



Office of the City Auditor

**Report to the City Council
City of San José**

**ACTIVITIES AND
ACCOMPLISHMENTS OF THE
OFFICE OF THE CITY AUDITOR
JULY 1999 THROUGH JUNE 2001**

**Report 01-06
November 2001**



CITY OF SAN JOSÉ, CALIFORNIA

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GERALD A. SILVA
City Auditor

November 6, 2001

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

This is a report on the Activities And Accomplishments Of The Office Of The City Auditor For The Period July 1, 1999, Through June 30, 2001.

The two years covered in this report have been productive, challenging, and rewarding. I am very grateful to the City Council for the support given this Office. I am also grateful to the City Administration for its cooperation during the conduct of our audits. While this Office has improved over the past two years, further improvements are possible and necessary. This Office will continue to strive to secure those improvements for the City Council and, ultimately, the residents of San Jose. I will present this report to the Finance Committee at its November 14, 2001 meeting.

Sincerely,

Gerald A. Silva
City Auditor

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Executive Summary

This report on the Office of the City Auditor summarizes the activities and accomplishments for the period from July 1999 through June 2001.

The mission of the City Auditor's Office is to independently assess and report on City operations and services. Audits have benefited the City in numerous ways. Some audit reports present ways to reduce costs or increase revenues. Other audit reports identify opportunities to increase effectiveness, use resources more efficiently, and improve internal controls. In addition, a variety of special studies and analyses provide objective, timely information to the City Council, City Administration, and the general public.

The Office's principal objective is to identify \$4 in savings or increased revenues for every \$1 of audit cost. From July 1999 through June 2001, the Office exceeded this standard by identifying \$5.82 in savings for every \$1 of audit cost. The Office produced 29 reports and special projects containing 161 recommendations. These reports and special projects identified \$29 million in opportunities to reduce costs or increase revenues compared to \$5 million in audit costs. Most of the recommendations have been implemented or are in the process of being implemented.

Introduction

With City of San Jose (City) and Redevelopment Agency operating and capital budgets of over \$2.6 billion a year, the members of the San Jose City Council need an effective means to monitor the use of tax dollars and City and Redevelopment Agency 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 revenue, and improve the management of City and Redevelopment Agency programs. Additionally, our independent reviews have served as an important, objective information source for the City Council, City management, the Redevelopment Agency, and the general public.

Authority And Responsibility

The San Jose City Charter prescribes the powers and duties of the Auditor's Office. Section 805 of the Charter grants to the City Council the authority to appoint the City Auditor. The Charter also outlines the City Auditor's primary duties as follows:

- Conduct or cause to be conducted annual post audits of all the City's fiscal transactions and accounts kept by or for the City including the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures;
- Conduct performance audits, as assigned by the City Council, to determine whether (1) City resources are being used in an economical, effective, and efficient manner; (2) established objectives are being met; and (3) desired results are being achieved;
- Conduct special audits and investigations as assigned by the City Council;
- Submit a monthly report to the City Council of the Office activities, findings, and recommendations to improve the administration of the City's fiscal affairs; and
- Perform other such auditing functions consistent with the City Charter and submit reports as required.

Section 805 also grants the City Auditor access and authority to examine all records of any City department, office, or agency, except those of an elected official of the City.

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

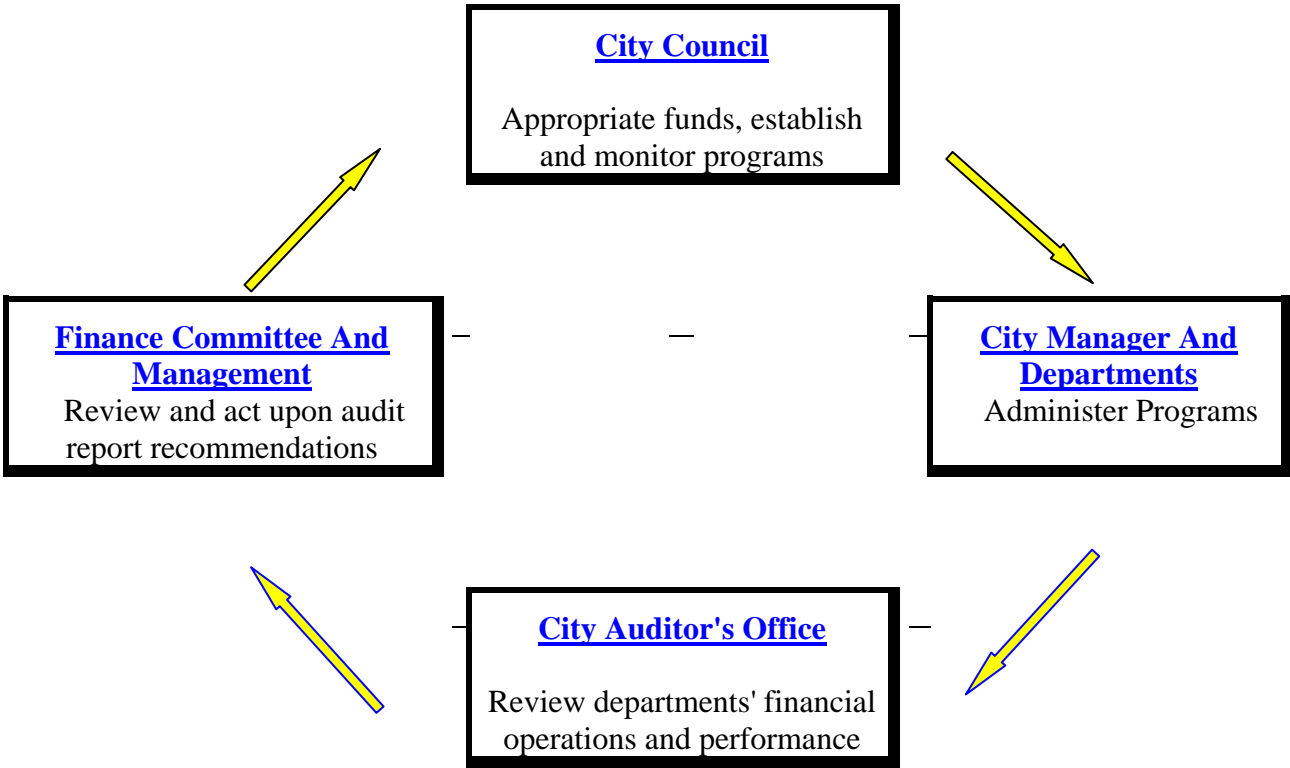
Mission Statement: To independently assess and report on City operations and services.

Core Service: **Audit Services**

To 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. Exhibit 1 describes the role of auditing in City government.

Exhibit 1 Role Of Auditing In City Government



Auditing City Departments And Programs

The Auditor's Office performs or coordinates audits and studies according to government auditing standards promulgated by the United States General Accounting Office (See Appendix A). The following describes the scope of work performed.

Financial Audits

Financial audits include financial statement and financial related audits. Financial statement audits provide reasonable assurance that the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Financial related audits determine whether (a) financial information is presented in accordance with established or stated criteria, (b) the entity has adhered to specific financial compliance requirements, or (c) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

In accordance with the City Charter, an independent accounting firm conducts the financial statement and financial related audits of the City of San Jose. The Auditor's Office coordinates the work of the independent accounting firm. The annual audit determines whether the financial statements fairly present the City's financial condition according to generally accepted accounting principles. The annual financial audit also includes reviews to determine City compliance with laws and regulations, particularly for those programs receiving federal funding.

The nature and scope of the financial audits the Auditor's Office performs differs significantly from the outside audit of the City's financial statements. The primary emphasis of the financial audits the Office conducts is to assess whether the City's internal control systems ensure the following:

- Resources are used in accordance with laws, regulations, and policies;
- Reliable data are obtained, maintained, and properly disclosed in financial and management reports; and
- Resources are safeguarded against loss due to fraud, theft, errors, and mismanagement.

These audits provide City management with the objective information required to ensure that internal control systems are working as intended.

Performance Audits

Performance audits include economy and efficiency audits and program audits. Economy and efficiency audits determine (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (2) the causes of inefficiencies or uneconomical practices; and (3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

Program audits determine (1) the extent to which City Council-established desired results or benefits are being achieved; (2) the effectiveness of audited organizations, programs, activities, or functions; and (3) whether the audited entity has complied with laws and regulations applicable to the program.

Audits that focus on efficiency issues typically evaluate the reasonableness of program costs relative to the results of services produced. Auditors may assess the relationship between staffing and other costs and measurable program benefits. Auditors may also (1) determine if a program has established appropriate goals and objectives, (2) review the adequacy of management's system for measuring success, (3) assess the extent to which desired levels of results are achieved, and (4) identify factors that inhibit satisfactory performance.

Audit reports usually make recommendations to management to correct inefficient practices and/or improve procedures to maximize resource utilization and productivity. The reports may also make recommendations to change management systems, City policies, and ordinances.

Special Studies

The Auditor's Office is occasionally requested to do thorough and impartial data collection, analysis, and reporting. The Office produces special studies to address these information needs. Special studies and reports are subject to the same rigorous audit methodology regarding data collection and quality control reviews. Special studies are intended to provide timely and objective information to the City Council, City Administration, and the public.

Sales And Business Tax Audit In July 1994, the Auditor’s Office initiated a continuous audit of sales and business taxes. The objectives of this audit are to identify

- San Jose retail businesses that do not file sales tax returns;
- Misallocation of the local portion of the sales taxes paid by San Jose businesses; and
- San Jose businesses that have paid sales taxes but not the San Jose business tax.

Audit Recommendations Follow-up It is the policy of the City that audit reviews be conducted and that any resulting recommendations be implemented or otherwise resolved to the satisfaction of the City Manager, the City Auditor, and the City Council. Accordingly, the Auditor’s Office, in coordination with the City Administration, monitors the implementation of audit recommendations. The City Auditor prepares a semi-annual follow-up report on the status of all unimplemented City Council-approved audit recommendations.

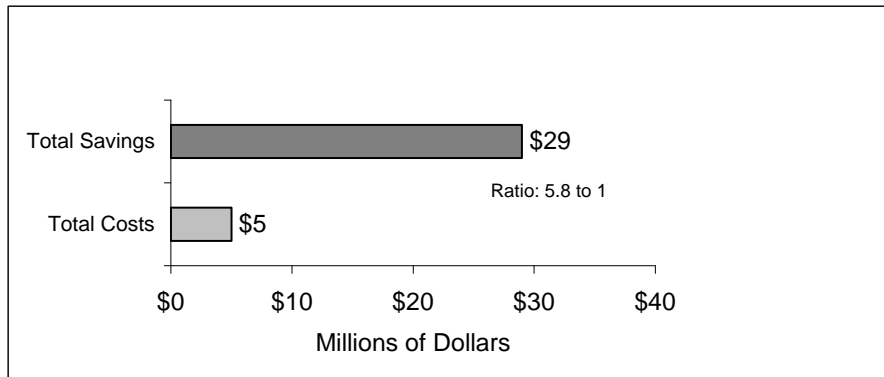
Benefits To The City Of San Jose

The City Auditor's expanded audit approach has benefited the City of San Jose 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, and improve internal controls, or provided objective, timely information to the City Council, City Administration, and the public.

Cost Savings And Increased Revenues

A principal objective of the Auditor's Office is to identify \$4 in savings or increased revenue for every \$1 of audit cost. The Office exceeded this objective from July 1999 through June 2001 by achieving an audit payback ratio of 5.82 in cost savings or increased revenue for every \$1 of audit cost. As shown in Exhibit 2, from July 1999 through June 2001, the Auditor's Office identified \$29 million in opportunities for the City to increase revenues or reduce costs as compared to audit costs of \$5 million.

Exhibit 2 Savings/Revenues Vs. Costs – July 1999 Through June 2001



As Exhibit 3 shows, from May 1985 through June 2001, the Auditor's Office identified \$139.5 million in cost savings or revenue enhancements against \$20.3 million in audit costs, achieving a 16-year audit payback ratio of \$7 in cost savings or increased revenue for every \$1 of audit cost.

Exhibit 3 Savings/Revenues Vs. Costs – May 1985 Through June 2001

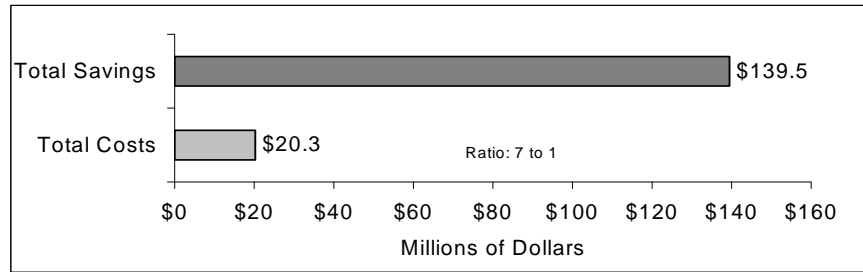
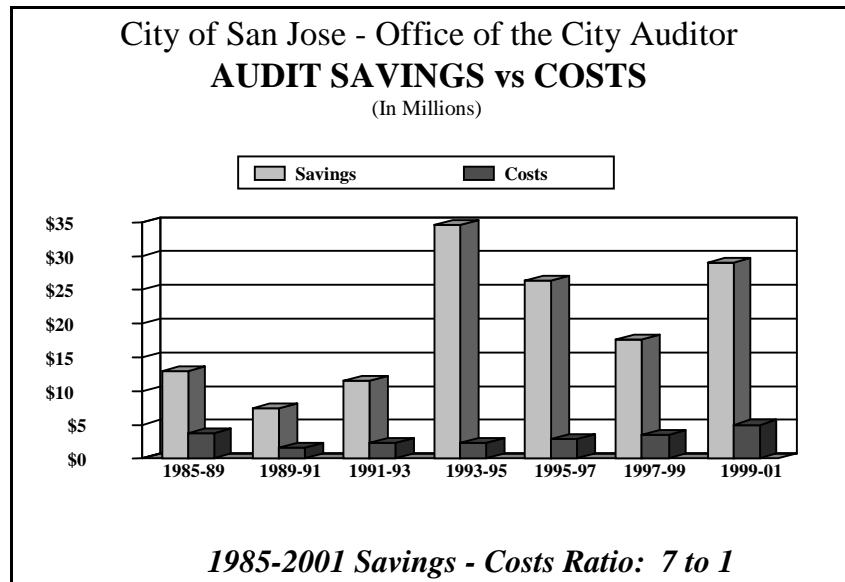


Exhibit 4 compares the cost savings or revenue enhancements against the audit costs for each reporting period from 1985-89 to 1999-2001.

Exhibit 4 Audit Savings Vs. Costs For The Period May 1985 Through June 1991 And For 1985-89, 1989-91, 1991-93, 1993-95, 1997-99, And 1999-2001 (In Millions)



Audit Recommendations

In addition to identifying cost savings and increased revenues, the 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, personnel, property, equipment, and space in an economical and efficient manner; and (c) identify causes or inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel, purchasing policies, and equipment.

- ***Improved Operations or Program Effectiveness.*** Audits have also helped the auditees (a) safeguard assets; (b) detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisition, use, or disposition of assets; (c) promote accountability; (d) ensure compliance with laws, regulations, policies, procedures, or generally accepted industry standards; (e) check the accuracy and reliability of its accounting data; (f) achieve the desired program results; and (g) meet the objectives established by the City Council or other authorizing body.
- ***Provided Objective Information.*** Audit reports and special studies 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.

Office Operations

Section 805 of the City Charter establishes the Office of the City Auditor and provides for the manner in which the City Council appoints the City Auditor. Specifically, Section 805 states in part:

The office of City Auditor is hereby established. The City Auditor shall be appointed by the Council. Each such appointment shall be made as soon as such can reasonably be done after the expiration of the latest incumbent's term of office. Each such appointment shall be for a term ending four (4) years from and after the date of expiration of the immediately preceding term; provided, that if a vacancy should occur in such office before the expiration of the former incumbent's terms, the Council shall appoint a successor to serve only for the remainder of said former incumbent's term.

The office of City Auditor shall become vacant upon the happening before the expiration of his term of any of the events set forth in subsections (a), (b), (c), (d), (e), (h), (i), (j), (k) and (l) of Section 409 of this Charter. The Council, by resolution adopted by not less than ten (10) of its members may remove an incumbent from the office of City Auditor, before the expiration of his or her term, for misconduct, inefficiency, incompetence, inability or failure to perform the duties of such office or negligence in the performance of such duties, provided it first states in writing the reasons for such removal and gives the incumbent an opportunity to be heard before the Council in his or her own defense; otherwise, the Council may not remove an incumbent from such office before the expiration of his or her term.

The City Council's Finance and Rules Committees directly oversee the work of the City Auditor. The Finance Committee reviews and approves the City Auditor's annual audit workplan, subsequently reviews and approves audit report findings and recommendations, submits audit reports and approved recommendations to the full City Council for concurrence, and monitors the implementation of approved recommendations. The Rules Committee is responsible for approving City

Councilmember or City Administration requests for audit services as they arise during the year.

Budget

Since 1985-86, the budget of the Auditor’s Office has averaged about \$1.37 million per year, with approximately 94 percent spent for salaries and benefits. City Auditor staffing has averaged 18 authorized full-time positions, including both audit and administrative staffs. In addition, the Office provides employment and training to eight part-time student interns. Exhibit 5 shows the City Auditor’s adopted budget and staffing level from 1985-86 to 2000-01.

