



THE CITY OF SAN DIEGO

DATE: May 5, 2009

TO: Honorable Mayor and City Council

FROM: Eduardo Luna, City Auditor

SUBJECT: **Audit of San Diego Data Processing Corporation's Compensation and Budgeting Practices**

RESULTS IN BRIEF

Based on our audit we found that San Diego Data Processing Corporation's (SDDPC) budgeting and compensation policies could be improved. Generally, SDDPC's actual expenses for salaries and fringe benefits have not exceeded its budgeted personnel expenses. SDDPC's budget presented to its Board of Directors (Board) includes projected merit increases and bonuses for each year. However, this information is not included in SDDPC's annual budget presentation to City Council, and the City has not amended the current Operating Agreement to require this. We also found that Council approval of SDDPC's annual budget was not directly obtained as required by the Operating Agreement during the period we reviewed. Budget approval requirements have been unclear since Council delegated voting proxy to the City Manager (Mayor) without limitation over matters related to SDDPC¹.

Additionally, our review of compensation revealed that the Chief Executive Officer's (CEO) bonus is contingent on the Board of Director's evaluation of the CEO's achievement of specific goals. However, the Board's evaluation process is conducted verbally using various documents to measure performance but does not include written documentation regarding the specifics of how the bonus amounts awarded tie to the CEO's goals achieved. We have made recommendations to strengthen SDDPC's budgeting and compensation practices. Detailed information on SDDPC's salaries, bonuses, and other employee benefits for fiscal years 2006 through April 12, 2009 is also presented in this report for informational purposes.

¹ Resolution 299444, adopted July 13, 2004.

INTRODUCTION

SDDPC is a public benefit non-profit corporation providing information technology services to the City of San Diego. The corporation is wholly owned by the City and operates under the direction of a Board of Directors appointed by the Mayor. In response to issues identified in other City agency audits, we have performed a review of compensation policies and practices at SDDPC. This report is being issued to specifically address the compensation and budget issues identified. A separate report will be issued at a later date to address governance issues and the results of our follow-up audit on implementation of recommendations made in 2004. The City and SDDPC's written responses to this report are attached after page 17.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was conducted as part of the City Auditor's Fiscal Year 2009 Audit Work Plan which included a follow-up audit of San Diego Data Processing Corporation. The audit objective is to assess the SDDPC compensation policies and practices.

To accomplish our objective, we performed the following audit procedures:

- Reviewed the SDDPC Human Resources and Finance and Accounting policies;
- Reviewed budget presentations to the SDDPC Board of Directors and the City of San Diego Council members;
- Compared total budgeted salaries and fringe benefits to actual salaries and fringe benefits for fiscal years 2006 through 2008;
- Reviewed executive team salaries and bonuses from July 1, 2005 through April 12, 2009;
- Reviewed executive team performance reviews for fiscal years 2006 through 2008;
- Analyzed employees' base pay (excludes bonuses and overtime) changes between July 1, 2005 and April 12, 2009;
- Obtained a schedule of incentive pay (bonuses) paid to the executive team and staff between July 1, 2005 and April 12, 2009;
- Reviewed employer contributions to pension plans; and
- Reviewed other employer paid benefits.

We relied on salary data provided by SDDPC for our analysis. We did not audit individual payroll records. The Human Resources approval for merit increases and bonuses for executive level staff were reviewed. We did not review all fringe benefits such as insurance benefits.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We evaluated specific internal controls related to the audit objectives, and our conclusions of the effectiveness of those controls we reviewed related to the budgeting and compensation policies and practices are detailed in our audit report.

AUDIT RESULTS

The Current Operating Agreement Does Not Provide for Adequate City Oversight of SDDPC's Budgeting and Compensation

Generally, we found SDDPC's total personnel expenses did not exceed total budgeted amounts for fiscal years 2006, 2007, and 2008. Board approved policies have been established for the administration of compensation and benefits including merit increases, bonuses, and overtime. However, detailed information on these benefits has not been included in the budget information presented to the City Council annually during the budget process. Additionally, the City has not amended the Operating Agreement to require this although in September 2005 Council directed the City Manager to do so.

SDDPC Budget

Annually, a budget is presented to and approved by SDDPC's Board of Directors. The information presented to the Board for fiscal years 2006, 2007 and 2008 included total budgeted merit increases to base salaries, overtime, and bonuses. The Board approval of the budget is recorded in the Board minutes. Monthly, the SDDPC Chief Financial Officer (CFO) presents a comparison of budgeted to actual salaries to the Board. The Board does not have a budget policy, and the executive team does not have a written SDDPC budget policy / procedure. Board approval is not required for adjustments between budget categories.

The Operating Agreement between the City and SDDPC requires that SDDPC obtain City Council approval of its annual budget. Budget approval requirements have been unclear since Council delegated voting proxy to the City Manager (Mayor) without limitation over matters related to SDDPC². Although Council's approval of SDDPC's budget was not directly obtained during the period under review, SDDPC did present its budget to Council for fiscal years 2006, 2007 and 2008. SDDPC provided us copies of the Council presentations which did not include a statement on merit increases or bonus awards. In some prior fiscal years, the City Manager's reports to the budget committee did disclose average merit increases.

² Resolution 299444, adopted July 13, 2004.

We should note the City Manager's office was directed by Council in September 2005³ to amend the Operating Agreement with SDDPC to require the agency to submit salary and wage ranges for each of its job classifications, including actual executive salaries and benefit packages. The Operating Agreement was not amended.

The Corporation's CEO, CFO and Human Resources Manager approve the annual compensation and benefit plan for all employees⁴. Individual compensation increases require the approval of the employee's immediate manager, the immediate manager's manager, and Human Resources.

We compared the annual budget to actual salary expenses for fiscal years 2006, 2007 and 2008. Base pay is the salary excluding overtime and bonuses. In the SDDPC policies, bonuses (lump sum one time payments) are referred to as incentive pay and increases to base pay are referred to as merit increases.

Table 1: Comparison of Budgeted To Actual Salaries, Wages And Fringe Benefits From FY 2006 to 2008

Fiscal Year	Description	Salaries and Wages	Fringe Benefits	Total
2006	Budget	\$17,619,000	\$6,137,000	\$23,756,000
	Actual	\$17,686,058	\$5,941,477	\$23,627,535
	Over <Under> Budget	\$67,058	(\$195,523)	(\$128,465)
2007	Budget	\$18,348,000	\$6,126,000	\$24,474,000
	Actual	\$18,087,496	\$5,842,611	\$23,930,107
	Over <Under> Budget	(\$260,504)	(\$283,389)	(\$543,893)
2008	Budget	\$19,143,000	\$6,286,000	\$25,429,000
	Actual	\$19,253,018	\$5,787,055	\$25,040,073
	Over <Under> Budget	\$110,018	(\$498,945)	(\$388,927)

Source: SDDPC published budget and audited financial statements

³ Resolution 300815, adopted September 12, 2005.

⁴ SDDPC Finance and Accounting Policy V-A - Approval Policy.

Recommendations:

We recommend the City:

1. Amend the SDDPC Operating Agreement to include the following:
 - Require SDDPC to develop a written budget policy; and
 - Require SDDPC to submit salary and wage ranges for each of its job classifications, including actual executive salaries and benefit packages, during the annual budget process.

2. Develop additional controls over the agency budgeting process to ensure that the required budget approvals are obtained.

SDDPC Can Improve Its Compensation Practices To Enhance Transparency

Chief Executive Officer and Executive Team Compensation and Bonuses

The SDDPC Board appoints and sets the compensation of the Chief Executive Officer (CEO) and Corporate Counsel. The CEO approves compensation increases and bonuses for the other executive team members. The compensation and bonuses paid are disclosed on IRS Form 990 which is required to be submitted to the State of California Office of the Attorney General, which SDDPC has complied with annually.

The CEO compensation is based on a Board approved contract. In addition to a fixed salary, the CEO is eligible to receive a bonus up to 25 percent of the pay. Total compensation paid to the CEO in fiscal years 2006 through 2008 is shown on Table 2. It should be noted that on March 13, 2009, the CEO and the Chair of SDDPC's Board signed an agreement where the CEO voluntarily waived his fiscal year 2009 and 2010 bonus (to be paid in 2010 and 2011, respectively), and eliminated the three percent increase in base salary that would have been effective July 1, 2009.

Table 2: Schedule of Total SDDPC CEO Compensation Paid

Fiscal Year Paid	Bonus Paid [2]	Base Salary Paid	Total Paid [3]
2006	\$35,144.23	\$200,000.00	\$235,144.23
2007	\$47,500.00	\$224,231.00	\$271,731.00
2008	\$57,500.00	\$230,000.00	\$287,500.00
2009 (through April 12, 2009) [1]	\$54,625.00	\$192,988.00	\$247,613.00

Source: Auditor's summary of salary data provided by SDDPC and IRS form 990

[1] The total base salary for fiscal year 2009 is \$239,200 and the projected total pay is \$293,825.

[2] The bonus paid is a percentage of the prior fiscal year base salary.

[3] Based on IRS Form 990 which is prepared on a cash basis.

The CEO bonuses paid in fiscal years 2006 through 2009 are shown in the table below. The bonus paid is based on a percentage of compensation paid in the prior twelve months and is related to performance in the prior year. On September 4, 2007, the bonus paid was calculated incorrectly due to a change in the base pay during the twelve month performance period.

Table 3: Schedule of SDDPC CEO Bonuses Paid

Performance Year	Payment Date	Eligible Percent	Maximum Allowable Bonus [1]	Bonus Paid	Overpayment
2005	10/20/2005	25%	\$ 40,787.67	\$35,144.23	\$0
2006	8/10/2006	25%	\$ 50,000.00	\$47,500.00	\$0
2007	9/4/2007	25%	\$ 56,164.38	\$57,500.00	\$1,335.62
2008	7/3/2008	25%	\$ 57,500.00	\$54,625.00	\$0

[1] Calculated based on the amount allocated to the fiscal year.

Source: Auditor's analysis of bonuses paid based on SDDPC personnel records

The CEO bonus is based on achieving goals and objectives which are specified in his employment contract amendments each year. Per the contract, these goals and objectives shall be established by the Board within 30 days of the start of that fiscal year, but not to exceed 60 days. We determined that the FY07 and FY08 goals were established after the 60 day time limit. The Board approved the FY07 goals on November 20, 2006 and the FY08 goals on December 7, 2007.

At the conclusion of the fiscal year, the Board meets in closed session to evaluate the CEO's achievements of these goals. We requested the documentation of this evaluation. Human Resources provided the following documents for our review to support the goals achieved.

- Gartner Customer Satisfaction Survey Results;
- Employee Satisfaction Survey Results;
- Board of Directors Meeting Agendas and Board Packets for various Board meetings. Included in the Board Packets were items such as Operational Highlights, month ending financial results, etc.; and
- CEO's self assessment.

The Board's practice has been to verbally evaluate the CEO's performance; however, they do not complete a matrix which rates the achievement of each goal and how that ties to the bonus awarded. Without documentation of the Board's analysis, we were unable to determine what goals and objectives were deemed as met or partially met. For example, for fiscal year 2008 performance, 60 percent of the CEO's bonus was tied to the following goal:

To provide demonstrable progress on the ERP and CIUP projects, reviewed based on project milestones on a quarterly basis.

The CEO was granted 95 percent or \$54,625 of the eligible bonus for this fiscal year; the bonus was paid on July 3, 2008. We noted that during fiscal year 2008, the ERP (OneSD) project did not meet City project milestones and implementation was delayed from October 2008 to July 2009. However, SDDPC advised that its ERP project milestones were different than the City's, and its technical milestones were met. Since the Board did not document its analysis of the CEO's goal achievements, we were unable to verify this.

In fiscal year 2009, the Board adopted a new policy for the performance review of the CEO. This policy requires an employee performance review to be completed for the CEO. Although this is an improvement in the documentation process, it is lacking a requirement of the Board to document its rating of the CEO's achievement of goals and objectives for bonus purposes.

Executive Team Merit Increases and Bonuses

The executive team members are also eligible for merit increases and bonuses. The SDPPC executive team is comprised of the following eight positions: CEO, Chief Financial Officer, Security Officer, Division Director, Corporate Counsel, Division Director, Human Resources Director, and Procurement Manager. We reviewed the performance records of executive team members to verify the approval and documentation of pay increases or bonuses granted. These records included annual performance evaluations. These evaluations included comments pertaining to the Manager's/Supervisor's overall summary of their performance. In some instances, there were supervisory comments on annual performance evaluations that tied to the bonuses awarded. However, in our opinion the comments were sometimes general in nature and did not specify the program, process or contribution related to the bonus awarded. We summarized the changes in base pay for all eight of the executives in Table 4. Detailed salary information can be found in Attachment 1 and bonus information is included in Attachment 3.

Table 4: Executive Team Merit Increases to Base Pay

Period	Amount
July 1, 2005 to July 1, 2006	\$40,198
July 1, 2006 to July 1, 2007	\$57,934
July 1, 2007 to July 1, 2008	\$31,979
July 1, 2008 to April 12, 2009	\$32,340

Source: Auditor analysis of base pay provided by SDDPC

Employee Compensation and Benefits

During fiscal years 2006, 2007 and 2008, the average employee base salary increased between 3.11 percent and 4.03 percent annually. We analyzed individual salary increases by comparing the changes in base salaries on July 1 each year from 2005 through 2008. This analysis excludes executive pay, bonuses, and any employee hired or terminated during the year.

Table 5: Summary of Changes In Base Compensation, Excluding Executives, New Hires And Terminations

Fiscal Year	Employee Count	Fiscal Year Starting Base Salary [1]	Fiscal Year Ending Base Salary	Change in Base Pay	Percent Change
2006	220	\$14,838,232	\$15,435,969	\$597,737	4.03%
2007	216	\$14,995,265	\$15,522,361	\$527,096	3.52%
2008	214	\$15,594,811	\$16,079,225	\$484,414	3.11%
2009 [2]	242	\$18,017,473	\$18,300,679	\$283,206	1.57%

Source: Auditor analysis of base pay provided by SDDPC

[1] The starting fiscal year base salary does not match the previous ending base salary due to changes in the number and classifications of positions at the beginning of each fiscal year.

