



THE CITY OF SAN DIEGO

DATE: September 15, 2022

TO: Honorable Members of the City Council

FROM: Andy Hanau, City Auditor

SUBJECT: Office of the City Auditor FY2024 Budget Request

Overview

Although we are one of the smallest City departments (currently making up only 0.09 percent of the City's \$5.1 billion budget), the Office of the City Auditor (OCA) provides a significant return on investment for residents and taxpayers, and excels at its mission to "advance open and accountable government through accurate, independent, and objective audits and investigations that seek to improve the efficiency, effectiveness, and equity of City government." Amongst many other accomplishments, in just the past year alone, OCA identified critical issues and made recommendations to [increase recreation programming equity](#); ensure that police officers [record body camera videos during enforcement encounters](#) with the public; [improve workplace safety](#) and reduce the up to \$220 million per year that workplace injuries may cost the City; respond more quickly and effectively to [code enforcement violations](#) that threaten public health, safety, and welfare; and more effectively [manage the City's \\$80 million per year lease portfolio](#).

We can only provide these benefits to San Diego residents and taxpayers because of our highly skilled and dedicated staff, and thus it is extremely important that OCA be competitive in the current employment market. However, we recently conducted a benchmarking survey and found that OCA staff salaries are significantly lower than salaries for peer audit organizations as well as City job functions that require similar skills and levels of responsibility.

This threatens OCA's ability to continue to attract and retain the best possible audit staff to serve our City. For example, in the past several months, one OCA audit staff member left for a private sector opportunity and another left for a different City department, both receiving significant salary increases in their new positions.¹ And, while several years ago we routinely received applications

¹ OCA currently has 22 FTEs, of which 17 are auditors, so these 2 departures represent approximately 12 percent of OCA audit staff. In addition, OCA invests significant resources to onboard and train new staff and to meet Government Auditing Standards' continuing professional education requirements.

and hired staff from peer audit organizations, we have not received any applications from peer staff in several recruitments over the past 18 months.

In addition, per City Charter Section 39.2, OCA is responsible for auditing and investigating City programs, and it is critical that OCA has the resources to provide sufficient audit coverage of the City's diverse and growing range of operations. OCA has not requested or added any full-time equivalent positions (FTEs) since fiscal year (FY) 2016, while the City's overall budget has increased by 50 percent and the number of City FTEs has increased by 13 percent over the same time period. This means that key topics must be left off of our annual audit workplans because we do not have the resources to audit them.

As you know, City Council budget priority memoranda are due to be submitted to the Independent Budget Analyst on September 30th, and we would appreciate your consideration of this issue. Specifically, in order to ensure that OCA is as competitive as possible in the current job market and attracts and retains the most qualified staff, we ask the Council to recommend that the FY2024 budget include sufficient funds to adjust OCA staff salaries up by an average of 15 percent to help ensure we are highly competitive with comparable positions in our peer audit cohort.^{2,3} In addition, in order to ensure that OCA is able to provide sufficient audit coverage, and has sufficient administrative support, we ask the Council to recommend that the FY2024 budget include two additional Performance Auditor positions and one additional administrative position.

The following sections provide additional detail on our benchmarking and FY2024 budget request.

Summary of Peer Audit Organizations and City Positions Selected for Benchmarking

The Office of the City Auditor is a leader in local government performance auditing. As one indicator, since its inception in 2009, OCA has won eight Knighton Awards,⁴ which are given for local government performance audits that are judged to be amongst the best of the year using criteria such as the positive impact of the audit and its responsiveness to the needs of City leadership and the public, the quality of the analysis and persuasiveness of the report, and the feasibility and effectiveness of the recommendations. As noted above, we are successful because of our highly skilled staff, most of whom hold advanced degrees, professional certifications, or both.

After an extensive preliminary review of 22 government audit organizations, we selected 15 peer audit organizations to benchmark with. We selected these organizations because they have also won Knighton awards or other similar awards demonstrating excellence in the field, specialize in

² Per City Charter Section 39.1, the Audit Committee recommends the annual budget of the Office of the City Auditor to the City Council. We plan to present this request to the Audit Committee at one of its upcoming meetings during the budget process.

