicles as a taxable fringe benefit on employees' W2 forms, even though it appears that personal use of these vehicles should be considered a

taxable fringe benefit under the Federal Internal Revenue Code.

Finally, we found that the City paid approximately \$212,000 to maintain, fuel, and insure 15 vehicles operated by a City partner, San Diego Medical Services, but failed to seek reimbursement for these costs.

*RECOMMENDATIONS*

- #1 To reduce the commuting costs the City incurs for vehicles assigned on a permanent basis to City employees, we recommend that the San Diego Police Department and the San Diego Fire-Rescue Department develop policies and procedures establishing guidelines for a maximum one-way commute distance and develop a process to recover the costs associated with commutes that exceed the guidelines.
- #2 To reduce the costs associated with take-home vehicles while maintaining an adequate level of emergency responders, we recommend that the San Diego Police Department and the San Diego Fire-Rescue Department identify opportunities to eliminate take-home vehicles not regularly needed in emergency responses. This review should take into consideration the number of actual emergency responses, types of special equipment needed and response time. In addition, the San Diego Police Department and the San Diego Fire-Rescue Department should identify additional strategies to reduce take-home vehicles assignments by creating stand-by rotational assignments, increase the use of pooled vehicles, and ensure that the justification for each take-home assignment is well documented.
- #3 To reduce the costs associated with take-home vehicles while maintain an adequate level of emergency responders, we recommend that the San Diego Police Department and the San Diego Fire-Rescue Department to the extent possible, consider inserting into the fleet the vehicles eliminated as take-home vehicles, reducing the need to purchase some vehicles during fiscal year 2012.
- #4 To ensure that take-home vehicles utilization remains optimal, we recommend that the San Diego Police Department and the San Diego Fire-Rescue Department establish policies and procedures to annually review take-home vehicle utilization and identify opportunities to increase the use of pooled vehicles and/or reduce the number of vehicles taken home nightly.
- #5 To ensure that the City establishes a uniform and effective process to review the public safety needs and justification of take-home vehicle assignments, we recommend that the City Administration work in consultation with the San Diego Police Department and the San Diego Fire-Rescue Department to revise Council Policy 200-19 regarding the use of City vehicles by City employees. The revised policy should require that a complete listing of take-home vehicles be provided by each City department yearly with a justification for those assignments. In addition, the revised policy should clearly define the purpose of take-home vehicles and restrict their assignment to the greatest extent possible.

- #6 To increase oversight of the costs associated with take-home vehicles, we recommend the San Diego Police Department and the San Diego Fire-Rescue Department work with the Fleet Services Division to calculate the cost of commuting in department vehicles. These costs should be calculated and reported to the City Administration on an annual basis by the Fleet Services Division.
- #7 To increase oversight of the costs associated with take-home vehicles, we recommend the San Diego Police Department and the San Diego Fire-Rescue Department should draft respective process narratives providing guidance pertaining to take-home vehicle assignments. This newly drafted regulation should require City departments to maintain and review yearly take-home vehicle assignments, their justification, call back reports, response time, and costs.
- #8 To ensure that take-home vehicle assignments include consideration of call-back needs and to ensure that the rationale for these assignments can be independently justified, we recommend that the San Diego Police Department and the San Diego Fire-Rescue Department establish a process to maintain accurate and updated records on the number of call-backs for individuals, positions and units with take-home vehicles.
- #9 To improve the efficiency and effectiveness of take-home vehicle assignments and to reduce costs associated with take-home vehicles that are assigned unnecessarily, we recommend that the San Diego Police Department and the San Diego Fire-Rescue Department develop policies and procedures establishing a maximum one-way commute distance and response time by unit for City employees that are assigned a take-home vehicle. For those job functions for which the maximum response time is unspecified, City employees should be required to pick up a City vehicle in response to a call-back rather than driving a take-home vehicle.
- #10 To ensure that the City recovers the full costs associated with the maintenance, fueling, and insurance of vehicles operated by San Diego Medical Services, we recommend that the Office of the City Attorney work with the San Diego Fire-Rescue Department to immediately seek reimbursement for all maintenance, fueling, and accident claim cost incurred by the City for non-City vehicles used for San Diego Medical Services business, as well as acquisition costs of City-owned vehicles used for San Diego Medical Services business.
- #11 In addition, to ensure that adequate data is available to enable the City to track, and where applicable, seek reimbursement for vehicle-related costs, we recommend that the Public Works Department's Fleet Services Division maintain backup files of all data on vehicle maintenance and fuel costs according to Internal Revenue Service records retention regulations.
- #12 To strengthen the internal controls over the use of the City's fuel cards, we recommend that the Public Works Department's Fleet Services Division modify its Service Level Agreements with customer departments specifically requiring that all fuel card transactions be reviewed by customer departments on a monthly basis. The Service Level Agreements should also describe situations in which use of fuel card is acceptable, such as emergencies or in cases where personnel are conducting official City business outside of San Diego.

