OCA

Independent · Objective · Accurate

December 2013

Report to the Audit Committee

ACTIVITIES AND ACCOMPLISHMENTS OF THE OFFICE OF THE CITY AUDITOR JANUARY 2012 THROUGH JUNE 2013

This Page Intentionally Left Blank

THE CITY OF SAN DIEGO

DATE: December 4, 2013

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Activities and Accomplishments of the Office of the City Auditor January 2012 through June 2013**

This is a report on the Activities and Accomplishments of the Office of the City Auditor for the period January 1, 2012 through June 30, 2013.

The year and a half 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: Interim Honorable Mayor Todd Gloria
Honorable City Councilmembers
Scott Chadwick, Chief Operating Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stacey LoMedico, Assistant Chief Operating Officer

OFFICE OF THE CITY AUDITOR
1010 SECOND AVENUE, SUITE 555 ● SAN DIEGO, CA 92101
PHONE 619 533-3165, FAX 619 533-3036

To Report Fraud, Waste, or Abuse, Call Our Fraud Hotline: (866) 809-3500

DIVERSITY
BRINGS US ALL TOGETHER
THE CITY OF SAN DIEGO

This Page Intentionally Left Blank

Table of Contents

Executive Summary

This report summarizes the activities and accomplishments of the Office of the City Auditor from January 1, 2012 through June 30, 2013. Our principal goal is to increase the economy, efficiency, and effectiveness of the City through audits and investigations and their recommendations. From January 1, 2012 through June 30, 2013, the Office produced 23 reports with 93 recommendations. Our Office identified $45.59 million in potential monetary recoveries, cost saving, and quantifiable increases in efficiency for the City, which equates to $11.66 in saving for every $1 of audit costs. Since the establishment of the Office in July 2008, our Office has identified a cumulative $96.8 million, which equals to $8.52 in potential savings for every $1 in audit cost. We have issued 104 reports and made 635 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 $2.8 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 30th and December 31st. 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, Waste and Abuse Investigations

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, 2012 through June 30, 2013, the Office of the City Auditor received 197 complaints, and issued 5 Hotline Investigative Reports with 19 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.

The City Auditor assumed responsibility of the Fraud Hotline in July 2008 and it was opened to the public in August 2008. Every complaint received is tracked to resolution, and Quarterly Fraud Hotline Statistics Reports are prepared, presented to the Audit Committee, and posted on the City Auditor's webpage. The following table summarizes the number of Fraud Hotline complaints received from Fiscal Years 2009 through 2013. During this period 484 complaints were received, 228 (47.1 percent) were made anonymously, and 256 (52.9 percent) were made by employees or citizens. Approximately 35 percent of all Fraud Hotline complaints are substantiated or result in corrective action taken.

Fiscal Year	Anonymous	Employee/Citizen	Total
2009	69	71	140
2010	28	33	61
2011	35	41	76
2012	42	73	115
2013	54	38	92
Total	228	256	484
Percent	47.1%	52.9%	100.0%

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, 2012 through June 30, 2013, the City Auditor's Office completed 17 performance audits, 1 agreed-upon procedures review, and 5 hotline investigations, which produced 23 audit reports. These reports contained 93 recommendations to improve economy, efficiency, and effectiveness within City government. As shown in the Summary of Work Performed (Attachment I), our Office identified $45.59 million in potential monetary recoveries, cost saving, and quantifiable increases in efficiency for the City, which equates to $11.66 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 $96.82 million, which equals to $8.52 in potential savings for every $1 in audit cost. We have issued 104 reports and made 635 recommendations. The following table summarizes the work performed as reported in previous Activities and Accomplishments reports:

Period	Number of Reports Issued	Identified Opportunities To Increase Revenues Or Reduce Costs[1]	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
January 2012 to June 2013	23	$45,590,773	93	69
Total	104	$96,821,224	635	569

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.

- *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

---

[1] These amounts include quantifiable increases in efficiency resulting from our audit recommendations.

and reliability of its 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 (Attachment II) for a brief summary for each of the 23 audit and investigative reports issued by the City Auditor from January 1, 2012 through June 30, 2013. Attachment II also includes the 93 specific recommendations made for the 23 reports.

Office Overview

The Office of the City Auditor was established as an independent department in July 2008 for Fiscal Year 2009. The approved budgets for the Office of the City Auditor for the Fiscal Year 2012 and the Fiscal Year 2013 included 19.5 and 20 staff members, respectively, 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 and Fiscal Year 2013 budget also included $793, 739 and $943,739, respectively 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 2013, the Office of the City Auditor had 13 Performance Auditors to conduct audits and investigations.
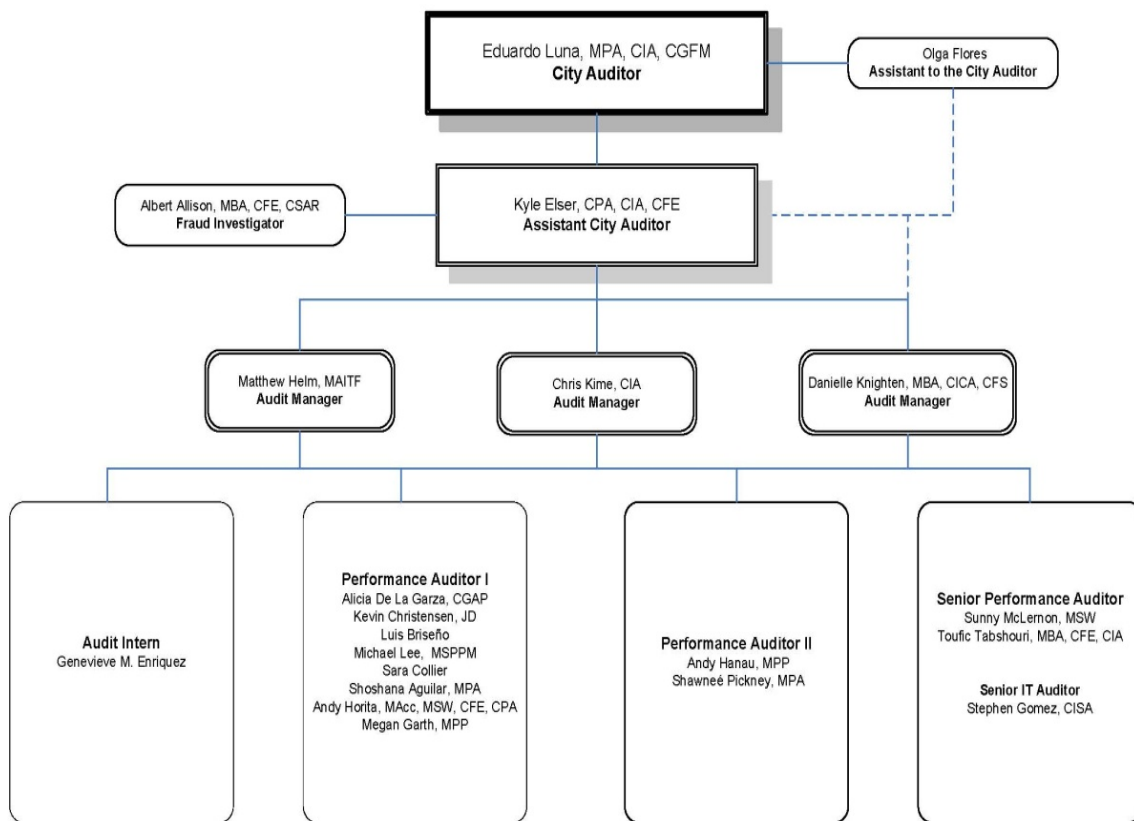
The following table represents the departmental budgets for FY12 and FY13:

DEPARTMENT SUMMARY		
	FY 2012	FY 2013
Positions	19.5*	20
Salaries and Wages	$1,720,154	$1,758,631
Fringe Benefits	$857,390	$809,089
Non-Personnel Expenditures	$182,241	$297,646
DEPARTMENTAL TOTAL	*$2,759,785*	*$2,865,366*
CAFR – Outside Audit	$793,739	$943,739
TOTAL BUDGET	$3,553,524	$3,809,105

*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 of December 2011, and twenty positions starting in January 2012.

