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 2003 THROUGH JUNE 2005

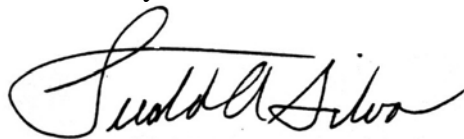**Report 05-05**
November 2005

November 22, 2005

Honorable Mayor and Members
      of the City Council
200 East Santa Clara Street
San Jose, CA 95113

This is a report on the *Activities And Accomplishments Of The Office Of The City Auditor For The Period July 1, 2003 Through June 30, 2005.*

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. I will present this report to the Making Government Work Better Committee at its December 1, 2005 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 2003 through June 2005.

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 2003 through June 2005, the Office exceeded this standard by identifying $6 in savings for every $1 of audit cost. The Office produced 51 reports and special projects containing 139 recommendations. These reports and special projects identified $25 million in opportunities to reduce costs or increase revenues compared to $4.3 million in audit costs. Most of the recommendations have been implemented or are in the process of being implemented.

Introduction

With City of San José (City) and Redevelopment Agency operating and capital budgets of nearly $5 billion a year, the members of the San José 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 revenues, 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 José 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 City Council-assigned performance audits 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 City Council-assigned special audits and investigations;

- 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 Service	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

City Council

Appropriate funds, establish
and monitor programs

**Making Government Work
Better Committee And
Management**
Review and act upon audit
report recommendations

**City Manager And
Departments**

Administer Programs

City Auditor's Office

Review departments' financial
operations and performance
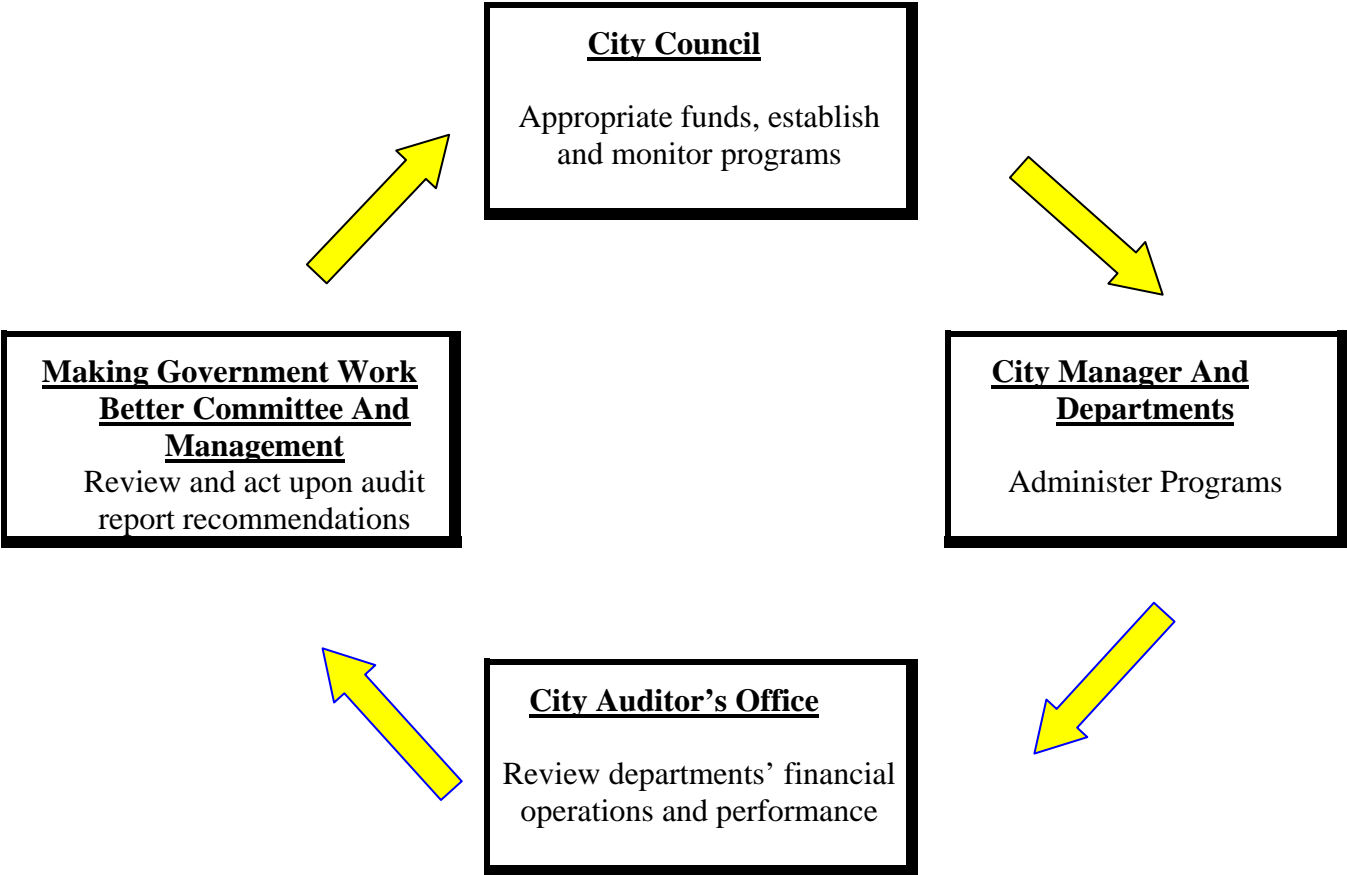
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Auditing City Departments And Programs

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

Financial Audits

Financial audits include financial statement and financial-related audits. <u>Financial statement audits</u> 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.

Attestation Engagements

<u>Attestation Engagements</u> examine, review, or perform agreed-upon procedures on a subject matter or a management assertion about a subject matter and report the results.

In accordance with the City Charter, an independent accounting firm conducts the financial statement and financial-related audits of the City of San José. The City 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 and attestation engagements the City Auditor's Office performs differs significantly from the outside audit of the City's financial statements. The primary emphasis of the audits the City Auditor's 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. <u>Economy and efficiency audits</u> 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.

<u>Program audits</u> 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 City Auditor's Office is occasionally requested to do thorough and impartial data collection, analysis, and reporting. The City Auditor's 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 Audits

In July 1994, the City Auditor's Office initiated a continuous audit of sales and business taxes. The objectives of this audit are to identify:

- San José retail businesses that do not file sales tax returns;

- Misallocation of the local portion of the sales taxes paid by San José businesses; and

- San José businesses that have paid sales taxes but not the San José business tax.

It should be noted that in December 2003, the Rules Committee removed business tax audits from the City Auditor's Annual Workplan. The City Auditor continues to conduct sales tax audits.

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 City 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.

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Benefits To The City Of San José

The City Auditor's expanded audit approach has benefited the City of San José 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 revenues for every $1 of audit cost. The Office exceeded this objective from July 2003 through June 2005 by achieving a two-year average audit payback ratio of $6 in savings or increased revenues for every $1 of audit cost. As shown in Exhibit 2, from July 2003 through June 2005, the Auditor's Office identified $25 million in opportunities for the City to increase revenues or reduce costs as compared to audit costs of $4.3 million.

Exhibit 2   Savings/Revenues Vs. Costs – July 2003 Through June 2005
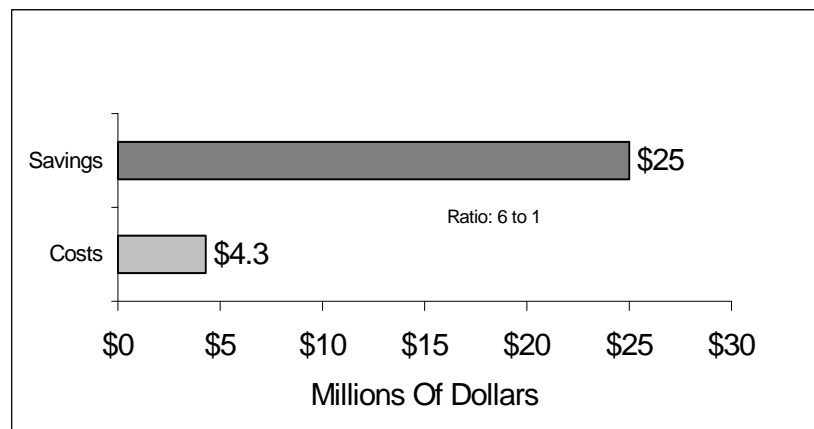
Since his appointment in 1985, the City Auditor has attempted to generate $3 of revenue increases or cost savings for every $1 of audit costs. From May 1985 through June 2005, the actual achievement level was about $7.50 to $1 as shown in Exhibit 3 below.

Exhibit 3   Savings/Revenues Vs. Costs – May 1985 Through June 2005
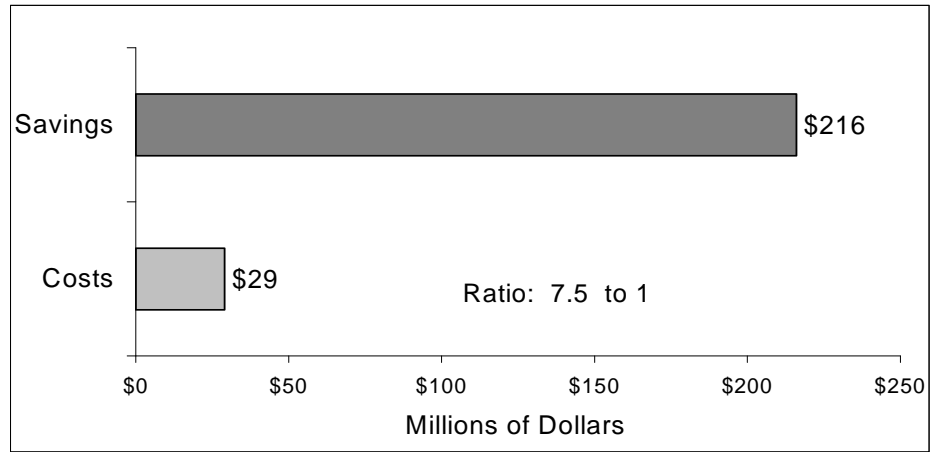
Exhibit 4 compares the cost savings or revenue enhancements against the audit costs for each reporting period from 1985-89 to 2003-05.

Exhibit 4   Audit Savings Vs. Costs For 1985-89, 1989-91, 1991-93, 1993-95, 1995-97, 1997-99, 1999-01, 2001-03, And 2003-05 (In Millions)
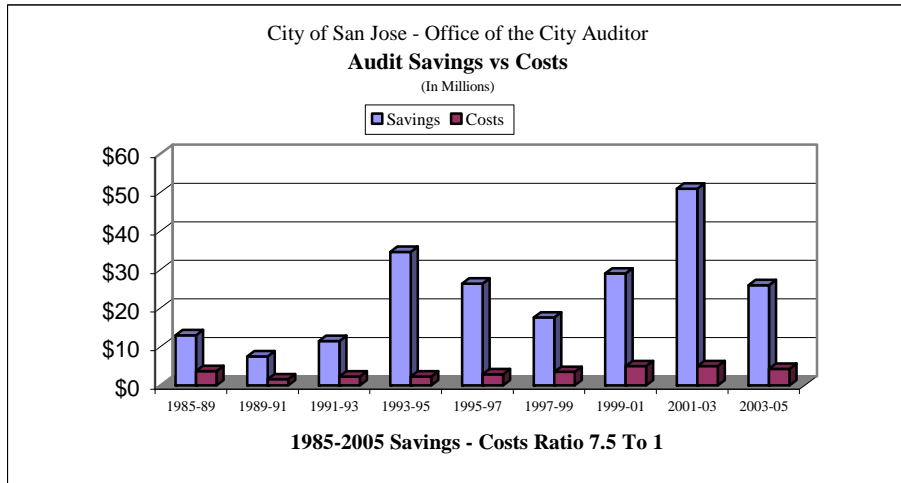
Audit Recommendations

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

- *Improved Economy or Efficiency*. Audit recommendations identified ways to (a) maximize revenues or identify opportunities for new revenues or cost savings; (b) manage or utilize its resources, including public funds, 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 the City Council or other authorizing bodies established.

- *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.

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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 Making Government Work Better (MGWB) and Rules Committees directly oversee the work of the City Auditor. The Rules Committee reviews and approves the City Auditor's annual audit workplan and the MGWB Committee 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.

Budget

Since 1985-86, the budget of the Auditor's Office has averaged about $1.56 million per year, with approximately 95 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 City Auditor's Office provides employment and training for up to eight part-time student interns. Exhibit 5 shows the City Auditor's adopted budget and staffing level from 1985-86 to 2004-05.

Exhibit 5   Office Of The City Auditor – Adopted Budget And Staffing Level From 1985-86 To 2004-05

Year	Positions	Personal	Non-Personal	Equipment	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
2001-02	20	2,217,936	83,366	0	2,301,302
2002-03	20	2,306,856	78,200	0	2,385,056
2003-04	19	2,249,316	32,209	0	2,281,525
2004-05	18	2,265,031	96,028	0	2,361,059

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, non-personal services expenses, petty cash and revenue accounts, and parking revenues.

In 1987, the City 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 City Auditor's 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 City Auditor'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 core services and revenue sources. For each of the City's budgeted core services and revenue sources, the City Auditor's 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 core service 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 core service or revenue source. The City Auditor then sorts these weighted scores from highest to lowest and recommends that the Rules Committee include in the City Auditor's Annual Audit Workplan those budgeted core services 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 City Auditor's Office currently operates with 16 authorized positions consisting of the City Auditor, three supervising auditors, ten auditors, and two administrative staff. The City Auditor's Office also trains and employs up to eight student interns. Exhibit 6 shows the organizational chart for the City Auditor's Office as of November 1, 2005.

Exhibit 6 **Office Of The City Auditor Organization Chart As Of November 1, 2005**

CITY COUNCIL

CITY AUDITOR

Gerald A. Silva

EXECUTIVE ASSISTANT TO CITY AUDITOR
Brad Handshy

SUPERVISING AUDITOR
Michael A. Edmonds
Eduardo Luna
David Moreno

SR. OFFICE SPECIALIST
Guadalupe P. Gonzalez

PROG PERF AUDITOR I

Belinda Silvatici

SR. PROG/PERF AUDITOR- - REVENUE AUDITS

David McPherson

SR. PROG/PERF AUDITOR

Lynda Brouchoud	Gitanjali Mandrekar
Jennifer Callaway	Ruth Merino
Chris Constantin	Robin Opheim
Greg Elliott	Jorge Oseguera

Student Interns

David Doan	Ryan Swanson
Eloisa Rodriguez	James Toombs

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, most 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 José 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 José 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 National Intergovernmental Audit Forum Executive Committee, a former member of the American Institute of Certified Public Accountants' Members in Government Committee, and currently serves on the National Intergovernmental Audit Forum's Public Outreach Task Force. In 2002, the Comptroller General of the United States appointed the City Auditor to the prestigious Advisory Council on Government Auditing Standards and in August 2003, the American Institute of Certified Public Accountants named the City Auditor as the recipient of its outstanding CPA in Government Award for 2003.