- #13 In addition, to ensure that all information pertaining to the use of the City's fuel cards is maintained and that effective oversight is possible, we recommend that the Public Works Department's Fleet Services Division collect identification information on all fuel purchases.
- #14 To ensure that the City strengthens its internal controls pertaining to the reporting of taxable fringe benefits, we recommend that the City Administration draft a process narrative requiring that each City department submit documentation on each take-home vehicle assignment and on an annual basis afterwards. This documentation should include all information necessary to determine the taxable nature of the vehicle, the reason the vehicle is assigned for take-home use, and the job duties and law enforcement qualifications of the assigned driver. These documents should be made available to the Office of the City Comptroller as necessary.
- #15 In addition, to ensure that the value of the personal use of City vehicles is reported accurately, the San Diego Police Department and the San Diego Fire-Rescue Department should require all employees with taxable take-home vehicles to complete mileage forms documenting trips made for personal use, consistent with Internal Revenue Service regulations. This documentation should be submitted to the Office of the City Comptroller on an annual basis.

#### 11-027 PERFORMANCE AUDIT OF THE CAPITAL IMPROVEMENT PROGRAM

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We found that better planning and oversight are needed to effectively identify capital infrastructure needs and manage projects. The City lacks coordination and oversight because no one department or leader is accountable or responsible for the process. This has contributed to impediments in the various stages of the process. We found that the City lacks a long-term Capital Improvement Program (CIP) plan because it uses an annual CIP budget as a "rolling" CIP; however, the budget does not provide a clear view of the City's planned capital improvements over the next five years. Because the City lacks integrated capital planning, it is relying on client departments to effectively identify needs for its annual CIP budget.

Additionally, we found the extent to which departments evaluate project alternatives and prioritize projects varies with some departments having higher quality approaches than others. We also found impediments in the Engineering and Capital Projects Department's process for managing projects that affect its ability to effectively deliver projects within budget and schedule. These impediments include the lack of: performance goals and measures; efficient integration of project scope, cost, and schedule; reliable project data; and requirements for timely execution and completion of required project closeout tasks. Many of these impediments are due to lack of requirements and process oversight.

#### *RECOMMENDATIONS*

- #1 Develop an effective methodology for identifying the City's deferred maintenance and capital needs.

- #2 Include deferred maintenance and capital needs in future capital plans so that the City can make wise investments over time to address them.
  
- #3 Assess the best organizational structure for establishing a capital program office to provide key leadership, authority, oversight, and coordination for the Capital Improvement Project (CIP).
  - A. Considering tight financial constraints, identify how the necessary oversight can be provided on an interim basis, for example, by expanding Capital Improvement Project Review and Advisory Committee (CIPRAC)'s roles and responsibilities and providing necessary working level staff, including planners.
  
  - B. Link key offices related to the CIP with the capital program office, such as CIPRAC and Enterprise Asset Management.
  
- #4 Assign the following responsibilities to the capital program office. In the interim until the office can be established and is fully functional, assign these responsibilities to appropriate departments or offices to take steps to improve the effectiveness of the Capital Improvement Project (CIP).
  - A. Identify, leverage, and optimize funding sources.
  
  - B. Streamline and improve coordination and functionality of CIP related processes.
    - 1. Review and assess efficiency of required processes, such as historical and environmental reviews.
    - 2. Work with the Independent Budget Analyst to identify ways to streamline the docketing process and the number of times that projects are required to obtain City Council approval.
  