Exhibit 5 Office Of The City Auditor – Adopted Budget And Staffing Level From 1985-86 To 2000-01

Year	Positions	Personal	Non-Personal	Equip-ment	Total Budget
1985-86	19	\$944,919	\$92,410	\$21,647	\$1,058,976
1986-87	19	948,853	94,700	32,266	1,075,819
1987-88	19	974,660	56,475	0	1,031,135
1988-89	18	979,231	49,475	0	1,028,706
1989-90	18	1,106,756	40,025	9,100	1,155,881
1990-91	18	1,122,442	50,265	17,500	1,190,207
1991-92	17	1,158,311	50,265	40,000	1,248,576
1992-93	16	1,207,635	50,265	0	1,257,900
1993-94	15	1,097,977	31,064	0	1,129,041
1994-95	15.5	1,175,813	31,064	0	1,206,877
1995-96	16.5	1,344,464	38,836	0	1,383,300
1996-97	17	1,443,006	71,836	0	1,514,842
1997-98	17	1,508,765	160,836	0	1,669,601
1998-99	18	1,744,023	100,836	0	1,844,859
1999-00	19	1,873,985	80,304	0	1,954,289
2000-01	20	2,064,663	81,107	0	2,145,770

Audit Strategy

When the City Auditor assumed office in May 1985, he took immediate action to improve the efficiency and effectiveness of the Office's limited resources. He proposed to conduct the City Charter-required fiscal audits more efficiently and to secure additional staff to conduct expanded-scope performance audits.

Initially, the City Auditor reduced the staff time devoted almost exclusively to Charter-required reviews of payroll expenses, nonpersonal services expenses, petty cash and revenue accounts, and parking revenues.

In 1987, the Auditor’s Office changed its auditing strategy to reflect new American Institute of Certified Public Accountants

(AICPA) pronouncements. In pursuing this audit strategy, the Office implemented a rigorous risk assessment approach to identify any threats (unwanted events) facing the program or activity under audit and to assess those controls or procedures in place to prevent, eliminate, or minimize the threats identified. The Office's risk assessment approach to auditing is widely recognized as an industry standard, and many governmental auditing units have borrowed from and replicated the Office's auditing procedures.

**Annual Citywide
Risk Assessment**

Determining which areas to audit and allocating scarce audit resources to those areas is key to a successful internal audit function. To assess the relative importance of potential audit subjects, the City Auditor's Office prepares an annual risk assessment model of the City's budgeted programs and revenue sources. For each of the City's budgeted programs and revenue sources, the Office compares the following factors: proposed expenditures, three-year expenditure trend, fund type, capital expenditures, estimated revenues, three-year revenue trend, number of staff, estimated beginning fund balance, fixed assets, audit requests, and date of last audit.

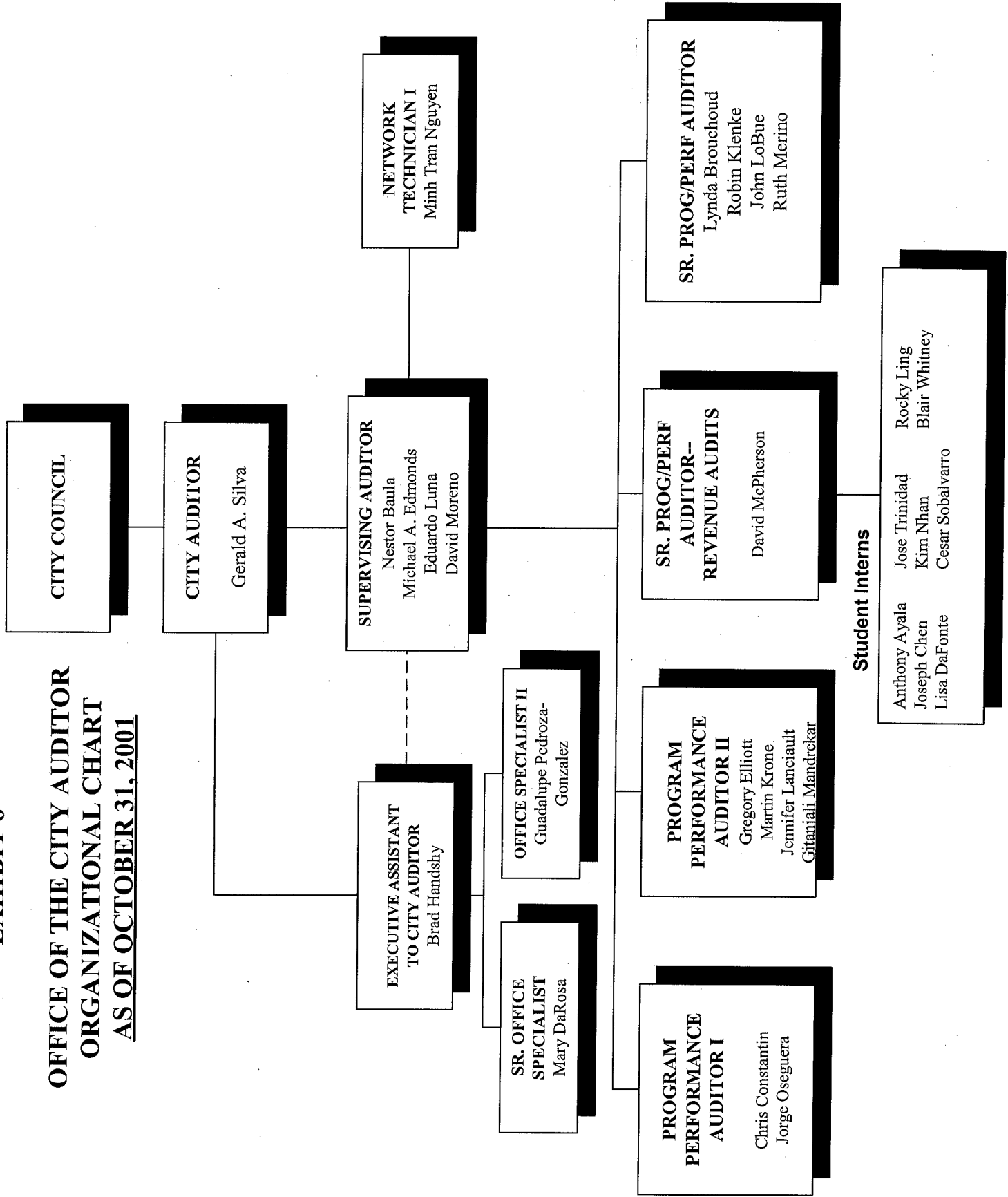
For each specific budgeted program or revenue source, the City Auditor scores each of the above factors from 0 through 10 based on a series of tables the City Auditor designed. In addition, the City Auditor rates each of the above factors from 1 to 5 according to their relative importance to produce a weighted score for each budgeted program or revenue source. The City Auditor then sorts these weighted scores from highest to lowest and recommends that the City Council Finance & Infrastructure Committee include in the City Auditor's Annual Audit Workplan those budgeted programs or revenue sources with the highest weighted scores. Because the City Auditor applies this scoring system evenly across the entire citywide organization it promotes a sense of fairness to auditees and helps ensure that City Auditor resources will be focused on those areas with the highest audit potential.

Office Staffing

The Auditor's Office operates with 20 authorized positions consisting of the City Auditor, four supervising auditors, eleven auditors, and four administrative staff. The Office also trains and employs eight student interns. Exhibit 6 shows the organizational chart for the Auditor's Office as of October 31, 2001.

EXHIBIT 6

**OFFICE OF THE CITY AUDITOR
ORGANIZATIONAL CHART
AS OF OCTOBER 31, 2001**



**Staff Background
And Experience**

The staff of the City Auditor’s Office have diverse educational backgrounds and work experience (See Exhibit 7). Staff educational backgrounds include accounting, economics, political science, business administration, education, finance, public administration, and linguistics. Further, several staff members have advanced academic degrees and/or professional certifications such as Certified Public Accountant, Certified Government Financial Manager, Certified Internal Auditor, Certified Fraud Examiner, Certified Information Systems Auditor, Certified Revenue Officer, and Certified Quality Auditor. Staff members have had previous experience in public accounting, banking, data processing, education, and health care, as well as federal, state, and local government. This wide range of training and experience brings a broad perspective to the variety of audit work the Office conducts.

Members of the staff have been officers or members in the following professional organizations: Institute of Internal Auditors, National Association of Local Government Auditors, National Intergovernmental Audit Forum, Western Intergovernmental Audit Forum, Association of Government Accountants, American Institute of Certified Public Accountants, California Society of Certified Public Accountants, California Municipal Business Tax Association, American Society for Public Administration, Association of Fraud Examiners, Information Systems Audit and Control Association, Women in Government Service, and San Jose Management Association.

The City Auditor is the Past Chairman of the Association of Government Accountants’ State and Local Government Committee, a former member of the Board of Governors of the San Jose Chapter of the Institute of Internal Auditors, Past President of the National Association of Local Government Auditors, former Chairman of the Western Intergovernmental Audit Forum, former Local Government representative to the prestigious National Intergovernmental Audit Forum Executive Committee, and a former member of the American Institute of Certified Public Accountants' Members in Government Committee.

EXHIBIT 7

**OFFICE OF THE CITY AUDITOR
STAFF EDUCATION AND BACKGROUND**

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Gerald A. Silva, CPA, CGFM	City Auditor	Bachelor of Science Accounting, 1967	Former member of the Board of Governors, IIA, San Jose Chapter; Past President, NALGA; Former Chairman, Western Intergovernmental Audit Forum; Former Local Government Representative, National Intergovernmental Audit Forum Executive Committee Member; Former AICPA Members In Government Committee; GFOA; Who's Who in Government; California & Arizona State Boards of Accountancy; Past Chairman of the Association of Government Accountants' State and Local Government Committee for 1997-98; Member, Financial Management Standards Board for the Association of Government Accountants	State Budget Director, State of Arizona Director of Program Auditing, State of Arizona Audit Manager, California Auditor General's Office Public Accounting
Nestor S. Baula, CPA, CIA, CFE, CISA	Supervising Auditor	Bachelor of Science Accounting, 1971	Member, IIA; Member, Association of Certified Fraud Examiners; California Society of CPAs; Member, ISACA; Member, NALGA	Senior Auditor, Castle & Cooke, Inc.
Michael Edmonds, CIA	Supervising Auditor	Bachelor of Arts Political Science, 1974	Member, IIA; Member, NALGA; Western Region Peer Review Coordinator, NALGA	Internal Auditor, Contra Costa Water District; Staff Auditor, California Office of the Auditor General
Sharon W. Erickson, CIA, CGFM <i>(Separated from City service after June 30, 2001)</i>	Supervising Auditor	Bachelor of Arts Political Science	Member, IIA, San Jose Chapter; Member, NALGA	Controller, Smith, Erickson, McDonald, Inc.
Eduardo Luna, MPA, CGFM, CIA	Supervising Auditor	Bachelor of Science Political Science, 1987 MPA, 1989	Member, IIA, San Jose Chapter; Member, NALGA; Member, Association of Government Accountants	Evaluator, U.S. General Accounting Office; Urban Consortium Manager, Public Technology, Inc.

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
David Moreno, MPA	Supervising Auditor	Bachelor of Arts Political Science, 1979 MPA, 1985	Member, NALGA	High School Teacher, Fresno, CA; Senior Evaluator, U.S. General Accounting Office
Lynda Flores Brouchoud, MPP	Senior Program Performance Auditor	Bachelor of Science Business Administration, 1996 MPP, 1998	Member, NALGA	Management Fellow, San Jose City Manager's Office
William P. Hewitt, CIA, CISA, CFE, CQA, CGFM, CMA, CGAP <i>(Separated from City service after June 30, 2001)</i>	Senior Program Performance Auditor	Bachelor of Arts Political Science, 1965	Member, IIA; Member, Association of Certified Fraud Examiners	Internal Audit Manager, Kelly-Moore Paint Co.
Robin A. Klenke, MBA, CGFM	Senior Program Performance Auditor	Bachelor of Arts Anthropology/Linguistics, 1982 MBA, 1986	President, ASPA, Santa Clara Valley Chapter; Member, IIA, San Jose Chapter; Member, NALGA	Manager/Chief Technician, El Camino Hospital
John LoBue, CPA, MBA	Senior Program Performance Auditor	Bachelor of Science Psychology, 1970 MBA, Accounting, 1976	Member, IIA, San Jose Chapter; Member, NALGA	Financial/Operational Auditor, United Water Resources; Manager Accounting Operations, Patent Construction System; Accounting Manager, Lakewood Cemetery Association; Manager Financial Special Projects & Manager Financial Reporting & Analysis, Pan American World Airways, Inc.; Director, Source Finance; Senior Accountant, Deloitte, Haskins & Sells
David McPherson, MPA, CRO	Senior Program Performance Auditor	Bachelor of Arts History, 1986 MPA, 1993	President, CMBTA Div III; 1 st VP, CMBTA State Board; Member, IIA, San Jose Chapter; Member, NALGA; Member, CROA	Revenue Technician, City of Newport Beach
Ruth Garcia Merino, CISA, CGFM	Senior Program Performance Auditor	Bachelor of Science Business Administration, Finance and Accounting, 1978	Member, IIA, San Jose Chapter; Member, Information Systems Audit and Control Association; Member, NALGA	Business Banking Officer, Bank of America

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Gregory W. Elliott, MA	Program Performance Auditor II	Associate in Arts, 1987 Bachelor of Science, 1989 MA, Economics, 1992	Member, IIA, San Jose Chapter; Member, NALGA	Audit Intern, San Jose City Auditor's Office
Martin Krone, MPA, CFE, CGFM	Program Performance Auditor II	Bachelor of Science Administration, 1980 MPA, 1992	President, IIA, San Jose Chapter; Past-President, AGA, NYC Chapter; Member, NALGA; Member, Association of Certified Fraud Examiners	Director of Professional Development, FEI; Assistant Director of Financial Compliance, City of New York; Auditor Supervisor, City of New York
Jennifer K. Lanciault, MBA (Hired after June 30, 2001)	Program Performance Auditor II	Bachelor of Arts French, 1993 MBA, 1997	Member, NALGA	Manager, Accenture
Gitanjali Mandrekar, MA	Program Performance Auditor II	Bachelor of Arts Economics, 1995 MA, Economics, 1998	Member, NALGA	Audit Intern, San Jose City Auditor's Office
Chris Constantine, MPA, ACE (Hired after June 30, 2001)	Program Performance Auditor I	Bachelor of Science Engineering, 2000 MPA, 2001	Former member, National Association of Community Colleges Public Policy Committee; Member, Community College League of California; Member, GFOA; Member, IIA; Member, ASPA; Member, IIE; Trustee/Past President, West Valley-Mission College Board of Trustees	Trustee, West Valley-Mission Community College District; Sales Coordinator, Adaptec Corporation
Jorge Oseguera, MPA (Hired after June 30, 2001)	Program Performance Auditor I	Public Policy & International Affairs Fellow at University of Washington, 1999 Bachelor of Arts Political Science with concentration in Public Administration, 2000 MPA, 2001	Member, NALGA	Intern at the Interstate National Gas Association of America; Senior Park Aide at California Department of Parks & Recreation
Brad Handshy	Executive Assistant to the City Auditor	Administrative Assistant Certificate, 1991		Desktop Publishing Assistant, VLSI Research; English Writing Sample Evaluator, East Side Union High School District

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Minh Tran Nguyen, MCP	Network Technician	Associate in Arts Office Administration & Word Processing, 1985 Certificate, Netware 4 Admin, 1996 Admin MS Windows NT, 1997, Microsoft Certified Professional (MCP), 1999		Secretary, IBM Corporation
Mary DaRosa	Senior Office Specialist	Word Processing 1986 Clerical Support 1989		Title Examiner, American Title Insurance Company
Guadalupe Pedroza-Gonzalez (Hired after June 30, 2001)	Office Specialist II	Bachelor of Science Business Administration, Management, 1995		Revenue Account Administrator, OnCommand Corp.

ACRONYMS

ACE	Adaptec Certified Engineer	CRO	Certified Revenue Officer
AICPA	American Institute of Certified Public Accountants	CROA	California Revenue Officers Association
ASPA	American Society for Public Administration	FEI	Financial Executives International
CFE	Certified Fraud Examiner	GFOA	Government Finance Officers Association
CGAP	Certified Government Auditing Professional	IIA	Institute of Internal Auditors
CGFM	Certified Government Financial Manager	IIE	Institute of Industrial Engineers
CTA	Certified Internal Auditor	ISACA	Information Systems Audit and Control Association
CIISA	Certified Information Systems Auditor	MA	Master of Arts
CMA	Certified Management Accountant	MBA	Master in Business Administration
CMBTA	California Municipal Business Tax Association	MPA	Master in Public Administration
CPA	Certified Public Accountant	MPP	Master in Public Policy
CQA	Certified Quality Auditor	NALGA	National Association of Local Government Auditors

Office Of The City Auditor Performance Audit

The City Charter requires the Auditor's Office to undergo a peer review performance audit on a biennial basis. Specifically, Section 805.2 of the City Charter states:

The Council shall contract with an independent audit firm, which has no other contracts with the City, to conduct a performance audit of the City Auditor's office at least every two years. The report of the performance audit shall be available to the public.

The Office has undergone seven audits since the performance audit requirement was instituted. In June 1987, the Office underwent its first such performance audit. A management representative from the California Auditor General's Office performed the review according to National State Auditors Association (NSAA) standards. This initial audit focused on the Office's formal written audit and office administration procedures and controls. The purpose of the audit was to determine if the procedures and controls provided reasonable assurance that City Auditor audits would meet the specified standards. Following the audit, the Auditor General issued two letters. One letter expressed an overall unqualified (clean) opinion on the City Auditor's system of quality control. The other letter identified opportunities to improve the Office's system of quality control, all of which have been implemented.

Independent auditors conducted the Office's subsequent performance audits in 1989, 1991, 1993, 1995, 1997, 1999, and 2001. The objective of these audits was to determine the Office's compliance with generally accepted government auditing standards, based on the peer review guidelines issued by the National Association of Local Government Auditors (NALGA). The independent auditors' reports stated that the Office of the City Auditor was in compliance with Government Auditing Standards. Appendix C shows the independent auditor's 2001 report.

City Auditor Website

In 1996, the City Auditor's Office established a Website that included the following menu items:

- Auditing City Departments and Programs
- Benefits to the City of San Jose
- City Auditor's Biography
- City Charter Authority
- List of Issued Audit Reports
- Sales and Business Tax Auditing

Since its inception, the City Auditor's Office has added the following menu items to its Website:

- Audit Recommendations Follow-up
- Citywide Risk Assessment
- External Quality Control Reviews of the City Auditor's Office
- Office Procedures
- Audit Programs
- Project Milestones
- Risk Assessment
- Risk Assessment Library

The City Auditor's Office Website receives over 12,000 hits per month from individuals and organizations in nearly every state in the United States and more than 20 foreign countries.