EXHIBIT 7

OFFICE OF THE CITY AUDITOR
STAFF EDUCATION AND BACKGROUND

AUDITOR	*TITLE*	*EDUCATION*	*PROFESSIONAL AFFILIATIONS & RECOGNITIONS*	*PRIOR WORK EXPERIENCE*
Gerald A. Silva, CPA, CGFM	City Auditor	Bachelor of Science Accounting, 1967	Advisory Council on Government Auditing Standards; Former Member of the Board of Governors, Member, IIA, San Jose Chapter; Past President, NALGA; Former Chairman, WIAF; Former Local Government Representative, National Intergovernmental Audit Forum Executive Committee Member; Former AICPA Members In Government Committee; GFOA; NIAF Public Outreach Task Force; Who's Who in Government; California & Arizona State Boards of Accountancy; Past Chairman of the AGA's State and Local Government Committee for 1997-98; Member, Financial Management Standards Board for the AGA; AICPA Outstanding CPA In Government For 2003; AGA Einhorn-Gary Service Award Winner For 2000; AGA Distinguished Local Government Leadership Award Winner In 1996; WIAF Jack Birkholz Leadership Award Winner In 1993	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 *(Separated from City service during reporting period)*	Supervising Auditor	Bachelor of Science Accounting, 1971	Member, IIA, San Jose Chapter; Member, NALGA; Member, ACFE	Senior Auditor, Castle & Cooke, Inc.
Michael Edmonds, CIA	Supervising Auditor	Bachelor of Arts Political Science, 1974	Member, IIA, San Jose Chapter; Member, NALGA; Western Region Peer Review Coordinator, NALGA; NALGA Peer Review Committee	Internal Auditor, Contra Costa Water District; Staff Auditor, California Office of the Auditor General

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS & RECOGNITIONS	PRIOR WORK EXPERIENCE
Eduardo Luna, MPA, CGFM, CIA	Supervising Auditor	Bachelor of Science Political Science, 1987 MPA, 1989	Member, IIA, San Jose Chapter; Member, NALGA; Member, AGA	Evaluator, U.S. General Accounting Office
David Moreno, MPA	Supervising Auditor	Bachelor of Arts Political Science, 1979 MPA, 1985	Member, IIA, San Jose Chapter; 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, IIA, San Jose Chapter; Member, NALGA	Management Fellow, San Jose City Manager's Office
Jennifer Callaway, MPA, JD	Senior Program Performance Auditor	Bachelor of Science Accounting, 1999 JD, 2002 MPA, 2002	Member, IIA, San Jose Chapter; Member, NALGA	Intern at the Housing Council of Monroe County, New York
Chris Constantin, MPA	Senior Program Performance Auditor	Bachelor of Science Industrial and Systems Engineering, 2000 MPA, 2001	Member, GFOA; Member, IIA, San Jose Chapter; Member, NALGA; Member, ACFE; Member, IIE	President of the Board, West Valley-Mission Community College District; Sales Coordinator, Adaptec Corporation
Gregory W. Elliott, MA	Senior Program Performance Auditor	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
Robin A. Klenke, MBA, CGFM	Senior Program Performance Auditor	Bachelor of Arts Anthropology/Linguistics, 1982 MBA, 1986	Past President, IIA, San Jose Chapter; Past President, ASPA, Santa Clara Valley Chapter; Member, NALGA	Manager/Chief Technician, El Camino Hospital
Jennifer K. Lanciault, MBA *(Separated from City during reporting period)*	Senior Program Performance Auditor	Bachelor of Arts French, 1993 MBA, 1997	Member, IIA, San Jose Chapter; Member, NALGA	Manager, Accenture
Gitanjali Mandrekar, MA	Senior Program Performance Auditor	Bachelor of Arts Economics, 1995 MA, Economics, 1998	Member, IIA, San Jose Chapter; Member, NALGA	Audit Intern, San Jose City Auditor's Office

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS & RECOGNITIONS	PRIOR WORK EXPERIENCE
David McPherson, MPA, CRO, NLO	Senior Program Performance Auditor	Bachelor of Arts History, 1986 MPA, 1993	Past State President, CMRTA; Member, NBBLO; Member, IIA, San Jose Chapter; Member, NALGA; Member, CMRTA 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, ISACA; Member, NALGA	Business Banking Officer, Bank of America
Jorge Oseguera, MPA	Senior Program Performance Auditor	Public Policy & International Affairs Fellow at University of Washington, 1999 Bachelor of Arts Political Science with concentration in Public Administration, 2000 MPA, 2001	Member, IIA, San Jose Chapter; Member, NALGA; Member, AGA	Intern at the Interstate National Gas Association of America; Senior Park Aide at California Department of Parks & Recreation
Martin Krone, MPA, CIA, CGAP, CFE, CGFM *(Separated from City during reporting period)*	Program Performance Auditor II	Bachelor of Science Administration, 1980 MPA, 1992	President, AGA, Silicon Valley Chapter; Past-President, IIA, San Jose Chapter; Past–President, AGA, NYC Chapter; Member, NALGA; Member, ACFE	Director of Professional Development, FEI; Assistant Director of Financial Compliance, City of New York; Auditor Supervisor, City of New York
Belinda Silvatici	Program Performance Auditor I	Bachelor of Science Business Administration, 2002	Member, IIA, San Jose Chapter; Member, NALGA; Member, CMTRA	Audit Intern, San Jose City Auditor's Office
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 & RECOGNITIONS	PRIOR WORK EXPERIENCE
Minh Tran Nguyen, MCP *(Transferred to the IT Department after June 30, 2005)*	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
Guadalupe P. Gonzalez	Senior Office Specialist	Bachelor of Science Business Administration, Management, 1995		Revenue Account Administrator, OnCommand Corp.

ACRONYMS

ACFE	Association of Certified Fraud Examiners	GFOA	Government Finance Officers Association
AGA	Association of Government Accountants	IIA	Institute of Internal Auditors
AICPA	American Institute of Certified Public Accountants	IIE	Institute of Industrial Engineers
ASPA	American Society for Public Administration	ISACA	Information Systems Audit and Control Association
CFE	Certified Fraud Examiner	JD	Juris Doctor
CGAP	Certified Government Auditing Professional	MA	Master of Arts
CGFM	Certified Government Financial Manager	MBA	Master in Business Administration
CIA	Certified Internal Auditor	MPA	Master in Public Administration
CISA	Certified Information Systems Auditor	MPP	Master in Public Policy
CMBTA	California Municipal Business Tax Association	NALGA	National Association of Local Government Auditors
CPA	Certified Public Accountant	NBBLO	National Bureau of Business License Officials
CRO	Certified Revenue Officer	NIAF	National Intergovernmental Audit Forum
CROA	California Revenue Officers Association	NLO	National Licensing Official
FEI	Financial Executives International	WIAF	Western Intergovernmental Audit Forum

Recognition, Appointment, And Awards	The Office of the City Auditor received the following recognition, appointment, and awards:

- At its 2005 annual conference, the National Association of Local Government Auditors awarded the San José City Auditor's Office the Lennis Knighton Honorable Mention for Best Audit. The City Auditor's Office received national recognition for *A Review of the Request for Proposal for the New Civic Center Converged Network System.*

- At its 2004 annual conference, the National Association of Local Government Auditors awarded the San José City Auditor's Office the Lennis Knighton Honorable Mention for Best Audit. The City Auditor's Office received national recognition for *An Audit of the Vehicle Replacement Program.*

Office Of The City Auditor Performance Audit	The City Charter requires the City 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 City Auditor's Office has undergone ten audits since the performance audit requirement was instituted. In June 1987, the City Auditor's 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 City Auditor's 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 made

recommendations to improve the City Auditor's Office's system of quality control. The City Auditor has implemented all of the recommendations.

Independent auditors conducted the City Auditor's Office's subsequent performance audits in 1989, 1991, 1993, 1995, 1997, 1999, 2001, 2003, and 2005. The objective of these audits was to determine the Office's compliance with generally accepted government auditing standards, based on the peer review guidelines of 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 auditors' 2005 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 José
- 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
- Staffing
- Organization Chart
- Government Links
- List of Issued Memoranda

The City Auditor's Office Website receives over 6,500 visits 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.sanjoseca.gov/auditor/**

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Summary Of Work Performed July 2003 Through June 2005

From July 2003 through June 2005, the City Auditor's Office completed 47 performance/financial audit reports and special studies and 4 recommendations follow-up reports. The audit reports contained 139 recommendations to improve economy, efficiency, and effectiveness within City government. Since the City Auditor started in May 1985, the Office has made 1,409 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 2005.

Exhibit 8   Types Of Recommendations – May 1985 Through June 2005

City of San José - Office of the City Auditor
TYPES OF AUDIT RECOMMENDATIONS
May 1985 through June 2005

Recommendations to Improve Economy or Efficiency

684

725

Recommendations to Improve Operations or Program Effectiveness

Total Recommendations: 1,409
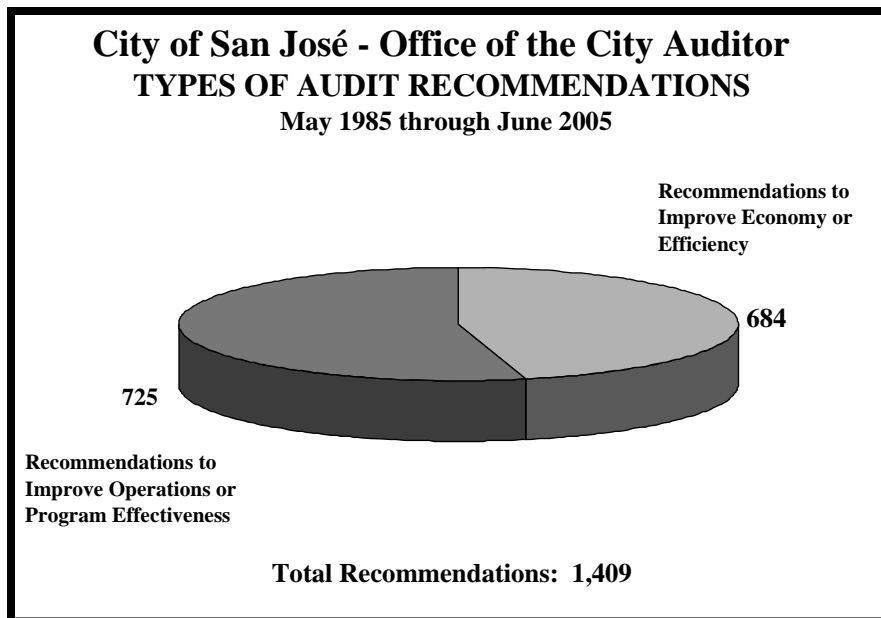
Exhibit 9   Status of Recommendations As Of June 2005

City of San José - Office of the City Auditor
RECOMMENDATIONS IMPLEMENTED
May 1985 through June 2005

Implemented

92%

8%
In Process or Deferred

Total Recommendations: 1,409
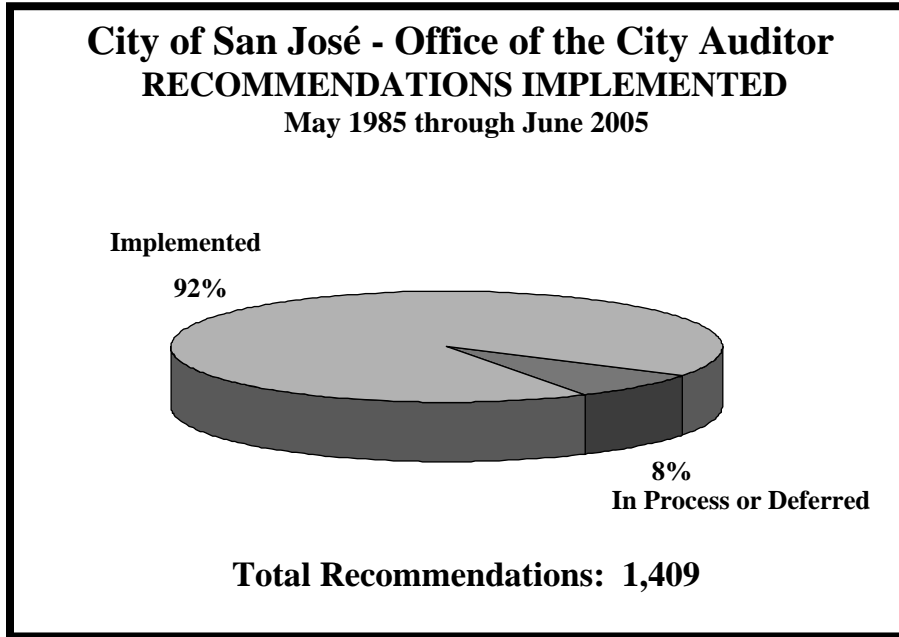
Exhibit 10 summarizes the activity costs and results for the period July 2003 Through June 2005.