[2] Through April 12, 2009.

Additional Salary-Related Schedules

We prepared schedules of base salary increases, incentive pay, and overtime by fiscal year. The schedules are shown in the attachments referenced below. In addition, the attachments may have a brief description of relevant policies as described in the Human Resources polices or verbally by the executive team.

- Summary schedule of merit salary increases, excluding executives, Attachment 2
- Summary schedule of Bonuses (incentive pay), Attachment 3
- Summary schedule of Overtime, Attachment 4

In addition, we reviewed some of SDDPC's employee benefits, including:

- Money purchase pension plan;
- Parking reimbursements for employees working downtown;
- Coffee service;
- Gym facilities; and
- Gift certificates for employee recognition.

Money Purchase Plan

In addition to salaries and fringe benefits, SDDPC contributes to a defined contribution pension plan for employees. Specifically, SDDPC contributes 20 percent of employees' eligible wages to a defined contribution 401(a) plan subject to IRS contribution limits. The plan document defines eligible wages as compensation paid to an employee during a Plan year. Eligible wages include overtime, bonuses and incentive pay. For example, SDDPC would make a contribution of \$2,000 to the employee's 401(a) plan on a \$10,000 bonus if the IRS limits were not exceeded. The contributions made by SDDPC are shown in Table 6 below. There are no other employer paid pension benefits, and employees do not participate in social security.

Table 6: SDDPC Contributions to 401(a) Plan

Fiscal Year	Retirement Contributions	Percent Change from Prior Year
2006	\$3,527,114	
2007	\$3,482,866	-1.25%
2008	\$3,693,646	6.05%

Source: Fiscal Years 2006, 2007, and 2008 audited financial statements

Parking

SDDPC pays the concourse parking for employees whose primary work location is downtown. Parking reimbursements are governed by Finance and Accounting Policy V-J. In addition, SDDPC pays for 14 passes (as of May 2008) for Civic Center Parking for use by those attending meetings downtown.

Table 7: Fiscal Year 2008 Parking Expenses paid

Vendor	FY08 Parking Paid Per A/P Check Register
Ace	\$26,190
Concourse Parkade	\$43,276
Total	\$69,466

Source: SDDPC accounts payable check register

Coffee Service

SDDPC provides coffee for employees. The cost of this service for fiscal years 2006 through 2008 is as shown in Table 8.

Table 8: SDDPC Fiscal Years 2006, 2007 and 2008 Coffee Service Expenses

Fiscal Year	Total Paid per G/L
2006	\$9,728
2007	\$10,621
2008	\$12,182
Total	\$32,531

Source: SDDPC Fiscal Years 2006, 2007 and 2008 general ledger

Gym

SDDPC has an exercise room at the Rose Canyon facility. Based on memo comments provided by SDDPC, the equipment was more than 24 years old and there were concerns related to the safety of the equipment. In fiscal year 2008, the equipment was replaced at a cost of \$36,630.

Gift Cards

SDDPC staff may nominate other employees for recognition. Employees receive a gift card in recognition of their performance. Gift cards totaling \$15,511 were purchased in July 2007 for this program. Individual gift card values ranged from \$25 to \$100.

Recommendations:

We recommend SDDPC:

3. Develop a policy requiring documentation of the Board's evaluation of how the CEO's achievement of goals ties to the bonus awarded.
4. Document in detail how the bonuses awarded to employees tie specifically to program achievements, processes or contributions.
5. Recover from the CEO the \$1,335.62 bonus overpayment.
6. Ensure Board approval of the CEO goals and objectives within 60 days as specified in the CEO contract.

CONCLUSION

SDDPC actual personnel expenses did not exceed budgeted expenses. Although SDDPC presents its annual budget to City Council, it lacks detailed information pertaining to salary increases and bonuses and is not approved by City Council as required by the Operating Agreement. SDDPC has policies on compensation plans and required approvals for merit increases and bonus approvals, but lacks a written budget policy. Additionally, SDDPC can improve its budgeting and compensation practices by developing a budget policy and documenting achievements related to bonuses. The City can improve its oversight of SDDPC by revising the Operating Agreement and monitoring SDDPC's compliance.