Audit organizations from around the world have recognized and praised the City Auditor's Website for its innovation and quality and its contribution to the auditing profession.

The City Auditor's Website address is
www.ci.san-jose.ca.us/auditor/www.shtml

Summary Of Work Performed July 1999 Through June 2001

From July 1999 through June 2001, the Auditor's Office completed 29 performance/financial audit reports and special studies and 2 recommendations follow-up reports. The audit reports contained 161 recommendations to improve the economy, efficiency, and effectiveness within City government. Since the City Auditor started in May 1985, the Office has made 1,180 such recommendations. To date, the City Administration and the Redevelopment Agency have fully implemented or resolved 92 percent of these recommendations. Exhibits 8 and 9 show the status of implementation and the types of recommendations made from May 1985 through June 2001. Exhibit 10 summarizes the activity costs and results for the period of July 1999 through June 2001.

Exhibit 8 Types Of Recommendations – May 1985 Through June 2001

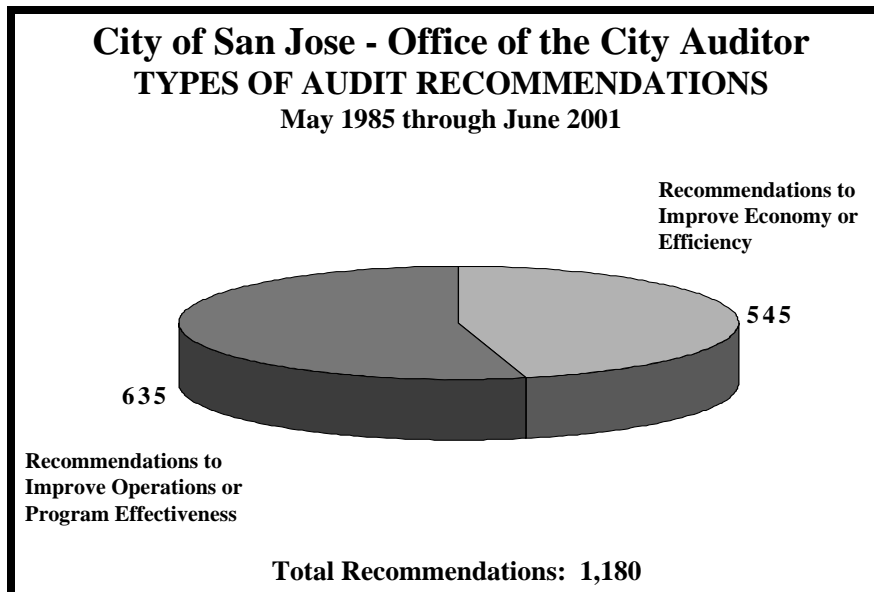


Exhibit 9 Status of Recommendations As Of June 2001

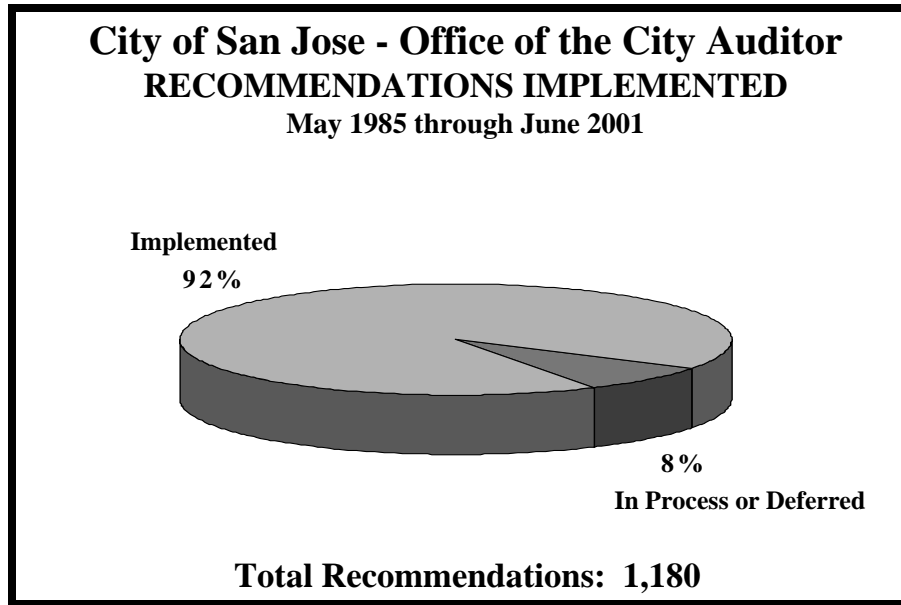


Exhibit 10
Summary Of Activity Costs And Results
For The Period July 1999 Through June 2001

Report Number	Date	Title or Description	City Auditor Costs	Identified Opportunities to Increase Revenues or Reduce Costs	Recommendations to Improve Economy or Efficiency	Recommendations to Improve Operations or Program Effectiveness
99-03	Aug-99	An Audit of the Multiple Housing Inspection Program	\$58,337	\$53,000	5	12
99-04	Aug-99	An Audit of Sewer Fund Expenditures	\$108,143	\$12,700,000	7	8
99-05	Oct-99	An Audit of the Building Code Compliance Program	\$110,027	\$650,650	2	10
99-06	Nov-99	An Audit of Code Enforcement's General Code Complaint Handling Process	\$133,069			10
99-07	Dec-99	Activities and Accomplishments of the Office of the City Auditor July 1997 through June 1999	\$5,599			
00-01	Feb-00	An Audit of the Police Department -- Bureau of Field Operations Patrol Division's Staffing and Deployment	\$537,871	\$3,554,000	3	
00-02	Apr-00	An Audit of the City of San Jose's Master Vendor File	\$107,156			7
00-03	May-00	An Audit of the City of San Jose Fire Department's Petty Cash, Change & Strike Team Funds	\$42,672			3
00-04	Jun-00	An Audit of the City of San Jose's Building Division's Building Permit Fee Process	\$86,603		4	
00-05	Jul-00	An Audit of the San Jose-Santa Clara Water Pollution Control Plant's Progress Toward Meeting Effluent Limitations	\$149,557		5	1
00-06	Aug-00	A Review of the Redevelopment Agency's Payment Process	\$40,245		4	4

Exhibit 10
Summary Of Activity Costs And Results
For The Period July 1999 Through June 2001

Report Number	Date	Title or Description	City Auditor Costs	Identified Opportunities to Increase Revenues or Reduce Costs	Recommendations to Improve Economy or Efficiency	Recommendations to Improve Operations or Program Effectiveness
00-07	Sep-00	An Audit of the Watershed Protection Division's Industrial Commercial Inspection Program	\$168,844	\$120,000	2	8
00-08	Oct-00	An Audit of the City of San Jose's Building-Related Fees and Taxes	\$89,030		1	12
00-09	Dec-00	A Review of the Recommended Contractors for the Recycle Plus 2002 Program	\$29,384		6	
00-10	Dec-00	State and Local Transportation Partnership Program	\$7,442			
00-11	Dec-00	SCCCA Audited Financial Statements for Fiscal Years ended June 30, 1999 and 2000	\$18,912			
01-01	Mar-01	An Audit of the Property Appraisal Process of the Department of Public Works - Real Estate Division	\$192,885	\$579,500	4	10
01-02	Apr-01	An Audit of the City of San Jose Fire Department's Overtime Expenditures	\$106,031	\$588,000	6	3
01-03	May-01	An Audit of the Pretreatment Source Control Program	\$212,540	\$3,091,574	9	9
01-04	Jun-01	An Audit of the City of San Jose Building Division's Cash Handling and Refund Process	\$42,330			6
		Sales and Business Tax Audit	\$333,187	\$2,136,746		
		Cardroom Audit Overview	\$8,261			

Exhibit 10
Summary Of Activity Costs And Results
For The Period July 1999 Through June 2001

Report Number	Date	Title or Description	City Auditor Costs	Identified Opportunities to Increase Revenues or Reduce Costs	Recommendations to Improve Economy or Efficiency	Recommendations to Improve Operations or Program Effectiveness
		Property Taxes-Assessment of New Construction	\$12,765	\$1,615,000		
		Sales Tax Audit Reconciliation-Cisco	\$22,612	\$1,627,683		
		Jet Fuel Sales Tax Review	\$1,229	\$2,161,652		
		Transient Occupancy Tax Audits	\$58,019	\$18,516		
		Compliance Audit Review on MRC Contract	\$77,198	\$43,500		
		Investing in Results Special Assignment	\$166,318			
		RFP Process - Annual Financial Audit and Single Audit	\$3,072			
		City-wide Risk Assessment	\$4,916			
		Recommendation Follow-up	\$101,798			
		Internal Audit Quality Control	\$371,620			
		Training	\$105,826			
		Departmental Administration	\$193,892			

Exhibit 10
Summary Of Activity Costs And Results
For The Period July 1999 Through June 2001

Report Number	Date	Title or Description	City Auditor Costs	Identified Opportunities to Increase Revenues or Reduce Costs	Recommendations to Improve Economy or Efficiency	Recommendations to Improve Operations or Program Effectiveness
		Vacation, Holiday and Other Leaves	\$702,958			
		Prior Period Costs Carryover	(\$908,710)			
		Assignments in Progress	\$564,376			
		TOTALS	\$4,066,014	\$28,939,821	58	103

Summary Of Audit Reports And Special Studies

The following summarizes the audit reports and special studies that the Office of the City Auditor issued from July 1999 through June 2001:

#99-03 An Audit Of The Multiple Housing Inspection Program (August 1999)

Opportunities Exist For Code Enforcement To Improve Efficiency And Effectiveness Of Multiple Housing Inspections

The Code Enforcement Division of the Planning, Building, and Code Enforcement Department (Code Enforcement) inspects multiple housing buildings for compliance with state housing laws and Municipal Code requirements. Our audit revealed that Code Enforcement is issuing Compliance Orders in a more timely manner. However, opportunities exist for Code Enforcement to conduct multiple housing inspections more efficiently and resolve Housing Code violations more effectively. We found that Code Enforcement can improve the efficiency and effectiveness of its multiple housing inspections by:

- Improving Code Enforcement Inspectors' (Inspector) responsiveness in resolving multiple housing cases;
- Ensuring that Inspectors resolve all multiple housing cases in a consistent and appropriate manner;
- Ensuring that Inspectors assess reinspection fees consistently;
- Enhancing communications with property owners; and
- Coordinating multiple housing inspections more closely with other entities.

We found that Code Enforcement needs to provide Inspectors with specific timeframes for responding to complaints and verifying multiple housing property owner compliance, checklists for performing routine inspections, timeframes for issuing Compliance Orders, and supervisory approval of Amended Compliance Orders and Compliance Orders beyond a set number of days. Further, Code Enforcement needs to develop written procedures for implementing its new reinspection fee policy. In addition, Code Enforcement needs to inform property owners of multiple housing program requirements. Finally, Code Enforcement should meet with the San Jose Fire Department and the Santa Clara County Department of Environmental Health to better coordinate their mutual inspections of multiple housing buildings. By so doing,

Code Enforcement can conduct its multiple housing inspections more efficiently, resolve Housing Code violations more effectively, and ensure consistent treatment for multiple housing property owners.

RECOMMENDATIONS

We recommend that Code Enforcement:

- Recommendation #1** Clarify complaint response guidelines for multiple housing inspectors to follow when responding to complaints and have Code Enforcement Supervisors monitor complaint response times more closely. (Priority 3)
- Recommendation #2** Establish specific timeliness standards regarding follow-up inspections. (Priority 3)
- Recommendation #3** Use its San Jose Code Enforcement System to produce a report to remind Inspectors at a specified time prior to the Compliance Date that a reinspection is due. (Priority 3)
- Recommendation #4** Develop a routine inspection checklist and instructions to document for Inspectors their inspection responsibilities and items to be inspected. (Priority 3)
- Recommendation #5** Develop specific guidelines for compliance times allowed for various violations and when supervisory approval is required for Amended Compliance Orders and Compliance Orders issued for more than a set number of days. (Priority 3)
- Recommendation #6** Develop procedures to ensure that Code Enforcement Inspectors assess Reinspection Fees in conformance with its new policy. (Priority 3)
- Recommendation #7** Develop and provide multiple housing property owners with information on the most common Housing Code violations identified during routine inspections. (Priority 3)

- Recommendation #8** Provide multiple housing property owners with more detailed information on Multiple Housing Program requirements. Additionally, Code Enforcement should work with a local organization such as the Tri-County Apartment Owners' Association to develop and distribute Multiple Housing Program information to multiple housing property owners. (Priority 3)
- Recommendation #9** Discontinue using Tax Warning Notices and develop a Compliance Notice cover letter that informs property owners of the inspection process and what actions are required by what dates. (Priority 3)
- Recommendation #10** Develop a warning letter which clearly states the date the Inspector observed violation(s) and the date the property owner is to correct the violation(s). (Priority 3)
- Recommendation #11** Meet with the SJFD and the Santa Clara County Department of Environmental Health to discuss areas of mutual concern such as inspections of multiple housing building swimming pools, swimming pool fences, and water heater strappings. (Priority 3)

*Code Enforcement
Has Not Imposed
Municipal Code
Required Penalties
And Interest For
Delinquent
Residential
Occupancy Permit
Fees*

Code Enforcement annually issues \$24.50 per unit Residential Occupancy Permits (Permit). The San Jose Municipal Code prescribes when Permit fee payments are considered late and the penalties and associated interest. Our audit revealed that Code Enforcement has not imposed delinquent penalties and interest for Permit fees in accordance with Municipal Code requirements. Specifically, we found that Code Enforcement did not record late payments or assess approximately \$11,000 in Code required penalties and interest. In addition, we found that Code Enforcement is 1) not promptly billing account holders applicable penalties and interest; 2) not resolving delinquent accounts in a timely manner; and 3) not following proper procedures for settling outdated accounts. In our opinion, Code Enforcement should 1) revise its current practice for imposing penalties and interest on delinquent Permit fees; 2) develop procedures for identifying late payments; 3) immediately bill Permit holders for any penalties and interest assessed; 4) establish procedures for processing delinquent fees; 5) inform staff of established procedures for resolving revoked Permits; and 6) refer long outstanding and outdated accounts to the Treasury Division (Treasury) for disposition.

By so doing, Code Enforcement will be in compliance with the Municipal Code, increase revenues, and enhance the collection of delinquent accounts.

RECOMMENDATIONS

We recommend that Code Enforcement:

- Recommendation #12** **Revise its practice of not imposing penalties and interest for certain Residential Occupancy Permit fee late payments to be consistent with Municipal Code requirements. (Priority 2)**
- Recommendation #13** **Work with the Treasury Division to establish a process to identify and assess applicable penalties and interest on all payments postmarked after the due date. (Priority 2)**
- Recommendation #14** **Immediately bill property owners for late penalties and interest assessed on delinquent Residential Occupancy Permit fees. (Priority 2)**
- Recommendation #15** **Establish procedures for processing delinquent Residential Occupancy Permits, including the specific timeframes for preparing delinquent notices. (Priority 3)**
- Recommendation #16** **Inform all Multiple Housing Inspectors and Supervisors of established procedures for resolving revoked Residential Occupancy Permit cases and ensure that staff follow-up on revoked Permits in a timely manner. (Priority 2)**
- Recommendation #17** **Refer long outstanding and outdated Residential Occupancy Permit fee accounts to the Treasury Division for appropriate disposition. (Priority 2)**

#99-04 An Audit Of Sewer Fund Expenditures (August 1999)

The City Should Improve Budgetary Control And Establish Fund Reserve Guidelines For The Wastewater Enterprise Funds

The City of San Jose (City) has more than \$264 million in the twelve separate accounting funds that comprise the wastewater enterprise system. Our review revealed that in July 1996, City staff drafted fund reserve guidelines for five of these funds. Those guidelines recommended a minimum reserve level of about \$40 million – \$118 million less than the fund balance for these five funds as of June 30, 1998. The City’s five-year capital improvement program includes major capital projects

that would reduce these fund balances if projected expenditures actually occur. However, because of the complexity of the wastewater enterprise fund accounting system and the lack of an omnibus operating budget perspective, it is and will be difficult to determine what sewer-related monies are available. In addition, current fund transfer policies and procedures reduce the City's budgetary flexibility. In our opinion, the City can improve budgetary control by establishing fund reserve guidelines, ensuring compliance with those guidelines, and proposing interfund transfers that maximize budgetary flexibility. In addition, we recommend that the Administration evaluate the feasibility of preparing an annual comprehensive report that summarizes the City's wastewater activities. By so doing, the Administration and the City Council would have added information regarding sewer revenue sources and uses and enhanced budgetary flexibility.

RECOMMENDATIONS

We recommend that the Administration:

- Recommendation #1** **Update and adopt wastewater fund reserve guidelines that include all wastewater funds. (Priority 3)**

- Recommendation #2** **Retain funds in excess of adopted fund reserve guidelines in the wastewater fund that initially received the revenue. (Priority 3)**

- Recommendation #3** **Implement a policy to draw down excess undesignated fund balances and verify that transferred amounts are directly related to proposed expenditures less excess undesignated fund balances. (Priority 3)**

- Recommendation #4** **Report to the City Council Finance Committee on the feasibility of preparing an annual comprehensive report that summarizes all of the City's wastewater activities. (Priority 3)**

Opportunities Exist To Increase Water Pollution Control Plant In-Lieu Fees To The General Fund By \$7.2 Million Retroactively And \$1.3 Million Annually

Like other enterprise funds, the Water Pollution Control Plant (WPCP) pays an annual in-lieu fee to the General Fund. Our review of the in-lieu fee the WPCP has paid the General Fund since 1993-94 revealed that the City underestimated the in-lieu fee by 1) unnecessarily reducing estimated property taxes by 35 percent and 2) not including all WPCP revenues in its franchise fee calculation. As a result, we estimate that since 1993-94 the General Fund has not received about \$7.2 million in the in-lieu fees it should have received. Further, we estimate that the General Fund is not receiving about \$1.3 million annually in the in-lieu fees it should be receiving. In our opinion, the City Attorney and Administration should assess the feasibility of paying \$4.6 million from the Treatment Plant Operating Fund to the General Fund for in-lieu fees from 1993-94 to 1996-97. Further, the City Attorney and Administration should assess the feasibility of 1) paying an additional \$2.6 million from the Treatment Plant Operating Fund to the General Fund for in-lieu fees for 1997-98 and 1998-99; 2) increasing the annual in-lieu fee payment from the Treatment Plant Operating Fund to the General Fund by \$1.3 million; and 3) charging the other tributary agencies a portion of the in-lieu fees.