Exhibit 10
Summary Of Activity Costs And Results
For The Period July 1, 2003 To June 30, 2005

Report Number	Date	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
03-07	Jul-03	An Audit Of The Neighborhood Development Center Of The Department Of Parks, Recreation, And Neighborhood Services	$140,058	$465,362	3	3
03-08	Aug-03	An Audit Of The Facilities Management Division	$133,525	$102,000		1
03-10	Nov-03	An Audit Of The San José Fire Department's Bureau Of Fire Prevention	$641,027	$100,000	9	7
03-11	Jan-04	An Audit Of The Utilization And Replacement Of The City's Metered Equipment	$139,836	$6,975,000	7	3
04-01	Apr-04	An Audit Of The Concentrated Code Enforcement Program	$116,141		3	4
04-02	May-04	An Audit Of The Crossing Guard Program (includes subsequent Memo)	$70,971	$392,000	6	2
04-03	May-04	An Audit Of The Department Of Public Works' Real Estate Division Real Property Acquisition Process	$360,302		3	
04-04	Jun-04	An Audit Of The Utilization And Replacement Of The City's Transport Vehicles	$194,059	$6,575,000	12	2
04-05	Jun-04	CUSP Request For Proposal Process	$91,869		9	6
04-06	Aug-04	A Review Of The Request For Proposal For The New Civic Center Converged Network System	$88,491		3	3

Report Number	Date	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
04-07	Nov-04	An Audit Of The City's Cellular Phone Program	$146,018	$254,372	6	
04-08	Dec-04	An Audit Of San José Family Camp	$24,091		8	3
04-09	Dec-04	An Audit Of The City Manager's Reforms	$137,466	$120,724	1	2
05-01	May-05	An Audit Of The Public Art Program	$106,919		6	5
05-02	Jun-05	An Audit Of The Agreements Between The City And The Filipino American Senior Opportunities Development Council	$348,850	$219,414	11	3
		Hazardous Incident Team	$99,702	$413,000	1	
		Silicon Valley Workforce	$24,414		1	
		Municipal Water System	$81,845		1	
		Airport Concessions	$76,344		4	
		Strong Neighborhoods Initiative	$69,768			1
		Revenue Enhancement	$55,045	$1,612,290		
		Sales and Business Tax Audit	$367,056	$2,760,391		

Report Number	Date	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
		Vehicles and Equipment	**$123,427**	**$5,134,178**		
		Overhead Reimbursements	**$25,037**			
		Jet Fuel	**$3,899**			
		MRC Compliance Review	**$984**			
		Performance-Based Budgeting	**$35,201**			
		Peer Review/Biennial Report	**$36,273**			
		Redevelopment Agency Development Agreements	**$145,078**			
		Airport Neighborhood Services	**$35,336**			
		Airport Shuttle Port	**$11,953**			
		RDA Budget Analysis	**$21,638**			
		RDA Review Process	**$15,485**			
		Park Staffing	**$636**			
		Fraud Hotline	**$11,945**			

Report Number	Date	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
		Citywide Risk Assessment	$3,638			
		Bay 101 Audit	$5,890			
		Recommendation Follow-up	$42,660			
		Citywide Annual Audit	$62,604			
		Training	$98,266			
		Internal Audit Quality Control	$81,618			
		Departmental Administration	$125,543			
		Vacation, Holiday and Other Leave	$747,113			
		Prior Period Costs Carryover	($1,284,961)			
		Assignments in Progress	$467,344			
		Totals	$4,330,404	$25,123,731	94	45

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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 2003 through June 2005:

#03-07 An Audit Of The Neighborhood Development Center Of The Department Of Parks, Recreation, And Neighborhood Services (July 2003)

Agreed-Upon Changes In The Neighborhood Development Center Will Save The General Fund $448,000 During 2003-04 And 2004-05 And Additional Savings Are Possible

During the course of our audit, we worked with the Department of Parks, Recreation, and Neighborhood Services (PRNS) and the Department of Planning, Building and Code Enforcement (PBCE) staff and mutually agreed upon changes to the Neighborhood Development Center (NDC). These agreed-upon changes will save the General Fund about $448,000 during 2003-04 and 2004-05. The Mayor's Budget Office incorporated these agreed-upon changes to the NDC in the Mayor's June 4, 2003 Budget Message. Specifically, these agreed-upon changes to the NDC include:

- Code Enforcement anticipates using at least $50,600 in Multiple Housing Fees to fund Property Owners' Training Workshops;

- PRNS has agreed to reduce personal and non-personal services costs in the NDC's Project Blossom, Neighborhood Academy, and Administration sections;

- PRNS has agreed to reduce the 2003-04 Community Action and Pride (CAP) Grant allocation, saving the City $174,000, and PRNS has agreed to additional personal services reductions

- PRNS has agreed to maximize use of all CDBG funds, and eliminate all contract employees and General Fund expenses associated with the Resource Section;

- PRNS will give a 120-day notice to terminate the NDC's property lease by July 1, 2003, which will save $28,000 in 2003-04 and $87,000 in 2004-05; and

- Further NDC efficiencies and savings are possible.

In our opinion, PRNS and/or Code Enforcement should 1) resolve Property Owners' and Tenant Training Program ownership, and develop and document a formal workplan with program goals and objectives; 2) develop a comprehensive budget for the Project Blossom Program, a formal Project Blossom workplan for each Project Blossom site, and establish

guidelines and better supervisory review; 3) develop and implement a time reporting system for Project Blossom staff to record how staff allocate their time; 4) reconfigure and consolidate the Neighborhood Academy; 5) develop and implement specific CAP Grant criteria including usage, evaluation, and follow-up guidelines for determining how much to award for each specific grant purpose, require applicants to provide detailed descriptions of specific locations where proposed projects will take place and expected timeframes for project completion, and coordinate and consolidate the CAP Grant with other similar City and Community grants and program support for neighborhoods; and 6) make full use of its agreement with the Community Foundation.

RECOMMENDATIONS

We recommend that Code Enforcement, PRNS, and the Housing Department:

Recommendation #1   **Resolve Property Owners' and Tenant Training Program ownership, authority, funding, and management responsibility issues and prepare a formal Program workplan with specific goals and objectives. (Priority 3)**

We recommend that PRNS:

Recommendation #2   **Develop a comprehensive budget for the Project Blossom Program, a formal Project Blossom workplan for each Project Blossom site, and establish guidelines and better supervisory review. (Priority 2)**

Recommendation #3   **Require Project Blossom staff to document and report to PRNS management how they spend their time on Project Blossom activities. (Priority 3)**

Recommendation #4   **Reconfigure and consolidate the Neighborhood Academy. (Priority 2)**

We recommend that PRNS:

Recommendation #5
- **Develop and implement specific CAP Grant criteria including usage, evaluation, and follow-up guidelines for determining how much to award for each specific grant purpose, and require applicants to provide detailed descriptions of specific locations where proposed projects will take place and expected timeframes for project completion.**
- **Coordinate and consolidate the CAP Grant with other similar City and Community grants and program support for neighborhoods. (Priority 3)**

Recommendation #6 **Make full use of the grant management oversight clause in its agreement with the Community Foundation Silicon Valley. (Priority 3)**

Memo: A Review Of The Strong Neighborhood Initiative (July 2003)

We found that the purpose of SNI needs to be consistently stated and SNI performance measurements can be improved to better measure SNI efforts. A consistently-stated purpose would allow for the development of a comprehensive performance measurement system to gauge the achievement of the SNI purpose. The City can better track the effect additional resources have on SNI areas by measuring SNI efforts and comparing the results to non-SNI areas. Currently, the Department of Parks, Recreation and Neighborhood Services (PRNS) is working with the Redevelopment Agency and other City Service Areas in revising performance measurements. The revised performance measurements will be incorporated into the final SNI Business Plan.

In our opinion, the SNI program staff should work with Quest to 1) define a consistent purpose for SNI, 2) divide performance measurements into SNI and non-SNI components, 3) include specific performance measurements that gauge the achievement of specific SNI priorities, and 4) include SNI residents in the development of SNI performance measurements and goals.

#03-08 An Audit Of The Facilities Management Division (August 2003)

Facilities Management Needs To Formalize And Implement Agreed-Upon Improvements To Its Internal Control System

The purpose of the Facilities Management Division (Division) of the General Services Department (GSD) is to provide safe, efficient, comfortable, attractive, and functional buildings and facilities. We found that the Division lacked adequate and documented internal controls to mitigate nine of the threats we identified during our Risk Assessment process. Based upon our Risk and Vulnerability Assessments, the Division agreed to develop formal procedures to improve its internal controls in all three work sections.

In our opinion, the Division should continuously update its internal controls as new issues arise and formalize all its internal control procedures in a procedure manual for staff advisement and training purposes. Furthermore, the Division should institute management oversight to ensure compliance with the new procedures.

RECOMMENDATIONS

We recommend that the Facilities Management Division of the General Services Department:

Recommendation #1

- **Develop a procedures manual to formally document the developed procedures in Appendix D.**
- **Continuously develop controls and procedures to address additional operational threats as they arise.**
- **Use the procedures manual to advise and train current and new staff.**
- **Institute management oversight to ensure compliance with the new procedures. (Priority 3)**

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Memo: The 2003-04 Crossing Guard Program Includes $274,000 That The Program Does Not Need (October 2003)

The SJPD Budgets More Than It Needs For Crossing Guards

During our audit of the Program, we noted that the SJPD realized significant savings in the Crossing Guard Program. Specifically, we found that the Program's budget ended each fiscal year with $540,316; $390,462; and $391,533 in 2000-01, 2001-02, and 2002-03, respectively. Exhibit 1 below shows the Crossing Guard Program's personal services budget, personal services expenditures, and the remaining personal services budget for each of the last three fiscal years.

The SJPD's FTE Calculation Is Too High

The Program budget for personal services is too high because the SJPD's FTE calculation for the Program is too high. Since 2000-2001, the SJPD has used 48.74 FTEs to calculate the Program's personal services budget for part-time Crossing Guards. Based on our analysis, 48.74 FTEs would have funded up to 243 part-time Crossing Guards. However, the Program only needed 189 part-time Crossing Guards in 2002-03. Thus, the Program's budget included funds for 54 more part-time Crossing Guards (243 – 189) than were needed for 2002-03.[1] As a result, the Program's budget included $329,000 for part-time Crossing Guards in 2002-03 that it did not need. Moreover, because of vacancies, the SJPD did not use an additional $63,000, for a total of $392,000 in remaining funds at the end of 2002-03. According to the SJPD, it uses all savings realized in all personal services programs to fund the Sworn Hire-Ahead Program. In addition, the SJPD returned about $600,000 of its 2002-03 budget to the General Fund.

During the audit, we found that the SJPD can significantly reduce the line item budget for Crossing Guards in this Program's 2003-04 budget while adding more Crossing Guards for the current school year. The School Pedestrian Safety Committee approved five additional intersections requiring as many as 11 additional part-time Crossing Guards for a total of 200 part-time Crossing Guards for the 2003-04 school year. We calculated that the SJPD would need 40.36 FTEs for the current year, or 8.38 FTEs fewer than it budgeted (48.74-40.36). As a result, the Program's 2003-04 budget includes $274,000 for part-time Crossing Guards that the

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[1] We calculated the Program's FTE based on the average hours worked, the number of days school is in session, and the number of Crossing Guards needed for all authorized intersections.

Program does not need. According to the SJPD, it will use this $274,000 to pay for 24 sworn overstrength positions currently in place in the Sworn Hire-Ahead Program.

We recommend, and the SJPD agrees, that it review the FTEs needed for the Crossing Guard Program annually using a methodology based on the actual personal services needs and number of intersections needed to be staffed.

#03-10 An Audit Of The San José Fire Department's Bureau Of Fire Prevention (November 2003)

The San José Fire Department Needs To Improve Controls To Ensure The Completeness Of Its Inspection Database

The San José Fire Department (SJFD) inspects various facilities throughout the City to ensure compliance with State and local fire safety codes. Many of these facilities are subject to fire permit fees and the SJFD maintains a listing of these facilities in a database known as the Fire Inspection Billing System (FIBS). The SJFD uses the FIBS database to identify those facilities that are subject to inspection and to schedule those inspections.

Based on our review of the FIBS database, we found

- The SJFD is not inspecting at least 679 facilities that appear to require a fire safety permit;

- The SJFD is not inspecting another estimated 1,256 manufacturing facilities that may require a fire safety permit;

- The SJFD lacks assurance that it is adding all of the new businesses that require a fire safety permit to its FIBS database; and

- The SJFD has no assurance that deletions from its FIBS database are properly authorized.

Consequently, the SJFD cannot provide adequate assurance that it has identified all the facilities that are subject to inspections and properly entered them into its FIBS database. As a result, the SJFD is not 1) identifying and eliminating all potential fire hazards; 2) collecting at least $204,000 in annual fire inspection fees; and 3) ensuring equitable treatment for all facilities operating in San José. In our opinion, the SJFD should ensure that its FIBS database contains a complete listing of all the facilities that it should inspect by implementing the following recommendations: 1) follow up on the facilities that are not in

the FIBS database that we identified from comparing the FIBS database to the Business License database; 2) if Recommendation #1 results in a significant number of facilities being added to the FIBS database, follow up on the remaining manufacturing facilities in the Business License database that did not have a FIBS number; 3) periodically compare the FIBS database with the Business License database using the SIC Codes that are most likely to require a fire safety permit; 4) develop written procedures to ensure that facilities identified from the New Accounts Report as potentially needing a fire safety permit are inspected, assessed, and entered into the FIBS database; and 5) establish written procedures to ensure that facility deletions from the FIBS database are properly authorized.

RECOMMENDATIONS

We recommend that the SJFD:

Recommendation #1   **Follow up on the facilities that are not in the FIBS database that we identified from comparing the FIBS database to the Business License database. (Priority 2)**

Recommendation #2   **If Recommendation #1 results in a significant number of facilities being added to the FIBS database, follow up on the remaining manufacturing facilities in the Business License database that did not have a FIBS number. (Priority 2)**

Recommendation #3   **Periodically compare the FIBS database with the Business License database using the SIC Codes that are most likely to require a fire safety inspection. (Priority 2)**

Recommendation #4   **Develop written procedures to ensure that facilities identified from the New Accounts Report as potentially needing a fire safety permit are**

- **Inspected;**
- **Assessed as to whether a permit is required; and**
- **Entered into the FIBS database if a fire safety permit is required.**

(Priority 3)

We recommend that the SJFD:

Recommendation #5

Establish written procedures to ensure that all facility deletions from the FIBS database are properly authorized. (Priority 3)

The San José Fire Department Can Improve Its Inspection Program

The California State Health and Safety Code (Health and Safety Code) requires the San José Fire Department (SJFD) to inspect certain facilities on an annual basis. In addition, the SJFD's Bureau of Fire Prevention (Bureau) has a goal to inspect 80 percent of the facilities in the FIBS database for the Special Occupancy and Permitted Occupancy Units on an annual basis. We found that

- The SJFD did not inspect on an annual basis from 37 to 61 percent of those facilities requiring an annual inspection from 1998-99 through 2001-02 and
- The SJFD did not meet its own 80 percent annual inspection goal for the Special Occupancy Unit and the Permitted Occupancy Unit during three out of the last four years.