For the period ending June 30, 2013, the Office was staffed with 21 positions.   In January 2013, the OCA was reorganized from a flat structure to the structure presented below, which includes three Audit Managers, Performance Auditors I, II and Senior Performance Auditors (13 Performance Auditors), one Fraud Investigator, one Audit Intern, one Assistant City Auditor, one Assistant to the City Auditor, and the City Auditor.

City of San Diego
Office of the City Auditor
FY 2013

Eduardo Luna, MPA, CIA, CGFM
City Auditor

Olga Flores
Assistant to the City Auditor

Albert Allison, MBA, CFE, CSAR
Fraud Investigator

Kyle Elser, CPA, CIA, CFE
Assistant City Auditor

Matthew Helm, MAITF
Audit Manager

Chris Kime, CIA
Audit Manager

Danielle Knighten, MBA, CICA, CFS
Audit Manager

Audit Intern
Genevieve M. Enriquez

Performance Auditor I
Alicia De La Garza, CGAP
Kevin Christensen, JD
Luis Briseño
Michael Lee, MSPPM
Sara Collier
Shoshana Aguilar, MPA
Andy Horita, MAcc, MSW, CFE, CPA
Megan Garth, MPP

Performance Auditor II
Andy Hanau, MPP
Shawneé Pickney, MPA

Senior Performance Auditor
Sunny McLernon, MSW
Toufic Tabshouri, MBA, CFE, CIA

Senior IT Auditor
Stephen Gomez, CISA

As of April 29, 2013

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.

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)	2
Certified Fraud Specialist (CFS)	1
Certified Government Financial Manager (CGFM)	1
Certified Information Systems Auditor (CISA)	1
Certified Government Auditing Professional (CGAP)	1
Certified Specialist in Asset Recovery (CSAR)	1
Graduate Degrees for Professional FTEs	**Number Held**
Masters in Public Policy (MPP)	2
Masters in Public Administration/Affairs (MPA)	3
Masters in Business Administration (MBA)	3
Master of Science in Public Policy and Management (MSPPM)	1
Masters in International Trade and Finance (MAITF)	1
Masters in Social Work (MSW)	2
Masters of Accountancy (MAcc)	1
Juris Doctor (JD)	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), and Association of Certified Fraud Specialists (ACFS).

Leadership, Professional Development and Other Accomplishments

January 1, 2012 to June 30, 2013:

- The Association of Local Government Auditor's awarded the City Auditor's Office two Gold Knighton Awards. The Knighton Award competition recognizes the best performance audit reports submitted by government audit shops throughout the United States and Canada.

- Gold Knighton Award Best Performance Audit Report Large Shop 2011—*Performance Audit of the Fire-Rescue's Emergency Medical Services*

- Gold Knighton Award Best Performance Audit Report Large Shop 2012—*Performance Audit of the Fire-Rescue Department's Emergency Medical Dispatch Process*

- City Auditor answered questions before the City of Riverside, CA on the benefits of establishing an independent auditor's office, February 2, 2012.

- City Auditor staff co-presented a webinar on "Tips to develop a well-written (a Knighton Award Winning) Audit Report" on May 23, 2012.

- City Auditor presented at the Western Intergovernmental Audit Forum Meeting, Lake Tahoe, CA, September 6, 2012.

- City Auditor participated on City Auditor Roundtable Panel, Institute of Internal Auditors, Southern Regional Conference, Austin, TX on September 17, 2012.

- City Auditor co-presented a webinar on "Audit issues associated with local government pensions: Lessons learned and next steps from the Cities of San Diego and San Jose," February 12, 2013.

- City Auditor spoke at the League of Women Voters of San Diego luncheon meeting on the role of the City Auditor, March 19, 2013.

- City Auditor serves as local government representative to the U.S. Comptroller General's Domestic Working Group. This group is organized to help advance the accountability community by allowing leaders in the federal, state, and local government audit communities informally discuss topics of mutual concern and collaborate on issues of mutual interest.

- City Auditor serves a local government representative to the Western Intergovernmental Audit Forum.

- The Association of Local Government Auditors voted to host their 2015 Annual Conference in San Diego. The Office of The City Auditor will serve as host office.

City Auditor Website

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

- Contact Information
- Audit Committee Information
- Listserv sign up to receive audit reports
- News and Announcements
- Hotline Information
- About Us
  - Mission Statement
  - Our Charter Authority
  - Improper Influence Ordinance
  - City Auditor and Staff Biographies
  - Budget Information
  - Organization Chart
  - Audit Committee Agendas and Actions
  - Audit Committee Archived Videos
- Policies and Procedures - Audit Manual
- Reports and Documents
  - External Quality Control Review of the Office of the City Auditor (Peer Review)
  - Annual Accomplishment Reports
  - Audit Memorandums and Presentations
  - Audit Reports
  - Hotline Reports and Statistics
  - Monthly Status Reports
  - Recommendation Follow Up Reports
  - Risk Assessment and Audit Work Plans
- Resources
  - Links to various auditing organizations
  - Fraud, Waste, and Abuse information and investigatory processes
- FAQs

During calendar year 2012 and first half of 2013, the City Auditor's Office Website received over 6,558 visits per month from individuals and organizations. The City Auditor's Website can be found at http://www.sandiego.gov/auditor/.

Summary of Work Performed – January 2012 through June 2013

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs[2]	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
1	01/13/12	12-006	Close Out Audit of William Anderson, Former City Planning and Community Investment Director	$0	0	0
2	02/29/12	12-007	Performance Audit of the Fire-Rescue Department's Emergency Medical Dispatch Process	$36,000,000[3]	2	2
3	03/1/12	12-008	Performance Audit of the Purchasing and Contracting Department	$0	4	4
4	03/16/12	12-009	Performance Audit of the Mission Bay Improvement Fund	$0	3	3

[2] These amounts include quantifiable increases in efficiency resulting from our audit recommendations. We calculate savings for a five year period.

[3] We recommend a change to dispatch procedures that requires little additional resources, but that could reduce response time on each medical call by an average of one minute. Attaining such an improvement would have otherwise cost millions of dollars to pay for the construction of new fire stations and to recruit and train new Fire-Rescue employees. Furthermore, the potential social benefits and avoided costs that accrue from saving lives are significant.

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs[2]	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
5	03/19/12	12-010	Hotline Investigation Report of Employee Internet Abuse	$0	1	1
6	03/20/12	12-011	Performance Audit of Facilities' Purchases Under the MRO Agreements	$3,960,000[4]	1	1
7	06/4/12	12-012	Hotline Investigation Report of Lack of Special Use Permit Oversight	$0	3	3
8	06/18/12	12-013	Hotline Investigation Report of Employee Conflict of Interest with Recreation Center Contractual Programs	$0	2	2
9	06/26/12	12-014	Performance Audit of the Mission Bay Improvement Fund	$0	0	0

---

[2] These amounts include quantifiable increases in efficiency resulting from our audit recommendations. We calculate savings for a five year period.
[4] We recommend that the Purchasing & Contracting Department work with the City Attorney's Office to immediately review the terms of the Maintenance, Repair, and Operation (MRO) Cooperative Agreements and identify a solution to ensure the City purchases its MRO supplies at the most economical price and does not continue to pay high mark-ups over the remaining four years of the agreements.

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs[2]	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
10	06/29/12	12-015	Performance Audit of the Development Services Department's Project Tracking System	$0	13	2
11	07/16/12	13-001	Central Stores Agreed-Upon Procedures Inventory Count – Fiscal Year 2012	$0	0	0
12	07/19/12	13-002	Performance Audit of the San Diego Convention Center's Information Technology Infrastructure	$0	0	0
13	08/08/12	13-003	Performance Audit of the Procurement Card Program	**$240,000[5]**	11	10
14	08/21/12	13-004	Hotline Investigation Report of San Diego Convention Center Statistic Reporting	$0	2	2

---

[2] These amounts include quantifiable increases in efficiency resulting from our audit recommendations. We calculate savings for a five year period.

[5] We recommend that the City consider changing to a pay and confirm model for P-cards to increase the annual prompt payment rebate. If City P-card use remained constant (based on CY 2011), but the City's paid P-card statements the day after they are issued (pay then confirm payment model), the annual prompt payment rebate would increase about $48,000 per year (total rebate would increase from approximately $91,000 to $139,000).

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs[2]	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
15	09/11/12	13-005	Hotline Investigation Report of Cash Handling at Recreation Centers	$100,998[6]	11	9
16	09/25/12	13-006	Performance Audit of the Economic Development Program	$0	4	4
17	11/23/12	13-007	Performance Audit of the Public Utilities Department's Chemical Purchases	$0	4	4
18	11/23/12	13-008	Performance Audit of the General Services Department - Facilities Maintenance Division	$0	7	2
19	12/20/12	13-009	Performance Audit of the Real Estate Assets Department	$0	4	1

---

[2] These amounts include quantifiable increases in efficiency resulting from our audit recommendations. We calculate savings for a five year period.
[6] The Office of the City Auditor 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 from the recreation center at which the employee was assigned. The investigation determined that the allegations of missing funds, making false entries into financial records and concealing or destroying financial records were substantiated. The missing funds totaled $100,998, $40,000 of which has been paid by the defendant in restitution.

Reports Issued	Date	Report No.	Description	Identified Opportunities To Increase Revenues Or Reduce Costs[2]	Recommendations To Improve Economy, Efficiency, Operations or Program Effectiveness	Number of Recommendations Auditee Concurred With
20	12/31/12	13-010	Performance Audit of the City's Overtime Controls	$1,228,025[7]	3	1
21	12/31/12	13-011	Performance Audit of the Public Utilities Department's Valve Maintenance Program	$1,218,000[8]	12	12
22	04/12/13	13-012	Performance Audit of the Streets Division's Pothole Repair Operations	$2,843,750[9]	4	4
23	05/06/13	13-013	Performance Audit of the Zoological Exhibits Fund	$0	2	2
			TOTALS	$45,590,773	93	69

---

[2] These amounts include quantifiable increases in efficiency resulting from our audit recommendations. We calculate savings for a five year period.

[7] Savings from employee classification groups A-D prohibited from using compensatory time to earn overtime: $124,500. Savings from employee classification group D prohibited from using annual leave to earn overtime: $121,105

8 Our interviews indicate that at least 75% of crew time is spent performing preventative maintenance (the other 25% is spent performing repairs, shutting down main breaks, and assiting contractors with shutdowns). The FY2012 budget for the Valve Maintenance Program was $1.54 million, so approximately $1.16 million is attributable to preventative maintenance. A 21% gain in efficiency is therefore valued ($1.16 million)*(.21) = $243,600 per year.

[9] We recommend that the department implement a regional strategy to reduce redundant trips to the same area. We created a model to show that significantly reducing or eliminating redundant trips through more efficient routing can reduce the days taken to complete an actual 16 days of work to 9 days of work (i.e. a 43.75% reduction in the time taken to repair the same number of potholes). The department's budget for repairing potholes is approx. $1.3 million/year. Thus, $1.3 million*.4375= a savings of $568,750, or $2,843,750 over 5 years (5*568,750).

Summary of Audit Reports

The following summarizes the audit reports that the Office of the City Auditor issued from January 1, 2012 through June 30, 2013:

12-006	AUDIT OF ACCOUNTS OF WILLIAM ANDERSON, FORMER CITY PLANNING AND COMMUNITY INVESTMENT DIRECTOR
	We conducted a close out audit of the former City Planning and Community Investment Director. We found that Mr. Anderson 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.
12-007	PERFORMANCE AUDIT OF THE FIRE-RESCUE DEPARTMENT'S EMERGENCY MEDICAL DISPATCH PROCESS
	According to medical literature, for every one minute delay in responding to critical emergency medical calls such as cardiac arrests, the likelihood of survival decreases by up to 10 percent. We examined the Fire-Rescue Department's current approach for responding to medical emergencies and identified a way to speed response times by an average of one minute. This can be done by changing the point in the process when a fire unit is actually dispatched. By so doing, Fire-Rescue personnel would be able to reach victims a minute sooner than in the past, potentially saving lives in the process. We made two recommendations to reduce the overall response time for medical calls and improve performance data reporting. The Fire-Rescue Department agreed with both recommendations. *RECOMMENDATIONS*
#1	The Fire-Rescue Department should implement the pre-notification and deployment order option (option two) to reduce the overall response time for medical calls.
#2	The Fire-Rescue Department should strengthen its monthly measurement and reporting of dispatch data, analyze data to identify trends, and utilize the results of the analysis to identify opportunities to streamline and improve overall performance.

12-008	PERFORMANCE AUDIT OF THE PURCHASING AND CONTRACTING DEPARTMENT
	Purchasing laws and regulations exist to obtain services and goods of the best quality and price in an expeditious and fair manner. The City Council is the authority defining the purchasing process and has done so by establishing specific San Diego Municipal Code (SDMC) rules. These rules define when certain type of services must undergo a competitive selection process and/or require City Council review and approval. Ambiguity in some of the SDMC rules has led to situations in which the City Council has lost its oversight ability and resulted in the City awarding approximately $7.4 million in services without the benefit of competition and/or City Council review and approval. *RECOMMENDATIONS*
#1	The Office of the City Attorney should issue a written legal opinion to the City Council and the City Administration to clarify the current San Diego Municipal Code as it relates to the maximum allowable amount that the City can expend on the same vendor for the same or very similar services within the same fiscal year without City Council review. Additionally, the written legal opinion should address whether the City can use purchase orders to continue services on contracts that exceeded the maximum allowable duration of five years. See Appendix C of the audit report for a detailed list of questions that the written legal opinion should address.
#2	Based on the written legal opinion provided by the Office of the City Attorney, if the City Council believes the San Diego Municipal Code needs modification, it should instruct the City Administration to take immediate steps to: (1) establish clear and specific San Diego Municipal Code language, which prescribes thresholds for nonprofit and agency service contracts, (2) specifically state when and whether purchase orders can be used to extend nonprofit and agency service contracts beyond the maximum allowable duration of five years without City Council review, (3) describe when and whether a purchase order can be considered a new contract, and (4) redress any current practices that do not comply with that understanding.
#3	The Office of the City Attorney should review the 11 nonprofit and agency contracts and all purchase orders we identified in this report to determine whether purchasing practices complied with all City, State, and Federal laws and regulations. Additionally, in the case their review identify any issues or opportunities for improving purchasing practices, they should submit a written report to the City Council for their review.