³ Note that this request is not intended to include the salary for the City Auditor. This request is for OCA staff only.

⁴ Most recently, OCA received a Knighton Award for our [2021 Performance Audit of the City's Major Building Acquisition Process](#). See **Attachment 3** for the award announcement from the Association of Local Government Auditors.

performance audits like those performed by OCA, employ similarly skilled staff, or are in close proximity to San Diego. **Table 1** shows the audit organizations we selected.

Table 1: 15 Peer Audit Organizations Selected for Benchmarking

Peer Audit Organizations
Atlanta Office of the City Auditor
Austin Office of the City Auditor
California State Auditor
Chicago Office of the Inspector General
Dallas Office of the City Auditor
City and County of Denver Office of the Auditor
King County Auditor's Office
Long Beach City Auditor's Office
Oakland Office of the City Auditor
Portland City Auditor's Office
Sacramento Office of the City Auditor
San Diego Association of Governments Office of the Independent Performance Auditor
City and County of San Francisco Office of the Controller
San Jose Office of the City Auditor
Seattle Office of the City Auditor

In addition, we benchmarked salaries for two OCA positions with other positions within the City that require similar skills, experience, and responsibilities. **Table 2** shows the OCA positions and comparable City positions we benchmarked with.

Table 2: OCA Positions and Comparable City Positions Selected for Benchmarking

OCA Position	High-Level OCA Position Description	City Positions with Similar Skills / Responsibilities
Senior Performance Auditor	Leads audit teams, usually supervises at least one staff auditor	Program Coordinator
Principal Performance Auditor	Manages multiple audit engagements simultaneously, supervises four to five staff	IBA Fiscal/Policy Analyst, Program Manager, Principal Accountant

OCA Salaries Lag Behind Peer Audit Organizations

Our benchmarking with peer audit organizations and comparable City positions indicates that OCA staff salaries are significantly below market and are likely not competitive in the current

employment environment. Specifically, as shown in **Table 3**, OCA salaries are 12 to 15 percent below the median salaries among peer audit organizations and 19 to 23 percent below salaries at the 75th percentile.⁵ Similarly, OCA salaries are 10 to 13 percent below the mean of comparable City positions. In fact, OCA salaries rank towards the bottom in comparison to peers.

Table 3: OCA Salaries Need to Increase by 19 to 23 Percent to be Highly Competitive

Position (Rank Amongst Peers)	OCA Salary Range Midpoint	50 th Percentile of Peer City Salary Range Midpoints (Percent Above OCA)	75 th Percentile of Peer City Salary Ranges (Percent Above OCA)	City of San Diego Comparable Positions' Average Salary (Percent Above OCA)
Performance Auditor I (Rank: 12 th out of 15)	\$74,360	\$86,123 (+15%)	\$91,374 (+23%)	—*
Senior Performance Auditor (Rank: 9 th out of 15)	\$105,731	\$118,695 (+12%)	\$125,584 (+19%)	\$119,032 (+13%)
Principal Performance Auditor (Rank: 10 th out of 12)	\$124,321	\$139,295 (+12%)	\$148,054 (+19%)	\$136,435 (+10%)

*Note: We did not benchmark Performance Auditor I against other City positions.

Attachment 1 contains additional detail on our salary benchmarking results.

Summary of OCA FY2024 Budget Request — Salary Competitiveness

The lack of competitive salaries puts OCA and the City at risk of failing to attract and retain the most qualified audit staff. Concerningly, this risk may already be materializing. As noted above, two OCA staff recently left the office and received very significant pay increases in their new positions. In addition, OCA salaries were historically more competitive with peer audit organizations, and while we sometimes lost staff to peers, we also frequently received applications from, and hired, staff from our peer cohort audit organizations. However, over the past 18 months, we conducted three recruitments for open positions and did not receive any applicants from the peer audit organizations listed in **Table 1** above. This is likely because the current market for highly skilled positions is very competitive, and OCA's salaries are significantly lower than our peer benchmarks.