RECOMMENDATIONS

We recommend that the City Attorney and Administration:

- Recommendation #5** Assess the feasibility of paying \$4.6 million from the Treatment Plant Operating Fund to the General Fund for in-lieu fees from 1993-94 to 1996-97. (Priority 2)
- Recommendation #6** Assess the feasibility of 1) paying an additional \$2.6 million from the Treatment Plant Operating Fund to the General Fund for in-lieu fees for 1997-98 and 1998-99; 2) increasing the annual in-lieu fee payment from the Treatment Plant Operating Fund to the General Fund by \$1.3 million; and 3) charging the other tributary agencies a portion of the in-lieu fee. (Priority 2)

The Annual WPCP And SBWRP Reconciliation Processes Can Be Done More Efficiently

Agreements between the City of San Jose (City) and each of the San Jose/Santa Clara Water Pollution Control Program's (WPCP) tributary agencies require that the City annually calculate and allocate capital, operating, and South Bay Water Recycling Program (SBWRP) expenditures. Environmental Services Department (ESD) staff calculates each of these items separately. Prior to the beginning of each fiscal year, ESD staff

uses the proposed budget to calculate each agency's contribution for which ESD staff bills them on a quarterly basis. During the third quarter of the next fiscal year, ESD staff reconcile tributary contributions to actual expenditures. Our review revealed that ESD's reconciliation process 1) takes about six to eight weeks of staff time, 2) is not well documented, and 3) produces results that cannot be easily related to audited financial statements. In our opinion, the ESD should simplify its accounting structure and document its procedures. By so doing, the ESD will reduce the staff time devoted to the reconciliation process by an estimated two weeks, simplify its accounting structure, ensure that future reconciliations will be done efficiently, and provide tributary agencies with added assurance regarding future contribution charges.

RECOMMENDATIONS

We recommend that the ESD:

Recommendation #7 **Prepare written policies and procedures for the annual WPCP and SBWRP billing and cost reconciliation process that: (1) document the reason for the calculation and (2) eliminate unnecessary steps from the calculation. (Priority 3)**

We recommend that the Administration and the City Attorney's Office:

Recommendation #8 **Approach the City of Santa Clara about amending the current agreement to eliminate the Treatment Plant Income Fund (Fund 514) in 1999-2000. (Priority 3)**

Controls Over Wastewater Expenditures Should Be Strengthened

Our review of sewer fund expenditures revealed several basic internal control weaknesses. Specifically we identified that:

- Directors' names appear on encumbrances and checking accounts;
- Departments are not conducting required semi-annual audits of sewer fund special checking accounts; and
- Departments do not have approved charts of account and their uses for charging expenditures to the twelve wastewater funds.

As a result, the City is exposed to inappropriate uses of sewer funds. Accordingly, the Administration needs to institute policy and procedural changes, enforce compliance with existing requirements, and develop approved charts of account and their uses for charging expenditures to wastewater funds.

RECOMMENDATIONS

We recommend that the Finance Department:

Recommendation #9 **Revise its policies and procedures regarding the use of directors' names on encumbrances and checking accounts, and ensure that such names are removed. (Priority 2)**

Recommendation #10 **Enforce compliance with its procedures regarding semi-annual audits of departmental special checking accounts. (Priority 3)**

We recommend that the Administration:

Recommendation #11 **Develop approved charts of account and their uses that program managers can use for charging various expenses to the twelve wastewater funds. (Priority 3)**

Resumption Of Wastewater Interest Transfers Could Increase General Fund Revenues By \$2.5 Million Per Year While Opportunities Exist To Reduce Costs And Increase Sewer Service And Storm Drain Revenues By \$1.7 Million Per Year

Prior to the passage of Proposition 218, the City transferred interest earnings from the wastewater funds to the General Fund in accordance with the City Charter. After the passage of Proposition 218, the City discontinued the transfer of interest from the Sewer Service and Use Charge (SSUC) Fund to the General Fund. In April 1998, the City Auditor proposed separating pre-Proposition 218 from post-Proposition 218 fund balances in order to continue interest transfers on fund balances accumulated prior to the passage of Proposition 218. We estimated that the SSUC Fund would have earned approximately \$2.5 million in interest income during 1997-98 that the City could have transferred or swept directly into the General Fund. However, due to City Attorney Office concerns about Proposition 218, the City Auditor shelved the proposal. The City Auditor also proposed that the City remove SSUC fees from the property tax bill, and consolidate billing for SSUC fees with bi-monthly Recycle Plus bills. Our audit of the Utility Billing System estimated that the City could save and/or earn an additional \$1.5 million by combining SSUC and storm drain fees with bimonthly Recycle Plus billings. We estimate the net benefit of combined billing has increased to \$1.7 million

per year. These increased revenue/reduced costs to the SSUC Fund would partially offset the \$2.5 million interest transfers on pre-Proposition 218 balances from the SSUC Fund to the General Fund.

RECOMMENDATIONS

We recommend that the Administration and the City Attorney's Office:

Recommendation #12 Research the feasibility of transferring interest from pre-Proposition 218 SSUC operating and capital fund balances to the General Fund. (Priority 2)

We recommend that the City Council direct the City Attorney to:

Recommendation #13 Research the applicability of Proposition 218 to Sewer Service and Use Charge (SSUC) fees, if the City were to separate the collection of those fees from property tax bills. (Priority 2)

We further recommend that:

Recommendation #14 Depending on the outcome of these discussions, the Administration should accelerate its analysis of consolidated SSUC billing with Recycle Plus bills. (Priority 2)

The 1959 Sewage Treatment Plant Agreement's Methodology For Allocating Water Pollution Control Plant Expenses Costs San Jose About \$1 Million Per Year

In 1959, the Cities of San Jose and Santa Clara formed a partnership and became joint owners of the Water Pollution Control Plant (WPCP). In 1983, San Jose and Santa Clara and the tributary agencies that use the WPCP entered into a Master Agreement that specifies how operating and maintenance costs will be allocated to each entity. Our review of the agreements revealed that 1) the allocation of costs between San Jose and Santa Clara differs from that of the other tributary agencies and 2) that difference works to the detriment of San Jose. As a result, San Jose pays about \$1 million per year more in operating costs than it would if costs were allocated the same between San Jose and Santa Clara as they are between the other tributary agencies. According to the City Attorney's Office, the agreement will not expire until the year 2031. Nonetheless, we recommend that should the Administration and the City Attorney approach the City of Santa Clara about amending the

agreement prior to 2031, that they include calculating WPCP user fees on estimated usage. By doing so, the joint owners of the WPCP will ensure that costs are allocated fairly and equitably.

RECOMMENDATIONS

We recommend that the Administration and City Attorney:

Recommendation #15 Include in any discussion with the City of Santa Clara about updating and amending the 1959 Sewage Treatment Plant Agreement calculating WPCP user fees on estimated usage. (Priority 2)

#99-05 An Audit Of The Building Code Compliance Program (October 1999)

Code Enforcement Does Not Resolve Building Code Compliance Cases In A Timely Manner

The Building Code Compliance Program (BCCP) is located within the Code Enforcement Division (Code Enforcement) of the Department of Planning, Building and Code Enforcement (Department). The BCCP is responsible for investigating individuals suspected of constructing residential structures without required Building permits and bringing such structures into compliance with State and City of San Jose Building Codes. We found that Code Enforcement does not resolve Building Code Compliance cases in a timely manner. Specifically, we identified that active and closed cases were open an average of 17 months and 10 months, respectively, while one case was open for more than five years. Moreover, our sample of cases did not include over 1,300 backlogged cases that Code Enforcement is not working. This backlog includes cases that are about 15 years old. Code Enforcement's inability to resolve BCCP cases in a timely manner is due to:

- the BCCP lacking a clear mission, goals and objectives;
- a problematic BCCP organizational structure;
- BCCP processes that are inefficient and ineffective; and
- an ineffective system of controls over the BCCP.

Code Enforcement can improve the performance of the BCCP by developing a clear BCCP mission statement, and definitive goals and objectives. Code Enforcement should also improve Code Enforcement Inspector (CEI) and Building Code Compliance Inspector (BCCI) communication and coordination. Furthermore, Code Enforcement should either

transfer the plan checking activities to the Building Division or dedicate staff to those activities and should transfer certain types of cases to the Building Division. In addition, Code Enforcement and the Building Division should redo their written understanding to ensure that it is consistent with actual practice. Finally, Code Enforcement needs to re-examine and modify, if necessary, its current procedures, ensure staff adherence to procedures, and improve its BCCP management information.

RECOMMENDATIONS

We recommend that Code Enforcement:

- Recommendation #1** **Develop a clear mission, goals, and objectives for the Building Code Compliance Program. (Priority 3)**

- Recommendation #2** **Reassess and modify its reporting structures so as to more closely integrate the Building Code Compliance Inspectors into the Service Area Teams, improve the coordination and the communication between the Code Enforcement Inspectors and the Building Code Compliance Inspectors and allow the Service Area Supervisors some input in directing, prioritizing, and appraising the work of the Building Code Compliance Inspectors. (Priority 3)**

- Recommendation #3** **Either transfer the plan checking process from the Building Code Compliance Inspectors to the Building Division or dedicate staff to the plan checking process. (Priority 3)**

- Recommendation #4** **Transfer cases involving construction projects without required permits that are in an early phase to the Building Division. (Priority 3)**

We recommend that Code Enforcement and the Building Division:

- Recommendation #5** **Revise the written understanding between Code Enforcement and the Building Division to allow for the implementation of Recommendations 3 and 4. (Priority 3)**

We recommend that Code Enforcement:

- Recommendation #6** **Reassess and modify if appropriate its written procedures for conducting an initial site inspection after it receives a**

complaint, communicate those requirements to the Code Enforcement Inspectors, and ensure adherence to its complaint response time requirement. (Priority 3)

Recommendation #7 Establish specific timeframes for verifying compliance with cease orders, communicate those timeframes to Code Enforcement Inspectors and ensure adherence to those time requirements. (Priority 3)

Recommendation #8 Involve Building Code Compliance Inspectors in determining the amount of time for Responsible Parties to resolve Building Code violations and ensure adherence to the time requirements specified in Compliance Orders. (Priority 3)

Recommendation #9 Ensure the reliability and accuracy of the information in its new data system and develop reports that allow its managers and supervisors to assess the status of individual cases and the Building Code Compliance Program. (Priority 3)

*Code Enforcement
Shelved 1,300
Building Code
Compliance
Program
Backlogged Cases
Without Adequate
Documentation Of
Review*

In 1996-97, the Building Division transferred about 1,600 backlogged Building Code Compliance Program (BCCP) cases to Code Enforcement for resolution. We found that Code Enforcement eventually shelved about 1,300 of these BCCP cases without benefit of definitive written criteria or adequate review documentation. We identified that some of these shelved cases involved health and safety violations that Code Enforcement should have pursued but did not. Code Enforcement should develop definitive written criteria to use when deciding which of the 1,300 shelved BCCP cases require further attention and resolve any such cases involving serious health, safety, and environmental issues.

RECOMMENDATIONS

We recommend that Code Enforcement:

Recommendation #10 Develop definitive written criteria to use when deciding which of the shelved BCCP cases should receive further attention and resolve any such cases involving serious health, safety, or environmental issues. (Priority 3)

The General Fund Supports \$650,000 Per Year Of Building Code Compliance Programs And Planning Development Review Efforts That Building And Planning Divisions' Fees Should Fund

The Mayor and the City Council have directed all City Departments to achieve 100 percent cost recovery for fee-related programs. However, our review found that the Planning, Building, and Code Enforcement Department (Department) has not achieved and will not achieve 100 percent cost recovery for several of its programs until it factors in the cost of Code Enforcement Inspectors (CEIs) that work in support of these fee-based programs. Specifically, our review found that the General Fund supports about \$650,000 per year of Planning, Building, and Code Enforcement Department activities that Building and Planning Fees should fund. Code Enforcement Inspectors undertake these activities in support of the Building Code Compliance Program (BCCP) and the Planning Division's development review efforts. The Building and Planning Divisions currently have the revenues available to fund these activities in their respective fee-reserve funds. By identifying all the Code Enforcement costs that are related to the BCCP and Planning activities and including those costs in future cost recovery calculations, the General Fund will save \$650,00 per year.

RECOMMENDATIONS

We recommend that the Planning, Building, and Code Enforcement Department:

Recommendation #11 Fully identify all Code Enforcement costs that support Planning and Building Division fee-based programs. (Priority 2)

We further recommend that the City Council direct the City Attorney to:

Recommendation #12 Research the feasibility of including those costs identified in Recommendation #11 in Building Fees, Planning Fees, or other non-General Fund sources. (Priority 2)

#99-06 An Audit Of Code Enforcement's General Code Complaint Handling Process (November 1999)

Code Enforcement Can Improve The Timeliness Of Its Complaint Handling And Resolution Process

Code Enforcement has established policies and procedures to document, prioritize, assign, and resolve the General Code complaints it receives. We obtained and reviewed Code Enforcement's procedures for General Code complaints. We selected a random sample of complaint cases and evaluated them for compliance with procedures. Our analysis of the cases in our sample revealed that:

- Although Code Enforcement input most of the cases we sampled into its computer system in a timely manner, it did not indicate the priority of the complaint;
- CEI contact with Complaining Parties (CP) was not in accordance with procedures for 73 percent of the complaints;
- CEI initial contact with the Responsible Party (RP) was not in accordance with procedures for 74 percent of the complaints;
- CEIs used enforcement tools to effect compliance that were not consistent with procedures; and
- CEIs did not always follow up on complaints in a timely manner.

As a result, Code Enforcement cannot provide adequate assurance that it is efficiently and effectively enforcing ordinances that promote the health, safety, and appearance of the City's environment. Code Enforcement can improve the timeliness of its complaint handling and resolution process by 1) indicating the complaint priority on the complaint form and the computer system casefile, 2) providing additional training, 3) documenting the use of a verbal warning as an appropriate enforcement tool, 4) developing clear time requirements for complaint follow-up, 5) revising the Code Enforcement General Code Complaint Procedures Manual, 6) communicating those revisions to its staff, and 7) ensuring adherence to its complaint process procedures.

RECOMMENDATIONS

We recommend that Code Enforcement:

- Recommendation #1** **Develop and implement written procedures to ensure that clerical staff enter complaint priorities on the complaint form and into the new computer system casefile. (Priority 3)**
- Recommendation #2** **Reassess the reasonableness of procedure-required timeframes for contacting Complaining Parties, revise those procedures accordingly, and ensure adherence to its timeliness requirements. (Priority 3)**
- Recommendation #3** **Reassess the reasonableness of procedure–required timeframes for contacting Responsible Parties, revise those procedures accordingly, and ensure adherence to its timeliness requirements. (Priority 3)**
- Recommendation #4** **Provide training to ensure that CEIs are aware of and select the appropriate enforcement tool for the complaint priority. (Priority 3)**
- Recommendation #5** **Provide training to Code Enforcement Inspectors on the proper use of available enforcement tools and increase supervisory review over the use of those tools. (Priority 3)**
- Recommendation #6** **Document 1) the use of a verbal warning as an appropriate enforcement tool in the General Code Complaint Procedures, 2) when it is appropriate to use a verbal warning, and 3) that Code Enforcement Inspectors are to communicate to the Responsible Party the compliance date and record that date in the casefile. (Priority 3)**
- Recommendation #7** **Revise its General Code Complaint procedures to provide clear compliance follow-up time requirements and communicate those requirements to Code Enforcement staff. (Priority 3)**

*Code Enforcement
Needs To Develop
Additional
Management
Capabilities*

Our review of Code Enforcement's General Code complaint handling process revealed the following:

- Code Enforcement has no established goals, objectives or workload standards;
- The number of open cases is increasing and the number of open cases varies significantly among General Code Enforcement Inspectors (CEIs); and
- Code Enforcement's new Automated Case Management System (System) contains inaccurate and unreliable information such as 1) cases assigned to retired or transferred General CEIs, 2) cases assigned to clerical staff, 3) inconsistent information regarding the number of open cases, and 4) inaccurate case information for some General CEIs.

Code Enforcement needs to develop General Code complaint process goals, objectives, and workload standards. In addition, Code Enforcement should develop criteria and a process to periodically review General CEI open caseloads. Finally, Code Enforcement should purge its new automated case management system of outdated and/or inaccurate data, ensure the integrity of remaining data, and provide staff with training on inputting data into the new system. By so doing, Code Enforcement will improve its ability to manage its General Code Program and fully realize the potential benefit of its new Automated Case Management System.

RECOMMENDATIONS

We recommend that Code Enforcement:

Recommendation #8

Establish understandable, quantifiable, and attainable General Code complaint process goals, objectives and workload standards. (Priority 3)

Recommendation #9

Develop criteria and a process for periodically reviewing General Code Enforcement Inspector open caseloads. (Priority 3)

Recommendation #10 Purge its new Automated Case Management System of outdated and/or inaccurate data, ensure the integrity of remaining data, and provide staff with additional training on using training module screens and input screen fields. (Priority 3)

#00-01 An Audit Of The San Jose Police Department–Bureau Of Field Operations Patrol Division’s Staffing And Deployment (February 2000)

The SJPD Needs To Acquire Patrol Staffing Software To Assess The Efficiency And Effectiveness Of Its Patrol Staffing

The San Jose Police Department’s (SJPD) Bureau of Field Operations (BFO) patrol division employs patrol officers to answer calls for service (CFS) and perform proactive public safety duties and community policing 24 hours a day, 365 days a year throughout the City of San Jose (City). During the course of our audit, the SJPD and the City Auditor's Office developed computerized staffing models in order to determine the number of patrol officers required for the March 1999 redistricting. Our review of the SJPD’s initial computer model revealed that:

- The SJPD’s initial model calculated a 546 patrol staff requirement for redistricting. However, we found that the SJPD’s computer model overstated its staffing requirement by incorrectly including activities unrelated to CFS in its CFS workload; and
- The SJPD responded to our findings by revising its initial model to produce a calculated patrol staff requirement of 510 officers, 36 less than its original model calculated. However, in the interest of officer safety, the SJPD also revised the rounding technique used in its computer model. This change increased the calculated patrol staff requirement by 37 to 547 officers, of which the Budget Office allowed 546.