We found that the SJFD needs to 1) improve its controls over Record of Inspection (ROI) forms, 2) improve upon its system to prioritize inspections based upon appropriate risk factors, 3) improve its system of tracking the time inspectors spend on inspections and inspection-related activities, and 4) perform a workload analysis to determine the staffing requirements to achieve its inspection goals and objectives. In addition, the SJFD has experienced staffing issues such as turnovers, vacancies, and less than full-time inspectors. Accordingly, the SJFD should inspect all facilities requiring an annual inspection as mandated by the Health and Safety Code on an annual basis, establish accountability for all ROIs and ensure that an inspection is completed for all assigned ROIs; develop a risk assessment methodology to assign facility inspection frequencies; improve its system of tracking the amount of time inspectors spend on inspection and inspection-related activities; and develop a workload analysis to determine its inspection staff needs to achieve its inspection goals and objectives.

RECOMMENDATIONS

We recommend that the SJFD:

Recommendation #6   **Require the fire companies to submit information on the number of educational facilities actually inspected annually. (Priority 3)**

Recommendation #7   **Inspect all facilities requiring an annual inspection on an annual basis. (Priority 2)**

Recommendation #8   **Change its inspection goals to 100 percent for all facilities requiring an annual inspection. (Priority 3)**

Recommendation #9   **Establish accountability for all Record of Inspection forms and ensure that an inspection is completed for all assigned Record of Inspection forms. (Priority 3)**

Recommendation #10   **Develop a risk assessment methodology to assign facility inspection frequencies. (Priority 3)**

Recommendation #11   **Improve its system of tracking the amount of time inspectors spend on inspections and inspection-related activities. (Priority 3)**

Recommendation #12   **Develop a workload analysis to determine its inspection staff needs to achieve its inspection goals and objectives. (Priority 3)**

The San José Fire Department Can Improve Its Enforcement Efforts

The Code Enforcement Division (Division) in the San José Fire Department's (SJFD) Bureau of Fire Prevention (Bureau) records the results of its inspections of facilities throughout the City, including any violations noted, on Record of Inspection (ROI) forms. Based upon our review of ROIs, we found that

- SJFD inspectors are generally not following up on identified violations in a timely manner;

- The SJFD is not consistently applying re-inspection fees; and

- The SJFD is not efficiently enforcing the requirement for facilities to complete their Hazardous Material Business Plan.

In our opinion, the SJFD needs to develop formal policies and procedures on the appropriate follow up by requiring inspectors to give the facility a specific compliance date and for consistently applying re-inspection fees. In addition, the SJFD needs to ensure supervisory review and approval of completed ROIs. Finally, the SJFD needs to develop procedures and controls to ensure that facilities submit their Hazardous Material Business Plan (HMBP) in a timely manner.

RECOMMENDATIONS

We recommend that the SJFD:

Recommendation #13 **Develop formal policies and procedures that require the inspectors to follow up on identified violations in a timely manner and specify the actual compliance date on the Record of Inspection form. (Priority 3)**

Recommendation #14 **Develop written policies and procedures for applying re-inspection fees. (Priority 3)**

Recommendation #15 **Ensure supervisory review and approval of completed Record of Inspection forms. (Priority 3)**

Recommendation #16 **Develop procedures and controls to reduce the number of times inspectors return to facilities to confirm that an HMBP is in place and to ensure that facilities submit their HMBP in a timely manner. (Priority 3)**

#03-11 An Audit Of The Utilization And Replacement Of The City's Metered Equipment (January 2004)

By Using Its Metered Equipment More Efficiently, The City Can Potentially Realize About $3.5 Million In Economic Benefit

As of June 2003, the City of San José had 265 pieces of metered equipment that are oftentimes very expensive to purchase, operate, and maintain. However, we found that the City is not using its metered equipment in the most cost-effective manner possible. We based our conclusion on the following:

- The City does not have utilization standards to manage the efficient use of its metered equipment;

- Most of the City's metered equipment is severely underutilized;

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- The City does not conduct utilization assessments to identify low-use equipment that could be considered for retirement, reassignment, or added to an equipment pool; and

- The City's practice is to provide departments with their own piece(s) of metered equipment rather than pooling.

As a result, the City 1) maintains an oversized fleet of underutilized metered equipment; 2) incurs excessive costs to maintain and operate the City's metered equipment fleet; and 3) has not promoted the efficient use of City resources. In our opinion, the City Manager should designate the Fleet Management Division (FMD) of the General Services Department as the City entity that has the authority and responsibility to administer the City's fleet of metered equipment. In addition, the FMD, in conjunction with the City Manager's Office and other City departments, should develop appropriate management controls for identifying and removing unnecessary metered equipment from the City's fleet. By so doing, we estimate that the City can potentially reduce its metered equipment inventory by as many as 107 units and realize about $3.5 million in economic benefit. Of this $3.5 million in economic benefit, $2.8 million could be realized over the next two years and the remaining $.7 million could be realized over the next 3 to 13 years.

RECOMMENDATIONS

We recommend that the City Manager:

Recommendation #1   **Officially designate the Fleet Management Division as the City entity that has the authority and responsibility to administer the City's fleet of metered equipment. (Priority 2)**

We also recommend the Fleet Management Division:

Recommendation #2   **Develop and consistently implement cost-effective utilization standards for the City's fleet of metered equipment. (Priority 2)**

Recommendation #3   **Ensure the City has complete and current utilization information for all of the equipment in its inventory. (Priority 2)**

We also recommend the Fleet Management Division:

Recommendation #4   **Conduct frequent utilization assessments to identify equipment for retirement, redeployment, or inclusion into an equipment pool. (Priority 2)**

Recommendation #5   **Develop a proposal to establish and operate a City pool of metered equipment. (Priority 2)**

Recommendation #6   **Establish an equipment pool to address the needs of the City's low-use equipment and develop a formal policy for using and maintaining such a pool. (Priority 2)**

Recommendation #7   **In conjunction with the City Manager's Office and City departments analyze the City's fleet of metered equipment to determine the optimal cost-effective fleet size. (Priority 2)**

The Environmental Services Department's Water Pollution Control Plant Appears To Have An Excessive Number Of Scooters

As of June 2003, the City of San José had 120 scooters in its fleet, of which the vast majority is located at the Environmental Services Department (ESD) Water Pollution Control Plant (WPCP). Our analysis of the scooters and other vehicles at the WPCP indicates that the WPCP has more scooters than necessary. We based our findings on the following:

- The WPCP's scooter utilization is lower than the minimum use standards used for similar metered equipment and

- When compared to similar treatment plants, the WPCP had a third more scooters and other vehicles per employee.

In order to more effectively manage the WPCP scooter fleet, the FMD should determine an appropriate utilization level and adjust the WPCP fleet size accordingly. The FMD should also install hour meters on those pieces of equipment at the WPCP without meters and track utilization.

RECOMMENDATIONS

We recommend that the Fleet Management Division:

Recommendation #8 **Review the number of scooters and other vehicles at the Water Pollution Control Plant for possible reductions and consolidation and install hour meters on those pieces of equipment without meters and track utilization. (Priority 2)**

The Fleet Management Division Needs To Develop Appropriate And Effective Equipment Replacement Policies And Procedures For Metered Equipment

The FMD is responsible for ensuring cost-effective equipment replacement practices. To ensure that the City of San José's (City) resources are efficiently used, the FMD should replace City equipment using consistent and appropriate criteria. However, we found that the FMD has not developed or implemented a consistent metered equipment replacement policy. In addition, the FMD does not generally perform mechanical assessments on metered equipment that is being considered for replacement.

As a result, the City has accumulated an aged and costly metered equipment fleet. In our opinion, the FMD should develop and implement an appropriate Citywide metered equipment replacement policy. By so doing, the FMD will help ensure that the City has the right number, type, and age of metered equipment.

RECOMMENDATIONS

We recommend that the Fleet Management Division:

Recommendation #9 **Include metered equipment, regardless of funding source, in its current efforts to develop and consistently implement a cost-effective replacement policy for transport vehicles, which incorporates repair costs and a minimum useful life. (Priority 2)**

Recommendation #10 **Consistently follow its own prescribed procedure to conduct a written comprehensive mechanical assessment on all equipment considered for replacement. (Priority 2)**

Memo: Silicon Valley Workforce Investment Network Audit (April 2004)

The SVWIN Had A RE-TEC Budget Shortfall Of $2,032,000 In 2002-03

In 2002, the SVWIN formed a consortium[2] for two large state-funded grants - the Caregiver Training Initiative and the Regional Technologies Consortium Project (RE-TEC). The SVWIN allocated a certain percentage of the RE-TEC grant to each consortium member to use for training its residents. The SVWIN over-enrolled San Jose clients into the RE-TEC training program. In addition, the SVWIN did not reduce the funding allocation of the other members of the consortium. This led to a RE-TEC budget shortfall in 2002-03 of $2,032,000. The members of the WIN Board and the WIN Finance Committee were made aware of this issue and were actively engaged in resolving it. The SVWIN covered its shortfall in large part through a series of cost saving measures totaling $1,270,000. These cost saving measures included 1) reduction in temporary unclassified and permanent staffing; 2) reduction in program funding for the Dislocated Worker Program; 3) termination of contractual obligations to vendors; 4) reducing expenditures on supplies and travel; 5) elimination of rented equipment and vehicles; and 6) discontinuation of issuing training vouchers for the remainder of 2002-03. These cost saving measures addressed all but $762,000 of the $2,032,000 RE-TEC budget shortfall. The SVWIN carried over this remaining $762,000 to 2003-04, which the SVWIN intends to cover by using 2003-04 Dislocated Worker Program funds. We confirmed that funding has in fact been set aside for resolving the shortfall. As of March 2004, the SVWIN still has outstanding RE-TEC program payments of $537,383. The following exhibit illustrates the RE-TEC budget shortfall from 2002-03 to March 2004.

The SVWIN Has Developed A Series Of Management And Fiscal Controls In Response To The RE-TEC Shortfall

In order to prevent a reenactment of the 2002-03 RE-TEC budget shortfall, the SVWIN senior staff has developed and is in the process of fully implementing a series of management and fiscal controls. Some of these controls include: 1) an electronic voucher system that requires the electronic approval of all authorized parties prior to each client commencing training; 2) an electronic policies and procedures guide providing staff with immediate access to all current policies and procedures to ensure consistency among all of SVWIN's service providers and partners; 3) a local policy on individual

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[2] The other Workforce Investment Boards that made up the consortium were Alameda County, City of Oakland, Contra Costa County, City of Richmond, Monterey, Sonoma County, San Benito County, San Joaquin County, San Mateo County, Santa Cruz County, and NOVA Workforce Investment Board.

training account cap, limiting training vouchers to a maximum cost of $6,000 per client; and 4) an internal budget and expenditure tracking system.

The SVWIN May Exceed Its Ten Percent Administrative Expense Cap Of $1,318,710 By About $129,000 In 2003-04

Federal WIA guidelines designate a ten percent administrative cap for local jurisdictions. We found that the SVWIN may exceed its ten percent administrative expense cap of $1,318,710 by about $129,000 in 2002-03. According to the SVWIN Sr. Accountant, this is a direct result of the City increasing the SVWIN's overhead allocation rate. The City increased the overhead allocation rate from 11.88 percent in 2002-03 to 18.17 percent in 2003-04. This resulted in an additional charge to the SVWIN of about $129,000. The City's Finance Department (Finance) did not provide the SVWIN with the changed overhead allocation rate until February 2004. This was after the SVWIN had already budgeted their administrative expenses for the fiscal year in May 2003. According to the Finance Analyst, Finance usually provides City entities with their overhead allocation rate at the beginning of the fiscal year. However, because of staff redeployment and vacancies, Finance was unable to provide the overhead allocation rates until the latter part of the fiscal year. According to the Sr. Accountant, the SVWIN has an administrative reserve fund that the SVWIN will use to partially cover its administrative cap overrun. We verified that the SVWIN does, in fact, have a reserve of about $107,000. Finally, the SVWIN is in the process of talking to the State of California to see if it can reclassify some of its administrative expenses as program costs.

RECOMMENDATION

We recommend that the SVWIN:

Recommendation #1

- Report back to the City Council once it has fully resolved its residual $537,383 RE-TEC program payment obligations;

- Continue to update its policies and procedures to address additional operational threats as they arise;

- Continue to use the procedures manual to advise and train current and new staff; and

- Continue to provide management oversight to ensure compliance with the new procedures. (Priority 2)

#04-01 An Audit Of The Concentrated Code Enforcement Program (April 2004)

Concentrated Code Enforcement Program Management Needs To Enhance Its Ability To Control Program Threats

The CCEP provides code enforcement inspection services to low-to-moderate income areas using Federal Community Development Block Grant (CDBG) funds. Code Enforcement also uses other resources, such as the Targeted Neighborhood Clean-up Program, in CDBG areas as matching resources. In 2002-03, Code Enforcement changed how it provides CCEP services from a proactive to a reactive basis. We found that:

- Code Enforcement and PRNS have not clearly communicated the new role of the CCEP;

- PRNS does not retain adequate CCEP documentation or appropriately monitor the CCEP to ensure full compliance with CDBG requirements;

- Code Enforcement has not measured the impact that CCEP and other activities have had on blight in Strong Neighborhood Initiative areas; and

- Code Enforcement needs to improve its data systems and documentation for the CCEP.

In addition, based on our Risk and Vulnerability Assessment of the CCEP, we identified several threats for which Code Enforcement had weak or no corresponding controls in place.

In our opinion, Code Enforcement and/or PRNS should 1) clearly and consistently communicate the current role of the CCEP, 2) adequately document that the CCEP is in full compliance with OMB A-87 documentation requirements, 3) develop a documentation checklist of required documents, 4) improve its ability to evaluate grant subrecipients, 5) conduct a comprehensive blight survey for SNI areas every five years, 6) continue to improve its internal controls to address identified program threats, and 7) update and improve CES information.