#4	The City Administration should conduct a full review of purchasing practices and design a purchasing process with appropriate internal controls to ensure full compliance with any changes the City Council makes to the San Diego Municipal Code provisions and the written legal opinion issued by the Office of the City Attorney.

12-009	**PERFORMANCE AUDIT OF THE MISSION BAY IMPROVEMENT FUND**

| | We conducted our annual audit of the Mission Bay lease revenue distributed to, and expended from, the San Diego Regional Parks Fund and the Mission Bay Improvement Fund beginning with fiscal year 2010 per the City Charter requirement. The Mission Bay lease revenues collected for fiscal year 2010, after adjustments, totaled $23,984,104. Per the City Charter, any revenue in excess of the $23 million threshold is to be distributed between the two funds listed above. As a result, the San Diego Regional Parks Fund received a distribution totaling $984,104, and there was not enough lease revenue to distribute any monies to the Mission Bay Improvement Fund. All the expenditures related to San Diego Regional Parks Fund or Mission Bay Improvement Fund were for projects approved prior to the beginning of fiscal year 2010. The San Diego Regional Parks Fund distribution should have been $1,623,777. The difference is from an overestimated prior year accrual that reduced the fiscal year 2010 distribution amount. In addition, prior years' inaccurate revenue budgeting estimates lead to San Diego Regional Parks Fund overcommitted projects of $2,080,923 and $2,420,604 for the Mission Bay Improvement Fund.

RECOMMENDATIONS |
|---|---|
| #1 | In conjunction with the Park and Recreation Department and Development Services Facilities Financing Division, the Financial Management Department should continue to deappropriate the unfunded and abandoned projects in the Mission Bay Improvement Fund and San Diego Regional Parks Fund to eliminate the negative balances. The appropriate Oversight Committee should approve any projects using funding received subsequent to fiscal year 2010. |
| #2 | The City Comptroller should establish a methodology to separately account for the financial transactions within the Mission Bay Improvement Fund and San Diego Regional Parks Fund that are required by the City Charter effective July 1, 2009. |
| #3 | The City Comptroller should establish comprehensive process narrative procedures, process flow diagrams and departmental guidance to properly document the processes specific to the unique nature of Mission Bay Park lease revenues. These procedures should include but are not limited to: |

	• How the requirements outlined in the City Charter will be administered • Procedures to reconcile SAP and REportfolio records • The methodology used for year-end accruals, which should be based on an analysis of actual payment received after year end • The methodology used for budgeting revenue • The methodology used by the Oversight Committees for budgeting specific projects based on prior year's distributions.
12-010	**HOTLINE INVESTIGATION REPORT OF EMPLOYEE INTERNET ABUSE**
	The Office of the City Auditor received a Fraud Hotline complaint alleging that a Public Utilities supervisor was using his/her City computer and other work unit computers to conduct non-City business on the Internet. We determined that the complainant's allegations were substantiated. *RECOMMENDATION*
#1	We recommended that the Public Utilities Department conduct a Fact-Finding or other appropriate administrative inquiry to determine if the Internet usage on the work computers identified violated City Administrative Regulations and/or the City Code of Conduct. Take appropriate action based on the outcome of the review.
12-011	**PERFORMANCE AUDIT OF FACILITIES' PURCHASES UNDER THE MRO AGREEMENTS**
	During our audit of General Services' Facilities Division, we found that the City is paying high price mark-ups for supply and equipment purchases under the newly established Maintenance Repair Operation (MRO) Cooperative Agreements. These mark-ups may have a significant fiscal impact on the City's fiscal year 2012 budget and beyond. For example, due to unanticipated mark-ups, the Mid-Year Budget Monitoring Report projects that the General Services Department's expenses will be over budget by $792,000 at the fiscal year-end. *RECOMMENDATION*
#1	We recommended the Purchasing & Contracting Department work with the City Attorney's Office to immediately review the terms of the Maintenance, Repair, and Operation (MRO) Cooperative Agreements and identify a solution to ensure the City purchases its MRO supplies at the most economical price and does not continue to pay high mark-ups over the remaining four years of the agreements.

12-012	HOTLINE INVESTIGATION REPORT OF LACK OF SPECIAL USE PERMIT OVERSIGHT
	The Office of the City Auditor received a Fraud Hotline complaint alleging the Park and Recreation Department has been issuing Special Use Permits (SUP) to Sunshine Pony/Colt League (SPL) for youth baseball but not providing the proper oversight, which has allowed a SPL official the opportunity to illegally rent the field to non-youth baseball organizations and personally profit from the SUP. We determined that the allegation that the SPL official is illegally renting out the field is unsubstantiated. We also found that SPL officials are not personally profiting from sublease activities. The investigation did, however, identify significant weaknesses in the oversight by Park and Recreation over compliance with the SUP. *RECOMMENDATIONS*
#1	The Park and Recreation Department should expedite the review and approval of the revised SUPs for Sunshine Berardini Fields.
#2	The Park and Recreation Department should require any sublease authorized by the revised SUP to be documented on a Park and Recreation Application and Permit for Use of City Athletic Area in order to comply with the City-approved fee schedule. The permit form should also be signed by a Park and Recreation official.
#3	The Park and Recreation Department should require the Permittee to provide a facilities plan to make improvements to the site including structures, fencing, rest rooms, etc. during the term of the SUP to ensure that all sublease revenue is applied to operation, maintenance, and improvement of the premises.
12-013	HOTLINE INVESTIGATION REPORT OF EMPLOYEE CONFLICT OF INTEREST WITH RECREATION CENTER CONTRACTUAL PROGRAMS
	The Office of the City Auditor received Fraud Hotline complaints in May 2012 that alleged that recreation center directors recruited a recreation leader to run a contractual program at the recreation center at which the recreation leader was assigned. The complaints also stated that compensation from the contract was divided between the employees. We determined that the complaints were unsubstantiated and that none of the employees identified in the complaints had entered into independent contractor agreements with a recreation council. We did, however, determine that an employee did work for a youth sports entity at the employee's primary work location, and that this relationship could give a conflict of interest appearance. *RECOMMENDATIONS*

#1	We recommend that an outside employment request be obtained from the employee who worked at recreation centers for the entity that ran sports programs.
#2	We recommend that the annual outside employment memo be expanded to prohibit the situation in which a City employee who works under an ICA or for an entity that rents field or gym space from doing so at the employee's work location.

12-014 PERFORMANCE AUDIT OF THE MISSION BAY IMPROVEMENT FUND

We conducted our annual audit of the Mission Bay lease revenue distributed to, and expended from, the San Diego Regional Parks Fund and the Mission Bay Improvement Fund for fiscal year 2011 per the City Charter requirement. The Mission Bay Improvement Fund had interest revenues of $37,797; no transfers were made into the fund from Mission Bay Park revenues, and no expenditures were made during fiscal year 2011. The ending cash balance was $157,412. The Regional Park Improvement Fund had interest revenues of $53,335, transfers in from Mission Bay Rent revenues of $1,695,824, and no expenditures during fiscal year 2011. The ending cash balance was $3,459,932.

RECOMMENDATIONS

We did not make any audit recommendations.

12-015 PERFORMANCE AUDIT OF THE DEVELOPMENT SERVICES DEPARTMENT'S PROJECT TRACKING SYSTEM

Our audit found that the Development Services Department (DSD) has not established an adequate control environment to ensure the reliability and integrity of its core information system—Project Tracking System (PTS)—or that permitting fees and deposits are charged accurately and consistently. More specifically, we found that information system controls are deficient. We found that staff incorrectly assess fees and deposits. Additionally, PTS does not adequately support effective operational management. While we did not identify any specific instances of improper activity; doing so would be extremely difficult due to the serious monitoring and detection control deficiencies we identified.

RECOMMENDATIONS

#1	The Development Services Department (DSD) must immediately implement controls in the Project Tracking System (PTS) Production Environment to prevent inappropriate modifications to PTS. Specifically, DSD should instruct the Database Administrator to: a) Remove the IT Program Manager position's programmer account and ability to directly log into the system's database. b) Remove programmer access to the Production Environment. c) Remove programmer access to privileged accounts, except those used by the database administrators and for emergency fixes, by locking the accounts and changing the passwords. Where privileged accounts are required for emergency fixes, DSD should limit programmer access through a restricted number of highly monitored accounts. In addition, the permissible use of these accounts should be governed through formal policies. d) Ensure that programmers do not have access to modify or disable system triggers in the Production Environment. e) Ensure PTS records a detailed audit trail of key information, including the prior data entries, the username of the person who changed the data and the timestamp noting when the change occurred. DSD should also direct the System Administrator to comprehensively document the Software Change Management processes, and associated risks and controls for each environment.
#2	In order to reduce the risk of inappropriate system use by an employee, Development Services Department (DSD) should perform a Separation of Duties (SOD) assessment to ensure that employees only have the access they need to perform their functions, complying with the principle of least privilege. Specifically, DSD should: a) Review all PTS user roles and limit the capabilities for roles that provide broad access to PTS' functions. b) Review current user access to PTS' roles and restrict access to only those roles necessary and appropriate for each user's function. This includes restricting the DSD Director's access to a more appropriate level, such as "read-only." c) Review current role combinations to ensure that no combination grants excessive or inappropriate access, and immediately remove any conflicting combinations. d) Create a comprehensive policy that identifies all prohibited role combinations and documents compensating controls to mitigate any risk when a segregation of duty conflict must exist for business purposes.
#3	Development Services Department (DSD) should restructure its organizational arrangement so that the DSD IT Program Manager position no longer oversees both the IT function and the individuals who collect and reconcile fees and transmit that information to the City Treasurer and Comptroller's Office.

#4	The Development Services Department (DSD) should immediately begin comprehensively documenting PTS and facilitate the transition of Application Development and Maintenance (ADM) functions to the ADM vendor as soon as feasible. Further, DSD must ensure that the vendor takes over management and monitoring of all privileged accounts in the production environment.
#5	The Development Services Department should: a) Review its current staffing model for the Submittal and Issuance Groups; b) Determine if the "generalist" approach is the most effective option to meet operational needs and accommodate staff skills; and if not, c) Identify and implement an alternative staffing structure.
#6	The Development Services Department should consider available options to reduce workloads in the submittal and issuance groups, including re-allocating staff resources to this function.
#7	The Development Services Department (DSD) should continue to conduct and document regular audits of fees at project submittal and resume conducting and documenting audits of fees during structural engineering review and at permit issuance. DSD should develop a written policy that establishes a methodology for selecting projects, including the minimum level of projects to be audited each month.
#8	Development Services Department's IT staff should work with supervisors in charge of the Submittal Group and Structural Engineering to identify and create reports that would help them review fees charged by staff.
#9	The Development Services Department (DSD) should strengthen Project Tracking System (PTS) controls over assessing fees by implementing: a) Logic checks to ensure that fees are entered accurately and alert reviewers when apparent errors have been made in charging fees. For example, logic checks should alert reviewers if the square footage used to charge the Building Permit and the Construction and Demolition Debris Deposit fees does not match; if separate fees are charged for different project components when they should be combined; or if the type of construction used to charge different fees does not match. b) Auto-populating features to reduce the necessity for repetitive data entry by staff. For example, if the project is being charged a Building Permit fee for 4,000 square feet of new single-family construction, the Project Tracking System should automatically add the Construction and Demolition Debris Recycling Deposit fee for a new 4,000 square foot single-family home. c) Predictive controls to reduce staff fee choices based on prior data input, making accurate fee selection easier and quicker and reducing customer waiting times. For example, if the reviewer indicates that the project is for new single-family construction, the list of available fees should be limited to only those fees that may apply to a new single-family construction project.

#10	The Development Services Department (DSD) should ensure that the Project Tracking System (PTS) caps the Construction and Demolition Debris Recycling Deposit at the maximum level established by the City Council. DSD should also ensure that PTS limits all fees to the correct maximum amounts to prevent overcharging customers.
#11	The Development Services Department should work with all departments that require custom reports to identify their reporting requirements and the most cost-effective way to generate all necessary reports. This recommendation pertains to the reporting requirements of the Transportation and Storm Water Department, the Environmental Services Department, and the Public Works Department, as well as any other City departments that require custom reports to increase productivity and efficiency.
#12	The Development Services Department should establish formal agreements, such as Service Level Agreements, with each of its client departments that require custom reports, including the Transportation and Storm Water Department, the Environmental Services Department, and the Public Works Department, as well as any other City departments that require custom reports to increase productivity and efficiency. These agreements should establish clear responsibilities for report generation, including: a) Specific procedures for client departments to request custom reports from the Project Tracking System, including the information required in the report and the format of the report (electronic or hard-copy); b) Timelines for the Development Services Department to respond to report requests with an estimated cost and completion date; c) Funding sources that will be used to pay for the creation of the report; and d) Procedures that allow client departments to generate reports on demand from the Project Tracking System.
#13	The Development Services Department should develop a formal, written five-year information technology strategic plan. This plan should include, but not be limited to, an analysis and identification of: a) Current and anticipated business needs; b) Internal and external customer requirements; c) Current trends in system functionalities and security, including services that can be offered via the internet; d) Options to meet business and customer requirements cost-effectively, including a cost-benefit analysis of retaining PTS over the long term or replacing it with a new system—either developed in-house or a customized commercial software system; and e) Anticipated funding needs and source of funds.

13-001	**CENTRAL STORES AGREED-UPON PROCEDURES INVENTORY COUNT – FISCAL YEAR 2012**
	In accordance with San Diego Municipal Code §22.0501, the Office of the City Auditor undertook a count of the City's inventory at its two storerooms. Of 231 stock items we sampled, we found that the value of the items was $3,525.52 or 2.27% less than Central Stores' SAP records. During our procedures, we observed that some inventory items did not show an inventory value. As a result, some items have been issued and the departments were not charged properly. Central Stores' staff stated they were aware of this issue and there is a plan to resolve the discrepancy. *RECOMMENDATIONS* We did not make any audit recommendations.
13-002	**PERFORMANCE AUDIT OF THE SAN DIEGO CONVENTION CENTER'S INFORMATION TECHNOLOGY INFRASTRUCTURE**
	Our audit did not have significant findings. The San Diego Convention Center (SDCC) has reduced internal IT risks through outsourcing. We identified areas for improvement. For instance, SDCC has limited governing documentation for information technology. Also, additional segregation of information technology functions could enhance controls. Finally, network activity logs operate at default settings while professional guidance indicates that logging should be tailored to environmental risks. *RECOMMENDATIONS* We did not make any audit recommendations.
13-003	**PERFORMANCE AUDIT OF THE PROCUREMENT CARD PROGRAM**
	We found that internal controls of the City's Procurement Card Program (program), which is administered by Purchasing & Contracting (P&C), can be strengthened. Strengthened internal controls will provide greater assurance that the City mitigates potential of misuse within the program. We focused our audit work on the internal controls of the program; however, in doing our fieldwork, we also identified non-internal control related issues.

	We reviewed the transactions and program administration during the period of fiscal years 2010 and 2011. Specifically, we found that, although P&C does have internal controls for the program in place, there are opportunities for P&C to improve controls and reduce risks. For instance, although P&C has established single transaction limits for procurement cards (Pcards), it has not established any criteria for cardholders' monthly credit limits. We also found that cardholders' credit limits can be reduced to mitigate financial risk to the City without impacting the City's business operations. *RECOMMENDATIONS*
#1	The Purchasing & Contracting Department should establish guidance and criteria for departments to use in determining whether employees have a true operational need for a P-card.
#2	The Purchasing & Contracting Department should periodically evaluate cardholders' actual spending and monthly credit limits. The Purchasing & Contracting Department should either adjust cardholder limits as appropriate or recommend that departments make the adjustment.
#3	The Purchasing & Contracting Department should develop a system to track or monitor how much departments purchase from vendors that do not have contracts with the City.
#4	Once established, the Purchasing & Contracting Department should utilize the information to ensure departments comply with City regulations and use the most appropriate method, i.e., P-cards versus purchase orders, to purchase items from vendors.
#5	The Purchasing & Contracting Department should develop a formal methodology for selecting departments to audit, and an audit cycle to ensure all departments are audited at least once during the established timeframe.
#6	The Purchasing & Contracting Department should: a) Develop a tracking system to ensure all participants complete annual training, as required. b) Ensure internal training policies and Administrative Regulation 95.55 reflect the same training requirements for the program.
#7	The Purchasing & Contracting Department should establish guidelines on the number of cardholders and transactional volume that can be reviewed by the Approver to ensure adequate time is devoted to reviewing cardholder transactions.
#8	The Comptroller's Office along with Purchasing & Contracting should evaluate and consider changing the P-card payment process from a "confirm and pay" method to "pay and confirm" to maximize prompt-payment cash rebates.

#9	The Purchasing & Contracting Department should seek opinion determination from the City Attorney's Office on whether the current cooperative procurement agreement between the General Services Department-Fleet Services and the identified tire vendor is valid.
#10	The Purchasing & Contracting Department should ensure that departments obtain appropriate approvals for contracts.
#11	The General Services Department—Fleet Services should ensure employees regularly update Fleet Focus to ensure the status of purchases is current.
13-004	**HOTLINE INVESTIGATION REPORT OF SAN DIEGO CONVENTION CENTER STATISTIC REPORTING**
	The Office of the City Auditor received a Fraud Hotline complaint on December 16, 2011 that alleged that the San Diego Convention Center Corporation (SDCCC) has been misstating the number of hotel room accommodations for conventions in their public reports in order to favorably portray the economic impact of the Convention Center and to justify the proposed approximate $550 million expansion. The complainant stated that the facts of the misstatement of hotel room-nights were published in a print and digital media article. We found that the allegation that the SDCCC has misstated the actual hotel-room night totals to be substantiated. Specifically, we found that the Transient Occupancy Tax (TOT) and Total Tax Revenue statistics were based on attendance and spending per attendee averages, as opposed to actual hotel room-night figures. The SDCCC used attendance and spending per attendee averages to forecast and report economic impact statistics and hotel and sales taxes generated by events at the Convention Center. *RECOMMENDATIONS*
#1	We recommend that any post-event attendance or hotel room-night figure that does not have a source document from the client verifying the statistic published be marked as an estimated figure.
#2	We recommend that sections be added to forecasts and annual reports that describe the calculations for direct attendee spending, hotel tax and total tax revenues, and economic impact. It should be made clear that these totals are calculated from direct attendee spending and all assumptions and formulas be disclosed.

13-005	**HOTLINE INVESTIGATION REPORT OF CASH HANDLING AT RECREATION CENTERS**
	In March 2011, the City Auditor issued a report titled, "Hotline Investigation of Misappropriation of City Funds." The report was issued after a Fraud Hotline investigation substantiated allegations that an employee may have been responsible for missing funds, making false entries into financial records, and concealing or destroying financial records from a recreation center. The missing funds totaled $100,998. Pursuant to conditions uncovered in this investigation, the Park and Recreation Director requested that the City Auditor conduct a fraud risk assessment with respect to cash handling practices in the City's recreation centers. The objective of the fraud risk assessment was to identify conditions at the recreation centers that heighten the risk of fraud so that management can remove much of the opportunity for fraud to occur, increase the chances of detecting fraud, and, at the same time, promote fraud awareness and prevention throughout the department. The fraud risk assessment determined that Park and Recreation can improve its cash handling procedures and internal controls in order to reduce the opportunity for fraud to occur. *RECOMMENDATIONS*
#1	We recommend that Park and Recreation Department provide additional staff during high volume registration periods to ensure proper segregation of duties with respect to cash handling and cash reporting.
#2	We recommend that Park and Recreation continue to aggressively implement online functionality at recreation centers that cannot adequately segregate the cashiering function. The online registration and permitting will provide tighter controls of registration and permitting forms, participant rosters, attendance sheets, and fee waivers.
#3	We recommend that Park and Recreation enforce their policy that checks are restrictively endorsed upon receipt to ensure that checks can only be deposited in the recreation center's bank.
#4	We recommend that Park and Recreation enforce their policy that staff should provide a cash register receipt to each patron that pays a permit or registration form fee.
#5	We recommend that Park and Recreation revise their procedures to require recreation councils to receive copies of cancelled checks that cleared the bank and require the Parks and Recreation area manager to review copies of cancelled checks in the verification of the monthly bank statement reconciliation process.

#6	We recommend that Park and Recreation • adopt one format for permit logs that lists all permits in numerical order instead of by location. • adopt one format for registration form logs that lists all registration forms in numerical order.
#7	We recommend that Park and Recreation enforce their policy that the Area Manager or recreation council reconciles cash advances and document this review appropriately.
#8	We recommend that Park and Recreation amend their procedures to require the logging by an independent staff of beginning and ending pre-numbered ticket numbers when tickets are utilized for patron receipts and revenue accounting.
#9	We recommend that Park and Recreation implement online registrations for registrations and permits in order to reduce consistency errors in recordkeeping required of the Recreation Center Directors.
#10	We recommend that Park and Recreation administer basic QuickBooks training to Recreation Center Directors who are transitioning from Quicken or a manual system to QuickBooks. Included in the training should be a standard chart of accounts with the basic accounts appropriate for a recreation center/council.
#11	We recommend that Park and Recreation revise their procedures to require the Area Manager to ensure that the reconciled balance for the monthly bank statement is reconciled with the total asset balance on the monthly financial statement.
13-006	**PERFORMANCE AUDIT OF THE ECONOMIC DEVELOPMENT PROGRAM**
	In this audit we evaluated the City's overall economic development strategy and assessed the extent to which the City's economic development strategy was coordinated and aligned with other relevant internal and external efforts. We found that the City's Economic Development Strategic Plan was outdated, and that the proposed plan lacks key elements necessary for an effective economic development strategy. We also found that the proposed plan should be better aligned with other key city strategic efforts. We found that the City could leverage its central coordinating role with key internal and external stakeholders to further economic goals. *RECOMMENDATIONS*

#1	The City Council's Economic Development and Strategies Committee should review existing City Council policies to 1) clarify when and how frequently the City should submit the Economic Development Strategic Plan to the City Council and the timing for any interim reviews; and 2) establish guidelines for the content of the Economic Development Strategic Plan that requires inclusion of the elements necessary for a robust and comprehensive economic development effort.
#2	The City should immediately undertake an effort to engage in an internal and external coordination process to develop a clear and comprehensive statement of economic development mission and associated goals, objectives, actions, and measures. The City should ensure that the revised strategy addresses the elements set forth in City Council policies, and General Plan guidance, including those elements described in this report. This effort can and should build upon the department-level goals and measures that the City included in its Fiscal Year 2013 Proposed Budget but should be expanded to encompass other City efforts related to economic development. This effort should include regular reporting to City Council's Economic Development and Strategies Committee.
#3	As part of an ongoing strategic planning process, the City should determine necessary points of alignment with the General Plan and other relevant comprehensive city plans to determine how and to what extent those efforts should be formulated in the next version of the economic development strategic plan.
#4	The City should establish and further develop formal and ongoing internal and external coordinating mechanisms specifically related to the City's economic development strategy. This effort should occur in consultation with City Council's Economic Development and Strategies Committee to take advantage of the Committee's oversight and coordinating role with regard to economic development.
13-007	**PERFORMANCE AUDIT OF THE PUBLIC UTILITIES DEPARTMENT'S CHEMICAL PURCHASES**
	In this audit, we reviewed: (1) The process through which the City of San Diego (City) procures chemicals for the treatment of water and wastewater to ensure that chemicals contracts are competitively awarded and to determine to what extent the City uses market-based approaches to reduce the cost of chemicals to the extent possible; (2) Whether the Public Utilities Department (PUD) and the Purchasing and Contracting Department (P&C) sufficiently track and share information regarding chemical pricing trends; (3) Whether the water and wastewater facilities that use and/or store chemicals are appropriately inspected by the public agencies charged with their inspections.

	We found that the City could improve its purchasing practices for water and wastewater treatment chemicals. We also found that the San Diego Fire-Rescue Department does not conduct regularly scheduled inspections of the water and wastewater treatment facilities as required by law. *RECOMMENDATIONS*
#1	The Purchasing and Contracting Department evaluate all market strategies presented above and identify which, if any, would allow the City to achieve further savings for chemical purchases. Additionally, if any of the market strategies require a change in the San Diego Municipal Code, the Purchasing and Contracting Department should work closely with the Office of the City Attorney to present those revisions to City Council for approval in order to ensure that the City can take advantage of these additional processes.
#2	The Public Utilities Department in conjunction with the Purchasing and Contracting Department should develop policies and procedures that establish a systematic tracking system of information on chemical prices and availability over time and a system to periodically share this information.
#3	The Purchasing and Contracting Department should work in conjunction with the Office of the City Attorney to formulate legal contracts for the purchases of chemicals that include all the required signatures and the necessary legal language and to ensure that the City can have better control over its prices.
#4	The San Diego Fire Department should ensure that it performs all inspections required by law. If resources are not available to ensure that all inspections are performed, the San Diego Fire Department should ensure that the appropriate systems of inspections prioritizations are in place.
13-008	**PERFORMANCE AUDIT OF THE GENERAL SERVICES DEPARTMENT – FACILITIES MAINTENANCE DIVISION**
	We reviewed the Facilities Maintenance Division (Facilities) of the General Services Department with the objective of determining whether Facilities proactively and systematically maintains the City's capital assets. In general, we found that: The City has not determined the desired level at which its facilities should be maintained and budgeted for facilities maintenance accordingly; There is a lack of clarity in Facilities' operating model, which reduces efficiency and equity of facilities maintenance, specifically with regard to Facilities' relationship with other departments and funding structure; and Facilities does not use the tools at its disposal to track maintenance work and evaluate performance. *RECOMMENDATIONS*

#1	The Department of Public Works should determine the desired level of facilities maintenance for City assets based on the replacement value of those assets, and Facilities' budget requests should reflect that desired level.
#2	Facilities should plan and perform regular inventory for the facilities list to ensure accuracy.
#3	Facilities management should identify opportunities to refocus its operation from a costly breakdown maintenance model to one that prioritizes preventative maintenance.
#4	Facilities Maintenance should work with City departments to identify the most effective and efficient operating model and funding structure for facilities maintenance Citywide.
#5	Facilities should improve the RIME system as necessary to include all relevant criteria and use the objective system to prioritize maintenance requests.
#6	Facilities should develop general controls within iMaint to ensure data reliability.
#7	Facilities should work with the City's OneSD team to determine the best method of integrating Facilities' computerized maintenance management system with other City IT systems, including SAP.
13-009	**PERFORMANCE AUDIT OF THE REAL ESTATE ASSETS DEPARTMENT**
	The Real Estate Assets Department (READ) has made progress in developing a more systematic approach to managing the City's real estate and leasing space needed by City departments, but additional actions, both by READ and by other City officials, are needed. The Department's efforts to improve its performance were taken in response to a consultant's report that was completed more than four years ago, but changing circumstances require additional response. Specifically, we found that: READ should update the management plan to meet changing needs; reduce the City's space requirements and relocate some employees out of downtown when leases for office space expire; establish a system to evaluate performance; and develop a policy on rent subsidies. *RECOMMENDATIONS*
#1	The Real Estate Assets Department should update its Portfolio Management Plan to insure that it meets the City's changing needs.

#2	The Real Estate Assets Department should prepare a market and financial analysis for the City Administration and City Council to reduce leased office space and move a portion of the City's workforce out of downtown to less expensive office space.
#3	The Real Estate Assets Department (READ) should improve its performance goals by establishing measures, targets, outcomes and outputs for each goal. READ should also annually report its performance and achievements to the City Administration and City Council.
#4	The Real Estate Assets Department should work with the City Administration and the City Council to draft a policy on rent subsidies to nonprofit organizations that establishes eligibility criteria for recipients, recovers the City's facilities maintenance and upkeep costs for the subsidized space, and fee to recover the costs of preparing, processing, and monitoring leases.
13-010	**PERFORMANCE AUDIT OF THE CITY'S OVERTIME CONTROLS**
	Overtime compensation is a significant expense at the City, with $57.8 million spent on overtime in fiscal year 2011. The City pays overtime in accordance with the City's Personnel Regulation Index Code H-4 (H-4). Based on our testing, we found that overtime paid in FY 2011 was substantially in compliance with H-4. However, in a limited number of instances, some employees' overtime does not appear compliant with the regulation. While the amount is less than one percent of the total overtime paid (excluding Fire-Rescue), the City should address this issue to ensure compliance with regulation H-4. The City could save money by clarifying the H-4 policy and training management, supervisors, and employees on the regulations governing overtime compensation. *RECOMMENDATIONS*
#1	The Personnel Department should work in consultation with the City Administration, the Comptroller's Office and the City Attorney's Office to review and revise, as needed, Personnel Regulation, Index Code H-4 to ensure that the regulations are clearly communicated and are not subject to various interpretations.
#2	The City Administration should train city employees on the provisions of H-4 and the entry of allowable overtime hours into the City's payroll system.
#3	The City Administration should ensure City Departments revise overtime approval forms to provide guidance for employees and the supervisors approving overtime.

13-011	PERFORMANCE AUDIT OF THE PUBLIC UTILITIES DEPARTMENT'S VALVE MAINTENANCE PROGRAM
	We found that several opportunities exist for the valve maintenance program to improve efficiency and reduce risk. PUD has not maintained hydrants and valves in accordance with PUD guidelines, or widely accepted industry standards, leading to reduced maintenance rates. In addition, some valves and hydrants are unnecessarily maintained repeatedly while others go unmaintained, and there are significant geographic differences between maintenance completion rates. These inefficiencies and coordination problems were due to a lack of oversight and training, as well as inadequate policies and procedures governing the preventive maintenance process. We also found that improved performance metrics would more accurately measure program performance, increasing management oversight and accountability of the valve maintenance program. Furthermore, the City could do more to prevent the paving over of gate valve caps and to collect information to recover potential costs. Finally, the City can improve the accuracy of cost recovery for water lost during a hydrant knock over by changing how it tracks water loss. *RECOMMENDATIONS*
#1	Public Utilities Department management should prioritize oversight and training of the valve preventive maintenance scheduler program to ensure that the program is executed effectively. Policies and procedures should be revised to designate responsibility for management-level review of completed work orders on a regular basis to ensure compliance with policy. In addition, the Public Utilities Department should revise existing policies and procedures to ensure that: a) Appurtenances are not scheduled for unnecessary preventive maintenance; b) All appurtenances requiring preventive maintenance in each grid/area receive it before crews move to another area of the City; and c) Preventive maintenance activities are cycled through all areas of the City.
#2	The Public Utilities Department should develop performance measurement reports to facilitate effective oversight of and accountability of the valve maintenance program and ensure compliance with the five year maintenance policy. Performance measures to be included in these reports should include: a) The number of unique valves and hydrants that have received preventive maintenance during the current maintenance cycle. b) The number and percentage of unique valves and hydrants that have been maintained in each geographic area (for example, each Field Book Page) during the reporting period.

#3	The Public Utilities Department should develop a procedure to record in the Sewer/Water Infrastructure Management (SWIM) system when crews in the field discover that preventive maintenance could not be performed on an appurtenance. This procedure should ensure that work orders are not recorded as 'complete' in the SWIM system when maintenance work is not actually performed.
#4	The Public Utilities Department should implement a risk-based approach to valve and hydrant maintenance. This implementation should entail: ☐ The development of criteria to determine which valves and hydrants are the most critical. Criteria to be considered should include type of area served, potential for the associated main to break, potential for damage and injury resulting from appurtenance failure, and the water shut-off area if the valve fails to operate. ☐ The recording of this information in the Sewer and Water Infrastructure Management (SWIM) and System Planning and Locator Application for Sewer and Hydrographics (SPLASH) systems so it is easily accessible to PUD's valve maintenance group when scheduling maintenance activities. ☐ The development of policies and procedures to schedule maintenance according to the criticality tiers developed. These policies and procedures should be developed in conjunction with other audit recommendations. ☐ An analysis to determine if the valve maintenance section is properly staffed to meet requirements of the risk based approach.
#5	Upon implementation of a risk-based approach to valve and hydrant maintenance, the Public Utilities Department should work with the City's Information Technology provider to produce reports for each maintenance priority cycle. For example, one report should identify maintenance progress made for valves and hydrants on a one-year high priority maintenance cycle, while another report would identify progress made for valves and hydrants on a ten-year low priority maintenance cycle. These reports should include the number of unique valves and hydrants maintained during the reporting period and should detail maintenance progress made by geographic area, consistent with Recommendation #2, above.
#6	The Public Utilities Department should conduct a formal study to determine the most efficient organizational structure and deployment of valve and hydrant maintenance crews. This study should consider whether operational efficiency would be increased by reducing the number of three-person crews. The study should also consider the total number of crews needed to complete all maintenance tasks within the timeframe established by the department. The results of this study should be documented in formal policies and procedures to provide guidelines for appropriate crew size and to ensure that appurtenance maintenance activities are completed in the most efficient and effective manner.

#7	Upon completion of the study in Recommendation #7, the Public Utilities Department should work with the Labor Relations Office to present a formal proposal for the restructuring of valve and hydrant maintenance activities to the affected labor unions should reductions in FTE occur as a result.
#8	The Public Utilities Department should develop a procedure for crews to note when they encounter a covered valve, and to use the SWIM database to maintain information on valves found covered so that appropriate action can be taken.
#9	To prevent future valves from being covered, the Public Utilities Department should provide an up-to-date copy of the Water Field Book to inspectors and to contractors. The Field Engineering Division of Engineering and Capital Projects should ensure that inspectors have access to the Water Field Books and use them effectively when conducting inspections of contractor work to ensure that gate caps remain uncovered.
#10	The Field Engineering Division of Engineering and Capital Projects should formalize the current guidelines for the inspection of capital improvement projects for asphalt overlay by transforming the guidelines into a Standard Operating Procedure.
#11	The Public Utilities Department develop a procedure to track water loss time and calculate the amount of water loss from hydrant knock overs on a case by case basis.
#12	The Public Utilities Department should work with the Risk Management Department to develop policies and procedures that ensure water loss cost recovery is based on the current cost of water and the actual amount of water lost.
13-012	**PERFORMANCE AUDIT OF THE STREETS DIVISION'S POTHOLE REPAIR OPERATIONS**
	Our office was asked to answer specific questions regarding the City's pothole repair and tracking system, which is administered by the Transportation & Storm Water Department's Streets Maintenance Division. Specifically, we were asked to assess the pothole repair operations and determine the accuracy and reliability of its operational data. Additionally, we were asked to analyze the efficiency of pothole repair operations. We found that: the division is unable to determine the average response time to repair reported potholes due to data reliability issues; the number of requests for service differ by council district; the deployment strategy can be improved to operate more efficiently; and other cities repair processes are similar to San Diego.

RECOMMENDATIONS |

#1	In order to improve the quality of data, the Streets Division of the Transportation & Storm Water Department should standardize its data collection tool. Specifically, the Streets Division should: ☐ Specify the types of data that should be collected by repair crews (e.g. number of potholes filled and square footage),and revise the data collection form so that each required data type has its own field and standardized way of recording. ☐ Establish a process to ensure supervisory review and approval prior to data entry with confirmation of review such as a signature.
#2	The Streets Division of the Transportation & Storm Water Department should improve controls over data entry. Specifically, the Streets Division should: ☐ Modify the date field to a blank, yet required field to help ensure the date field is entered correctly into the system. ☐ Evaluate potential data entry controls available in SAP for data recorded in the system to strengthen edit checks and controls.
#3	The Transportation & Storm Water Department, Streets Division's pothole repair group should implement a regional deployment strategy in order to reduce redundant trips to the same areas and systematically address pothole repair.
#4	The Transportation & Storm Water Department, Streets Division should change its primary performance metrics to include a measure of production efficiency. Specifically, the department should utilize the cost-per-pothole as their primary performance measure to capture the efficiency of its operations.
13-013	**PERFORMANCE AUDIT OF THE ZOOLOGICAL EXHIBITS FUND**
	In 1934, San Diego voters approved an amendment to the City Charter to support the Zoo in recognition of its importance to the local economy. Specifically, Section 77a of the City Charter authorizes the assessment of a property tax levy within the City for the purposes of maintaining the Zoo's exhibits. Our audit of the Zoological Exhibits Fund found that the budgeting methodology and administration of the zoological exhibits fund lack consistency. We also found that the City does not monitor use of the zoological exhibits fund, nor does the zoo specifically account for how City Charter Section 77a funds are expended.

	RECOMMENDATIONS
#1	The Financial Management Department should reevaluate and consider simplifying the current budgeting methodology for the Zoological Exhibits Fund. Additionally, the Financial Management Department should, in consultation with the Office of the City Comptroller, establish guidance related to management of the Zoological Exhibits Fund. The written guidance should address budget methodology, departmental roles and responsibilities, and general timeframes.
#2	In order to improve transparency and oversight of taxpayer funds, the City Administration should request that the Zoological Society establish an accounting structure to specifically account for San Diego Charter Section 77a funds. The revised accounting structure should include a clearly defined set of expenditures related specifically to the maintenance of zoological exhibits.