The City Auditor’s Office prepared computerized staffing and deployment models to demonstrate if opportunities exist to deploy patrol staffing more efficiently. Although similar in many ways to the SJPD’s model, the City Auditor’s models are slightly different from the SJPD’s model and from one another. In discussing these models, we will refer to them as Version 1 and Version 2.

While the City Auditor’s computerized staffing and deployment models appear to identify patrol deployment alternatives that are empirically more efficient than the SJPD’s current

deployment, that may not, in fact, be the case. This conclusion is based upon data limitations, the potentially high costs of alternative deployment methods, and public and officer safety concerns. Our analysis, however, identified several deployment issues that merit further attention and should be evaluated more fully. These issues include the use of a full afternoon 4th watch and different watch starting times. In addition, the City Auditor's Office questions the method the SJPD uses to calculate the amount of free patrol time for proactive policing. Specifically, our analysis of the different deployment methods revealed the following:

- Version 1 provides for a full 4th Watch, and appears to provide a better matching of staff to workload than the SJPD's model. Version 1's starting times are slightly at variance with the Memorandum of Agreement (MOA) between the City and the San Jose Police Officers' Association, and require seven more officers than currently budgeted at an estimated cost of \$581,000 per year, as many as 12 more sergeants at an estimated cost of \$1.3 million per year, and as many as 33 more vehicles at an estimated cost of \$1.4 million. However, our review also noted that the SJPD could implement a full 4th watch without any additional vehicles if it used an early and late car deployment; and
- Version 2 uses a different method to calculate the free patrol time requirement. Specifically, we prepared a model calculating the 40 percent free patrol time target on total available patrol time reduced by the patrol time used for non-CFS activities such as follow-up, administrative, lunch, breaks, court, and training time. Version 2 requires 488 officers, 65 officers fewer than Version 1 and 58 fewer officers than the SJPD's budgeted staffing deployment. However, Version 2 could also require as many as 12 more sergeants. Version 2, like Version 1 provides for a full 4th watch and provides a better matching of staffing to workload. We estimate the cost implications of the basis for calculating free patrol time to be \$3.6 million per year. The SJPD could use these patrol resources to redeploy officers for community policing activities, to address public and officer safety concerns, or other policing activities.

Both the City Auditor's Office and the SJPD's computerized patrol staffing and deployment models have limitations. We

contacted other police departments that have purchased specialized patrol staffing computer software that have more flexibility and capabilities than either the SJPD's or the City Auditor's model. Although these software packages can cost as much as \$400,000, their benefits appear to justify the expense. Finally, a number of police departments have used Federal grant funds to procure these patrol staffing software packages.

We recommend that the City negotiate with the San Jose Police Officers' Association to modify shift-starting times to provide sufficient flexibility to deploy officers in the most efficient manner. Further, we recommend that the SJPD and the Administration use the information in this report to develop, and forward to the City Council for concurrence a strategic, multi-year, community policing-based plan and a staffing proposal for the SJPD BFO patrol division that is responsive to both officer and public safety needs and CFS demand. By so doing, the SJPD could reallocate and redeploy as much as \$3.6 million per year in BFO patrol staff resources to activities such as community policing activities, public and officer safety concerns, or other policing activities. Finally, we recommend that the SJPD investigate the feasibility of using federal or state grant funds to procure patrol staffing and deployment software. If federal or state grant funds are not available, we recommend that the SJPD, through the annual budget process, develop a budget proposal to purchase the software.

RECOMMENDATIONS

We recommend that the SJPD and City Administration:

- Recommendation #1** **Negotiate with the San Jose Police Officers' Association to modify shift-starting times to provide sufficient flexibility to deploy officers in the most efficient and effective manner. (Priority 2)**
- Recommendation #2** **Use the information in this report to develop, and forward to the City Council for concurrence, a strategic, multi-year, community policing-based plan and a staffing proposal for the SJPD Bureau of Field Operations patrol division that is responsive to both officer and public safety needs and calls for service demand. The report should include the advantages, disadvantages, and cost implications of the following policy decisions:**

- **A full 4th watch, and**
- **An appropriate basis for calculating free patrol time.**

(Priority 2)

We recommend that the SJPD:

Recommendation #3 Investigate the feasibility of using federal or state grant funds to procure police staffing and deployment software. If federal or state grant funds are not available, we recommend that the SJPD, through the annual budget process, develop a budget proposal to purchase the software. (Priority 2)

#00-02 An Audit Of The City Of San Jose's Master Vendor File (April 2000)

The City Needs To Improve Its Controls Over Its Master Vendor File

The Finance Department and the Information Technology Department (IT) are responsible for maintaining and controlling the City's Master Vendor File. This Master Vendor File is the source of the payee names and addresses printed onto checks. When we reviewed the Master Vendor File we found that the City is exposed to fraud, misappropriation of assets, and errors because:

- There have been as many as 52 City and Redevelopment Agency employees with update and delete authorization access to the City's Master Vendor File. This is an excessive number when compared to other organizations and governmental jurisdictions;
- Of those 52 City and Redevelopment Agency employees, at least 29 were performing duties that are incompatible with their access to the City's Master Vendor File;
- The City has over 84,000 vendors or individuals in its Master Vendor file. This is an excessive number when compared to other organizations and governmental jurisdictions;
- The City needs to improve its controls to ensure the integrity and reliability of the information in its Master Vendor File; and
- The City has not implemented previously recommended access controls over its Master Vendor File.

The Finance Department and IT can improve the controls over the Master Vendor File by developing policies and procedures for authorizing access to the Master Vendor File, requiring the completion of mandatory information in the Master Vendor File, purging inactive vendor accounts, and reviewing all additions, deletions, and changes to the Master Vendor File.

RECOMMENDATIONS

We recommend that the Finance Department and the Information Technology Department:

- Recommendation #1** **Develop a policy specifying the criteria for authorizing access to the Master Vendor File and limit access to the Master Vendor File to the fewest number of employees necessary. (Priority 2)**
- Recommendation #2** **Establish a policy addressing incompatible duties with regard to Master Vendor File maintenance and implement Master Vendor File access controls to effectuate that policy. (Priority 2)**
- Recommendation #3** **Prepare a proposal and budget requirements to allow for 1) identifying, researching, and purging inactive vendor numbers; “R” vendor numbers; deceased, retired, and former employee numbers; and erroneously assigned vendor numbers from the Master Vendor File and the corresponding records in other modules; 2) Archiving the records taken off the Master Vendor File and the corresponding records; and 3) Using a vendor numbering system for one-time payment of authorized purchases and automatic purging of such vendor numbers. (Priority 3)**

We recommend that the Finance Department:

- Recommendation #4** **Establish policies and procedures defining the required fields of information in the Master Vendor File. (Priority 3)**
- Recommendation #5** **Amend the Finance-Accounting Procedures Manual to:**
1) Eliminate the Vendor Maintenance Form requirement and 2) Establish the documentation requirements to support any additions, deletions, and changes to the Master Vendor File for each type of vendor. (Priority 3)

We recommend that the Information Technology Department:

- Recommendation #6** **Design and implement a report detailing all the additions, deletions, and changes made to the Master Vendor File, including the identity of the person making the changes. (Priority 3)**

We also recommend that the Finance Department:

- Recommendation #7** **Require a senior level manager to periodically review and approve all additions, deletions, and changes to the Master Vendor File. (Priority 3)**

#00-03 An Audit Of The City Of San Jose Fire Department's Petty Cash, Change, and Strike Team Funds (May 2000)

The City Of San Jose Fire Department Is Generally In Compliance With Petty Cash, Change, And Strike Team Fund Internal Controls

We found that the San Jose Fire Department's (SJFD) internal controls over their Petty Cash, Change, and Strike Team Funds are generally adequate regarding (1) physical security of funds, (2) required custodianship and transaction documentation for each fund, and (3) the filing of annual petty cash and change fund confirmation memoranda with the Finance Department. However, we noted some noncompliance with procedures during our review. Specifically, we found the following:

- In the Bureau of Administrative Services (BAS) Petty Cash Fund:
 - ✓ There were a few exceptions (less than 2 percent) to the documentation required on the Petty Cash Receipt Form 100-32;
- In the Bureau of Education and Training (BET):
 - ✓ There was no alternate fund custodian for the Petty Cash Fund;
 - ✓ Not all uses of petty cash were logged on the Petty Cash Disbursement Log;
 - ✓ Replenishment of the Petty Cash Fund was not always timely and in accordance with procedures;
- In the Bureau of Support Services (BSS):
 - ✓ A procedure-required monthly count of the Strike Team Fund was not always performed; and

- In all Bureaus:
 - ✓ Although the SJFD properly completed and filed Change of Custodianship forms for each fund when the custodianship changed, documentation of a procedure-required reconciliation was not on file and
 - ✓ Periodic spot-audits of the cash funds were not performed and documented.

In our opinion, the SJFD should ensure that all required information is properly recorded on the Petty Cash Receipt Form 100-32. In addition, the SJFD should designate an alternate petty cash custodian for the BET Petty Cash Fund, record all disbursements in the Petty Cash Disbursement Log, and replenish the fund in accordance with procedures. Furthermore, the SJFD should perform the required monthly count of the Strike Team Fund. Finally, the Finance Department should distribute a memorandum to all City departments directing compliance with the Financial Administrative Manual procedures to 1) periodically spot-audit all cash funds, 2) prepare and file a Change of Custodianship form, and 3) document that a fund reconciliation was done whenever fund custodianship changes. By so doing, compliance with the SJFD's and other City departments' petty cash and change fund internal controls will be improved.

RECOMMENDATIONS

We recommend that the SJFD:

Recommendation #1 **Designate an alternate petty cash custodian for the BET petty cash fund, record all disbursements in the Petty Cash Disbursement Log, and replenish the fund in accordance with procedures. (Priority 3)**

Recommendation #2 **Bureau of Support Services perform the required monthly count of the Strike Team Fund. (Priority 3)**

We recommend that the Finance Department:

Recommendation #3 **Distribute a memorandum to all City departments directing compliance with the FAM procedures to:**

- **periodically spot-audit all cash funds and**
- **prepare and file a Change of Custodianship form**

and document that a fund reconciliation was performed whenever fund custodianship changes. (Priority 3)

#00-04 An Audit Of The City Of San Jose Building Division's Building Permit Fee Process (June 2000)

A Cost Of Service Effort Should Result In Building Permit Fees That Are Able To Withstand Political And Public Scrutiny

According to State of California (State) law, building permit fees cannot exceed the reasonable estimated cost of providing service. In addition, the California Attorney General and Legislative Counsel have issued opinions regarding establishing building permit fees. Further, a City of San Jose (City) policy requires that building fees be 100 percent cost-recovery. Based on our review of the building permit fee process, we found that the Building Division (Division) lacks appropriate and complete cost of service information. Specifically, we found the following limitations with the Division's current permit fee process:

- The Division cannot demonstrate that its fees are based on the actual cost of providing specific building-related services and
- The Division is not properly accounting for works-in-progress or long-term capital/asset acquisitions.

As a result, the current methodology makes it difficult for the Division to substantiate that its building permit fees satisfy State and City requirements.

In our opinion, the Division should 1) conduct regular cost of service studies; 2) implement a fee structure based on a cost-revenue allocation method; 3) account for end-of-fiscal-year works-in-progress; and 4) account for certain costs on a long-term basis. By so doing, the City's building permit fees will be able to withstand public and political scrutiny and the building program will be more equitable and accountable to its customers.

RECOMMENDATIONS

We recommend that the Building Division:

Recommendation #1 Regularly conduct or cause to be conducted a comprehensive cost of service study that

- **Calculates the full cost (both direct and indirect) of providing building-related services by project type;**
- **Compares the identified program costs with building fee revenues currently received for those services; and**
- **Identifies achievable building fee recovery levels based on the cost of those services. (Priority 3)**

Recommendation #2 **Implement a fee schedule that results in the assessment of fees that are commensurate with the cost of providing service. (Priority 3)**

Recommendation #3 **Develop a process for accounting for works-in-progress to ensure a proper matching of Building Program revenues and costs. (Priority 3)**

Recommendation #4 **Establish a policy and process to pay for long-term capital or asset acquisitions. (Priority 3)**

#00-05 An Audit Of The San Jose-Santa Clara Water Pollution Control Plant's Progress Toward Meeting Effluent Limitations (July 2000)

The ESD Needs To Ensure The Accuracy Of The Water Pollution Control Plant Meters That It Relies Upon To Report Critically Important Information To The San Jose City Council And The Regional Water Quality Control Board

In 1990, the California State Water Resources Control Board (State Board) ordered that the Water Pollution Control Plant (WPCP) implement actions to protect salt marshes in South San Francisco Bay from conversion caused by WPCP flows that exceed 120 million gallons per day (mgd) Average Dry Weather Effluent Flows (ADWEF)¹. Should the WPCP fail to stay below the 120 mgd ADWEF limit the City of San Jose (City) could be required to implement an array of mitigating measures up to and including the suspension of issuing new building permits. As such, the amount of effluent WPCP staff reports to the California Regional Water Quality Control Board (Regional Board) and the San Jose City Council (City Council) is critically important for compliance and decision making purposes. However, we found that at no time since the Regional Board imposed the 120 mgd ADWEF limitation has WPCP staff been able to rely on effluent meters to report WPCP effluent flows. Instead, the staff has relied upon a variety of other WPCP meters to calculate effluent flows. Specifically we found that over the past four years, the WPCP

¹ Average dry weather effluent flow is the lowest average flow rate for any 3 consecutive months between May and October.

has experienced significant problems with both its influent and effluent meters. As a result, WPCP staff subsequently had to correct reported effluent flows to the Regional Board.

WPCP staff installed new effluent meters in October 1999 and dye tested these meters for accuracy in April 2000. In our opinion, WPCP staff should report the results of its dye tests to the City Council and, based upon those test results, request funding for other types of effluent meters if necessary. By so doing, the City Council will have more reliable effluent flow information available to it when making multi-million dollar WPCP capital budget decisions.

RECOMMENDATIONS

We recommend that the ESD:

Recommendation #1 Provide the City Council with quarterly reports on WPCP influent and effluent flows, and the status of the installation and testing of the new effluent flow meters. (Priority 3)

Recommendation #2 Ensure appropriate funding is available for the design and installation of other types of meters if the new ultrasonic meters do not prove to be accurate. (Priority 3)

The ESD Has Significantly Overestimated Reclaimed Water Demand And Underestimated The Cost Of Its Water Reclamation Project

In 1991, the City of San Jose (City) submitted to the Regional Water Quality Control Board (Regional Board) a South Bay Action Plan (Action Plan). Part of the Action Plan was a water reclamation project. In December 1992, the City filed an update to the 1991 Action Plan with the Regional Board. The new Action Plan included a two-phase non-potable South Bay Water Recycling Project (SBWRP). The SBWRP was initially envisioned to supply 21.1 million gallons per day (mgd) of reclaimed water by late 1997, at a cost of \$64 million.

However, we found that:

- Phase I of the SBWRP has produced less than one third of its projected yield;
- The Environmental Services Department, (ESD) has significantly overestimated reclaimed water demand;
- The total construction cost of the SBWRP Phase I was more than double its originally envisioned cost; and

- The full cost of the SBWRP, including operations and maintenance (through 1999-00) and debt service is more than \$256 million.

The ESD is currently considering plans to increase the amount of the SBWRP reclaimed water by 10 mgd to a total of 20 mgd to 25 mgd at a cost of \$180 million. This would increase the total cost of the SBWRP to more than \$436 million.

In our opinion, the ESD should provide the City Council with comprehensive Phase I SBWRP costs, benefits, and strategic planning information before the City Council commits additional resources to the SBWRP.

RECOMMENDATIONS

We recommend that the ESD:

- Recommendation #3** **Provide the City Council with comprehensive historical and current information regarding SBWRP capital and operating costs, revenue, actual and projected benefits, and an updated economic analysis as part of the master plan process. (Priority 3)**

The ESD Should Provide The City Council With Cost-Benefit Information Regarding Long-Range South Bay Action Plan Alternatives Before Proceeding With The Expansion Of The South Bay Water Reclamation Project

In 1991, the San Jose-Santa Clara Water Pollution Control Plant (WPCP) developed the South Bay Action Plan to address environmental and regulatory concerns about its effluent flows into the South San Francisco Bay. As revised in 1997, the South Bay Action Plan outlines substantial future projects at considerable cost to the WPCP users. The bulk of that cost is related to the South Bay Water Recycling Project (SBWRP) which has so far been the least cost beneficial of numerous other alternatives that are available to reduce WPCP effluent flows to San Francisco Bay. This spring, the ESD will release a report and recommendation for expansion of the SBWRP to the City Council. In our opinion, the ESD should provide the City Council complete and accurate cost-benefit information regarding long-range South Bay Action Plan alternatives before proceeding with the expansion of the SBWRP.

RECOMMENDATIONS

We recommend that the ESD:

- Recommendation #4** Provide the City Council with information on alternative flow-reduction strategies before proceeding with a proposed expansion of the South Bay Water Recycling Project. (Priority 3)
- Recommendation #5** Track and accumulate operating budget costs for all flow-reduction programs in the South Bay Action Plan. (Priority 3)
- Recommendation #6** Include a cost-benefit and environmental-benefit analysis of South Bay Action Plan alternatives in its annual reports to the City Council including (1) budgeted costs, (2) actual costs to date, (3) projected remaining costs, (4) projected diversion in mgd, (5) actual diversion in mgd to date, (6) projected remaining diversion capacity in mgd, (7) budgeted costs per mgd, (8) actual costs per mgd, and (9) projected final cost per mgd. (Priority 3)

#00-06 A Review Of The Redevelopment Agency's Payment Process (August 2000)

The Agency Can Improve The Timeliness Of Its Payment Process Without Incurring Additional Risks

In our opinion, the Agency can improve the timeliness of its payment process without incurring additional risks.

Specifically, the Agency should

1. Use lump sum contracts for consultants whenever appropriate.
2. When using time and material contracts,
 - Specify in its written procedures who is responsible for verifying the following:
 - the hours billed for each labor classification;
 - that the rates billed agree with the contract;
 - that reimbursable amounts are properly supported; and
 - Discontinue the practice of paying cost plus a percentage mark-up for reimbursable expenses.

3. Remove from the consultant contracts the contract provision requiring the consultant to send a copy of the invoice to the Accounts Payable Division.

4. Use the procedures in the Project Management Division manual entitled “Payments to Consultants, Contractors, and Vendors” for initially standardizing the payment process for all Divisions.

5. Establish performance measures for timeliness of payments by:

- Using a date stamp to acknowledge when the Divisions receive the request for payment and when the Accounts Payable Division receives the request for payment from the other Divisions.
- Establishing a time standard performance measure for all Divisions for forwarding approved requests for payment to the Accounts Payable Division. This standard should apply to all requests for payment unless there is a dispute with the contractor, consultant, or vendor.
- Establishing a time standard performance measure for the Accounts Payable Division to process a check.
- Requiring Division Analysts to measure the timeliness of the processing of payments for their respective Divisions.
- Requiring Division Analysts to prepare an exception report for their respective Divisions with explanations for all payments not made within the specified time period.

6. Require the Executive Director’s or the Deputy Director’s signature on vouchers and checks greater than \$100,000.

7. Increase the Notice to Proceed amount that the Division Director can approve for Master Agreements to \$25,000.

8. Meet with staff in the City Budget Office, Department of Public Works, and other City Departments to discuss the following:

- Increasing the amount in the Non-Project Specific Project Services Memorandum for potential projects

and/or time-sensitive items due to deadline commitments, and

- Establishing a mutually agreed upon lump sum fee for services provided to the Agency.

RECOMMENDATIONS

We recommend that the Redevelopment Agency:

- Recommendation #1** Use lump sum contracts for consultants whenever appropriate.
- Recommendation #2** When using time and material contracts,
- Specify in its written procedures who is responsible for verifying the following:
 - the hours billed for each labor classification;
 - that the rates billed agree with the contract;
 - that reimbursable amounts are properly supported; and
 - Discontinue the practice of paying cost plus a percentage mark-up for reimbursable expenses.
- Recommendation #3** Remove from the consultant contracts the contract provision requiring the consultant to send a copy of the invoice to the Accounts Payable Division.
- Recommendation #4** Use the procedures in the Project Management Division manual entitled “Payments to Consultants, Contractors, and Vendors” for initially standardizing the payment process for all Divisions.
- Recommendation #5** Establish performance measures for timeliness of payments by:
- Using a date stamp to acknowledge when the Divisions receive the request for payment and when the Accounts Payable Division receives the request for payment from the other Divisions.
 - Establishing a time standard performance measure for all Divisions for forwarding approved requests for payment to the Accounts Payable Division. This standard should apply to all requests for payment

unless there is a dispute with the contractor, consultant, or vendor.

- **Establishing a time standard performance measure for the Accounts Payable Division to process a check.**
- **Requiring Division Analysts to measure the timeliness of the processing of payments for their respective Divisions.**
- **Requiring Division Analysts to prepare an exception report for their respective Divisions with explanations for all payments not made within the specified time period.**

Recommendation #6 **Require the Executive Director’s or the Deputy Director’s signature on vouchers and checks greater than \$100,000.**

Recommendation #7 **Increase the Notice to Proceed amount that the Division Director can approve for Master Agreements to \$25,000.**

Recommendation #8 **Meet with staff in the City Budget Office, Department of Public Works, and other City Departments to discuss the following:**

- **Increasing the amount in the Non-Project Specific Project Services Memorandum for potential projects and/or time-sensitive items due to deadline commitments, and**
- **Establishing a mutually agreed upon lump sum fee for services provided to the Agency.**

#00-07 An Audit Of The Watershed Protection Division’s Industrial And Commercial Inspection Program (September 2000)

The ESD Needs To Completely Revamp The Industrial And Commercial Inspection Program Before Requesting Program Related Increases In Storm Sewer Fees

The City’s storm water permit requires the City to inspect industrial and commercial facilities to ensure against pollutants entering the storm sewer system. To satisfy the permit requirements, the Industrial and Commercial Inspection Program (Program) inspects over 2,000 of these facilities in San Jose. We found that the Environmental Services Department (ESD) needs to significantly improve the management, efficiency and effectiveness of the Program. Specifically, we found that:

- The Program’s database inventory of facilities requiring an inspection was not complete or accurate, and

overstated the number of facilities subject to inspection by 370 percent;

- Poor scheduling of inspections created widely fluctuating inspector workloads and over \$100,000 in unnecessary expenditures in 1998-99;
- The Program spent over \$120,000 for inspection services it did not receive in 1999-00;
- Program management did not properly assign inspections; consequently inspectors did not conduct all required inspections but did conduct inspections that were not required;
- Inspectors did not properly document the results of their inspection activities;
- Inspectors did not properly follow-up on identified violations; and
- There was no indication of supervisory review of inspector activities.

As a result, the City is not in compliance with its storm water permit requirements related to industrial and commercial facility inspections.

Given the City Council's stated desire to not increase Storm Sewer Fees, the fact that the Program addresses a relatively small percentage of the major pollutants entering the storm sewer system, and the Program's lack of demonstrated effectiveness, the ESD needs to completely revamp this Program before requesting Program related increases in Storm Sewer Fees.

Specifically, the ESD should 1) develop a complete, accurate, and timely inventory of facilities requiring inspection, 2) use a data system that provides Program management with needed information, 3) prioritize and schedule inspections, 4) produce complete, accurate, and timely management information, 5) establish and enforce violation follow-up procedures, and 6) prescribe and ensure adequate supervisory review of inspector activities. By so doing, the Program will be more efficient and effective, any proposed Storm Sewer Fee increases will be more justifiable, and the City Council and regulatory agencies will have more reliable information for assessing Program activities and accomplishments and allocating resources.

RECOMMENDATIONS

We recommend that the ESD:

- Recommendation #1** **Establish specific data management procedures to ensure that the Industrial Facilities Database:**
- **Is routinely updated, utilizing the business license number as a primary identifier,**
 - **Contains all appropriate facilities located in the City of San Jose,**
 - **Includes facilities that have filed an NOI with the State Board, and**
 - **Contains all Pretreatment and Zero-Discharge facilities. (Priority 3)**
- Recommendation #2** **Acquire a data system that more adequately meets Program needs. (Priority 3)**
- Recommendation #3** **Schedule inspections to balance the workload throughout the year and develop periodic reports allowing managers and supervisors to assess progress in meeting inspection goals. (Priority 3)**
- Recommendation #4** **Transfer \$120,000 from the Treatment Plant Operating Fund (Fund 513) to the Storm Sewer Operating Fund (Fund 446) to reimburse the Program for Source Control inspection services it did not receive in 1999-00 and develop a procedure to pay for Source Control services based upon actual inspections conducted. (Priority 2)**
- Recommendation #5** **Assign inspectors to ensure that required inspection frequencies are met. (Priority 2)**
- Recommendation #6** **Develop written procedures that provide inspectors with specific guidance on how to report desk reviews and identify facilities listed more than once in the database. (Priority 3)**
- Recommendation #7** **Develop written criteria for determining compliance dates and provide facilities with clearly defined compliance dates for correcting violations. (Priority 3)**

- Recommendation #8** **Develop written procedures to ensure that Program inspectors follow-up on identified violations and when necessary use available enforcement actions. (Priority 3)**
- Recommendation #9** **Develop written procedures that ensure adequate management review and oversight of the inspectors' activities and reports to improve Program efficiency and effectiveness and ensure inspector compliance with Program procedures. (Priority 3)**
- Recommendation #10** **Not seek an increase in Storm Sewer Fees for the Program until it has revamped the Program and significantly improved its effectiveness and efficiency. (Priority 3)**

#00-08 An Audit Of The City Of San Jose's Building-Related Fees And Taxes (October 2000)

The Building Division Needs To Implement Additional Controls To Ensure That It Applies And Charges Building Permit Fees Consistently And Correctly

The San Jose Municipal Code prescribes how various building-related fees and charges are to be calculated and assessed to applicants. The Building Division (Division) is responsible for assessing and collecting these various fees and charges in compliance with the Municipal Code. We found several problems with the Division's handling of various building-related permit fees and associated charges. Specifically, for the cases we sampled, we found that the Division

- Did not document that they verified self-reported valuations for commercial and industrial construction;
- Did not use minimum valuations for the sampled residential alteration permits 40 percent of the time;
- Did not adequately document how plan check fees were calculated 14 percent of the time;
- Did not assess supplemental plan check fees in all applicable situations;
- Inconsistently calculated or issued sub-trade permits 7 percent of the time;
- Inconsistently issued partial permits; and
- Did not retroactively assess development taxes for shell only structures.

As a result, the Division did not consistently adhere to Municipal Code requirements or treat all applicants the same, and did not charge applicants an estimated \$49,000. In our opinion, the Division needs to develop formal policies and procedures regarding 1) verifying valuations for new commercial and industrial construction; 2) using minimum valuations; 3) calculating plan check fees; 4) assessing supplemental plan check fees; 5) calculating sub-trade permits; 6) issuing partial permits; and 7) retroactively assessing development taxes for shell only structures.

In addition, the Division should develop and implement a formal quality assurance process to ensure that Division staff apply building permit fees and charges consistently and correctly.

RECOMMENDATIONS

We recommend that the Building Division:

- Recommendation #1** **Require staff to document on the building permit application how they verified self-reported valuation. (Priority 2)**

- Recommendation #2** **Clarify its practice of using valuations that are less than the stipulated minimum for Residential Alterations. (Priority 2)**

- Recommendation #3** **Require staff to document how it calculated plan check fees on the comments section of the permit application. (Priority 2)**

- Recommendation #4** **Ensure that Division staff retroactively assess commercial rates if the initial use is not a designated industrial use. (Priority 2)**

- Recommendation #5** **Provide training to its staff on its new policies and also clarify when building plan check fees can be calculated either on a square footage basis or a per inspection basis. (Priority 2)**

- Recommendation #6** **Develop a formal quality assurance process for the assessment and collection of all building-related permit fees (Priority 2)**

Improvements Are Needed To Ensure That The Building Division Assesses And Collects Development Taxes Consistently And In Compliance With Municipal Code Requirements

The Municipal Code prescribes how various development taxes are to be calculated and assessed. We found several problems with the Building Division's (Division) assessing and collecting of these taxes. Specifically, we found that the Division

- Charged applicants for development taxes even though the permitted properties were exempt from taxes;
- Misidentified exempt zones; and
- Misapplied Commercial, Residential, And Mobile Home Park (CRMP) Construction Taxes.

We also found that improvements are needed to ensure buildings are classified in compliance with Municipal Code requirements. We found that Division staff determined building use based on limited and unverified information. Finally, we determined that staff were not in agreement on how to classify certain types of structures or structures that were designed for multiple uses.

As a result, the Division improperly assesses and collects some of the development taxes and processes a large number of refunds. In our opinion, the Division should develop a formal policy and guidelines for calculating CRMP Taxes on residential structures and ensure that exempt zones are clearly identified on permit applications. In addition, the Division should implement additional controls to guide staff in properly designating building use for fee assessment purposes.

RECOMMENDATIONS

We recommend that the Division:

- Recommendation #7** **Modify the permit application to more clearly identify exempt zone designations. (Priority 2)**
- Recommendation #8** **Designate technically qualified staff members for those permit applications that require looking at actual maps to determine if a property is in an exempt location. (Priority 3)**
- Recommendation #9** **Develop a formal policy, procedures, clear guidelines, and staff training on calculating CRMP Taxes on residential structures. (Priority 2)**

- Recommendation #10** Develop a form that 1) itemizes specific building uses such as manufacturing, research and development, and administrative office space and 2) includes a statement for applicants to sign regarding penalties for providing false information on the permit application form. (Priority 2)
- Recommendation #11** Develop a follow-up process to verify that applicants actually use buildings for the stated purpose when an industrial designation is involved. (Priority 2)
- Recommendation #12** Work with the City Attorney's Office and Administration to develop guidelines for what constitutes research and development and classifying multiple use structures. (Priority 2)
- Recommendation #13** Designate an authoritative organization or person to render industrial versus commercial structure designation decisions where the structure use is unclear or complex. (Priority 2)

#00-09 A Review Of The Recommended Contractors For The Recycle Plus 2002 Program (December 2000)

The Environmental Services Department Needs To Provide The City Council With Revised Cost And Revenue Estimates For The Recycle Plus 2002 Program

In a September 22, 2000 memorandum to the City Council, the Environmental Services Department (ESD) stated that the proposed Recycle Plus 2002 Program would generate a savings of \$74 million over the 11-year term of the new contract. The ESD subsequently issued an October 4, 2000 memorandum to the City Council that reduced its previous estimate of \$74 million to \$60.6 million. In a joint effort involving the City Auditor's Office, the ESD, and its consultant, several countervailing assumptions and methodological errors were identified regarding the \$74 million and \$60.6 million cost avoidance for the Recycle Plus 2002 Program noted above. Specifically, the City Auditor's Office, the ESD, and its consultant agree that the ESD's original estimate of the 11-year cost of the Recycle Plus 2002 Program:

- Underestimated the cost of the current program by \$57.6 million;
- Underestimated the cost of the proposed program by \$22 million to \$39.6 million; and

- Underestimated the potential cost avoidance of the proposed program by \$18 million to \$35.6 million.

Further, under the current rate structure Integrated Waste Management (IWM) Fund revenues could decline by about \$33 million in the Multi-family Dwelling (MFD) component during the 11-year term of the proposed Recycle Plus 2002 Program. In addition, City Council rate-setting decisions regarding Yard Trimmings (YT) carts and 20-gallon garbage containers for the Single Family Dwelling (SFD) component, could reduce projected YT component revenues by as much as \$7 million and reduce SFD component revenues by an inestimable amount.

Accordingly, we recommend that the ESD submit to the City Council a revised cost and revenue estimate for the Recycle Plus 2002 Program together with a Source and Use of Funds statement for the IWM Fund through the year 2006-07. Further, the ESD should analyze and report to the City Council the revenue, cost, and programmatic implications of any potential City Council pricing decisions regarding MFD rates, YT carts, and 20-gallon garbage containers. Finally, we recommend that the City Council wait until the ESD reports on its revenue and cost analyses on any City Council pricing decisions before adding services to or revising rates for the proposed Recycle Plus 2002 Program.

RECOMMENDATIONS

We recommend that the ESD:

- Recommendation #1** **Submit to the City Council a revised cost and revenue estimate for Recycle Plus 2002 together with a Source and Use of Funds statement for the IWM Fund through the year 2006-07. (Priority 3)**
- Recommendation #2** **Analyze and report to the City Council on the revenue, cost, and programmatic implications of potential City Council pricing decisions regarding Multi-Family Dwelling rates, Yard Trimmings cart subscription fees, and 20-gallon garbage container rates. (Priority 3)**

We also recommend that the City Council:

Recommendation #3 **Wait until the ESD reports on its revenue and cost analyses on any City Council pricing decisions before adding services or revising rates for Recycle Plus 2002. (Priority 3)**

The Environmental Services Department Needs To Develop A Contingency Plan To Address Recommended Recycle Plus Providers' Potential Operational Issues And Uncertainties

The Environmental Services Department (ESD) developed and used a sophisticated and extensive process to evaluate the respondents to its Request For Proposal (RFP) for the Recycle Plus 2002 Program. As a result of its evaluation process, the ESD recommended for Single Family Dwelling (SFD), Multi-Family Dwelling (MFD), Yard Trimmings (YT), and Residential Street Sweeping (RSS) service GreenTeam of San Jose (GreenTeam), GreenWaste Recovery, Inc. (GreenWaste), and Norcal Waste Systems, Inc. (Norcal). We have evaluated the financial capability and operational adequacy of the recommended haulers' proposals relative to the Recycle Plus 2002 Program. In our opinion, all three proposers are:

- Financially sound, technically qualified, and capable of acquiring essential capital equipment; and
- Financially and operationally capable of performing the services they proposed in their response to the Recycle Plus 2002 RFP.

In addition, Norcal's recent loss of its contract with San Bernardino County will not, in our opinion, create a significant negative impact on Norcal's financial assessment.

However, we did note several potential operational issues and uncertainties that could impact the recommended proposers' financial capability and operational adequacy to perform under a Recycle Plus 2002 contract. Specifically, we identified the following potential operational issues and uncertainties:

Potential Operational Issues And Uncertainties for Recommended Proposers For Recycle Plus 2002

Potential Operational Issues And Uncertainties	Recommended Proposer/Service Component					
	GreenTeam		Green Waste	Norcal		
	SFD	MFD	YT	YT	RSS	SFD
Achieving 25%, 30%, And 35% Recycling Goals		X				
Servicing An Unknown Mix Of Street And Yard Trimming Cart Set-Outs			X	X		
Locating, Acquiring, And/Or Building A Headquarters And Materials Recovery Facility				X		X
Predicating Its RFP Response On A 9.5 Hour Workday				X		X

In our opinion, the ESD needs to develop a contingency plan to address the above potential operational issues and uncertainties. By so doing, the City of San Jose will have added assurance that the transition to the Recycle Plus 2002 Program will go smoothly and without any service interruptions to its residents.

RECOMMENDATIONS

We recommend that the ESD:

- Recommendation #4** **Develop a contingency plan to mitigate the consequences of Norcal not succeeding in its attempt to acquire a suitable property and required permits for its Headquarters by July 1, 2001. (Priority 3)**

- Recommendation #5** **Monitor Norcal’s progress toward meeting its MRF timeline as proposed in its response to the Recycle Plus 2002 RFP, and develop a contingency plan to mitigate the consequences of Norcal not being able to meet its MRF timeline. (Priority 3)**

- Recommendation #6** **Require the proposed contractors to (1) submit preliminary workday, travel time, and equipment estimates by July 1, 2001, for ESD analysis and written comment, and (2) respond in writing to any ESD written comments within thirty (30) days of receipt. (Priority 3)**

#01-01 An Audit Of The Property Appraisal Process of the Department of Public Works—Real Estate Division (March 2001)

The Real Estate Division Can Improve Upon Its Administration Of The Property Appraisal Process

When the City of San Jose purchases property, it provides the owner a Statement of Just Compensation, based on a “market value appraisal.” The Real Estate Division (Division) of the Department of Public Works (DPW) is responsible for administering the City’s appraisal activities and ensuring that the appraisals conducted on behalf of the City are performed efficiently, competitively, and in accordance with accepted appraisal standards. We found that the Division has streamlined its process for contracting out appraisal services. However, we found that the Division can still improve its property appraisal process. Specifically:

- The Division can make the appraisal review process more efficient;
- The Division does not competitively select contract appraisers;
- The Division can improve its documentation of the appraisal process;
- The Division does not sufficiently cross-train staff for title report services;
- The Division’s filing system caused operational inefficiencies;
- The Division lacks written procedures and those written procedures it does have are not in the prescribed DPW format; and
- The Division can improve its project tracking system.

The Division can improve its administration of the real estate appraisal process by (1) ensuring that staff comply with the ten-business days requirement for appraisal reviews, (2) specifying the expected completion date for the entire appraisal review and approval process in the Work Request form, (3) developing a competitive process for contractor selection, (4) improving its documentation of appraisal reviews, (5) training backup staff to perform title report services, (6) continuing development of its File Locator Database Program, (7) developing written procedures, and (8) developing a project tracking system that will track targeted and actual dates on a project by project basis.

RECOMMENDATIONS

We recommend that the Real Estate Division:

- Recommendation #1** **Implement staff assignment and monitoring procedures to ensure that staff adhere to the ten-business days requirement to complete appraisal reviews. (Priority 3)**
- Recommendation #2** **Specify the expected completion date for the entire appraisal review and approval process in the Work Request form. (Priority 3)**
- Recommendation #3** **Establish a competitive process for selecting independent appraisers for future property appraisal Master Agreements. (Priority 3)**
- Recommendation #4** **Establish procedures that require staff to (a) take at least two quotes when letting out an appraisal project to an independent appraiser; (b) document individual quotes for appraisal projects; and (c) justify in writing the selection of an independent appraiser other than the low bidder. (Priority 3)**
- Recommendation #5** **Ascertain that the appraisal reviewers comply with the requirement to complete the appraisal review checklists for all appraisal reviews. (Priority 3)**
- Recommendation #6** **Require the appraisal staff to keep a Parcel Diary for each appraisal and to file it with the appraisal report and appraisal review. (Priority 3)**
- Recommendation #7** **Require the staff to document in the appraisal files how the staff resolves the appraisal reviewer's findings. (Priority 3)**
- Recommendation #8** **Complete the missing or incomplete entries in the Appraisal Inventory spreadsheet. (Priority 3)**
- Recommendation #9** **(a) Establish performance criteria and qualifications for staff assigned to perform title services; (b) write the title services procedures the Real Estate Division provides; and (c) assign and train backup staff to perform title services. (Priority 3)**

- Recommendation #10** Periodically survey local title companies and attempt to expand the list of qualified title insurance companies the City can use. (Priority 3)
- Recommendation #11** Augment its requested consultant services to include an assessment of whether the File Locator Database Program is compatible with the City's overall records management strategy and other City systems and can be upgraded to provide the ability to identify specific documents for purging and the statistical functions needed to support productivity tracking and management reports. (Priority 2)
- Recommendation #12** Write a user manual and conduct staff training on the use and maintenance of the File Locator Database Program if it decides to enhance and implement the Database. (Priority 3)
- Recommendation #13** Write current and complete Real Estate Division policies and procedures in the prescribed Department of Public Works format. (Priority 3)
- Recommendation #14** Develop a project tracking system that will track targeted and actual dates on a project by project basis. (Priority 3)

#01-02 An Audit Of The City Of San Jose Fire Department's Overtime Expenditures (April 2001)

Opportunities Exist To Better Control The San Jose Fire Department's Overtime Expenditures

Overtime pay to San Jose Fire Department (SJFD) personnel has been a significant issue since 1992-93. Between 1993-94 and 1999-00, SJFD personnel earned \$45.1 million in overtime compensation. During this period, SJFD overtime averaged \$6.4 million per year. In 1999-00, SJFD overtime expenditures peaked at \$9.6 million—a 55 percent increase from the previous year. The majority of the SJFD's 1999-00 overtime expenditures went to meet minimum staffing. We identified that 12 percent of SJFD personnel worked a third of the overtime hours. In April 2000, the SJFD and the City's Budget Office completed a review of the SJFD's overtime situation. Based on that review, the Administration accurately reported that the primary cause of the high overtime expenditures in 1999-00 was an increased absence rate. However, we also

identified the following additional factors that contributed to the SJFD's increased overtime costs in 1999-00:

- SJFD difficulty in estimating vacancy projections and an unsuccessful targeted hiring effort;
- Specific Memorandum of Agreement and Official Action Guide provisions;
- Underestimated staffing needs in the SJFD's staffing model; and
- The SJFD need for more relief Fire Paramedics.

In order to better control overtime expenditures, the SJFD needs 1) more accurate and complete management data regarding absence rates and vacancy rates; 2) to identify current staffing needs; and 3) to improve its ability to project future staffing needs. Furthermore, the SJFD needs to revisit its assessment of the most efficient and effective means to meet minimum staffing and take into account the various intangible factors that can affect the cost-effectiveness of using overtime versus additional relief personnel. Finally, the SJFD needs to proactively control those factors that increase absence rates and resultant overtime costs.

RECOMMENDATIONS

We recommend that the SJFD:

- Recommendation #1** **Ensure that fire personnel that are held over properly document the absence they are covering. (Priority 3)**
- Recommendation #2** **Calculate an absence rate for each rank using the most reliable and accurate absence rate data available for determining SJFD staffing and overtime needs and management reporting purposes. (Priority 3)**
- Recommendation #3** **Analyze vacancy rate data separately for each rank using the most reliable and accurate vacancy rate data available when determining staffing and overtime needs. (Priority 3)**
- Recommendation #4** **Develop procedures to ensure that the correct data and proper adjustments are entered into the PeopleSoft and SEARS systems and designate a staff person to monitor and evaluate the PeopleSoft and SEARS data on a regular basis. (Priority 3)**

- Recommendation #5** Report to the City Council updated staffing information by December of each year including staffing levels and vacancies by rank, the number of personnel on disability and modified duty, and projected short-term and long-term vacancies. (Priority 3)
- Recommendation #6** Update its 1992 study regarding the use of relief staff and overtime to meet minimum staffing requirements and annually determine the most efficient and cost effective mix of relief staff and overtime to meet minimum staffing needs. (Priority 3)
- Recommendation #7** Review sick leave data to establish benchmarks for sick leave use and identify possible patterns of abuse and take appropriate follow-up actions. (Priority 3)
- Recommendation #8** Implement a proactive sick leave reduction program to inform line personnel of the benefits of conserving sick leave and rewarding personnel with perfect attendance. (Priority 3)

We recommend that the SJFD and Administration:

- Recommendation #9** Evaluate the feasibility of implementing a comprehensive Wellness-Fitness Initiative Program for the SJFD and prepare a budget proposal should the initiative appear cost beneficial. (Priority 3)

#01-03 An Audit Of The Pretreatment Source Control Program (May 2001)

The Environmental Services Department Can Reduce The Staffing Costs Of The Pretreatment Source Control Program By As Much As \$1.7 Million Per Year Without Jeopardizing Program Responsibilities

The Environmental Services Department's (ESD) Pretreatment Source Control Program (SC Program) is responsible for inspecting and sampling wastewater from industrial users that discharge into the sanitary sewer system to ensure they are in compliance with federal and local pretreatment standards. The SC Program has 21 authorized Source Control Inspector (SC Inspector) positions, 2 Senior SC Inspector positions, and 7 Source Control Technician (SC Technician) positions to conduct inspections, sampling events, and to enforce pretreatment violations.

We found that the SC Program is significantly overstaffed and inefficient when we compared the SC Program's actual activity

levels to federal and local requirements. Our conclusion is based upon the following:

- The SC Program has too many inspector and technician positions when compared to the required level of activities;
- The SC Program over-inspected industrial user facilities and collected excessive samples;
- There is no justification for the SC Program's level of surveillance efforts;
- The SC Program's current level of trunkline sampling is inefficient and is a poor use of SC Inspector resources;
- SC Regulation Team and Detection Team Inspectors spent only 43 and 45 percent, respectively, of their available workdays doing inspections and taking samples;
- SC Inspectors completed only one inspection during 51 percent of the workdays they actually conducted inspections;
- Many of the activities the SC Program counted as inspections primarily involved SC Inspectors only reading meters or taking samples; and
- The SC Program can improve inspector efficiency, and improve customer service, by transferring certain non-inspection activities to more appropriate areas.

As a result, in our opinion the ESD can reduce the cost of the SC Program by as much as \$1.7 million per year without jeopardizing its ability to satisfy SC Program requirements. In addition, the SC Program's overstaffing resulted in unnecessary vehicle costs. Finally, the SC Program's sampling efforts cost the Water Pollution Control Plant (WPCP) an estimated \$925,000 in associated Laboratory costs. More efficient SC Program sampling would significantly reduce these Laboratory costs.

The ESD is aware the SC Program is overstaffed, needs to be revamped, and that various ESD inspection activities should be consolidated. Accordingly, the ESD is preparing a budget reduction plan for the SC Program for the 2001-02 budget process. In addition, the ESD is also proposing an evaluation of the efficiency of the WPCP Laboratory workload and processes. In our opinion, the ESD's efforts along with the

recommendations included in this audit report, will significantly improve the efficiency of the SC Program and related WPCP Laboratory activities.

RECOMMENDATIONS

We recommend that the ESD:

- Recommendation #1**
- **Establish appropriate minimum inspection and sampling frequencies for significant and non-significant industrial users that are consistent with program requirements and**
 - **Update SC Program procedures to reflect appropriate inspection and sampling frequencies and ensure SC Program staff compliance with these procedures. (Priority 2)**
- Recommendation #2**
- **Identify a consistent and justifiable level of effort necessary to fulfill all federal requirements for surveillance sampling and for trunkline sampling;**
 - **Develop procedures to ensure the SC Program staff adhere to established surveillance and trunkline sampling frequencies; and**
 - **Develop a system to routinely and objectively identify appropriate facilities subject to surveillance activities. (Priority 2)**
- Recommendation #3** **Schedule SC Program inspection and sampling events to optimize the use of SC Program staff time and resources. (Priority 2)**
- Recommendation #4** **Develop written procedures and management reports to allow for adequate supervisory review and oversight of SC Program activities and ensure adherence with SC Program inspection goals, procedures, and frequencies. (Priority 3)**
- Recommendation #5**
- **Evaluate options to eliminate or reduce the need for customers to visit the WPCP for plan check services related to grease traps and grease trap interceptors;**
 - **Require SC Program supervisors to answer phone inquiries; and**
 - **Reassign the three SC Inspectors working on the SC Program tracking database to inspector activities. (Priority 2)**

Recommendation #6 Define the SC Program’s mission, goals, objectives, and work activities. (Priority 2)

Recommendation #7 Identify the SC Program’s actual required workload, and develop a staffing plan based on NPDES Permit requirements and an efficient use of inspector and technician positions. (Priority 1)

Recommendation #8 Submit a budget proposal to the City Council based upon the implementation of Recommendations # 1, 6, and # 7. (Priority 1)

Recommendation #9 Make appropriate changes in the SC Program’s vehicle inventory to reflect the SC Program’s required staffing level. (Priority 2)

We recommend that the City Council Rules Committee:

Recommendation #10 Include in the City Auditor’s 2001-02 Workplan a review of the City’s five-year vehicle replacement program. (Priority 2)

Finally, we recommend that the ESD:

Recommendation #11 Make appropriate changes in SC Program support services, such as Laboratory services, to reflect the SC Program’s revised workload. (Priority 2)

The Pretreatment Source Control Program Needs To Issue Appropriate Enforcement Actions More Consistently

The Environmental Services Department’s (ESD) Pretreatment Source Control Program (SC Program) is responsible for the enforcement of federal and local pretreatment standards. The SC Program’s approved Enforcement Response Plan (ERP) prescribes the types of enforcement actions the SC Program should take for various pretreatment violations. However, we found that the SC Program did not consistently issue enforcement actions according to the ERP procedures. Specifically, we found that the SC Program:

- Issued incorrect enforcement actions in 18 to 25 percent of the violations from 1998 to 2000 that we reviewed;
- Did not issue enforcement actions for all identified violations;

- Did not issue \$20,150 in administrative citation fines from January 1, 2000 through June 30, 2000;
- Did not accurately identify facilities subject to the City of Santa Clara's Surcharge for Violation of Industrial Waste Regulations; and
- When the SC Program collected \$106,574 in civil penalties from a facility in San Jose for discharge violations, the ESD inappropriately placed the monies in the Water Pollution Control Plant's (WPCP) tributary fund, rather than in the City of San Jose's Sewer Service and Use Fund (Fund 541).

In addition, we found no evidence that any of the three SC Program supervisors were reviewing the work, inspection reports, or enforcement activities of the Source Control Inspectors (SC Inspectors). As a result, the SC Program cannot ensure that it consistently enforces pretreatment violations or that identified violations are corrected.

In our opinion, the ESD needs to 1) ensure that SC Inspectors issue enforcement actions more consistently; 2) implement a process for SC Program supervisors to document their reviews of SC Inspectors' inspection reports and enforcement actions; 3) ensure compliance with the City Council's approved Administrative Citation schedule; 4) ensure the proper application of Santa Clara's surcharge program; 5) report on the feasibility of a surcharge program for San Jose; and 6) ensure that civil penalties assessed under San Jose Municipal Code Section 15.14.720 are properly deposited into Fund 541. By so doing, the ESD will improve the administration and application of enforcement activities, penalties, and surcharges.

RECOMMENDATIONS

We recommend that the ESD:

Recommendation #12 **Ensure that SC Inspectors enforce violations consistently and in accordance with SC Program procedures. (Priority 3)**

Recommendation #13 **Develop and implement procedures to ensure all identified violations are consistently enforced according to SC Program procedures. (Priority 3)**

Recommendation #14 Develop written procedures and management reports that ensure adequate management review and oversight of inspectors' activities including inspection reports and enforcement activities. (Priority 3)

Recommendation #15 Work with the City Attorney's Office to develop and implement written procedures to ensure compliance with the City Council-approved Administrative Citation schedule. (Priority 3)

Recommendation #16 Develop and implement procedures to ensure the City of Santa Clara is correctly and promptly notified of 1) facilities subject to the surcharge program and 2) facilities that should be removed from the surcharge program. (Priority 3)

Recommendation #17 Report to the City Council Finance and Infrastructure Committee on the feasibility of implementing a Surcharge for Violations of Industrial Waste Regulations Program in San Jose. (Priority 2)

Recommendation #18 Ensure any future civil penalties assessed through San Jose Municipal Code Section 15.14.720 are placed in Fund 541. (Priority 1)

#01-04 An Audit Of The City Of San Jose Building Division's Cash Handling And Refund Process (June 2001)

Additional Improvements Are Needed In The Building Division's Cash Handling Section

In 1999-00, the Building Division (Division) collected about \$50 million in building-related permit fees and taxes. We found that the Division has generally collected this revenue in accordance with applicable City policies and procedures. We found that the Division can improve certain aspects of cash handing by implementing additional controls to ensure proper collection of building-related permit revenue. Specifically, we found that the Division needs to:

- Address Division staff performing incompatible cash handling duties;
- Develop procedures on processing voids and holding cash receipts for future payments; and
- Ensure that Division staff follow City guidelines on safe security.

In our opinion, the Division should 1) address issues of incompatible cash handling activities; 2) update and formalize procedures including supervisory review of all voided transactions; 3) develop a strategy for reducing the number of add-ons; and 4) ensure that Division staff comply with City guidelines on safe security. By so doing, the Division will improve the security and effectiveness of its cash handling function.

RECOMMENDATIONS

We recommend that the Building Division:

- Recommendation #1** **Improve supervisory oversight of cash handling activities, to include review of the Account Clerks' counting and reconciliation activities. (Priority 2)**
- Recommendation #2** **Update and formalize its procedures and guidelines for processing voids, including supervisory approval of all voided transactions and the retention of all voided receipts and provide training for cashiers on these procedures. (Priority 2)**
- Recommendation #3** **Develop formal procedures for processing add-on transactions and explore ways to reduce the number of add-on transactions. (Priority 2)**
- Recommendation #4** **Ensure that Division staff follows all City guidelines regarding safe security and strictly enforces the Division's policy of restricting access to the cashiering area. (Priority 2)**

The Building Division Staff Needs To Process Refunds In Accordance With City And Department Policies

Between January 1999 and December 2000, the Building Division (Division) refunded a total of \$3.1 million to Division customers due to such reasons as permit overpayments, overcharges, and permit cancellations. The Municipal Code has established parameters that the Division must follow for processing refunds. We found that the Division has generally complied with its refund policy, but in some situations the Division staff did not process refunds in accordance with established procedures. We found that Division staff:

- Processed 600 percent more in refunds due to overcharging customers in 2000 than in 1999;

- Issued refunds without proper approval;
- Refunded the incorrect amount to customers; and
- Refunded permit fees even though inspectors had performed inspections.