  - C. Improve the interface between SAP and the CIP process.
  
  - D. Provide administrative support to Capital Improvement Project Review and Advisory Committee (CIPRAC).
  
  - E. Coordinate various responsibilities of service departments, such as working with Engineering and Capital Projects (E&CP) to monitor and report on capital project activity on a regular basis.
    - 1. Provide coordination of various service department systems for managing various aspects of CIP projects, such as establishing a common project identifier and systems with the capability to interface.
  
  - F. Develop a multi-year CIP plan that provides transparency over future CIP investments and:
    - 1. Includes projects beginning in future years;
    - 2. Includes estimates of the impact of projects on the City's operating budget, such as the number of additional positions required and tax or fee implications; and
    - 3. Connects the policies and strategies of the General Plan with the CIP plan and funding sources, and includes specific references to assist the Planning

Commission's review for conformance.

- G. Work with City planning officials and community planning groups to ensure that projects are reviewed for conformance with the General Plan and community plans.
  - H. Obtain input and approval of the CIP plan from stakeholders, including community planning groups, the Planning Commission, and the City Council.
  - I. Incorporate the first year of the plan into the annual CIP budget with a detailed scope and after E&CP's review, including:
    - 1. A schedule for completion for each project, including specific phases and estimated funding.
    - 2. A description of the impact the project will have on the current or future operating budget.
    - 3. Estimated costs of the project, based on recent and accurate sources of information.
    - 4. Identified funding sources and personnel for all aspects of the project.
  - J. Communicate with client departments and other stakeholders regarding the CIP process and projects.
  - K. Monitor and report on the status of CIP projects, such as by providing semi-annual updates to the City Council.
- #5 Update financing plans to ensure that appropriate fees are charged.
- #6 Effectively prioritize Americans with Disabilities Act (ADA) projects by identifying funding sources and requiring the office to monitor and report progress made on the ADA Transition Plan.
- #7 Establish a policy for implementing a Citywide asset management program to include a schedule and significant milestones, and potentially linking the Enterprise Asset Management program with the capital planning office.
- #8 Complete the development of standard criteria and processes for collecting asset information and assessing the condition of assets, including moving toward the use of a standard database for a Citywide inventory.
- #9 Require that all client departments evaluate alternatives to appropriate projects based on desired outcomes, such as including conducting risk/criticality assessments and lifecycle cost analysis and assessing maintenance/ rehabilitation and non-construction options.
- #10 Establish a timeframe and provide needed resources over time for client departments to develop master plans to provide a guide for their contribution to the Citywide Capital Improvement Project (CIP) plan.
- #11 Revise the charter for Capital Improvement Project Review and Advisory Committee (CIPRAC) to update its mission, authority, and objectives.

- A. Require that CIPRAC review department projects and priority scores and prioritize projects from a citywide perspective.
  - B. Link CIPRAC and its role of prioritizing and approving projects with the capital program office.
- #12 Assess the current priority scoring process, including obtaining input from service and client departments and other stakeholders, and develop suggested changes, if needed, to City Council Policy 800-14. Require that officials with relevant experience, such as planning and redevelopment staff, be consulted as appropriate when client departments develop priority scores for projects.
- #13 Establish department-level performance goals and performance measures and the tools needed, including project delivery cost and timeliness, project quality, and customer satisfaction and feedback systems to monitor and report results and promote continuous improvement.
- #14 Develop updated agreements with all client departments to establish project implementation expectations and requirements.
- #15 Require that client departments assign and maintain a primary point of contact for each project throughout project implementation.
- #16 Integrate project scope, budget, and schedule, potentially using the Department's new Project Portfolio Management Integrator, to provide the needed data so that project managers can use EVM or another tool to effectively measure project performance and identify problems in a timely manner. Provide detailed information to the client departments on the impact of changes in scope on the budget and schedule of the project.
- #17 Develop a uniform procedure for updating project data in Primavera 6 and establish an effective internal review process and accountability for accuracy and timeliness of data.
- A. Formalize processes to update project content and ensure common criteria used to update data.
  - B. Implement procedures to perform regular inspections of Primavera data to ensure accuracy.
- #18 Identify client department reporting needs and provide project update reports to ensure that departments have accurate, up-to-date, and needed information to make sound decisions about projects. Solicit feedback from client departments and revise project update content to be specific and pertinent to the need of the asset holder.
- #19 Revise the current project closeout process to ensure that tasks are executed and completed in a timely manner.
- #20 Conduct project-level post-construction reviews to identify lessons learned and develop

recommendations on how to improve future performance. Include the frequency of reviews for non-repetitive projects in existing policy on conducting post-construction reviews.

- #21 Develop and maintain a database of best management practices resulting from lessons learned and make information available to project managers working on projects of a similar scope and nature.
- #22 Organize and consolidate Standard Operating Procedures into a standardized Project Delivery Manual and establish oversight and enforcement mechanisms to improve consistency and accountability.
- #23 We recommend that the Chief Operating Officer: Require that client departments assign and maintain a primary point of contact for each project throughout project implementation.
- #24 To improve the efficiency and accuracy of capitalizing fixed assets, we recommend that the City Comptroller, in conjunction with the Director of Engineering and Capital Projects (E&CP): Develop and formalize an internal process to identify and document the in-service date of capital assets, including initiation and documentation of the process by the Resident Engineer and confirmation by appropriate E&CP officials.

#### 12-001 PERFORMANCE AUDIT OF PUBLIC UTILITIES CAPITAL IMPROVEMENT PROGRAM

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We found the Department has taken various steps toward implementing asset management, but these efforts are not comprehensive and improvement is needed. For example, Public Utilities has assessed the physical condition of many above-ground assets, but has only assessed about one percent of its water transmission pipes and the Department lacks targets for acceptable asset condition levels and has not yet completed an asset management plan.

Also, improvement is needed for Wastewater Master Plan and communicating capital needs to stakeholders. Public Utilities has developed three master plans to address capital needs, but only the Water Facilities Master Plan is comprehensive and in-line with best practices. While Public Utilities' master plans include an extensive planned infrastructure replacement program, the Department is not reporting a backlog of projects that it is unable to implement due to funding constraints. By not reporting the backlog of unfunded projects, stakeholders cannot see the big picture and fully understand the implications of deferring projects.

Additionally, we found that project delivery costs are higher than statewide average for smaller projects. Based on our sample of projects, we found that the City of San Diego's average project delivery cost is in line with the statewide average of 25 percent. However, for smaller projects valued between \$100,000 and \$2 million, the City's average delivery costs are 14 percent higher than the statewide average of 33 percent. We believe that the City's project delivery costs are higher for smaller projects because Public Works/Engineering officials are not reviewing and reporting project delivery costs for each project or generating summary reports at project



completion.

Finally, we found the City is not charging overhead, which impacts Public Utilities' and other departments' forecasts of future project costs.

*RECOMMENDATIONS*

- #1 Work with Public Works/Engineering and Development Services to develop a documented process that ensures all information and documents on completed projects are provided to Public Utilities in a timely manner and include this in service level agreements with these departments.
  - The process should include a control for Public Utilities to ascertain that Public Works/Engineering and Development Services are providing all information within the agreed upon timeframe.
- #2 Determine the frequency of which the condition of appropriate assets should be assessed and establish a schedule for these assessments, particularly for water transmission mains.
  - Reassess the most cost effective approach for assessing the condition of and prioritizing water distribution pipes as the Department develops its replacement program for asbestos cement pipes, such as the use of predictive software to forecast asset condition.
- #3 Develop a schedule for implementation of SAP Enterprise Asset Management (EAM) and provide updates on progress to Independent Rates Oversight Committee (IROC) and other stakeholders.
  - To ensure that all City departments, including Public Utilities, derive benefits from the Departments SAP EAM implementation, coordinate with the Enterprise Resource Planning Department's efforts to merge with the existing EAM system, which the Transportation and Storm Water Department currently uses.
- #4 Assess whether the current criteria and process for determining whether to develop a full Business Case Evaluation (BCE) for a project is sufficient to ensure that all appropriate capital projects are justified.
  - Ensure that BCE abstracts consistently include the necessary financial and other data to support business decisions.
- #5 Provide input to the Capital Improvement Review and Advisory Committee (CIPRAC) regarding the prioritization ranking tool, so that appropriate changes can be made to Council Policy 800-14.
- #6 Complete a consolidate asset management plan and ensure it is in line with best practices and includes a schedule for implementation with a combination of short-, mid-, and long-range initiatives to ensure that funds and staff availability are not barriers to successful implementation.
  - Ensure that the plan includes:

- measurable goals and objectives;
  - clear, numeric goals for the target level of condition the Department wants to achieve for appropriate assets; and
  - performance measures that are linked with these goals.
- Monitor and report out performance measures to the Independent Rates Oversight Committee (IROC), City Council, customers and other stakeholders.
- #7 Develop a comprehensive Wastewater Master Plan based on a full assessment of the wastewater system's needs and best practices when it updates this plan in three to five years.
- Provide links to other plans or documents when best practice elements are excluded from master plans.
- #8 Conduct regular updates to master, Capital Improvement Projects (CIP), and financing plans.
- Update water and wastewater master plans every three to five years.
- #9 Include basis for determining the funding mix in future Master Plans, Capital Improvement Projects (CIP) plans, or a financing plan and make these available to the public.
- #10 Improve the Department's strategy for communicating capital needs to stakeholders, including providing estimated deferred maintenance and unfunded needs if needed rate increases are not secured and implications of deferring projects.
- #11 Revise the service level agreement with the Public Utilities Department to describe specific requirements to monitor and report project delivery costs.
- #12 Develop project-level delivery costs progress reports from the Project Portfolio Management Integrator or other sources to track, monitor, and report planned versus actual costs on a monthly basis for all active projects.
- #13 Report final project delivery costs versus total construction costs at the completion of each project. Annually, compile, consolidate, and analyze performance data of completed projects to identify inefficiencies and enhance performance and value, such as by developing a Process Improvement Plan as recommended by the project management guides and standards.
- #14 Develop a regulation process narrative that outlines charges that are appropriate direct expenses.
- #15 Establish a policy and guidelines to streamline the process to identify costs related to construction management and the construction contract that requires:
- All city labor for construction management, excluding City Forces, to be charged to Construction Administration (WBS .06.02);
  - All construction contract vendor payments to be charged to Field Construction (WBS .06.01.02); and
  - The correction of all inaccurate charges within a timely manner.
- #16 Establish a more effective process for obtaining input from Public Works/Engineering regarding

SAP concerns impacting project management and address high priority issues expeditiously.

- #17 Develop and implement a tool to allow budget-to-date actual expenditures, such as for planning, design, and construction, to be available in one document or report.
- #18 Develop an effective methodology for developing overhead rates and make retroactive adjustments if needed to ensure that departments correctly receive overhead funds as budgeted and billed in fiscal year 2012.

## 12-002 PERFORMANCE AUDIT OF THE SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

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We found that when compared to peers, SDCERS' administrative expenses are higher than peer organizations, but this is largely due to the unique environment in which it operates. The contentious history between SDCERS and the City uniquely impacts its current operating environment and leads to additional expenses for the system. Specifically, we found that numerous, ongoing lawsuits have resulted in higher-than-peer legal and actuarial costs; efforts to maintain independence and transparent decision-making contribute to higher personnel, rent, and information technology expenses; and measures to protect its Board of Administration trustees if they are personally named in a lawsuit have resulted in a \$550,000 annual expense for fiduciary liability coverage. However, even after accounting for the uniqueness of SDCERS' operating environment, certain administrative costs still appear high compared to peers, and we found that opportunities exist to streamline operations and reduce costs.

The City's retirement plan has the lowest funding ratio of any of its peers and its fiscal year 2010 ratio was below what many experts consider to be adequate. While the City underfunded the pension system for a number of years, it has fully paid its recommended contributions since 2006. SDCERS' trustees have adopted a number of actuarial methodologies and assumptions over the past five years to be more in line with peers and industry standards, and SDCERS now uses actuarial assumptions and methodologies that are more conservative than peers.