RECOMMENDATIONS

We recommend that Code Enforcement and PRNS:

Recommendation #1

- **Update existing documentation to clearly and consistently describe the current role of the CCEP program. (Priority 3)**

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We recommend that PRNS:

Recommendation #2

- **Ensure that the CCEP is in full compliance with OMB A-87 documentation requirements. (Priority 2)**

Recommendation #3

- **Develop a comprehensive and up-to-date checklist of required CCEP documentation and the location where documentation should be retained. (Priority 3)**

Recommendation #4

- **Conduct a general review of its monitoring process and establish appropriate controls to improve its ability to evaluate grant subrecipients. (Priority 2)**

We recommend that Code Enforcement:

Recommendation #5

- **Conduct a comprehensive blight survey of SNI areas every five years beginning in 2007. (Priority 3)**

Recommendation #6

- **Continue to improve its internal controls to address identified program threats. (Priority 3)**

Recommendation #7

- **Update CES census tract information,**
- **Include the CCEP as a program designation in the CES, and**
- **Maintain written documentation showing CCEP work conducted in CDBG-eligible areas. (Priority 3)**

#04-02 An Audit Of The Crossing Guard Program (May 2004)

The City's Process For Determining Whether Crossing Guards Are Warranted Needs To Be Improved

In 1950, the San José Traffic Safety Advisory Council (STSAC), the forerunner to the School Pedestrian Safety Committee (SPSC), developed a safety index formula to measure the relative safety of school crossings. The Department of Transportation (DOT) processes requests for the placement of adult crossing guards. To determine whether an adult guard is warranted, DOT collects information on an intersection, enters the information into a formula, and calculates the safety index. We found the following issues with the City's process for determining whether an adult crossing guard is warranted:

- The safety index formula incorrectly assumes that Kindergarten (K) through 5th (K-5) and K through 6th (K-6) grade schools have a student safety patrol;

- The safety index formula limits the number of turns considered;

- The safety index formula does not provide sufficient weight to intersections with high numbers of children crossing the street;

- The City Council has not reviewed the safety index formula and safety index value since 1985;

- The DOT has incorrectly entered data into the safety index formula;

- The DOT needs procedures to ensure that it analyzes intersections in a consistent manner and that the rationale for its decisions is adequately documented; and

- The information that the DOT provides the SPSC may not always allow the SPSC to fully evaluate whether the placement of a guard is warranted.

As a result, the City's process for determining whether an adult crossing guard is warranted does not always ensure that crossing guards are placed at locations that need them the most. In our opinion, the DOT should revise the safety index formula for determining if school intersections qualify for adult crossing guards. The DOT is in the process of revising the safety index formula. Further, the DOT should re-calculate the intersections that have not qualified in the past three years using the revised safety index formula and submit the revised results to the SPSC. Also, the DOT should submit the revised safety index formula to the SPSC and the City Council for approval including an analysis of the anticipated budgetary implications of increasing or decreasing the safety index. Finally, the DOT should develop additional written procedures for the safety index process and provide additional intersection information to the SPSC.

RECOMMENDATIONS

We recommend that the Department of Transportation:

Recommendation #1   **Revise the safety index formula to 1) provide a more appropriate age factor for K-5 and K-6 schools and turn factor for the number of cars turning into a crosswalk and 2) provide sufficient weight to intersections with high numbers of children crossing the street. (Priority 3)**

Recommendation #2   **Re-calculate the intersections that have not qualified for an adult crossing guard during the past three years using the revised safety index formula and submit the results to the SPSC. (Priority 3)**

Recommendation #3   **Submit the revised safety index formula to the SPSC and the City Council for approval. (Priority 3)**

Recommendation #4   **Submit to the City Council the anticipated budgetary implications of increasing or decreasing the safety index value. (Priority 3)**

Recommendation #5   **Develop written procedures for entering information into the safety index formula and provide sufficient supervisory review. (Priority 3)**

Recommendation #6   **Develop written procedures for analyzing intersections and documenting the rationale for its decisions. (Priority 3)**

Recommendation #7   **Provide the SPSC with the posted speed limit and the date of any applicable speed study, and a diagram of the intersection it is considering for an adult crossing guard showing**

- **the number of children, their approximate ages, and the direction they are crossing;**
- **the total number of vehicles crossing each leg of the intersection and the direction they are going; and**
- **the total number of vehicle turns crossing each leg of the intersection. (Priority 3)**

#04-03 An Audit Of The Department Of Public Works' Real Estate Division Real Property Acquisition Process (May 2004)

The Administration Can Reduce The Cost And Time To Acquire Real Property By Continuing To Address The Issues That Impact Acquisition Timeliness And Cost

The Department of Public Works' Real Estate Division (Division) acquires private property for public use. Private property is acquired to develop and improve parks, libraries, trails, community facilities, and streets. To accomplish these tasks, the Division works closely with other City entities, such as the Office of the City Attorney, the Department of Public Works' Management and Administration, Development, Design and Construction, and Engineering Services Divisions; the Department of Transportation; Department of Planning, Building, and Code Enforcement's Planning Division; Environmental Services Department (ESD); and the City Manager's Office. During the course of our audit:

- The Division and City Attorney's Office made procedural and administrative changes to improve real property acquisition timeliness and

- The Division started participating in the capital project plan process.

Additional improvements in communication and coordination are possible which can reduce the time and costs associated with real property acquisitions. Specifically, we found that:

- Temporary construction easements were not requested in a timely manner;

- Capital construction plan changes required the Division to order updated title reports, after requesting revised legal descriptions, and surveyors' maps;

- California Environmental Quality Act issues impacted the time to complete property acquisitions; and

- The Division needs to establish performance standards for project costs.

By addressing these additional issues the Administration and Division can reduce real property acquisition costs and improve acquisition timeliness.

*RECOMMENDATION*S

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

Recommendation #1   **Continue to standardize legal documents related to the real property acquisition process. (Priority 3)**

        We recommend that the Department of Public Works:

Recommendation #2   **Establish a process to ensure capital project construction plan changes are communicated when known and temporary construction easements and CEQA documents are requested timely. (Priority 3)**

        We recommend that the Real Estate Division:

Recommendation #3   **Establish performance standards or benchmarks related to the costs to acquire real property. (Priority 2)**

Memo: An Audit of Avis Rent A Car (June 2004)

Customer Transportation Fee

In accordance with the On-Airport Rental-Car Amended & Restated Operations Agreement and Lease between the City of San Jose and Avis Rent A Car Systems, Inc. (agreement), and San Jose Municipal Code section 25.08.630, Avis is required to collect, and pay to the City of San Jose (City), a Customer Transportation Fee (CTF), or busing fee, on each customer contract where the transaction derives from passenger activity at the airport. The City established CTF is set at $5.00 per rental contract. We reviewed an 11-month period from July 2002 to May 2003. Based on our review, we found that Avis underreported the number of completed rental contracts by an average of 16 contracts per month, resulting in an underpayment to the City of $1,084.50 for the audit period. Furthermore, the agreement calls for Avis to pay interest on any late payment at the maximum rate allowed by law. The maximum interest rate currently allowed by law is an annual rate of 10 percent. At such a rate, Avis would owe the City an additional $163.09 in interest through April 1, 2004 on the understated CTF for a total due to the City of $1,247.59. Furthermore, the terms of the agreement allow the City to audit

for a period of four years. Should our audit period be representative of the previous three years, Avis would owe the City about $3,400 in understated CTF plus interest.

In accordance with the terms of the agreement, "in the event that an audit of Tenant's books, ledgers or records, which is conducted in accordance with generally accepted auditing standards determines that Tenant has … understated the Busing Fee then due and payable, … Tenant shall reimburse City for the costs of [the] audit." Due to the understated CTF of $1,084.50, the City is entitled to recover the costs of this audit.

RECOMMENDATION

We recommend that the Norman Y. Mineta San Jose International Airport:

Recommendation #1
- Provide a written demand to Avis for payment of $1,247.59 in understated Customer Transportation Fee and interest for the period July 2002 to May 2003.
- Review Customer Transportation Fee payments for the previous three years and verify that Avis correctly reported the number of customer contracts and the Customer Transportation Fee.
- In accordance with the terms of the agreement, recover costs of this audit. (Priority 2)

Square Footage And Return Stall Rent

Based on the terms of the agreement, Avis is required to pay the City rents based on the number of ready/return stalls assigned and the square footage allocated to Avis. We reviewed an 11-month period beginning with July 2002 to May 2003 to determine if Avis rent payments with respect to the square footage and number of return stalls assigned, were accurate and in compliance with the terms of the agreement. We found that Avis made a series of over and under payments due to a variance between what the Airport invoiced for rent and what it should have invoiced. For example, during some months, Avis made past due payments to the City to correct the under invoiced amounts, resulting in Avis overpaying for those months. We determined that the difference in the invoiced amounts and what should have been invoiced was the result of delayed billing instructions. In one instance, the Airport's Contract Administrator gave billing instructions in August 2003 to correct square footage amounts as far back as August 2002. According to accounts receivable staff, the contract

administrator is currently entering data from the billing instructions in the PROPworks system. This should result in future reallocations of rents being timely reflected on the invoices. We expanded our audit scope for the square footage rents to include June 2003 to December 2003. In our opinion, the Airport should continue to monitor rents due to insure that it issues billing instructions for rent reallocation in a timely manner and they are reflected on the monthly invoices.

RECOMMENDATION

We recommend that the Norman Y. Mineta San Jose International Airport:

Recommendation #2 **Continue to monitor rents due to insure that it issues billing instructions for rent reallocations in a timely manner and they are reflected on the monthly invoices. (Priority 2)**

Concession Revenue This agreement expires in March 2005 and requires Avis to pay concession revenue to the City on a monthly basis. The concession revenue is either 10 percent of annual gross revenues or the Minimum Annual Guarantee (MAG), whichever is greater. During the audit period, Avis gross revenues after exclusions were less than the MAG in eight of the 11 months by an average of $34,000 per month. Our review of the 11-month period beginning with July 2002 and ending in May 2003 revealed that Avis made timely payments to the Airport and properly excluded most specified items from its gross revenue calculations. The Airport should, however, require Avis to implement controls which will account for the amount of pre-paid fuel returned in cars and consider renegotiating the agreement to eliminate several exclusions from future gross revenue calculations.

RECOMMENDATION

We recommend that the Norman Y. Mineta San Jose International Airport:

Recommendation #3 **Require Avis to implement controls to track the amount of gas returned in cars when customers purchase the gas service option and include this amount in its gross revenue calculations. (Priority 3)**

Terms Of The Agreement

The agreement between the City of San Jose and Avis states that Avis may specifically exclude the following eight items from gross revenues:

- Federal, state, or local sales tax;

- Amount of any busing fee;

- Fees paid for acceptance of CDW or LDW only;

- Sale of uniforms or clothing;

- Resale of petroleum products, including fuel and oil;

- Corporate discounts and rebates;

- Employee discounts and promotional discounts; and

- Revenues derived from the sale of used, fleet, motor vehicles.

We reviewed a sample of over 200 rental agreements to determine if Avis was properly excluding these eight items from gross revenues. In addition, we reviewed corporate contracts to ensure that the Loss Damage Waiver (LDW) was separately stated and identified in these contracts. We found that Avis is properly excluding federal, state, and local sales tax, the busing fee, and fees paid for LDW, as well as all corporate and promotional discounts, from gross revenues. However, in our opinion, the eight exclusions specifically mentioned in the agreement create the potential threat that Avis will filter funds which should not be excluded from gross revenues through one or more of these eight exclusions.

The Tampa International Airport (Tampa) renegotiated its concession agreements in 2002 to 1) reduce the number of exclusions from gross revenues and 2) reduce the concession fee percentage from 10 percent of gross revenues to 9.5 percent. According to the Hillsborough County Aviation Authority Director, these charges were relatively revenue neutral. The advantage to Tampa was a simplification of the audit process. The agreement between Avis and the City of San Jose expires in March 2005. In our opinion, the Airport should consider renegotiating its agreement to eliminate several exclusions from future gross revenue calculations with a countervailing concession fee percentage reduction.

RECOMMENDATION

We recommend that the Norman Y. Mineta San Jose International Airport:

Recommendation #4 **Renegotiate the terms of its agreement with Avis to eliminate several exclusions from future gross revenue calculations with a countervailing concession fee percentage reduction. (Priority 3)**

#04-04 An Audit Of The Utilization And Replacement Of The City's Transport Vehicles (June 2004)

By Reducing Its Significantly Oversized And Underutilized Transport Vehicle Fleet The City Can Realize An Economic Benefit Of As Much As $1.7 Million In 2004-05 And $4.2 Million Over The Next 2 To 10 Years

City Policy Manual Section 142 establishes the policy and procedures for use of City or privately-owned vehicles to perform City business. City Policy Manual Section 142.5 establishes the "Standards for Assignment" and states that employees who require a vehicle for the greater part of a workday will receive either mileage reimbursement or be assigned a City-owned vehicle. Section 142.5 also includes a 9,000 mile per year criteria for assigning eight-hour sedans to City employees. We identified 332 non-emergency sedans and light trucks in the City's vehicle inventory that City employees use for transport purposes. We found that City employees are driving 88 percent of these 332 vehicles less than the 9,000 mile criteria in Section 142.5. In addition, City Policy Manual Section 142.5 includes other use of City vehicle criteria besides mileage, such as special purpose vehicles or when an employee using a City vehicle is in the best interest of the City. However, we found that these criteria are not well defined and City departments have not documented that they met these criteria when they authorized employees to use City vehicles. In addition, the FMD does not currently have the authority to actively manage the City's transport vehicle fleet.

We also found that:

- City employees are driving City transport vehicles over 170,000 miles per year to commute from remote parking locations to their assigned work area;

- City employees parked City transport vehicles in unauthorized remote locations;

- City departments and the Administration need to better manage the use of take-home vehicles and mileage reimbursement; and

- Our break-even analysis for City-owned sedans and light trucks 1) essentially validated the 9,000 mile a year criteria that is in City Policy Manual Section 142 and 2) showed that it is cost beneficial for the City to assign light trucks to those employees who drive at least 11,000 miles per year.

We estimate that the City can save as much as $1.7 million in 2004-05 and $4.2 million over the next 2 to 10 years by limiting the use of City sedans and light trucks to employees who drive more than 9,000 miles per year and 11,000 miles per year respectively.

In our opinion, the City Manager should 1) direct City departments to assign sedans and light trucks to employees that consistently drive more than 9,000 miles per year and 11,000 miles per year, respectively; 2) amend City Policy Manual Section 142 to better define special purpose vehicles and other possible exceptions to the mileage standard; 3) designate the Fleet Management Division (FMD) of the General Services Department (GSD) as the City entity that has the authority and responsibility to administer the City's transport vehicle fleet; 4) implement the City's policy regarding 24-hour vehicle assignments; and 5) improve controls over the mileage reimbursement program. In addition, City departments should assign employees to park at remote locations that are nearest to the employee's primary work area and ensure that employees park assigned vehicles at authorized locations. Further, the Finance Department should better monitor mileage reimbursements. Finally the FMD should 1) periodically conduct a transport vehicle break-even analysis; 2) review the City's fleet of specialized vehicles; and 3) sell at auction those transport vehicles that do not meet the mileage criteria or are otherwise exempt.

RECOMMENDATIONS

We recommend that the City Manager:

Recommendation #1   **Direct departments to assign sedans to employees who consistently drive over 9,000 miles per year and amend City Policy Manual Section 142 to better define special purpose vehicles and other possible exceptions to the mileage standard. (Priority 1)**

Recommendation #2   **Officially designate the Fleet Management Division as the City entity that has the authority and responsibility to actively manage the City's transport vehicle fleet. (Priority 2)**

We recommend that the City Departments:

Recommendation #3   **When appropriate, assign employees to park at the remote parking locations that are nearest to the employees' primary work areas and ensure that employees are parking assigned City vehicles at authorized remote parking locations. (Priority 1)**

We recommend that the City Manager's Office:

Recommendation #4   **Implement the City's policy to track 24-hour vehicle assignments and provide a complete list of authorized vehicles and employees to appropriate departments. (Priority 2)**

Recommendation #5   **Improve controls over the mileage reimbursement program to help ensure that mileage reimbursement forms are properly completed and contain accurate mileage. (Priority 2)**

We also recommend that the Finance Department:

Recommendation #6   **Implement the City's policy to monitor the use of mileage reimbursement and ensure employees are not exceeding 750 miles per month. (Priority 2)**

We recommend that the Fleet Management Division:

Recommendation #7   **Periodically conduct a transport vehicle break-even analysis to identify the annual mileage at which the City should provide a vehicle instead of mileage reimbursement. (Priority 2)**

We also recommend that the City Manager's Office:

Recommendation #8   **Establish 11,000 miles as the annual mileage criteria for assigning a light truck to a City employee. (Priority 2)**

We recommend that the Fleet Management Division:

Recommendation #9   **Review the City's fleet of specialized vehicles to determine the most cost-effective complement of vehicles. (Priority 2)**

Recommendation #10   **Remove from the City's fleet and sell at auction those transport vehicles that do not meet the City's annual mileage criteria and do not serve a special purpose or are otherwise not exempt. (Priority 2)**

Recently Enacted San José Police Department And San José Fire Department Vehicle Practices Saved The General Fund About $2.4 Million In 2003-04 And Will Save Almost $1.1 Million In 2004-05

In cooperation with the City Auditor's Office, the San José Police Department (SJPD) has recently implemented a cost-savings program to rotate marked and unmarked vehicles in an effort to balance their usage and reduce replacement costs. The SJPD has also agreed to realign the replacement cycles for unmarked vehicles and patrol motorcycles. These changes will save the General Fund about $2.4 million in 2003-04 and over $800,000 in 2004-05. In addition, as a result of our audit, the San José Fire Department (SJFD) recently worked with the General Services Department's Fleet Management Division (FMD) to remove 16 vehicles from its fleet. As a result, the City will realize auction revenue and avoided costs of $250,000 in 2004-05.

In our opinion, the SJPD and the SJFD should formalize the SJPD's new vehicle rotation program into a policy that applies to all public safety transport vehicles to optimize and balance vehicle usage. The SJPD and the FMD should also formalize the replacement policy for unmarked vehicles to align with the replacement of the City's General Fleet and implement a 4.5-year and 60,000-mile replacement policy for patrol motorcycles.

RECOMMENDATIONS

We recommend that the San José Police Department:

Recommendation #11   **Continue its new vehicle rotation program and formalize it into a policy that applies to all SJPD vehicles. (Priority 2)**

We also recommend that the San José Fire Department:

Recommendation #12   **Implement a transport vehicle rotation program to balance usage and reduce the number of vehicles with low mileage. (Priority 2)**

We recommend that the Fleet Management Division:

Recommendation #13   **Replace unmarked police vehicles, excluding covert vehicles, using the same replacement schedule as the City's general fleet. (Priority 2)**

Recommendation #14   **Adopt and implement a replacement schedule to replace patrol motorcycles using 4.5 years in service and 60,000 miles. (Priority 2)**

#04-05 A Review Of The CUSP Request For Proposal Process (June 2004)

We reviewed the CUSP RFP process to answer the following questions:

1. When did City staff become aware of a potential conflict of interest between the TMG consultant and one of the vendors?

2. What did City staff do after becoming aware of the potential conflict of interest issue?

3. Did the TMG consultant have an apparent and/or actual conflict of interest?

4. What role did the TMG consultant play in the evaluation process and did the consultant bias the vendor selection process?

5. Did TMG comply with the Conflict of Interest and Notification Provisions in its contract with the City?

6. Was the City's cost analysis of the final three vendors' cost proposals fair?

7. Was the CUSP evaluation process fair, objective, and accurate?

We found that City staff first became aware of a potential conflict of interest between one of the City's consultants for the CUSP RFP process and one of the vendors that submitted a response to the CUSP RFP on November 4, 2003. The Executive Steering Committee for the CUSP RFP process met on November 6, 2003, to discuss the potential conflict of interest. The Committee discussed information the consultant provided on November 5, 2003, regarding his relationship with one of the proposers and the role the consultant played during the RFP evaluation process. The Committee decided that a conflict of interest did not exist.

The Executive Steering Committee did not request a formal City Attorney opinion on the potential conflict of interest. In addition, the Executive Steering Committee continued to involve the consultant in the CUSP RFP process after its November 6, 2003 meeting.

According to the City Attorney, the consultant did have an apparent conflict of interest regarding the CUSP RFP process. However, because of the role the consultant played in the CUSP RFP process, the consultant did not have an actual conflict of interest. Further, based on testimony from all project participants and all the documents we reviewed, we did not see any evidence to suggest that the TMG consultant attempted to influence the process and/or vendor selection to favor one vendor or another.

In addition, according to the City Attorney, the consultant violated both the conflict of interest and notification provisions of its contract with the City of San Jose.

In our opinion, the City needs to be more proactive regarding consultants and potential conflict of interest issues. Specifically, the City should require consultants to complete a conflict of interest questionnaire. Such a questionnaire would require any consultant to affirm that he or she has no actual or apparent financial or other conflicts of interest related to any specific project. The City should also require all City personnel who participate in an evaluation process to complete a similar questionnaire. Finally, City staff should immediately request a formal opinion from the City Attorney's Office when any future

conflict of interest issues arise. By so doing, the City can identify and appropriately resolve any potential conflict of interest issues.

We conducted an extensive review of the final three vendors' cost proposals and held numerous meetings with City staff to determine if the City's cost analysis of the final three vendors' cost proposals was fair. We found that 1) City staff should not have added $377,701 to Deloitte/SAP's cost proposal for cost comparison purposes; 2) City staff and TMG did not artificially raise the Deloitte/SAP cost proposal by $4.15 million; 3) Deloitte/SAP's response to the CUSP RFP contains vague and contradictory language regarding what level of service they were proposing to provide to the City; and 4) according to the Executive Steering Committee, cost was not a deciding factor in their vendor selection decision. Finally, using Deloitte/SAP's asserted level of service produces a ten-year cost proposal that is comparable to the other two vendors' ten-year cost proposals.

With regard to the CUSP RFP evaluation process, in our opinion, overall the process was fair, objective, and accurate. However, we did note several issues and errors during various phases of the evaluation process. It does not appear that these issues and errors would have materially affected the final outcome of the vendor selection process with the possible exception of City staff not adequately checking BearingPoint's references. In addition, we noted several areas that the City needs to improve upon when it prepares future RFPs and evaluates the responses to those RFPs. The City should treat these issues and errors as lessons learned for future procurements.

RECOMMENDATIONS

We recommend that the City Manager:

Recommendation #1   **The City require consultants to complete a conflict of interest questionnaire affirming that he or she has no actual or apparent financial or other conflicts of interest related to any specific project. (Priority 1)**

Recommendation #2   **The City require all City personnel who participate in an evaluation process to complete a similar questionnaire. (Priority 1)**

We recommend that the City Manager:

Recommendation #3 **City staff should immediately request a formal City Attorney opinion when any conflict of interest issues arise. (Priority 1)**

Recommendation #4 **City staff level future vendor cost proposals only for budgeting purposes and after the City has selected a vendor. (Priority 3)**

Recommendation #5 **The City develop a formal policy regarding when it is appropriate for City staff to question and/or communicate with respondents to City RFPs. (Priority 3)**

Recommendation #6 **The General Services Purchasing Division should be the City's primary point of contact and the manager of the RFP process for all RFPs in which general services and commodities are being procured. (Priority 3)**

Recommendation #7 **When the City uses a consensus scoring system it should document why the team members gave specific scores. (Priority 3)**

Recommendation #8 **The City should retain all individual scoring cards and note sheets. (Priority 3)**

Recommendation #9 **City Evaluation Teams and Committees should keep attendance records and minutes. (Priority 3)**

Recommendation #10 **The City should structure its RFPs to facilitate the scoring of responses. (Priority 3)**

Recommendation #11 **Evaluation Teams or Committees should score all of the vendors that make product demonstrations. (Priority 3)**

Recommendation #12 **Evaluation Teams and Committees should comply with the City's Request For Proposal Procedures Manual. (Priority 3)**

Recommendation #13 **The City should implement procedures to insure that City staff or consultants compile comparative vendor cost information that is complete and accurate. (Priority 3)**

We recommend that the City Manager:

Recommendation #14   **The City Council not give the City Manager the authority to enter into exclusive negotiations with BearingPoint/PeopleSoft until City staff adequately checks BearingPoint's references. (Priority 1)**

Recommendation #15   **The City ensure that City staff adequately check proposer references for future RFPs. (Priority 3)**

#04-06 A Review Of The Request For Proposal For The New Civic Center Converged Network System (August 2004)

We reviewed the following matters relating to the Converged Network System RFP process:

1. Was the standardization on Cisco equipment and other system requirements in the RFP in accordance with San Jose Municipal Code (SJMC) requirements?
2. What was Cisco's participation in the RFP process?
3. Did a former City Deputy Chief Information Officer violate the City's revolving door policy after leaving City employment in September 2003?
4. Was the RFP evaluation process fair, objective, and accurate?
5. Was the City's analysis of the final three vendors' cost proposals complete and accurate?
6. Was the RFP process for the procurement of "General Services" the appropriate procurement process?

Based upon our review of all available documents and discussions with authoritative City staff, we have concluded the following:

- The City's standardization on Cisco equipment and other system requirements in the RFP was not in accordance with SJMC Section 4.12.149.

Staff's representations to the City Council and members of the Office's of the City Attorney and Auditor notwithstanding, Cisco's participation in the RFP process was significant and pervasive. As far as we can determine, Cisco's participation in the RFP process began in May 2003, and extended through June 2004. Cisco's participation in the RFP process included 1) designing the Converged Network System, 2) assisting staff to prepare the RFP, 3) preparing several versions of the Bill of

Materials that constituted the entire equipment requirements for the RFP and included over 18,000 items, 4) assisting staff with vendor and small business issues related to the RFP, 5) providing staff with answers to the technical questions vendors posed during the RFP process and
6) participating in numerous meetings with staff regarding various aspects of the entire RFP process.

- There is no evidence that the former Deputy Chief Information Officer violated the City's Revolving Door Policy.

- In our opinion, the NCC Converged Network overall evaluation process was on balance fair, objective, and accurate. However, we did note some issues during various phases of the evaluation process. Of particular concern is the adequacy of the request for and subsequent review of one of the minimum qualifications requirements. A more rigorous process may have materially affected the selection of the three vendor finalists.

- We found that the "Cost Comparison" in staff's June 16, 2004 memorandum to the City Council was not entirely accurate and complete. Specifically, the memorandum left out some RFP required items that would have significantly increased 1) the total amount of the contract and 2) the dollar disparity between SBC and Unisys.

- The RFP for the NCC Converged Network System complied with City Code requirements for contracts for general services in SJMC Chapter 4.13 and the resulting contract is not required to be awarded to the lowest responsible bidder.

RECOMMENDATIONS

We recommend that the City Attorney:

Recommendation #1   **The City Attorney review with the City Manager's Office and the General Services Department the need for clarifications or other amendments to the SJMC standardization provisions. (Priority 2)**

We recommend that the Administration:

Recommendation #2   **The Administration develop a policy to require a formal contract with scope of service and nondisclosure provisions for non-compensated outside parties who are providing technical or specialized assistance to the City. (Priority 3)**

We recommend that the City:

Recommendation #3   **The City structure its RFPs to facilitate the evaluations of minimum qualifications requirements. (Priority 3)**

Recommendation #4   **The City include in its RFPs the relative importance of price and other factors and subfactors. (Priority 3)**

We recommend that the General Services Department:

Recommendation #5   **The General Services Department work with the City Attorney to look for ways to improve how the City evaluates and scores responses to RFPs and considers price relative to other evaluative factors. (Priority 3)**

We recommend that the City:

Recommendation #6   **SJMC Section 4.13.010 be amended to clarify that the request for proposal method of procurement is authorized where the provision of services and the purchase of equipment are integral to each other in accomplishing the purpose of the project and the services are not merely incidental to the equipment purchase. (Priority 3)**

Memo: A Report On San Jose Municipal Water System Compliance With City Council Ordinance No. 26903 (October 2004)

The SJMWS Has Drafted Written Policies And Procedures Regarding Fund Transfers And The Establishment And Fully-Funding Of Reserve Funds

During the course of our audit, the SJMWS drafted written policies and procedures for transferring funds from Fund 515 to the General Fund and for establishing and fully-funding the System Rehabilitation/Replacement and Rate Stabilization Reserves. The City Auditor's Office reviewed the SJMWS' draft policies and procedures and found them to be adequate. In our opinion, the SJMWS should finalize the draft policies and procedures to ensure Fund 515 transfers to the General Fund are correct and reserve levels are appropriately funded

and maintained. By so doing, the SJMWS can ensure it transfers monies to the General Fund and maintains established reserves in accordance with the City Council's direction.

RECOMMENDATION

We recommend the Environmental Services Department:

Recommendation #1   **The San Jose Municipal Water System should finalize its procedure for fund transfers and the establishment and maintenance of required fund reserves for future City Auditor review and comment. (Priority 3)**

#04-07 An Audit Of The City's Cellular Phone Program (November 2004)

Weak Control Over The City's Cellular Phone Program Increases The Risk Of Abuse

During our audit of the City's Cellular Phone Program, we identified that the Program did not have adequate control over the acquisition and use of, and employee reimbursements for City cellular phones. Accordingly, we reviewed employee cellular phone usage information to identify inefficiencies or potential abuses. We also reviewed department processes for acquiring and authorizing cellular phones, reviewing for potential abuses, and collecting and processing employee reimbursements. We found that:

- The City has about 450 cellular phones with limited or no use;

- Departments do not consistently follow the City's Wireless Telephone Policy regarding the authorization to purchase and use a cellular phone for City business;

- City cellular phone usage indicates potential abuses;

- City departments do not consistently collect and report employee reimbursements for personal uses of City-issued cellular phones;

- The City reimbursement rate for personal calls is not cost recovery; and

- The City's Wireless Telephone Policy needs updating.

The City can strengthen controls over the Cellular Phone Program by 1) documenting procedures for the authorization and approval of cellular phone purchase and use; 2) developing a process to regularly review City cellular phone usage and vendor information for accuracy, abuse, and completeness;

3) implementing consistent and appropriate control of reimbursement processing and collections; 4) considering changing the reimbursement rate for personal use of City issued cellular phones; 5) considering alternatives to reduce personal call subsidies and improve the Cellular Phone Program administration; and 6) revising the outdated Wireless Telephone Policy.

RECOMMENDATIONS

We recommend the City Administration and Departments:

Recommendation #1
- **Develop and use a universal written cellular phone authorization form that incorporates the elements of the City's Wireless Telephone Policy,**
- **Conduct a reauthorization review to identify unnecessary cellular phones and appropriately authorize necessary cellular phones, and**
- **Amend the City's existing Wireless Telephone Policy to require departments to regularly review cellular phone usage. (Priority 1)**

Recommendation #2
- **Develop a process to guide departments in identifying cellular phone abuse and**
- **Review exisiting City-issued cellular phones to identify users'/departments' ownership and update vendor records to include current information. (Priority 2)**

We recommend that Departments:

Recommendation #3
- **Properly document that employee reimbursements for personal use of City-issued cellular phones are made, received, and posted to the City financial records. (Priority 2)**

Recommendation #4
- **Authorize one individual in each department to oversee the issuance, use of, and employee reimbursements for personal use of City-issued cellular phones, and ensure compliance with the City's Wireless Telephone Policy. (Priority 2)**

We recommend the City Administration:

Recommendation #5
- **Consider changing the reimbursement rate for personal use of City-issued cellular phones to reflect the actual cost of cellular phone usage and**
- **Consider alternatives to reduce personal call subsidies and Cellular Phone Program administration costs. (Priority 1)**

Recommendation #6
- **Update the City's Wireless Telephone Policy to reflect new information and reflect Recommendations 1 to 5 in this report. (Priority 3)**

PowerPoint Presentation: #04-08 An Audit Of San José Family Camp (December 2004)

RECOMMENDATIONS:

We recommend that Parks, Recreation, And Neighborhood Services Department:

Recommendation #1   **Conduct a physical needs assessment of camp facilities to identify health and safety issues. (Priority 3)**

Recommendation #2   **Upgrade camp staff housing. (Priority 3)**

Recommendation #3   **Conduct a thorough camp clean-up to remove unused equipment and furnishings. (Priority 3)**

Recommendation #4   **Develop budget estimate for repairing deck railings, water tanks, and amphitheatre. (Priority 3)**

Recommendation #5   **Reconcile permitted camp tent platforms with U.S. Forest Service Permit. Remove non-permitted tent platforms or obtain permit amendment to allow additional platforms. (Priority 3)**

Recommendation #6   **Make good faith effort to reach an agreement or memorandum of understanding with Friends of San Jose Family Camp to determine the appropriate role of organization. (Priority 3)**

We recommend that Parks, Recreation, And Neighborhood Services Department:

Recommendation #7 **Ensure compliance with City policies concerning substance abuse and sexual harassment. (Priority 3)**

Recommendation #8 **Ensure a reasonable staffing pattern and ensure compliance with labor laws. (Priority 3)**

Recommendation #9 **Reassess the practice of using underage volunteers. (Priority 3)**

Recommendation #10 **Review and revise reservation policy to deal with extra campers, non-resident campers, and minimize registration waiting period. (Priority 3)**

Recommendation #11 **Conduct and maintain inventory of tools and equipment. (Priority 3)**

#04-09 An Audit Of The City Manager's Reforms (December 2004)

Review And Comments On The City Manager's Proposed Reforms

In accordance with the City Council's direction, we reviewed and commented on the City Manager's proposed reforms. Appendix B is a matrix that shows the proposed reforms, status, and the City Auditor's comments on the proposed reforms. As of November 24, 2004, the Administration has finalized or nearly finalized the following reforms:

1. Developed Procurement Process Integrity Guidelines (PPIG) for the Converged Network Request for Proposal (RFP);

2. Relocating the Purchasing Division (Purchasing) to the Finance Department;

3. Restructured the organizational reporting relationships; and

4. Agreed-on steps to improve communication and coordination between the City Manager's Office (CMO) and the City Attorney's Office (CAO).

We have one recommendation to assist the Administration in relocating the Purchasing to the Finance Department. In addition to the above reforms, the Administration is working on a number of other recommended reforms. The City Auditor's Office will continue to monitor and report on the Administration's progress in implementing these recommended reforms. We have also provided the Administration with an additional recommendation to assist them in implementing these reforms which are shown beginning on page 10.

RECOMMENDATIONS

We recommend that the Finance Department:

Recommendation #1   **Establish policies and procedures to ensure that the Purchasing function is adequately segregated from the Accounts Payable function. (Priority 3)**

We recommend that the Administration:

Recommendation #2   **Develop a detailed project staffing plan for its complex RFP projects that would identify the required staff, their estimated time commitments, and when they will be needed for the project. (Priority 3)**

City Auditor Response To City Council Questions   At its September 14, 2004 meeting, the City Council requested the City Auditor's Office to answer the following three questions:

1. Who is the City Attorney's client?

2. What is the standard for the City Attorney going up the chain of command?

3. What is the standard for City employees going up the chain of command?

The City Auditor's responses to these questions are:

- It is clear that the City Council is the City Attorney's primary client.

- The California Rules of Professional Conduct and the American Bar Association Model Rules of Professional Conduct have varying standards regarding an attorney's responsibility to report up the chain of command; and

- The City's current Code of Ethics encourages, but does not require, employees to report improper activities.

RECOMMENDATIONS

We recommend that the San Jose City Council:

Recommendation #3   **Refer to the City's Blue Ribbon Task Force for discussion and consideration, amending the Code of Ethics regarding an employee's duty to report improper activities. (Priority 3)**

#05-01 An Audit Of The Public Art Program (May 2005)

Strengthening The Public Art Program's Internal Controls Will Improve Fiscal Accountability And Program Effectiveness

The City of San José's Office of Cultural Affairs (OCA) manages the City's Public Art Program (Program). The Program is primarily funded from two percent of certain capital construction project funds. During our audit of the Program, we found that the OCA needs to strengthen its internal controls related to project costs, community participation, and artist selection. Specifically, we found

- The City Manager has not complied with the Municipal Code requirement to notify the Arts Commission when eligible construction projects do not receive an art allocation;

- Public art allocations do not always reflect the actual cost of a capital project;

- City departments changed public art allocations without involving Program staff;

- Program staff do not consistently track the administration cost of public art projects;

- Program staff involve the community in the public art process, but community involvement could be more meaningful;

- The OCA has not always followed its own policies and procedures regarding Public Art Task Forces (PATFs);

- The Program overstates its community participation statistics; and

- The Program needs to establish performance measures for artist workshops.

The City Manager's Office and OCA can strengthen the Program's internal controls and improve its fiscal accountability and effectiveness by notifying the Arts Commission when eligible construction projects do not receive an art allocation and better define public visibility and eligible capital projects for complying with Municipal Code funding requirements. Program staff should also submit for City Council consideration a proposal for increasing art allocations when project budgets increase significantly. In addition, the City Manager's Office needs to require City departments to coordinate with the Program Director prior to proposing any public art allocation reductions. The Program also needs to track and monitor administration cost information for each individual public art project and track and report complete information on pooled public art project funding. Finally, the Program needs to report accurate information regarding public participation in its quarterly reports; develop a benchmark and guidelines for community participation; develop a strategy to increase community participation; ensure PATFs are established for all eligible art projects; and report performance measures for local artist outreach efforts.

RECOMMENDATIONS

We recommend that the City Manager's Office:

Recommendation #1   **Notify the Arts Commission when eligible construction projects do not receive a public art allocation. (Priority 3)**

We recommend that the Administration:

Recommendation #2   **Better define public visibility and eligible capital projects for purposes of identifying all construction projects that should receive a two percent art allocation. (Priority 3)**

We recommend that the Program Staff:

Recommendation #3   **Submit for City Council consideration a proposal to allow art allocations to be increased in the event of increased project budgets beyond a specific percentage or dollar amount. (Priority 3)**

We recommend that the City Manager's Office:

Recommendation #4   **Require departments to coordinate with the Public Art Program Director prior to proposing any public art allocation reductions. (Priority 3)**

We recommend that the Program:

Recommendation #5   **Develop a means to track and monitor administrative cost information for each individual public art project. (Priority 3)**

We recommend that Program staff:

Recommendation #6   **Track and report information on pooled public art project funds to the City Council and the City Manager's Budget Office. (Priority 3)**

We recommend that the Program:

Recommendation #7   **Ensure Public Art Task Forces are established for all eligible art projects and report any exceptions in its quarterly reports to the Arts Commission. (Priority 3)**

Recommendation #8   **Establish guidelines for community members in the public art process and communicate those guidelines to potential and current Public Art Task Force members. (Priority 3)**

Recommendation #9   **Report accurate information regarding meeting participants in its quarterly reports. (Priority 3)**

Recommendation #10   **Develop a benchmark for community participation and develop a strategy to improve community participation. (Priority 3)**

Recommendation #11   **Include in its quarterly reports to the Arts Commission performance measures on its efforts to groom local artists for public art commissions. (Priority 3)**

#05-02 An Audit Of The Agreements Between The City And The Filipino American Senior Opportunities Development Council (June 2005)

The Fil-Am SODC Used An Estimated $219,414 In City Grant Funds To Pay For Programs And Activities That Were Not Part Of The City's Grant Agreements During 2002-03 And 2003-04

The City provides funding for the Filipino American Senior Opportunities Development Council (Fil-Am SODC) through its Community Development Block Grant (CDBG) and Healthy Neighborhoods Venture Fund (HNVF) grant programs and agreements. The City also provides the Fil-Am SODC with operational use of the City's *Jacinto "Tony" Siquig Northside Community Center*, located at 488 North 6th Street. During 2002-03 and 2003-04, the City awarded Fil-Am SODC $836,375 in HNVF and CDBG grants.[3] We found that the Fil-Am SODC did not fully comply with the City's CDBG and HNVF grant agreement requirements. Specifically, we found that:

- Fil-Am SODC used an estimated $219,414 in City grant funds to cover expenses that were not allowed in the City's grant agreements;

- The Fil-Am SODC's CEO authorized imprudent expenditures and processes that have damaged the organization's financial viability;

- The Fil-Am SODC Board of Directors did not provide sufficient oversight;

- Fil-Am SODC's audited financial statements did not clearly disclose significant items that would have been useful for users of its financial statements, such as the City; and

- The Fil-Am SODC significantly overstated its performance measures.

We recommend that the City department responsible for oversight of the HNVF and CDBG grant programs, the Parks, Recreation, and Neighborhood Services Department (PRNS): 1) work with the City Attorney's Office to take appropriate actions and address Fil-Am SODC's use of City grant funds on ineligible activities, 2) review the City's 2004-05 and subsequent funding for Fil-Am SODC to ensure it is not continuing to use City funds on ineligible activities, 3) work with Fil-Am SODC and provide training on appropriate Board

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[3] The City contributed General Fund monies to incorporate into Fil-Am SODC's CDBG grant agreements. Therefore, Fil-Am SODC's CDBG grant agreements were funded with federal funds and the City's General Fund.

of Director oversight, 4) work with Fil-Am SODC to ensure that its performance measurement reporting is appropriate and accurate and does not involve duplication of other services, programs, and grants, and 5) ensure that Fil-Am SODC's performance measurement reporting distinguishes between community uses of the Community Center and those activities qualifying as grant agreement activities.

RECOMMENDATIONS

We recommend that PRNS:

Recommendation #1   **Work with the City Attorney's Office to take appropriate action and address the Fil-Am SODC's use of City grant funds on ineligible activities that we identified for 2002-03 and 2003-04. (Priority 1)**

Recommendation #2   **Review the City's 2004-05 and subsequent funding of Fil-Am SODC to ensure that it is not continuing to use City funds on ineligible activities. (Priority 2)**

Recommendation #3   **Work with the Fil-Am SODC and provide training on appropriate Board of Director oversight and implementation of organization policies and procedures. (Priority 3)**

Recommendation #4   **Work with Fil-Am SODC to ensure that its performance measurement reporting is appropriate, accurate and does not include duplication of other services, programs and grants. (Priority 2)**

Recommendation #5   **Ensure that Fil-Am SODC's performance measurement reporting distinguishes between community uses of the Community Center and those activities qualifying as grant agreement activities. (Priority 2)**

City Oversight Of The Fil-Am SODC Grant Agreements And Jacinto "Tony" Siquig Northside Community Center Was Inadequate   The City of San José's Parks, Recreation, and Neighborhood Services Department (PRNS) is responsible for the administration and oversight of the Community Development Block Grant (CDBG) and Healthy Neighborhoods Venture Fund (HNVF) grant programs.

From 2002-03 through 2003-04, the City awarded the Filipino American Senior Opportunities Development Council (Fil-Am SODC) grant funds totaling $836,375 from HNVF, CDBG, and the City's General Fund. The City's financial support for Fil-Am SODC extends beyond the grant agreements, and includes allowing Fil-Am SODC to occupy rent-free the recently renamed *Jacinto "Tony" Siquig Northside Community Center*. PRNS also pays for Fil-Am SODC's utilities and other operational costs and the General Services Department provides building services free of charge.

We found that PRNS' oversight of the community center, and the administration of the HNVF and CDBG grant funds awarded to Fil-Am SODC was inadequate. Specifically, we found that PRNS:

- Did not compare the different sources of funding for Fil-Am SODC to identify duplication or overlaps;

- Did not adequately review Fil-Am SODC's reported performance measures;

- Did not ensure that Fil-Am SODC complied with grant agreement requirements for documentation and changes to the approved budgeted costs; and

- Did not implement appropriate controls for the use and financial support of the City-owned *Jacinto "Tony" Siquig Northside Community Center*.

As a result, the Fil-Am SODC did not submit complete or accurate documentation to the City. Further, the City was not aware of Fil-Am SODC's significant noncompliance with grant agreement requirements, including inappropriate reimbursement requests and misuse of City funding. The lack of oversight concerning the City's dealings with the Fil-Am SODC demonstrates weaknesses in the City's overall grant administration and leasing of City facilities. Without appropriate grant administration and oversight, City funds can be susceptible to fraud, waste, and abuse.

It should be noted that around September 2004, the PRNS Grants Unit made improvements to their forms and monitoring process of grant recipients. Based on the results of our audit of the Fil-Am SODC and PRNS' oversight of the grants process, additional improvements need to be made to prevent a repeat of the issues we identified in this report. We recommend that PRNS further improve its monitoring process to 1) enforce the

requirement that grant recipients submit a cost allocation plan and to request prior approval of any changes or shifts in budgeted funding amounts, 2) train staff to help identify potential problems indicated in audited financial statements and compliance audits, 3) implement procedures that incorporate the City's total support of an organization, including free rent and payment of utilities as part of the grant review process, 4) work with the City Attorney's Office and City Manager's Office to implement procedures and ensure organizations do not occupy City facilities without the benefit and protection of an agreement, and 5) implement a Request for Qualifications process or use City staff to operate the City-owned Jacinto "Tony" Siquig Northside Community Center.

RECOMMENDATIONS

We recommend that PRNS:

Recommendation #6 **Amend its grant agreements to require organizations to disclose non-City grant sources of funding and identify all sources of funding for City-funded activities. (Priority 3)**

Recommendation #7 **Consolidate HNVF-funded tutoring programs at Independence High School and ensure there are no additional funding overlaps at other schools. (Priority 3)**

Recommendation #8 **Require grant recipients to provide a list of the activities and units of service performed under their grant agreements with the City, and compare these lists to recipients' quarterly reports to the City to verify that reported participants are eligible. (Priority 3)**

Recommendation #9 **Enforce the requirement that grant recipients submit a cost allocation plan and that grant recipients also request prior PRNS approval of any changes or shifts in funding or budgeted amounts. (Priority 3)**

Recommendation #10 **Develop a monitoring process and appropriate documentation to review audited financial statements and compliance audits. (Priority 3)**

Recommendation #11 **Provide training to those staff responsible for grant recipient monitoring and oversight to help detect irregularities or identify potential problems indicated in the audited financial statements. (Priority 3)**

We recommend that PRNS:

Recommendation #12   **Develop and implement procedures that incorporate the City's total support of an organization, including free rent and payment of utilities as part of the grant review process. (Priority 3)**

Recommendation #13   **Work with the City Attorney's Office and City Manager's Office to develop and implement procedures to ensure organizations do not occupy City facilities without the benefit and protection of a current operating or facility use agreement. (Priority 2)**

Recommendation #14   **Implement a Request for Qualifications process or use City staff to operate the City-owned Jacinto "Tony" Siquig Northside Community Center. (Priority 2)**

Sales And Business Tax Audits

The objectives of the City Auditor's audit of sales and business taxes are to identify:

- San José retail businesses that do not file sales tax returns;

- Misallocation of the local portion of the sales taxes paid by San José businesses; and

- San José businesses that have not paid or have underpaid the San José business tax.

In conducting its ongoing audit of sales and business taxes, the City Auditor's Office performed the following procedures:

- Compared the San José telephone and other directories with sales tax and business tax databases to ensure that companies and individuals doing retail business in San José were using a San José sales tax identification code;

- Visited business locations at the City of San José's periphery and compared these businesses' locations to the sales tax and business tax databases to ensure that businesses within the San José borders were using a San José sales tax identification code and had a current San José 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 José business taxes to the Finance Department for collection. We identified these businesses by comparing to the business tax database (1) the San José 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.

In 2003-04 and 2004-05, the City Auditor's Office's ongoing sales and business tax audits identified $2,109,555 in additional sales and business tax revenues and 5,520 San José businesses not properly reporting sales and/or business taxes. The table below summaries the results.

Quarter Ended	San José Businesses Identified As Not Properly Reporting Sales And/Or Business Taxes	Additional Sales And Business Tax Revenues Identified
September 30, 2003	460	726,930
December 31, 2003 *	19	260,774
March 31, 2004	28	252,925
June 30, 2004	48	251,503
September 30, 2004	24	251,159
December 31, 2004	26	250,252
March 31, 2005	18	254,162
June 30, 2005	15	245,009
TOTALS	**638**	**$2,492,714**

* In December 2003, the Rules Committee removed Business Tax Audits from the City Auditor's Annual Workplan. Beginning with the quarter ended December 31, 2003, the lower number of San Jose businesses identified as not properly reporting sales and/or business taxes reflects that committee action.

In addition, in 2004-05 the City Auditor's Revenue Enhancement Program identified $1,612,290 in revenue enhancements or cost savings for the City's General Fund.

As a result, ongoing sales and business tax audits and additional City Auditor revenue enhancement activities identified $4,372,681 in additional revenues or cost savings during 2003-04 and 2004-05.

Follow-up Of Audit Recommendations

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

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

Period	Number Of Recommendations Implemented Or Resolved
Six months ended 12/31/03	35
Six months ended 6/30/04	19
Six months ended 12/31/04	12
Six months ended 6/30/05	34
TOTAL	**100**

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APPENDIX A

SUMMARY OF STATEMENT ON GOVERNMENT AUDITING STANDARDS

Excerpted from *Government Auditing Standards*, 2003 Revision, issued by the Comptroller General of the United States.

Introduction

Purpose	(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.
	(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.

Types of Government Audits

Financial Audits	**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.
Attestation Engagements	**Attestation Engagements** examine, review, or perform agreed-upon procedures on a subject matter or a management assertion about a subject matter and report the results.

Types of Government Audits (Cont.)

Performance Audits	(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.
	(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.
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

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.
Professional Judgment	Professional judgment should be used in planning, performing and reporting audit results.
Competence	The staff assigned to conduct the audit should collectively possess adequate professional competence for the tasks required.
Quality Control and Assurance	Each audit organization performing audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external peer 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 significant findings and recommendations from previous audits that directly relate to the objectives of the audit being undertaken.
Irregularities, Illegal Acts, and Other Noncompliance	(a) Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.
	(b) Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.
	(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.
	(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.

Field Work Standards for Financial Audits (Cont.)

| Documentation | (a) Auditors are required to prepare and maintain audit documentation. |
| | (b) Audit documentation 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. |

Reporting Standards for Financial Audits

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 on Internal Control and on Compliance with Laws and Regulations	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 pertinent 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	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.

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.
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.
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.

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 audit reports communicating the results of each audit. 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 retrievable.
Objectives, Scope, and Methodology	Auditors should report the audit objectives and the audit scope and methodology.
Audit Conclusions	Auditors should report significant audit findings and auditors' conclusions when called for by the audit objectives and the results of the audit.
Recommendations	Auditors should make recommendations for actions to correct problem areas and to improve operations.

Reporting Standards for Performance Audits (Cont.)

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.
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.
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 Quality Elements	The report should be timely, complete, accurate, objective, convincing, clear, and as concise as the subject permits.
Report Distribution	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.

APPENDIX B

OFFICE OF THE CITY AUDITOR

<u>CITY COUNCIL APPROVAL OF ASSIGNMENT PROCEDURE</u>

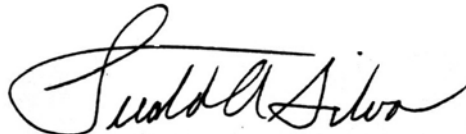| <u>Responsibility</u>	<u>Action</u>
City Auditor	1. Submit to the Rules Committee a proposed Audit Workplan.
Rules Committee	2. Review and recommend City Auditor audit assignments for the next fiscal year and forward recommended City Auditor audit assignments to the City Council.
City Council	3. Review and approve Rules Committee-recommended City Auditor audit assignments.
City Council Members and City Manager	4. Submit requests for City Auditor services to the Rules Committee.
Rules Committee	5. Forward request to City Auditor.
City Auditor	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.
Rules Committee	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.
City Auditor	9. Initiate the assignment as soon as staff become available.
	10. Report monthly to the Making Government Work Better Committee the status of approved audit assignments.
City Council, City Manager, City Attorney, or City Clerk	11. Request City Auditor's services when an emergency situation or other circumstances exist.
City Auditor	12. Respond immediately when the request regards an emergency situation.

November 16, 2005

Honorable Members of the City Council
200 East Santa Clara Street
San Jose, CA 95113

Attached is the independent auditor's report that representatives of the National
Association of Local Government Auditors (NALGA) prepared on October 20, 2005. Our
comments in response to the audit report are also included. A member of the audit team,
Alan Ash, Director of Toronto Auditor General's Office, will present this report to the Making
Government Work Better Committee at its December 1, 2005 meeting.

Should you have any questions, please contact me at extension 51238.

Respectfully submitted,

Gerald A. Silva
City Auditor

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GS:bh

Attachments

APPENDIX C

OFFICE OF THE CITY AUDITOR

CITY OF SAN JOSE

QUALITY CONTROL REVIEW

FOR THE 24 MONTHS ENDED JUNE 30, 2005

INDEPENDENT AUDITOR'S REPORT

External
Quality
Control Review

of the
Office of the City Auditor
San Jose, CA

Conducted in accordance with guidelines of th

National Association of Local
Government Auditors

for the period July 2003 through June 2005

National Association of
Local Government Auditors

October 20, 2005

Gerald Silva, CPA, CGFM
City Auditor
City of San Jose
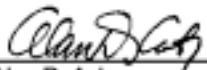800 South First Street
San Jose, California 95113

Dear Mr.Silva,

We have completed a peer review of the City Auditor's Office, City of San Jose, for the period July 1, 2003 through June 30, 2005. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published in May, 2004, by the National Association of Local Government Auditors (N.A.L.G.A.).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that your internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period July 1, 2003 through June 30, 2005.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Alan D. Ash
Director
CIA, CFE, CGFM, CGAP
Toronto, Ontario

LaVonne Griffin-Valade
Deputy Auditor
CIA, CGAP
Multnomah County, Oregon

National Association of
Local Government Auditors

October 20, 2005

Gerald Silva, CPA, CGFM
City Auditor
City of San Jose
200 East Santa Clara Street
San Jose, California 95113

Dear Mr. Silva,

We have completed a peer review of the San Jose City Auditor's Office for the period July 1, 2003 through June 30, 2005 and issued our report thereon dated October 20, 2005. We are issuing this companion letter to offer observations and suggestions stemming from our peer review.

First, we would like to mention some of the areas in which we believe your office excels:

- The City Auditor's Office has attracted highly qualified staff with expertise and credentials in a variety of areas;

- The City Auditor's Office has developed and implemented an effective and efficient system for following up on the status of outstanding audit recommendations;

- The Risk Assessment Model is useful in identifying risks and providing direction related to efficient and effective use of audit resources;

- The training request form is a useful tool for coding training hours as student, instructor, self paced individual instruction, presenter or author;

- Finding Development Sheets used in audit working papers are comprehensive and contain a concise summary of significant, relevant and useful information. Finding Development Sheets also provide a useful trail for how issues and recommendations are identified.

- Training and Professional Development opportunities are strongly encouraged to promote the expertise, dedication and enthusiasm of professional staff.

We offer the following observations and suggestions to enhance your organization's demonstrated commitment and adherence to Government Auditing Standards:

Application of Government Auditing Standards

The City Auditor's Office issues periodic reports on their audit of sales tax allocation. These projects are referred to as audits, but do not cite compliance with *Government Auditing Standards*. Reporting Standards for Performance Audits state that the audit report should include a reference to compliance with Standards.

The City Auditor also issues a Semi-Annual Recommendation Follow-up Report on All Outstanding Audit Recommendations for which the office performs testing and verification.

While we did not review these reports as part of the peer review, we recommend that the City Auditor evaluate whether these reports should be conducted following and citing *Government Auditing Standards.*

Procedures Manual could be Streamlined and Enhanced

We noted that the current version of the City Auditor's Procedure Manual could be streamlined. The Manual has been updated over an extended period of time and the various layers added over time makes the document difficult to navigate.

Additionally, in some instances, policies are included which are not reflective of current practice and wording is not consistent with that provided in the current version of *Government Auditing Standards.*

Timeliness of Audit Reports

Government Auditing Standards require that audit reports be issued timely to facilitate resolution of issues identified in audit reports. Local government auditing organizations face a number of challenges regarding the timeliness of audit reports. These challenges include audit scope changes, staff reassignments, staff turnover, changes to the audit work plan and problems obtaining information from or scheduling meetings with local government officials. Documentation was not always included in the audit working papers explaining the reasons for audit reports being issued significantly beyond projected timelines. We recommend that when unexpected delays occur during the audit, documentation be provided in the working papers explaining the reason for the delay.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,

Alan D. Ash
Director
CIA, CFE, CGFM, CGAP
Toronto, Ontario

LaVonne Griffin-Valade
Deputy Auditor
CIA, CGAP
Multnomah County, Oregon

October 20, 2005

Mr. Alan Ash, Director
Auditor General's Office
Toronto, Ontario

Dear Mr. Ash:

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 Government Auditing Standards (GAS) 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 a number of areas in which the Office excels:

➢ The City Auditor's Office has attracted highly qualified staff with expertise and credentials in a variety of areas;

➢ The City Auditor's Office has developed and implemented an effective and efficient system for following up on the status of outstanding audit recommendations;

➢ The Risk Assessment Model is useful in identifying risks and providing direction related to efficient and effective use of audit resources;

➢ The training request form is a useful tool for coding training hours as student, instructor, self paced individual instruction, presenter or author;

➢ Finding Development Sheets used in audit working papers are comprehensive and contain a concise summary of significant, relevant and useful information. Finding Development Sheets also provide a useful trail for how issues and recommendations are identified.

➢ Training and Professional Development opportunities are strongly encouraged to promote the expertise, dedication and enthusiasm of professional staff.

The management letter also included three suggestions to improve the Office's operations and better demonstrate compliance with GAS. We concur with these suggestions and will take appropriate steps to implement them.

The Office is committed to continuously improving and refining its audit processes. As such, we welcome the auditors' review and suggestions. We believe their insights and perspectives will be helpful in improving the Office's work. We also thank you and LaVonne Griffin-Valade for your professionalism, openness, cooperation, and courtesy during the audit.

Sincerely,

Gerald A. Silva
City Auditor

GS:bh
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