We also found that the Division needs to make sure that its refund checking account is used only for appropriate transactions. In our opinion, many of the refund problems resulted from poor adherence to Division policy and procedures, and Division Supervisors “rubberstamping” refund approvals. Division staff needs to adhere to Division procedures concerning refunds, and supervisors need to thoroughly review refund applications before approving them. By so doing, the Division will be assured that all refund transactions are properly processed and that it refunds the correct amount to its customers.

RECOMMENDATIONS

We recommend that the Building Division:

- Recommendation #5** **Require supervisors to properly review all refunds to ensure that they are issued in accordance with the Division’s refund policy. (Priority 2)**
- Recommendation #6** **Ensure that its staff is aware of and follows the City’s policy regarding special checking accounts. (Priority 2)**

Sales And Business Tax Audits

Our objectives in the audit of sales and business taxes are to identify:

- San Jose retail businesses that do not file sales tax returns;
- Misallocation of the local portion of the sales taxes paid by San Jose businesses; and
- San Jose businesses that have not paid or have underpaid the San Jose business tax.

In conducting our ongoing audit of sales and business taxes, we performed the following procedures:

- Compared the San Jose telephone and other directories with sales tax and business tax databases to ensure that

companies and individuals doing retail business in San Jose were using a San Jose sales tax identification code;

- Visited business locations at the City of San Jose's periphery and compared these businesses' locations to the sales tax and business tax databases to ensure that businesses within the San Jose borders were using a San Jose sales tax identification code and had a current San Jose business license;
- Called businesses to request copies of their sales tax returns;
- Reported any identified nonfiling or misallocation of sales taxes to the State Board of Equalization;
- Reported any nonpayment of San Jose business taxes to the Finance Department for collection. We identified these businesses by comparing to the business tax database (1) the San Jose telephone directory, (2) fictitious name listings from the County, (3) other directories, (4) the contractor database in the City Clerk's office, (5) the Department of Information Technology printout--SIC property owner list, (6) real property databases, and (7) known out-of-town consultants who conduct business with the City; and
- Contacted the personnel departments or representatives of businesses and confirmed the average number of full- and part-time employees of the business. We reported to the Finance Department the businesses that we identified in which the number of full-time equivalent employees differed from the number recorded in the City's business tax database.

Our ongoing audit of sales and business taxes produced the following results:

Quarter Ended	San Jose Businesses Identified As Not Properly Reporting Sales and/or Business Taxes	Additional Sales and Business Tax Revenues Identified
June 30, 1999	582	\$119,743
September 30, 1999	1,024	\$390,313
December 31, 1999	784	\$392,742
March 31, 2000	379	\$384,791
June 30, 2000	152	\$82,792
September 30, 2000	1,058	\$255,123
December 31, 2000	1,506	\$258,419
March 31, 2001	488	\$252,823
TOTALS	5,973	\$2,136,746

Follow-up Of Audit Recommendations

In accordance with the City Auditor's workplan, we prepared semi-annual reports of the status of open recommendations. To prepare the follow-up reports, we met with department staff, reviewed department assessment of audit status, and reviewed documentation provided by departments on the implementation of audit recommendations.

The following summarizes the results of our follow-up reviews:

Period	Number of Recommendations Implemented or Resolved
Six months ended 12/31/99	56
Six months ended 6/30/00	25
Six months ended 12/31/00	47
Six months ended 6/30/01	28
TOTAL	156

APPENDIX A

SUMMARY OF STATEMENT ON GOVERNMENT AUDITING STANDARDS

Excerpted from *Government Auditing Standards*, 1994 Revision, issued by the
Comptroller General of the United States.

Introduction

Purpose	<p>(1) This statement contains standards for audits of government organizations, programs, activities, and functions, and of government funds received by contractors, nonprofit organizations, and other nongovernment organizations.</p> <p>(2) The standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy.</p>
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Types of Government Audits

Financial Audits	<p>(1) Financial statement audits provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.</p> <p>(2) Financial related audits include determining whether (a) financial information is presented in accordance with established or stated criteria, and (b) the entity has adhered to specific financial compliance requirements, or (c) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.</p>
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Types of Government Audits (Cont.)

Performance Audits	<p>(1) Economy and efficiency audits include determining (a) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.</p> <p>(2) Program audits include determining (a) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (b) the effectiveness of organizations, programs, activities, or functions, and (c) whether the entity has complied with laws and regulations applicable to the program.</p>
Other Activities of an Audit Organization	Auditors may perform services other than audits. For example, some auditors may (a) assist a legislative body by developing questions for use at hearings; (b) develop methods and approaches to be applied in evaluating a new or a proposed program; (c) forecast potential program outcomes under various assumptions without evaluating current operations; and (d) perform investigative work.

General Standards

Qualifications	The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.
Independence	In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.
Due Professional Care	Due professional care should be used in conducting the audit and in preparing related reports.
Quality Control	Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

Field Work Standards for Financial Audits

Planning	The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.
Follow-up of Previous Findings and Recommendations	Auditors should follow up on known material findings and recommendations from previous audits.
Irregularities, Illegal Acts, and Other Noncompliance	<p>(a) Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.</p> <p>(b) Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.</p> <p>(c) Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.</p> <p>(d) Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.</p>
Internal Controls	Auditors should obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed.

Field Work Standards for Financial Audits (Cont.)

Working Papers	<p>(a) A record of the auditors' work should be retained in the form of working papers.</p> <p>(b) Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.</p>
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Reporting Standards for Financial Audits

Communication with Audit Committees or Other Responsible Individuals	Auditors should communicate the following information related to the conduct and reporting of the audit to the audit committee or to the individuals with whom they have contracted for the audit: (a) the auditors' responsibilities in a financial statement audit, including their responsibilities for testing and reporting on internal controls and compliance with laws and regulations, and (b) the nature of any additional testing of internal controls and compliance required by laws and regulations.
Reporting Compliance with Generally Accepted Government Auditing Standards	Audit reports should state that the audit was made in accordance with generally accepted government auditing standards.
Reporting Compliance with Laws and Regulations and on Internal Controls	The report on the financial statements should either (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal controls and present the results of those tests or (2) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls. In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.
Privileged and Confidential Information	If certain information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.

Reporting Standards for Financial Audits (Cont.)

Report Distribution	Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.
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Field Work Standards for Performance Audits

Planning	Work is to be adequately planned. In planning, auditors should define the audit's objectives and the scope and methodology to achieve those objectives.
Supervision	Staff are to be properly supervised. Supervision involves directing the efforts of auditors and others who are involved in the audit to determine whether the audit objectives are being accomplished. Elements of supervision include instructing staff members, keeping informed of significant problems encountered, reviewing the work performed, and providing effective on-the-job training.
Compliance with Laws and Regulations	When laws, regulations, and other compliance requirements are significant to audit objectives auditors should design the audit to provide reasonable assurance about compliance with them. In all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse.
Management Controls	Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgments about those controls.

Field Work Standards for Performance Audits (Cont.)

Evidence	Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions. A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.
Validity and Reliability of Data From Computer-Based Systems	Auditors should obtain sufficient, competent, and relevant evidence that computer-processed data are valid and reliable when those data are significant to the auditors' findings. This work is necessary regardless of whether the data are provided to auditors or auditors independently extract them. Auditors should determine if other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data. If they have, auditors may be able to use that work. If not, auditors may determine the validity and reliability of computer-processed data by direct tests of the data. Auditors can reduce the direct tests of the data if they test the effectiveness of general and application controls over computer-processed data, and these tests support the conclusion that the controls are effective.

Reporting Standards for Performance Audits

Form	Auditors should prepare written audit reports communicating the results of each audit. Written reports (1) communicate the results of audits to officials at all levels of government, (2) make the results less susceptible to misunderstanding, (3) make the results available for public inspection, and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. The need to maintain public accountability for government programs demands that audit reports be written.
Timeliness	Auditors should appropriately issue the reports to make the information available for timely use by management, legislative officials, and other interested parties.
Objectives, Scope, and Methodology	Auditors should report the audit objectives and the audit scope and methodology.

Reporting Standards for Performance Audits (Cont.)

Audit Results	Auditors should report significant audit findings, and where applicable, auditors' conclusions.
Recommendations	Auditors should report recommendations for actions to correct problem areas and to improve operations.
Statement on Auditing Standards	Auditors should report that the audit was made in accordance with generally accepted government auditing standards.
Compliance With Laws and Regulations	Auditors should report all significant instances of noncompliance and all significant instances of abuse that were found during or in connection with the audit. In some circumstances, auditors should report illegal acts directly to parties external to the audited entity.
Management Controls	Auditors should report the scope of their work on management controls and any significant weaknesses found during the audit.
Views of Responsible Officials	Auditors should report the views of responsible officials of the audited program concerning auditors' findings, conclusions, and recommendations, as well as corrections planned.
Noteworthy Accomplishments	Auditors should report noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.
Issues Needing Further Study	Auditors should refer significant issues needing further audit work to the auditors responsible for planning future audit work.
Privileged and Confidential Information	If certain information is prohibited from general disclosure, auditors should report the nature of the information omitted and the requirement that makes the omission necessary.
Report Presentation	The report should be complete, accurate, objective, convincing, and as clear and concise as the subject permits.

Reporting Standards for Performance Audits (Cont.)

Report Distribution	Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.
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APPENDIX B
OFFICE OF THE CITY AUDITOR
CITY COUNCIL APPROVAL OF ASSIGNMENT PROCEDURE

<u>Responsibility</u>	<u>Action</u>
<i>City Auditor</i>	1. Prior to the beginning of the next fiscal year, submit to the Finance and Infrastructure Committee a proposed Audit Workplan.
<i>Finance and Infrastructure Committee</i>	2. Review and recommend City Auditor audit assignments for the next fiscal year and forward recommended City Auditor audit assignments to the City Council.
<i>City Council</i>	3. Review and approve Finance and Infrastructure Committee-recommended City Auditor audit assignments.
<i>City Council Members and City Manager</i>	4. Submit requests for City Auditor services to the Rules Committee.
<i>Rules Committee</i>	5. Forward request to City Auditor.
<i>City Auditor</i>	6. Review request. Respond to Rules Committee at next meeting. Response to include: availability of staff and resources, any external time constraints relative to the requested assignment, and other factors the City Auditor deems important.
<i>Rules Committee</i>	7. Review the City Auditor's response. Approve or disapprove the requested assignment.
	8. Communicate the decision to the City Auditor, the City Council, and the assignment requestor.
<i>City Auditor</i>	9. Initiate the assignment as soon as staff become available.
	10. Report monthly to the Rules Committee and to the Finance and Infrastructure Committee the status of approved audit assignments.
<i>City Manager, City Attorney, or City Clerk</i>	11. Request City Auditor's services when an emergency situation exists.

City Auditor

12. Respond immediately when the request regards an emergency situation.
13. Report to the Rules Committee at its next meeting. Report will include: any requests for immediate response received, what action was taken, and the disposition of the request.

APPENDIX C

OFFICE OF THE CITY AUDITOR

CITY OF SAN JOSE

QUALITY CONTROL REVIEW

FOR THE 24 MONTHS ENDED JUNE 30, 2001

INDEPENDENT AUDITOR'S REPORT

CITY OF SAN JOSÉ, CALIFORNIA

**EXTERNAL QUALITY
CONTROL REVIEW**

**For the period July 1, 1999
through June 30, 2001**

**Issued
November 1, 2001**



CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

GERALD A. SILVA
City Auditor

November 1, 2001

Honorable Members of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Attached is the independent auditor's report that representatives of the National Association of Local Government Auditors (NALGA) prepared in October 2001. Our comments in response to the audit report are also included. Jim Williamson, Assistant City Auditor from the Oklahoma City, Oklahoma, Internal Audit Office and a member of the audit team, will present this report to the Finance and Infrastructure Committee at its November 14, 2001 meeting.

Should you have any questions, please contact me at extension 4601.

Respectfully submitted,

Gerald A. Silva
City Auditor

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GS:bh

Attachments





National Association of Local Government Auditors

October 18, 2001

Honorable Mayor and Members of the City Council
801 North First Street, Room 600
San Jose, California 95110

We have completed an external quality control review of the San Jose Office of the City Auditor for audits issued during the period July 1, 1999 through June 30, 2001. In conducting our review, we followed the standards and guidelines contained in the NALGA *Quality Control Review Guide* published in May 1995, by the National Association of Local Government Auditors.

As prescribed by the NALGA *Guide*, we reviewed the internal quality control system of your audit organization and tested a sample of audits conducted by your office for compliance with government auditing standards issued by the Comptroller General of the United States. Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in the audit work. We have also concluded from the sample of audits tested that the quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

It is our opinion, therefore, that the San Jose Office of the City Auditor was in compliance with Government Auditing Standards during the period July 1, 1999 through June 30, 2001. We have prepared a separate letter to management which offers suggestions for further strengthening your internal quality controls.

Sincerely,

Jim L. Williamson
CPA, CIA, CGAP
Assistant City Auditor
Oklahoma City, OK

Joanne W. Griggs
CPA, CFE, CGFM
City Auditor
Virginia Beach, VA

Harriet Richardson
CPA, CIA
Principal Management Auditor
King County, WA



National Association of Local Government Auditors

October 18, 2001

Mr. Gerald A. Silva, City Auditor
Office of the City Auditor
800 North First Street
San Jose, CA 95110

Dear Mr. Silva:

We have completed an external quality control review of the San Jose Office of the City Auditor ("the Office") for audits issued during the period July 1, 1999 through June 30, 2001. We have issued a report stating our opinion that the Office was in compliance with Government Auditing Standards. We suggest that this letter be read in conjunction with our opinion report.

The following are areas in which your office excels:

- Encouraging the professional expertise of management and staff.
- Using innovative methods to communicate interim audit findings for timely management action.
- Developing a strong internal control process ensuring audit quality.
- Innovative risk-based planning to ensure comprehensive auditing of important subject matter.
- Thoroughly following-up on significant findings included in all audit reports.

While we found that the Office excelled in several areas, there are two minor areas in which we offer the following comments and suggestions for improving your operations and better demonstrating your compliance with Government Auditing Standards.

INDEPENDENCE

Government Auditing Standard 3.11 requires the audit organization and the individual auditors to be free from personal and external impairments to independence, and to maintain an independent attitude and appearance in all matters relating to the audit work. To meet this standard, the Office has established a policy that auditors will not be assigned to an audit where an impairment exists, unless the assignment is unavoidable and a justification is provided. The

Mr. Gerald A. Silva, City Auditor
October 18, 2001
Page 2

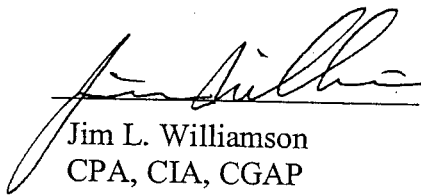
Office implements this policy by requiring each staff auditor assigned to an audit to complete a Staff Advisement Sheet advising the City Auditor of any personal impairments associated with the project. We believe that the Office is in compliance with the Government Auditing Standards. However, procedures could be strengthened by also requiring all supervisory and quality control review staff to sign Staff Advisement Sheets.

CONTINUING EDUCATION REQUIREMENTS

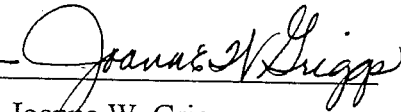
Government Auditing Standard 3.6 requires that each auditor responsible for planning, directing, conducting, or reporting on audits complete, every two years, a minimum of 80 hours of continuing education and training which contributes to the auditor's professional proficiency. At least 24 of the 80 hours should be directly related to the government environment and to government auditing. The audit staff in the Office met this requirement; however, our review of the Office's continuing education and training files identified the following areas that could be strengthened to ensure that this requirement continues to be met:

- Ensure that supporting documentation is included in the files.
- Ensure that staff are familiar with the publication, "Interpretation of Continuing Education and Training Requirements."

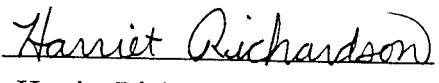
We appreciate the courtesy and cooperation provided by your staff during our review.



Jim L. Williamson
CPA, CIA, CGAP
Assistant City Auditor
Oklahoma City, OK



Joanne W. Griggs
CPA, CFE, CGFM
City Auditor
Virginia Beach, VA



Harriet Richardson
CPA, CIA
Principal Management Auditor
King County, WA



CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

GERALD A. SILVA
City Auditor

October 18, 2001

Mr. Jim Williamson, Assistant City Auditor
Office of the City Auditor
Oklahoma City, Oklahoma
200 N. Walker, Room 212
Oklahoma City, OK 73102

Dear Mr. Williamson:

The Office of the City Auditor submits the following comments in response to the audit of its operations:

I am pleased that the independent auditors did not find any significant weaknesses in the Office of the City Auditor's (Office) internal quality control system. The auditors stated that our system of internal control provided reasonable assurance of compliance with Generally Accepted Government Auditing Standards (GAGAS) and met the objectives of the National Association of Local Government Auditors quality control guidelines during the period audited.

I am also extremely gratified that in the management letter the auditors noted the following areas in which the Office excels:

- Encouraging the professional expertise of management and staff.
- Using innovative methods to communicate interim audit findings for timely management action.
- Developing a strong internal control process ensuring audit quality
- Innovative risk-based planning to ensure comprehensive audits of important subject matter.
- Thoroughly following up on significant audit findings included in all audit reports.



Mr. Jim Williamson
October 18, 2001
Page 2

The audit team's management letter also included two suggestions to improve the Office's operations and better demonstrate compliance with GAGAS. We concur with these suggestions and will take steps immediately to implement them.

The City Auditor's Office is committed to continuously improving and refining its audit processes. As such, we welcome the audit team's review and suggestions. We believe that the audit team's insights and perspectives will be helpful in improving the work of the City Auditor's Office. We also wish to thank the audit team, Joanne Griggs, Harriet Richardson, and you for the professionalism, openness, and courtesy displayed during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald A. Silva". The signature is fluid and cursive, with the first name "Gerald" being the most prominent.

Gerald A. Silva
City Auditor

GS:bh

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