We also found that SDCERS' investment management expenses for fiscal year 2010 were higher than peers, largely because its investment portfolio was almost entirely actively-managed—as opposed to assets invested in passively managed funds, which carry significantly lower fees.

Lastly, we found that the City spent almost \$100,000 in fiscal year 2010 to reimburse high-income retirees for their Medicare Part B Income Related Monthly Adjustment Amount (IRMAA) premium even though this benefit is not explicitly defined in the Municipal Code. In addition, the City could reduce expenses if it offset Industrial Disability Retirement (IDR) benefits by income recipients receive from outside employment and/or a Workers' Compensation award.

### *RECOMMENDATIONS*

- #1 SDCERS' management and trustees should work with its legal counsel to identify alternatives to fiduciary insurance, including, for example:
- A. Investigating the feasibility and cost-effectiveness of self-insuring for trustee defense and indemnification costs.
  - B. Working with the City Attorney's Office to develop a mutually satisfactory agreement for City Council consideration to defend and indemnify trustees for acts or omissions that arise of out the scope of their responsibilities. Such an agreement should provide greater assurance to trustees than what is currently afforded under California Code 995, but provide prudent exceptions, such as if a trustee acts fraudulently.
  - C. Using an independent third party to validate the City's determination if it finds that trustees were not acting within the scope their responsibilities.
  - D. Evaluating the current risk and coverage level, and, if prudent, adjust to lower annual premiums.

SDCERS management should recommend to its trustees that they cancel the current fiduciary insurance policy when a more suitable and cost-effective alternative is identified and implemented.

- #2 San Diego City Employee Retirement Systems should consider that its current actuary costs are high compared to peers when they evaluate proposals received in response to its Fall 2011 Request for Proposal (RFP) for actuarial services and negotiate fees with the selected firm.
- #3 San Diego City Employee Retirement Systems should designate an individual, possibly its Internal Auditor, to ensure the business process recommendations made by its consultant are implemented.
- #4 San Diego City Employee Retirement Systems should reassess its staffing level once the new pension administration system is implemented and eliminate unnecessary positions to reduce personnel costs.
- #5 San Diego City Employee Retirement Systems' board should periodically reassess its asset allocation and rate of return versus investment management costs to identify if its mix of active and passive investments is still appropriate.
- #6 The Risk Management Department should request the City Attorney's Office to:
- A. Determine whether the City is legally obligated to reimburse current retirees' IRMAA expenses under the San Diego Municipal Code section 24.1202(a)(5). If the City Attorney's Office determines that the City is not legally obligated to reimburse IRMAA under the Municipal Code language, it should determine whether the City can discontinue reimbursing current retirees on a go-forward basis, or whether it is now considered a vested benefit. If the City Attorney's Office determines that it is not a vested benefit, Risk Management should work with the City Attorney's Office to identify the steps necessary to discontinue reimbursing current high-income retirees' Medicare Part B IRMAA premiums, and present options to City Council and City administration for consideration.

- B. Review the retiree health care tentative agreement and make a legal determination about whether Medicare Part B premiums, including IRMAA, are eligible to be reimbursed from the health care allowance. Risk Management should work with the City Attorney's Office to clarify the eligibility of this benefit in the upcoming Memorandums of Understanding with labor groups. In addition, if the City Attorney's Office determines that Medicare Part B and/or IRMAA are not reimbursable expenses, Risk Management should work with the City Attorney's Office to revise the Municipal Code after July 2014 to explicitly exclude this benefit and present the revised Municipal Code language to City Council for adoption.
- #7 The Risk Management Department should request the City Attorney's Office to review the permissibility of offsetting IDR benefits by income from outside employment and/or Workers' Compensation awards. If the City Attorney's Office determines that an IDR benefit offset policy is feasible, Risk Management should work with the City Attorney's Office to identify and present implementation options to City Council for consideration.
- #8 San Diego City Employee Retirement Systems should allow members to obtain price estimates for service credit purchases through Member Counselors and/or their website to reduce the workload on Benefit Administration staff.
- #9 SDCERS should require department managers to identify costs from contractor invoices that can be directly attributable to particular plan sponsors as part of their routine review and approval process. The department managers should clearly indicate for the Finance Department the total costs that can be assessed to a plan sponsor.
- #10 San Diego City Employee Retirement Systems should assess the current City and board policy that requires experience studies to be conducted at least every five years to determine if this timeframe is still appropriate, particularly since the actual timeframe is closer to three years. If SDCERS' management and trustees determine that a more frequent timeframe is more appropriate, they should consider revising the Board Rule and working with the City Council to revise the Municipal Code.
- #11 SDCERS should draft the Request for Proposals for its actuarial and actuarial audit services and present it to the Board for approval within the next three months to ensure the firms are selected prior to expiration of the current contract.
- #12 San Diego City Employee Retirement Systems should demonstrate that it corrected the Corbett and monthly benefit calculations for the retirees identified in the 2005 audit. In addition, SDCERS should work with its legal counsel to determine the feasibility of collecting overpayments and reimbursing members who were underpaid, if applicable.