⁵ Average salaries for other cities are adjusted for the cost of living in San Diego.

Our goal is to be able to offer salaries that are highly competitive with our peer audit cohort. We currently have the budget to provide approximately 5 percent adjustments to staff, which is not sufficient to adjust salaries to highly competitive levels, as shown above.

Therefore, in order to be able to offer salaries that are highly competitive in the market, we request that the City Council recommend that the FY2024 budget include sufficient funds to provide an average 15 percent salary increase for OCA staff, in addition to any general cost of living adjustment the City may make at the beginning of the fiscal year.

We estimate the cost of this budget adjustment to be approximately \$370,000.⁶

OCA is Undersized Compared to Peer Audit Organizations

Our analysis of peer audit organizations’ structure and size indicates that OCA has fewer FTEs and a lower budget relative to the size of the City, both compared to peer audit organizations as well as OCA’s position as of 2017.

Specifically, as shown in **Table 4** below, the mean peer audit organization comprises approximately 0.15 percent of their agency’s budget and 0.24 percent of their agency’s FTEs. By comparison, OCA is smaller, comprising 0.09 percent of the City’s budget and 0.17 percent of the City’s budgeted FTEs. This means OCA is auditing larger programs with fewer staff than similar audit organizations.

Table 4: OCA Has Fewer FTEs and a Smaller Budget Relative to Overall Agency Size Compared to Peer Audit Organizations

Entity	FTEs as a Percent of Total City FTEs	Budget as a Percent of Total City Budget
OCA FY2022	0.17%	0.09%
Average of Peer Audit Organizations	0.24%	0.15%

One reason OCA has a smaller budget relative to peer audit organizations is because OCA salaries are significantly below market, as described above. Another reason is that OCA has not added any FTEs since FY2016, while the City organization has grown significantly over that time. As shown in **Table 5**, OCA has remained at 22 FTEs since FY2016, while the City budget has grown from \$3.4

⁶ For reference, the estimated cost of a salary adjustment to be able to offer the *current* median salary is approximately \$185,000. However, our benchmarking interviews indicated that other audit organizations are also planning to adjust salaries due to the competitive job market. Therefore, since the requested adjustment would not take effect until FY2024, we are requesting sufficient funds to get closer to the *current* 75th percentile of peer salaries, which will likely be closer to the median by the time the increases take effect. The total estimated cost of \$370,000 is approximately 8 percent of OCA’s current budget, which is shown in **Attachment 2**.

billion to \$5.1 billion and the number of City FTEs has increased from 11,345 to 12,777 over the same time period.

Table 5: The City Organization Has Grown Significantly Since OCA Last Added an FTE 7 Years Ago

Entity	Budget for FY2016	Budget for FY2023	FTEs FY2016	FTEs FY2023
OCA	\$3.9 Million	\$4.6 Million (+18%)	22	22 (+0%)
City of San Diego	\$3.4 Billion	\$5.1 Billion (+50%)	11,345	12,777 (+13%)

Summary of OCA FY2024 Budget Request — Additional FTEs to Improve Audit Coverage

As OCA has not added FTE in seven years, our ability to provide audit coverage may not be sufficient to meet the audit needs of the City, City Council, and our residents and taxpayers. For example, as we do every year during our annual risk assessment and audit work plan development process, at the outset of FY2023, we identified numerous topics where a performance audit has the potential for a significant positive impact. While our adopted FY2023 Audit Work Plan includes many of these topics,⁷ we do not have the audit resources to include them all in this year's work plan, or even in the next two to three years. Although every audit shop is likely unable to address all potential audit topics, there were some critical risk areas we considered for this year's work plan but do not have the resources to address. Examples of these areas include an audit of SDPD's readiness for an active shooter situation; an audit of Pure Water, the City's largest ever infrastructure project; and a host of critical IT and IT cybersecurity programs and functions. Adding additional audit staff would allow us to address additional high-risk topics such as these in next year's audit work plan and beyond.