Eduardo Luna
City Auditor

cc: Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Nader Tirandazi, Financial Management Director
Jan Goldsmith, City Attorney
Tom Fleming, SDDPC Chief Executive Officer / President
Joyce Russell, SDDPC Chief Financial Officer
Don Del Rio, SDDPC Corporate Counsel
Audit Committee Members
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor

ATTACHMENT 1

Executive Team Base Pay Changes from July 1, 2005 to July 1, 2006

Base Pay				
	FY06 (7/1/05) Base Salary	FY07 (7/1/06) Base Salary	Difference	Percent Change
Chief Executive Officer	\$200,000	\$200,000	\$0	0.00%
Security Officer	\$118,593	\$122,151	\$3,558	3.00%
Division Director	\$118,000	\$134,550	\$16,550	14.03%
Corporate Counsel – Legal	\$161,000	\$165,830	\$4,830	3.00%
Division Director	\$130,000	\$134,550	\$4,550	3.50%
Chief Financial Officer	\$125,000	\$128,750	\$3,750	3.00%
Director, Human Resources	\$105,000	\$108,675	\$3,675	3.50%
Manager, Procurement	\$93,843	\$97,128	\$3,285	3.50%
Total	\$1,051,436	\$1,091,634	\$40,198	

Executive Team Base Pay Changes from July 1, 2006 to July 1, 2007

Base Pay				
	FY07 (7/1/06) Base Salary	FY08 (7/1/07) Base Salary	Difference	Percent Change
Chief Executive Officer	\$200,000	\$230,000	\$30,000	15.00%
Security Officer	\$122,151	\$125,815	\$3,664	3.00%
Division Director	\$134,550	\$139,259	\$4,709	3.50%
Corporate Counsel – Legal	\$165,830	\$170,804	\$4,974	3.00%
Division Director	\$134,550	\$139,259	\$4,709	3.50%
Chief Financial Officer	\$128,750	\$131,969	\$3,219	2.50%
Director, Human Resources	\$108,675	\$111,935	\$3,260	3.00%
Manager, Procurement	\$97,128	\$100,527	\$3,399	3.50%
Total	\$1,091,634	\$1,149,568	\$57,934	

Executive Team Base Pay Changes from July 1, 2007 to July 1, 2008

Base Pay				
	FY08 (7/1/07) Base Salary	FY09 (7/1/08) Base Salary	Difference	Percent Change
Chief Executive Officer	\$230,000	\$230,000	\$0	0.00%
Security Officer	\$125,815	\$128,961	\$3,146	2.50%
Division Director	\$139,259	\$144,134	\$4,875	3.50%
Corporate Counsel – Legal	\$170,804	\$177,637	\$6,833	4.00%
Division Director	\$139,259	\$144,134	\$4,875	3.50%
Chief Financial Officer	\$131,969	\$135,268	\$3,299	2.50%
Director, Human Resources	\$111,935	\$116,413	\$4,478	4.00%
Manager, Procurement	\$100,527	\$105,000	\$4,473	4.45%
Total	\$1,149,568	\$1,181,547	\$31,979	

ATTACHMENT 1

Executive Team Base Pay Changes from July 1, 2008 to April 12, 2009

FY09 Base Pay as of 4/12/09				
	FY09 (7/1/08) Base Salary	Base Pay As of 4/12/09	Difference	Percent Change
Chief Executive Officer	\$230,000	\$239,200	\$9,200	4.00%
Security Officer [1]	\$128,961	\$128,961	\$0	0.00%
Division Director	\$144,134	\$149,900	\$5,766	4.00%
Corporate Counsel – Legal	\$177,637	\$182,078	\$4,441	2.50%
Division Director	\$144,134	\$149,900	\$5,766	4.00%
Chief Financial Officer [1]	\$135,268	\$135,268	\$0	0.00%
Director, Human Resources	\$116,413	\$119,905	\$3,492	3.00%
Manager, Procurement	\$105,000	\$108,675	\$3,675	3.50%
Total	\$1,181,547	\$1,213,887	\$32,340	

Source: Documentation provided by SDDPC staff

[1] As of 4/12/09, the Security Officer and the Chief Financial Officer were not yet eligible for fiscal year 2009 merit increases.

ATTACHMENT 2

Overview of Base Compensation

Base salary merit increases are governed by Human Resources Policy II-J and Finance and Accounting Policy V-A. Some pertinent information obtained from the Policies and from Human Resources staff is listed below.

- Each position has a salary range that is set in accordance with a job specification / evaluation system.
- Human Resources requires an annual performance review for each employee based on their anniversary date which is generally the hire date or promotion date.
- Each year Human Resources develops the maximum percentage increase employees are eligible to receive, based on their current base salary range and their performance. The maximum merit increase in fiscal years 2006 through 2008 was five percent.
- Due to the performance review dates, the actual amount paid in a fiscal year may be less than the actual percentage increase.

SCHEDULE OF CHANGES IN BASE COMPENSATION EXCLUDING EXECUTIVES, NEW HIRES AND TERMINATED EMPLOYEES

Description	Employee Count	Base Salary at July 1 2005	Base Salary at July 1 2006	Change in Base Pay	Percent Change
Base pay increases due to promotions	25	\$1,714,086	\$1,837,839	\$123,753	7.22%
Other [1]	24	\$1,106,007	\$1,244,391	\$138,384	12.51%
Merit increases [2]	171	\$12,018,139	\$12,353,739	\$335,600	2.79%
Total comparable base salaries	220	\$14,838,232	\$15,435,969	\$597,737	4.03%

Description	Employee Count	Base Salary at July 1 2006	Base Salary at July 1 2007	Change in Base Pay	Percent Change
Base pay increases due to promotions	35	\$2,280,058	\$2,409,581	\$129,523	5.68%
Other [1]	6	\$495,891	\$537,331	\$41,440	8.36%
Merit increases [2]	175	\$12,219,317	\$12,575,449	\$356,132	2.91%
Total comparable base salaries [3]	216	\$14,995,266	\$15,522,361	\$527,095	3.52%

Description	Employee Count	Base Salary at July 1 2007	Base Salary at July 1 2008	Change in Base Pay	Percent Change
Base pay increases due to promotions	29	\$1,869,103	\$2,070,382	\$201,279	10.77%
Other [1]	10	\$688,116	\$743,806	\$55,690	8.09%
Merit increases [2]	175	\$13,037,593	\$13,265,037	\$227,444	1.74%
Total comparable base salaries [3]	214	\$15,594,812	\$16,079,225	\$484,413	3.11%

ATTACHMENT 2

Description	Employee Count	Base Salary at July 1 2008	Base Salary at April 12 2009	Change in Base Pay	Percent Change
Base pay increases due to promotions	4	\$247,229	\$269,168	\$21,939	8.87%
Other [1]	3	\$233,822	\$247,492	\$13,670	5.85%
Merit increases [2]	235	\$17,536,422	\$17,784,019	\$247,597	1.41%
Total comparable base salaries [3]	242	\$18,017,473	\$18,300,679	\$283,206	1.57%

Source: Documentation provided by SDDPC staff

[1] Other base salary adjustments includes employees whose base benefit increase between fiscal years was greater than five percent as a result of market salary studies; expansion of duties; position benchmarking / peer alignment; or retention due to critical technical skills.

[2] The maximum merit increase in fiscal years 2006 through 2008 was five percent. Therefore, we classified all increases of five percent or less as merit increases.

[3] The starting fiscal year base salary does not match the previous ending base salary due to changes in the number and classifications of positions at the beginning of each fiscal year.

ATTACHMENT 3

BONUSES

Incentive pay (bonuses) are governed by Human Resources Policy II-G and Finance and Accounting Policy V-A, except for the CEO whose bonus is governed by his contract. Some pertinent information obtained from the Policies and from Human Resources staff is listed below. Policy II-G has been modified as noted below.

- Previously, awards were capped at \$5,000 per award; currently, the cap has been reduced to \$2,500 once a year unless a second award is preapproved by the Board in writing.
- Policies establish the criteria for award of a bonus.

INCENTIVE PAY AND RECOGNITION AWARDS PAID

Year Bonus Received by Recipient	Recipient	Recipient Count	Incentive / Recognition Awards Paid
FY 2006	Chief Executive Officer	1	\$35,144
	Executive Team	0	\$0
	Employees	12	\$21,596
FY06 Total			\$56,740
FY 2007	Chief Executive Officer	1	\$47,500
	Executive Team	4	\$20,000
	Employees	23	\$53,504
FY07 Total			\$121,004
FY 2008	Chief Executive Officer	1	\$57,500
	Executive Team	4	\$25,000
	Employees	34	\$82,681
FY08 Total			\$165,181
FY 2009 ⁵	Chief Executive Officer	1	\$54,625
	Executive Team	0	\$0
	Employees	15	\$52,000
FY09 Total			\$106,625

Source: Documentation provided by SDDPC staff

⁵ FY 2009 totals are amounts paid as of April 12, 2009.

ATTACHMENT 4

OVERTIME

Employees who are not exempt are eligible to receive overtime pay as defined in the SDDPC Human Resources Policy II-B, Hours of Work, Overtime and Payday policies.

Fiscal Year	Overtime Pay
2006	\$105,092
2007	\$136,385
2008	\$213,863
2009 through April 12, 2009	\$169,368
Grand Total	\$624,708

Source: Documentation provided by SDDPC staff



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: May 4, 2009

TO: Eduardo Luna, City Auditor

FROM: Jay M. Goldstone, Chief Operating Officer

A handwritten signature in blue ink, appearing to read "Jay M. Goldstone".

SUBJECT: SDDPC Audit Report

On July 25, 2008, Mayor Jerry Sanders requested audits of all City outside agencies, including the San Diego Data Processing Corporation. His memo to the City Council stated that the public must be assured that these agencies are operating with full transparency and accountability, and that the agencies must be held to the same standards as the City.

This timely audit that you have prepared demonstrates clearly the need for enhanced oversight of SDDPC and other outside agencies, and for a greater level of accounting detail in the disclosure of line-item expenditures.

In advance of this audit being completed, the City has moved on two fronts to correct deficiencies in the controlling agreements that govern SDDPC.

On March 4, 2009, the Office of the Chief Information Officer and the City Attorney's Office met with SDDPC's management and legal counsel to update the current Operating Agreement to correct deficiencies in that document, some of which you have also identified.

That meeting followed completion of the fiscal year 2009 Service Level Agreement with SDDPC, a process which revealed inconsistencies between the current Operating Agreement and the Service Level Agreements.

Among the issues the new Operating Agreement will resolve are:

- a) the outdated definition and scope of information technology services,
- b) the lack of timely and detailed financial reporting,
- c) an insufficient definition of roles and responsibilities,
- d) the clarification of processes regarding procurement of services, and
- e) controls over the provision of IT services and related costs.

Sections within the new Operating Agreement will contain updated procedures and time schedules related to IT budget preparation and delivery of complete and detailed cost data from SDDPC.

Contemporaneous to this activity, and as part of the proposed fiscal year 2010 budget, SDDPC was requested by the Financial Management Director to provide details relating to their salaries and compensation, which they did. These details will continue to be requested on an annual basis during the budget preparation cycle. Upon receipt of that information, my office issued an April 13, 2009, memo directing the SDDPC Board to realign its fiscal goals to mirror those of the City, and advising it that the City will conduct a high-level evaluation of SDDPC's services and costs to determine if it is competitive in the marketplace. The results of this evaluation will determine the City's need for future services provided by SDDPC.

As SDDPC is governed by its own, independent Board of Directors, the City Attorney's Office is in the process of evaluating the legal issues regarding the approval of SDDPC's annual corporate budget by the City Council and/or the Mayor. On May 23, 2007, the Mayor's Office received advice from the City Attorney that approval of SDDPC's budget is included as part of the City Council's annual action approving the City budget. The Mayor's Office was advised that a separate action would not be necessary. See attached e-mail: "SDDPC Budget not Separate Council Item."

The City Attorney's pending re-evaluation of this issue will be incorporated in the updated Agreement. In addition, the new Agreement will provide definition and clarification of IT procurement processes through SDDPC to ensure proper City reviews and approvals. The City will complete the new draft Agreement with feedback from the IT Business Leadership Group, and seek approval of the SDDPC Board of Directors by August 2009. The Agreement will then be presented to City Council for its approval.

Finally, the audit has found information regarding compensation practices at SDDPC, including the provision of substantial 401(k) benefits, gym equipment and coffee service, that appear to directly conflict with the City's current practices and with the instructions to the SDDPC Board found in my April 13, 2009, memo. The Mayor will strongly recommend that the compensation practices of outside agencies be brought into conformance with those of the City.

The Mayor and I look forward to the continued diligence of the City Auditor in conducting performance audits of outside agencies, and to incorporating the findings of those audits in the City's oversight of those agencies.

Should you have any questions or concerns, please let me know.

Jay M. Goldstone,
Chief Operating Officer

SDDPC Budget not Separate Council Item.txt

From: Lastomirsky, Steve
Sent: Wednesday, May 23, 2007 1:57 PM
To: Ed Plank; George Brister; Howard Stapleton; Matt McGarvey; Del Rio,
Don
Cc: Mark Blake
Subject: SDDPC Budget not Separate Council Item

All,

I spoke with Mark Blake and he said that he will add a line to the resolution approving the overall city budget which will confirm that DPC's budget is being approved at the same time. Therefore, a separate 1472 or item on the docket will be unnecessary.

--Steve

Steven Lastomirsky
Deputy City Attorney
City of San Diego
1200 Third Avenue, 11th Fl.
San Diego, CA 92101
619-533-5800
slastomirsky@sandiego.gov



DATE: April 30, 2009

TO: Eduardo Luna, City of San Diego, Auditor

FROM: Tom Fleming, President and CEO, San Diego Data Processing Corporation

SUBJECT: Response to Draft Audit Report

I want to thank you for the opportunity to work with you and your staff on the internal audit of our organization. The results of this internal audit will assist us in improving our processes and procedures, and help us become a stronger company.

San Diego Data Processing is committed to providing the City of San Diego and the taxpayers it serves with quality, cost-effective IT services. These services help deliver critical fire, police and public safety services, support libraries and parks, and other essential day-to-day operations that the City and its citizens rely upon. We recognize the economic challenges the City is facing, and are working closely with the City to ensure our personnel practices are sensitive to and consistent with that economic climate.

Operating the City's non-profit corporation requires the organization's Board of Directors and leadership to obtain the services the City requires and the personnel to deliver the services in what has been, and continues to be an extremely competitive IT employment environment. We make every effort to fulfill SDDPC's mission to build, support, maintain and improve the City's information technology systems by delivering cost-effective value to the City.

A primary objective in the formation of the Corporation was the ability to recruit and retain highly-skilled technical resources in order to ensure that the City receives quality, cost-effective IT services. Our compensation programs have been designed to achieve this objective. Employees receive annual evaluations assessing their performance of job responsibilities and the achievement of specific goals and objectives. Merit increases are linked to the performance evaluations and where an employee is in relation to competitive market salaries. We use an independent third party firm, who specializes in IT compensation, to review our salary classifications and salary ranges every two years or sooner as determined by the Board of Directors.

In recent years the Board has instituted comprehensive governance policies on the organization's compensation policies and procedures, expenses and other fiscal issues. The Board and management will continue to review its fiscal goals as an organization and its personnel policies and practices to ensure they are in-line with the City's expectations.

Regarding the specific recommendations and our responses, please see the following:

Recommendation:

1. Amend the SDDPC Operating Agreement to include the following:
 - Require SDDPC to develop a written budget policy;
 - Require SDDPC to submit salary and wage ranges for each of their job classifications, including actual executive salaries and benefit packages, during the annual budget process.

SDDPC Response:

1. We agree. SDDPC is currently working with the City to amend the Operating Agreement. A meeting was held on April 28, 2009 with representatives from the Office of the CIO, City Attorney and SDDPC. A working plan was created at this meeting establishing schedules, assignments, tasks and deadlines. The recommended requirements of developing a written budget policy and submitting salary and wage ranges for each job classification, including actual executive salaries and benefit packages as part of the annual budget process, will be included in the amended Operating Agreement. SDDPC looks forward to working with the City to revise and improve this agreement to increase transparency and strengthen documentation as part of the budget process.

Recommendation:

2. Develop additional controls over the agency budgeting process to ensure that the required budget approvals are obtained.

SDDPC Response:

2. We agree. SDDPC has consistently provided its proposed budget to the City Manager (Mayor) on an annual basis. That budget was, in turn, included in the City Manager (Mayor) overall budget proposal submitted to Council. The SDDPC budget was therefore reviewed by Council and was approved as part of the overall City Manager (Mayor) budget. We look forward to working with the City to add controls to this process and ensure that the required approvals are obtained.

Recommendation:

3. Develop a policy requiring documentation of the Board's evaluation of how the CEO's achievement of goals ties to the bonus awarded.

SDDPC Response:

3. We agree. The SDDPC Board has been fully, regularly and actively engaged in evaluating the CEO's performance and has established detailed processes as a priority of their board responsibilities. This process has included a great deal of documentation, as described on page 5 of the Audit Report, which the Board has reviewed and verbally addressed when measuring the CEO's performance against the documented goals and objectives. A written matrix was provided and used by each individual Board member as a tool to measure performance. However, the Board did not complete a final consolidated written matrix. SDDPC will develop a Board

approved policy along with a consolidated written matrix form which will be required as a part of each Board's evaluation process. This policy and additional documentation will more fully and completely tie the CEO's performance against the goals to any bonuses awarded.

Recommendation:

4. Document in detail how the bonuses awarded to employees tie specifically to program achievements, processes or contributions.

SDDPC Response:

4. We agree. SDDPC has already established an amended, Board approved human resources compensation policy on December 11, 2008. The past policy required documentation for bonuses. However, the amended policy adds that more complete and detailed documentation will be required which more fully describes the specific performance, achievement and/or contribution made by that employee.

Recommendation:

5. Recover from the CEO the \$1,335.62 bonus overpayment.

SDDPC Response:

5. We agree and this item is completed. Tom Fleming will repay the company by taking a reduction in his paycheck (May 15, 2009) for the amount of \$1,355.62.

Recommendation:

6. Ensure Board approval of CEO goals objectives within 60 days as specified in the CEO contract.

SDDPC Response:

6. We agree. These goals and objectives are first determined by the Board at their annual Strategic Planning meeting with the participation of City IT staff. Once adopted these company goals are then incorporated into the CEO goals and objectives and further incorporated as an amendment to the CEO employment contract. The goals and objectives are reviewed and re-established by the Board on an annual basis. The CEO's employment compensation, yearly bonus and goals and objectives are fully documented in this employment contract. This contract is fully managed by the SDDPC Board and fully transparent as to any and all benefits provided to the CEO. The Board will fully comply with meeting these employment contract requirements within the 60 day limit at the end of each fiscal year.

In closing, I want to reiterate our strong commitment to improving our organization. We welcome these recommendations and look forward to quickly implementing these positive changes. Thank you again for your advice and recommendations.