**12-003 HOTLINE INVESTIGATION REPORT OF FALSE REQUEST FOR REIMBURSEMENT**

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We investigated a Fraud Hotline complaint alleging that a non-profit organization knowingly submitted a Community Development Block Grant (CDBG) reimbursement request for over \$20,000 for work that did not qualify for reimbursement. In order to qualify for reimbursement under the CDBG contract, approval of a project must be obtained before the work is started. The complaint alleged that the organization submitted the request for work to be done knowing that the work had already been completed. We concluded that the allegation was substantiated.

*RECOMMENDATION*

- #1 We recommend the Economic Development Division issue a demand letter for return of the CDBG funds that were paid to the non-profit organization for work that appears to have been completed before the reimbursement agreement was authorized.

**12-004 PERFORMANCE AUDIT OF THE SAN DIEGO POLICE DEPARTMENT'S PERMITS AND LICENSING UNIT**

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We found the City and the San Diego Police Department (SDPD) would benefit from a more systematic approach to reviewing which types of occupations and businesses should be regulated through the permit and monitoring process. The Department does review the types of permits and licenses it requires, but its review approach is limited in that it focuses on fee calculations and not the effectiveness of current regulatory requirements to enhance public safety and does not sufficiently assess the advisability of regulating additional activities.

We also found that the SDPD would benefit from a more systematic approach to reviewing which types of occupations and businesses should be regulated through the permit and monitoring process. The SDPD has yet to assess the broader impact of recent staffing and workload changes on fees and operations.

Our analysis of alarm fees—the largest source of permit income—shows that considerable adjustments, both to fees and operations, need to be made to ensure regulatory efforts are as effective as possible. Further, the entire permit and monitoring program is hampered by significant turnover, insufficient formal training, and lack of performance information. The SDPD's approach needs to include (1) a strategic rethinking of how it provides services in the most effective manner, (2) a methodology that better matches permit fees with activities performed, and (3) improvements in training and performance measurement.

Finally, we found the SDPD's procedures for checking application requirements, collecting fees, and reporting revenue need improvement.

These improvements are needed not only for recovering the cost of regulating the designated businesses and occupations, but also to ensure that applicants are fully complying with Municipal Code requirements.

*RECOMMENDATIONS*

- #1 The San Diego Police Department should conduct an annual review of the City's police-regulated activities to:
  - 1. Assess the effectiveness of existing regulations in reducing crime and vice-related activity,
  - 2. Identify emerging threats, which may be best addressed through additional regulation,
  - 3. Identify regulatory activities of other levels of government or organizations and assess their benefit for implementation in San Diego,
  - 4. Propose modification and/or elimination of regulations which do not effectively encourage public safety, and
  - 5. Present a completed assessment of the four areas above for the City Council's consideration.
- #2 The San Diego Police Department review its permits and licensing mission to enhance public safety, assess operational requirements to achieve the Units goals, and adjust Unit activities, types and levels of staffing, and methods to deliver services cost effectively.
- #3 The San Diego Police Department review and revise its fee and activity methodology to reflect current operating conditions.
- #4 The San Diego Police Department establish a formalized training program which prepares new Permits and Licensing Unit employees to perform effectively and consistently. Further, the San Diego Police Department should evaluate conditions leading to frequent turnover and take immediate steps to increase employee tenure.
- #5 The San Diego Police Department's Permits and Licensing Unit should establish and utilize a performance measurement system which allows for continuous monitoring and operational adjustment to maximize performance.
- #6 The San Diego Police Department work with the City Attorney's Office to determine how the City Council can modify the San Diego Municipal Code to ensure alarm companies and/or subcontractors are held accountable for:
  - 1. Ensuring all monitored alarm systems operate with proper City permits, and
  - 2. Reducing instances of false alarms from repeat offenders.

Further, the SDPD and the City Attorney should evaluate and develop appropriate actions for City Council approval to hold alarm companies and/or subcontractors responsible for unpaid

permit fees and/or penalties or to require alarm companies and/or subcontractors to collect fees and penalties on the City's behalf.

#7 The San Diego Police Department work with the City Attorney's Office to develop San Diego Municipal Code changes for the City Council's approval which:

1. Adopt national strategies to reduce false alarms
2. Establish a more effective penalty program to recover false alarm costs from false alarm offenders, and

Reduce the inclusion of false alarms costs from the calculation of an alarm permit fee.

#8 The San Diego Police Department assess the capabilities of current alarm-data systems and departmental process to ensure accurate tracking and collection of false-alarm expenses, timely collection of permit and penalty fees, and remitting unpaid fees to the City Treasurer for collections.

#9 The San Diego Police Department (1) ensure the collection of permit payments adheres to fees established by the City Council and can be reconciled to specific records and (2) review the City's accounting and GuardCard systems and assess the best way to update, upgrade, or replace systems to ensure records can be reconciled and tracked correctly.

#10 The City Administration proceed with its plans to integrate and align the administrative components of police permits within the Office of the City Treasurer. Establish clear regulatory language, policies, and procedures to divide administrative, enforcement, and regulatory roles and duties between the Office of the City Treasurer and the San Diego Police Department.

#11 In light of Recommendation 10, the Office of the City Treasurer ensure that the expiration of all new police permits and corresponding business tax certificates occur on the same date and develop appropriate procedures to follow-up on expired permits and collect on businesses or individuals found to be operating without a permit.

#12 The San Diego Police Department establish appropriate guidance for the Permits and Licensing Unit which

1. Outlines requirements for conducting permit reviews in a consistent and complete manner,
2. Establishes a documentation trail for all required documentation,
3. Requires the maintenance of evidence and completion of sufficient background checks, and
4. Requires managerial oversight and review of the Unit to ensure effective internal operations.

#13 The San Diego Police Department or Office of the City Treasurer establish an automated system to process permit applications and ensure that it automatically assigns permit expiration dates and notifies staff to collect penalties and background check fees from the applicant.



- #14 The San Diego Police Department enforce San Diego Municipal Code section §33.0307 and ensure to conduct and charge applicants for all permit application criminal background investigations.
- #15 The San Diego Police Department automate the reporting of pawn shop sales records and create policies and procedures to ensure processes are in compliance with State laws.

**12-005 HOTLINE INVESTIGATION REPORT OF THE PACIFIC BEACH COMMUNITY DEVELOPMENT CORPORATION**

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We investigated a Fraud Hotline complaint alleging that the Pacific Beach Community Development Corporation (PB-CDC) was in violation of certain terms of its City contract. We determined that the allegations were substantiated. The complainant alleged that the PB-CDC was in violation of its contract by not securing multiple bids for vendors that exceed \$5,000 and by committing Brown Act violations. The PB-CDC agreed to issue a Request for Proposal for services provided by a vendor that was not competitively bid, and to be more diligent in complying with the Brown Act requirements. The complaint also alleged that specific businesses in the Pacific Beach Business Improvement District were underpaying their BID assessment and City Business Taxes by underreporting to the City the number of employees in the business. Each business identified in the complaint was contacted, and, as a result, approximately \$3,000 in additional BID assessments and business taxes were collected.

*RECOMMENDATIONS*

We did not make any audit recommendations.