Additionally, many other leading performance audit organizations have staff that specialize in graphic design, copyediting, and quality control. In order to modernize OCA and ensure that our reports are as useful as possible to our stakeholders, we converted one of our two existing administrative positions to a Quality Control and Communications Specialist position in FY2021. While this position has been essential to maintaining and enhancing the quality of our reports, it resulted in the loss of an administrative position, and our experience over the past year has shown that additional administrative support is needed.

⁷ Our work plan includes many critical topics such as the Capital Improvements Program, the City's contracts with service providers for the homeless community, street maintenance efficiency and equity, SDPD overtime, the City's hiring process, and more. The FY2023 Audit Work Plan is available here: https://www.sandiego.gov/sites/default/files/fy2023_annual_citywide_risk_assessment_and_audit_work_plan.pdf

Therefore, in order to increase our audit coverage and ensure OCA has sufficient administrative support, *we request that the Council recommend that the FY2024 budget include two additional Performance Auditor positions and one additional administrative position for OCA.* We estimate the cost of these additions to be \$490,000.⁸

Conclusion

I recognize that the City has limited resources, and that the Mayor and City Council will have extremely difficult budget decisions to make for FY2024, as they do every year. I also recognize that this is a significant budget request. To that end, as noted above, this is the first time OCA has requested additional positions in seven years, and this is the first time OCA has requested market adjustments to staff salaries.

We commend the City for taking an evidence-driven approach to addressing salary competitiveness in many other areas of the City, as we [recommended in our Performance Audit of the City's Strategic Human Capital Management](#), and respectfully request that the City take the same approach for OCA staff as well. I believe our work shows that investing in OCA, helping ensure that we attract and retain the most skilled and talented staff, and increasing audit and support staffing will produce valuable positive returns for the City, and our residents and taxpayers.

Thank you for your consideration of this matter, and please contact me with any questions.

Respectfully submitted,



Andy Hanau, MPP, CIA, CFE
City Auditor

cc: Honorable Mayor Todd R. Gloria
Honorable Members of the Audit Committee
Honorable City Attorney Mara Elliott
Jay Goldstone, Chief Operating Officer
Matt Vespi, Chief Financial Officer
Christiana Gauger, Chief Compliance Officer
Charles Modica, Independent Budget Analyst

⁸ This assumes the requested 15 percent salary adjustment is also approved, and that OCA adds two Senior Performance Auditors and an administrative assistant.

Attachment 1 — Benchmarking Results and OCA Salary Details

Table A: OCA Performance Auditor I Salaries Rank 12th Out of 15 Comparable Audit Organizations

Rank	Entity	Salary Range Midpoint, Cost of Living Adjusted
1	King County ⁹	\$106,332
2	Sacramento	\$105,257
3	Portland	\$93,724
4	Dallas	\$92,768
	75th Percentile	\$91,374
5	Atlanta	\$87,194
6	Chicago	\$86,722
7	San Jose	\$86,598
	50th Percentile	\$86,123
8	Denver	\$85,648
9	California State Auditor	\$85,166
10	Oakland	\$81,396
11	Austin	\$75,841
12	OCA	\$74,360
13	SANDAG	\$70,354
14	Long Beach	\$61,834
15	San Francisco	\$59,820

⁹ King County Auditor’s Office staff work 35 hours per week. King County salary midpoints were calculated using a 40-hour work week to align with OCA’s work week.

Table B: OCA Senior Performance Auditor Salaries Rank 9th Out of 15 Comparable Audit Organizations

Rank	Entity	Salary Range Midpoint, Cost of Living Adjusted
1	King County	\$131,163
2	California State Auditor	\$126,806
3	Sacramento	\$126,246
4	San Jose	\$126,007
	75th Percentile	\$125,584
5	Dallas	\$124,318
6	Austin	\$121,422
7	Portland	\$120,865
	50th Percentile	\$118,695
8	Denver	\$116,525
9	OCA	\$105,731
10	SANDAG	\$103,945
11	Oakland	\$103,871
12	Atlanta	\$100,752
13	Chicago	\$99,386
14	San Francisco	\$99,035
15	Long Beach	\$86,157

Table C: OCA Principal Performance Auditor Salaries Rank 10th Out of 12 Comparable Audit Organizations with Equivalent Positions

Rank	Entity	Salary Range Midpoint, Cost of Living Adjusted
1	Dallas	\$158,665
2	California State Auditor	\$152,888
3	King County	\$150,188
	75th Percentile	\$148,054
4	San Jose	\$145,920
5	Sacramento	\$141,392
6	SANDAG	\$139,295
	50th Percentile	\$139,295
7	Oakland	\$132,579
8	Atlanta	\$128,124
9	Denver	\$125,848
10	OCA	\$124,321
11	Austin	\$121,422
12	Long Beach	\$118,531

Table D: Current OCA Salary Ranges

Position	Base of Salary Range	Midpoint of Salary Range	Top of Salary Range	Average Actual Salary Paid
Performance Auditor I	\$65,065	\$74,360	\$83,655	\$81,884
Senior Performance Auditor	\$98,760	\$105,731	\$112,702	\$105,524
Principal Performance Auditor	\$112,702	\$124,321	\$135,940	\$126,537

Attachment 2 — OCA FY2023 Budget

	FY2021 Actual	FY2022 Budget	FY2023 Proposed	FY2022-2023 Change
PERSONNEL				
Personnel Cost	\$ 2,161,130	\$ 2,407,212	\$ 2,607,997	\$ 200,785
Fringe Benefits	1,160,681	1,281,464	1,324,961	43,497
PERSONNEL SUBTOTAL	3,321,812	3,688,676	3,932,958	244,282
NON-PERSONNEL				
Supplies	\$ 4,931	\$ 17,450	\$ 16,780	\$ (670)
Contracts	381,592	469,510	457,223	(12,287)
Information Technology	150,287	167,946	157,989	(9,957)
Energy and Utilities	-	333	333	-
Other	7,552	6,200	6,200	-
NON-PERSONNEL SUBTOTAL	544,363	661,439	638,525	(22,914)
Total	\$ 3,866,175	\$ 4,350,115	\$ 4,571,483	\$ 221,368

Revenues by Category

	FY2021 Actual	FY2022 Budget	FY2023 Proposed	FY2022-2023 Change
Other Revenue	\$ 501	\$ -	\$ -	-
Total	\$ 501	\$ -	\$ -	-



Association of Local Government Auditors

FOR IMMEDIATE RELEASE

April 11, 2022

Contact: Andy Hanau, City Auditor, cityauditor@sandiego.gov

AUDIT REPORT WINS NATIONAL RECOGNITION

San Diego, CA -- A 2021 Distinguished Knighton Award for best performance audit in the Extra-Large shop category has been awarded to City of San Diego, Office of the City Auditor by the Association of Local Government Auditors (ALGA). The Award will be presented to the audit shop during ALGA's annual conference on May 2, 2022.

The report, *Performance Audit of the City's Major Building Acquisition Process* was judged on several key elements, such as the potential for significant impact, the persuasiveness of the conclusions, the focus on improving government efficiency and effectiveness, and its clarity and conciseness.

The judges found the audit to be thorough, well documented, and supported by evidence. Performing an audit on the topic of real estate was highly responsive to the needs and concerns of decision-makers and the public. The City of San Diego's audit of the City's Major Building Acquisition Process highlighted a serious lack of policies and oversight in the building acquisition process. The audit also found that prior city administration failed to conduct sufficient due diligence on major building acquisitions, and that the City Council and the public were not informed of all material facts for a major acquisition. Overall, the report was impactful and contained specific and feasible recommendations that were clearly communicated. One example of the high-impact nature of the report is that it found the City committed more than \$230 million to acquire buildings it did not understand the condition or value of. As a result, these buildings often sat vacant or underutilized after acquisition, and building improvements are expected to cost more than \$100 million more than anticipated.

Each year, local government audit organizations from around the U.S. and Canada submit their best performance audit reports for judging. The purpose of the competition is to improve government services by encouraging and increasing levels of excellence among local government auditors. Judges from peer organizations determined that this audit was among the best of 2021.

The Association of Local Government Auditors is a national audit association founded in 1985 committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics.