



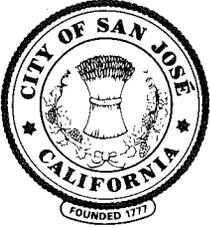
**OFFICE OF THE  
CITY AUDITOR**

**ACTIVITIES AND ACCOMPLISHMENTS  
OF THE OFFICE OF THE CITY AUDITOR  
JULY 1991 THROUGH JUNE 1993**

**A REPORT TO THE  
SAN JOSE  
CITY COUNCIL**

**AUGUST 1993**

**93-06**



## CITY OF SAN JOSÉ, CALIFORNIA

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GERALD A. SILVA  
City Auditor

August 10, 1993

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

This is a report of the *Activities And Accomplishments Of The Office Of The City Auditor For The Period July 1, 1991, Through June 30, 1993.*

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 their cooperation during the conduct of our audits. While this Office has improved over the past two years, further improvements are possible and necessary. This Office will continue to strive to secure those improvements for the City Council and, ultimately, the residents of San Jose. I will present this report to the Finance Committee at its August 11, 1993, meeting.

Sincerely,

Gerald A. Silva  
City Auditor

finaltr  
GS:mtn

cc: Les White  
Regina Williams



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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 1991 through June 1993.

The goal of the Office is to promote accountability to the public and to improve the economy, efficiency, and effectiveness of City government. The Office's principal objective is to identify \$3 in savings or increased revenues for every \$1 of audit cost. During the past two years, the Office exceeded this standard.

Audits have benefited the City in numerous ways. For example, some audit reports have presented ways to reduce costs or increase revenues. In addition, other audit reports have identified opportunities to increase effectiveness, use resources more efficiently, and improve internal controls. Furthermore, a variety of special studies and analyses have provided objective, timely information to the City Council, City Administration, and the general public.

From July 1991 through June 1993, the Office produced 21 reports containing 146 recommendations. These reports identified almost \$11.5 million in opportunities to reduce costs or increase revenues. Most of the recommendations have been implemented or are in the process of being implemented. This report summarizes the Office's activities and results for this period.

# **INTRODUCTION**

With city of San Jose (City) and Redevelopment Agency operating and capital budgets of over \$1 billion a year, the members of the San Jose City Council need an effective means to monitor the use of tax dollars and City and Redevelopment Agency activities and programs. As an independent audit function, the Office of the City Auditor plays an integral role in the oversight process. Findings and recommendations developed through the audit process have helped save tax dollars, increase revenue, and improve the management of City and Redevelopment Agency programs. Additionally, our independent reviews have served as an important objective information source for the City Council, City management, the Redevelopment Agency, and the general public.

## **Authority And Responsibility**

The San Jose City Charter prescribes the powers and duties of the Office of the City Auditor. 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 including the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures;
- Conduct performance audits, as assigned by the City Council, to determine whether (1) City resources are being used in an economical, effective, and efficient manner; (2) established objectives are being met; and (3) desired results are being achieved;
- Conduct special audits and investigations as assigned by the City Council;

- Submit a monthly report to the City Council of the Office activities, findings, and recommendations to improve the administration of the City's fiscal affairs; and
- Perform other such auditing functions consistent with the City Charter and submit reports as required.

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

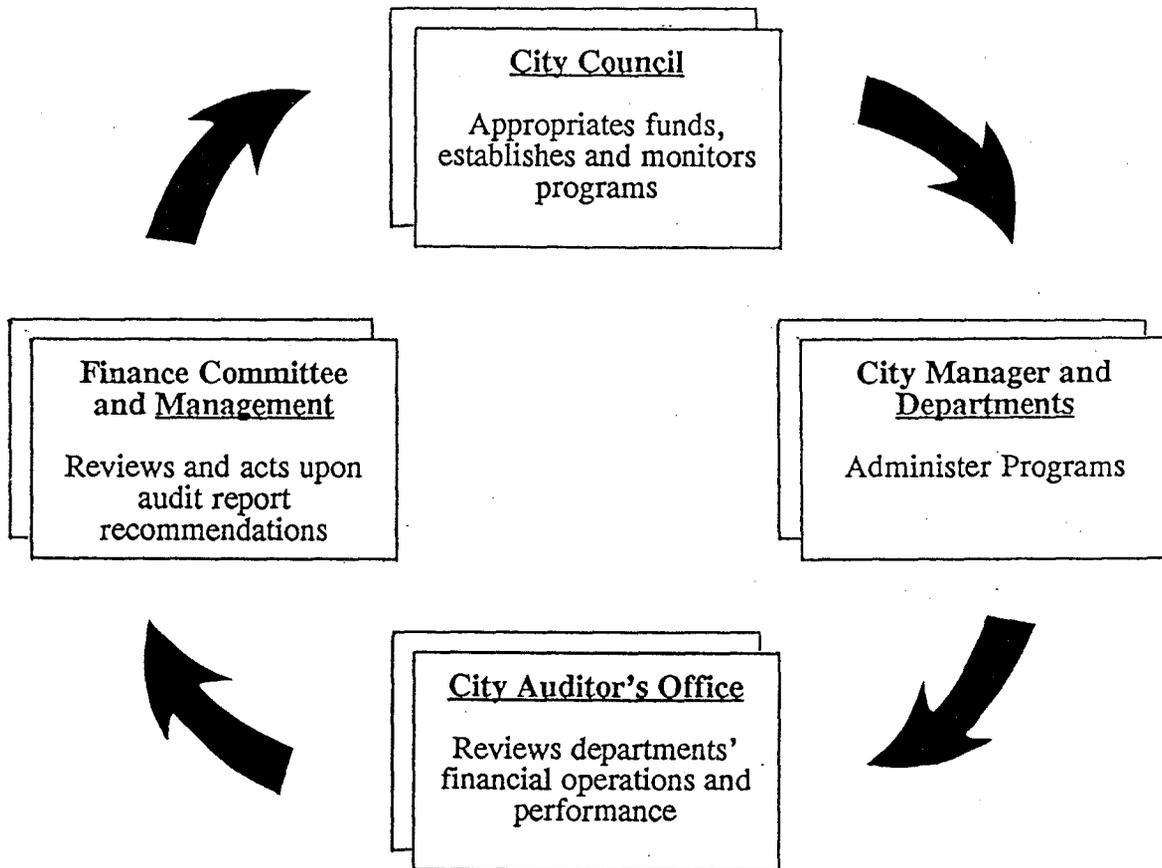
### **Goals, Mission, And Objectives**

The goals of the Office of the City Auditor are to promote accountability to the public and to improve the economy, efficiency, and effectiveness of City government. Our mission is, at the direction of the City Council, to conduct or cause to be conducted financial and program performance reviews of City departments, offices, and agencies in accordance with applicable auditing standards. Our principal objective is to identify \$3 in savings or increased revenue for every \$1 of audit cost.

### **Role Of Auditing In City Government**

The City Auditor's audits and reviews provide an 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. Chart I describes the role of auditing in City government.

**CHART I**  
**ROLE OF AUDITING IN CITY GOVERNMENT**



# **AUDITING CITY DEPARTMENTS AND PROGRAMS**

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

## **Financial Audits**

Financial audits include financial statement and financial related audits. Financial statement audits determine (1) whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows or changes in financial position in accordance with generally accepted accounting principles and (2) whether the entity has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements.

Financial related audits include determining (1) whether financial reports and related items, such as elements, accounts, or funds, are fairly presented; (2) whether financial information is presented in accordance with established or stated criteria; and (3) whether the entity has adhered to specific financial compliance requirements.

In accordance with the City Charter, an independent accounting firm conducts the financial statement and financial related audits of the City. The Office of the City Auditor coordinates the work of the independent accounting firm. The annual audit determines whether the financial statements fairly present the City's financial condition according to generally accepted accounting principles. The annual financial audit also includes reviews to determine City

compliance with laws and regulations, particularly for those programs receiving federal funding.

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

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

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

### **Performance Audits**

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

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

Performance audits evaluate if City programs are operating in an efficient and economical manner, accomplishing their intended objectives, and achieving desired levels of performance or results. Audits that focus on efficiency issues typically evaluate the reasonableness of program costs relative to the results of services produced. Auditors may determine if a program is using its resources (such as personnel, property, and space) in a manner that avoids duplicating effort and overstaffing, while maximizing benefits in relation to costs. Auditors may also determine if a program has established appropriate goals and objectives, review the adequacy of management's system for measuring success, assess the extent to which desired levels of results are achieved, and 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 Office of the City Auditor is occasionally requested to do thorough and impartial data collection, analysis, and reporting. The Office produces special studies to address these information needs. Special studies and reports are subject to the same rigorous audit methodology regarding data collection and quality control reviews. Special studies are intended to provide timely and objective information to the City Council, City Administration, and the public.

### **Audit Recommendations Follow-up**

It is the administrative policy of the City that audit reviews be conducted and resulting recommendations implemented or otherwise resolved to the satisfaction of the City Manager, the City Auditor, and the City Council. Accordingly, the Office of the City Auditor, in coordination with the Office of the City Manager, monitors the implementation of audit recommendations. The City Auditor prepares a quarterly follow-up report on the implementation status of all City Council-approved audit recommendations.

## **BENEFITS TO THE CITY OF SAN JOSE**

The City Auditor's expanded audit approach has benefited the City 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.

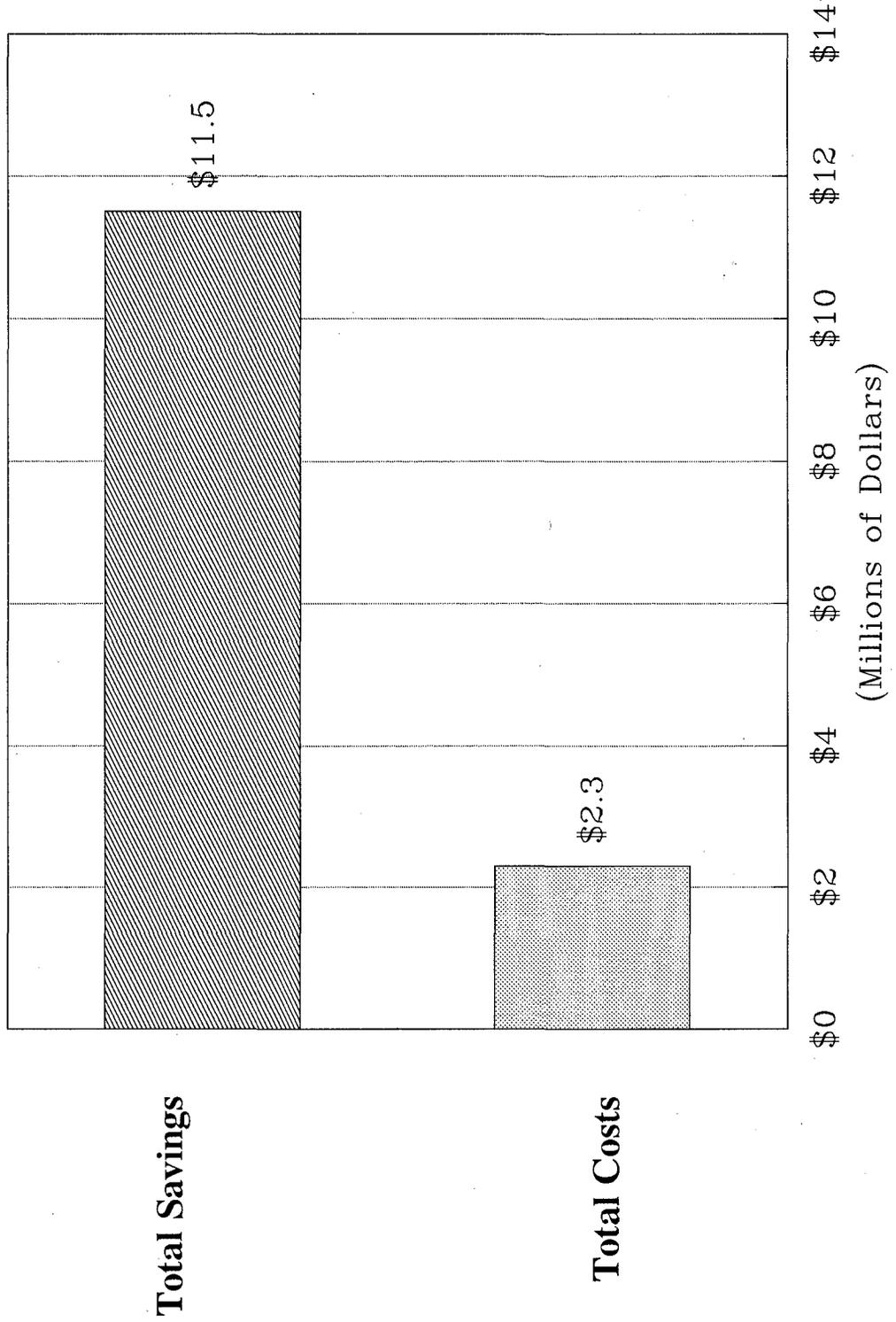
### **Cost Savings And Increased Revenues**

A principal objective of the Office of the City Auditor is to identify \$3 in savings or increased revenue for every \$1 of audit cost. The Office achieved this objective during the July 1991 through June 1993 period covered in this report.

As Chart II shows, from July 1991 through June 1993, the Office of the City Auditor identified \$11.5 million in cost savings or revenue enhancements against \$2.3 million in audit costs. This represents an audit payback ratio of \$5 in cost savings or increased revenue for every \$1 of audit cost.

# CHART II

## SAVINGS vs COSTS JULY 1991 THROUGH JUNE 1993



### Other Benefits To The City

In addition to identifying cost savings and increased revenues, the Office of the City Auditor has benefited the City in the following ways:

- ***Improved Effectiveness And Efficiency.*** Audit recommendations have addressed ways auditees can improve their operations by increasing effectiveness and efficiency.
- ***Strengthened Internal Controls.*** Audits have also identified ways to improve departmental and program internal controls, safeguard assets, and reduce the risk of potential liability to the City.
- ***Provided Objective Information.*** Audit reports and special studies have also provided reliable, objective, and timely information to decision-makers and the public. This information has assisted the City Council and City Administration in making needed policy and administrative changes and has informed the public about the management of City government.

## **OFFICE OPERATIONS**

The City Charter provides the City Auditor organizational independence from the City Administration. The City Auditor is appointed by and reports to the City Council. The Council's Finance and Rules Committees, interface directly with the City Auditor. The Finance Committee reviews and approves the City Auditor's annual audit workplan, subsequently reviews and approves audit report findings and recommendations, submits audit reports and approved recommendations to the full Council for concurrence, and monitors the implementation of approved recommendations. The Rules Committee is responsible for approving City Councilmember or City Administration requests for audit services as they arise during the year.

### **Budget**

Over the past eight years, the budget of the Office of the City Auditor has averaged slightly more than \$1 million per year, with approximately 90 percent spent for salaries and benefits (See Table I). During the past eight years, the Office of the City Auditor has averaged 18 authorized full-time positions, including both audit and administrative staffs. However, due to a City-wide hiring freeze, the Office has operated at a reduced staffing level for the last two years.

**TABLE I**  
**OFFICE OF THE CITY AUDITOR**  
**BUDGET AND STAFFING LEVEL**  
**FROM 1985-86 TO 1992-93**

<b><u>Fiscal Year</u></b>	<b><u>Authorized Positions</u></b>	<b><u>Personal</u></b>	<b><u>Nonpersonal</u></b>	<b><u>Equipment</u></b>	<b><u>Total Budget</u></b>
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

**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 time spent on the Charter-required fiscal audits by changing from a continuous to a periodic audit cycle and using statistical sampling. These audits include reviews of payroll, nonpersonal services expenses, cash and revenue accounts, and parking revenue.

In 1987, the Office of the City Auditor changed its auditing strategy to reflect new American Institute of Certified Public Accountants (AICPA) pronouncements. The AICPA Auditing Standards Board proposed nine new Statements of Auditing Standards, including a new statement that addressed the auditor's responsibility to evaluate the auditee's internal control structure. This

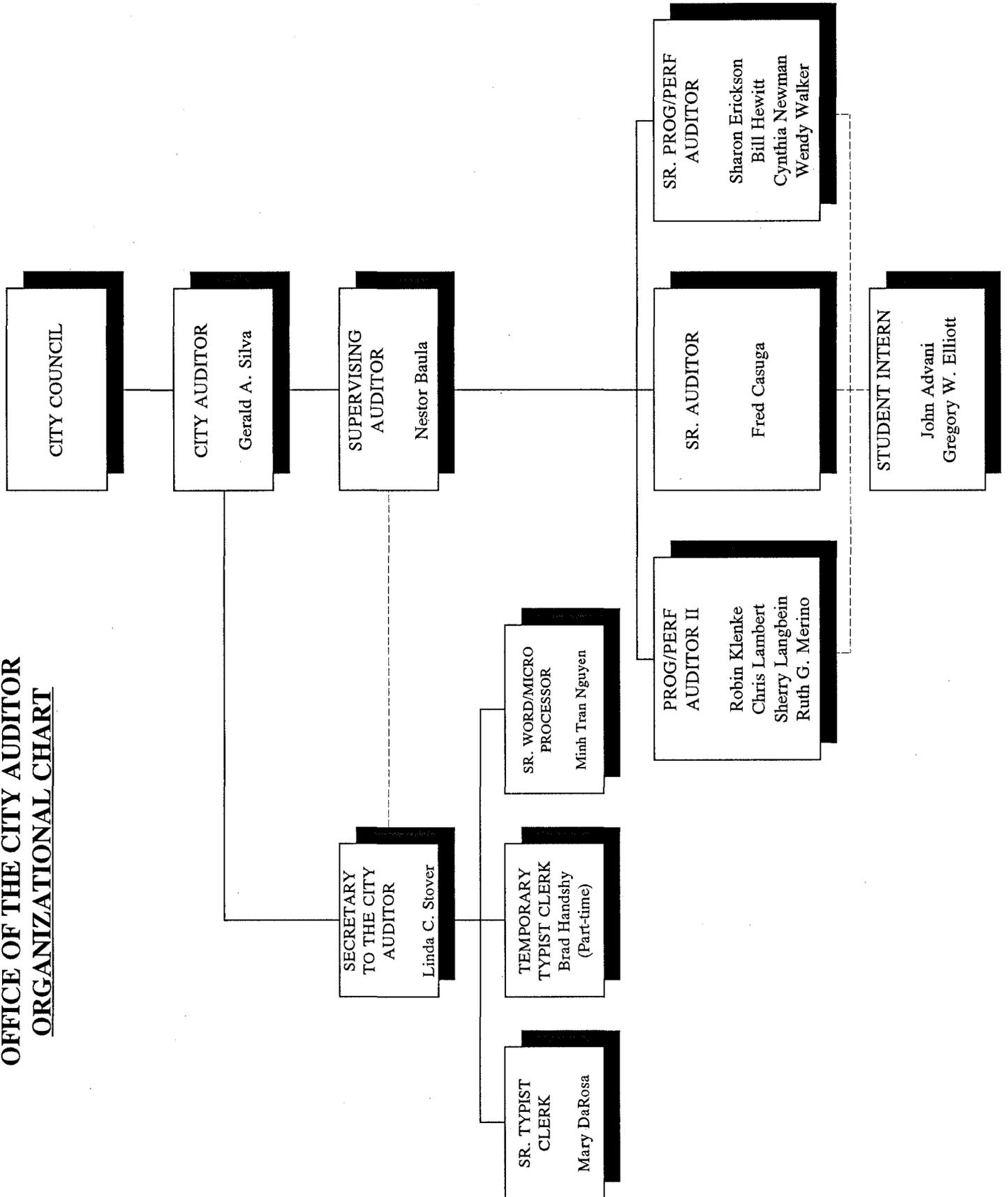
statement first requires the auditor to understand the auditee's overall control environment, including specific accounting and administrative controls. Next, the auditor must identify and test for potential threats (unwanted events) that could occur if adequate controls are absent or ineffectively implemented. In pursuing this audit strategy, the Office has implemented risk assessment procedures to identify the threats facing the program or activity under audit and to assess the controls or procedures the City has in place to prevent, eliminate, or minimize the threats. The Office's risk assessment approach to auditing is widely recognized as an industry standard, and many governmental auditing units have replicated the Office's auditing procedures during the last five years.

### **Office Staffing**

To implement expanded-scope performance audits, the City Council authorized the City Auditor six additional staff after he was appointed in 1985. Currently, the Office of the City Auditor consists of the City Auditor, a Supervising Auditor, nine auditors (four Senior Program Performance Auditors, one Senior Auditor, and four Program Performance Auditor IIs), four administrative staff (the Secretary of the City Auditor, one Senior Word/Micro Processor, one Senior Typist Clerk, and one part-time Typist Clerk II), and two student interns. Chart III shows an organizational chart for the Office of the City Auditor.

# CHART III

## OFFICE OF THE CITY AUDITOR ORGANIZATIONAL CHART



### **Staff Background And Experience**

The members of the Office of the City Auditor have diverse educational backgrounds and work experience (See Table II). Staff educational backgrounds include accounting, business administration, economics, education, finance, and public administration. Further, several staff members have advanced academic degrees and/or professional certifications such as Certified Public Accountant, Certified Internal Auditor, Certified Fraud Examiner, and Certified Quality Auditor. Staff members have had previous experience in public accounting, advertising, aerospace, banking, data processing, electronics, city, state, and county government, health, industrial relations, management consulting, and retail. 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 held memberships in the following professional organizations: American Institute of Certified Public Accountants, American Society for Public Administration, EDP Auditors Association, American Society of Public Administrations, Association of Fraud Examiners, California Society of CPAs, and Institute of Internal Auditors. The City Auditor is a former member of the Board of Governors of the San Jose Chapter of the Institute of Internal Auditors, Past President of the National Association of Local Government Auditors, Former Chairperson of the Western Intergovernmental Audit Forum, former local government representative to the prestigious National Intergovernmental Audit Forum Executive Committee, and a member of the American Institute of Certified Public Accountants' Members in Government Committee.

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

<b>AUDITOR</b>	<b>TITLE</b>	<b>EDUCATION</b>	<b>PROFESSIONAL AFFILIATIONS</b>	<b>PRIOR WORK EXPERIENCE</b>
Gerald A. Silva, CPA	City Auditor	Bachelor of Science Accounting, 1967	Former member of the Board of Governors, IIA, San Jose Chapter; Past President, National Association of Local Governmental Auditors; Former Chairman, Western Intergovernmental Audit Forum; Former Local Government Representative, National Intergovernmental Audit Forum Executive Committee Member; Former AICPA Members In Government Committee; GFOA; Who's Who in Government; California & Arizona State Boards of Accountancy	State Budget Director, State of Arizona  Director of Program Auditing, State of Arizona  Audit Manager, California Auditor General's Office
Nestor S. Baula, CPA, CIA, CFE	Supervising Auditor	Bachelor of Arts Economics, 1971	Member, IIA; Member, Association of Certified Fraud Examiners; California Society of CPAs	Senior Auditor, Castle & Cooke, Inc.
William P. Hewitt, CIA, CISA, CFE, CQA	Senior Program Performance Auditor	Bachelor of Arts Political Science, 1975	Member, IIA; Member, Association of Certified Fraud Examiners	Internal Audit Manager, Kelly-Moore Paint Co.
Sharon W. Erickson, CIA	Senior Program Performance Auditor	Bachelor of Arts Political Science	Member, IIA, San Jose Chapter; Member, ASPA, Santa Clara Valley Chapter	Controller, Smith, Erickson, McDonald, Inc.
Cynthia L. Newman, CBA, CFE, CIA	Senior Program Performance Auditor	Bachelor of Science Business Administration & Finance, 1975	Member, IIA, San Jose Chapter; Member, ASPA, Santa Clara Valley Chapter; Member, National Society of Chartered Bank Auditors; Member, Association of Certified Fraud Examiners	Senior Trust Audit Officer, Pacific Western Bank
Wendy Walker	Senior Program Performance Auditor	Bachelor of Science Accounting, 1986		Supervising Senior Accountant, KPMG Peat Marwick

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

<b>AUDITOR</b>	<b>TITLE</b>	<b>EDUCATION</b>	<b>PROFESSIONAL AFFILIATIONS</b>	<b>PRIOR WORK EXPERIENCE</b>
Fred Casuga	Senior Auditor	Bachelor of Arts Accounting, 1963	Member, ASPA, Santa Clara Valley Chapter	Principal Accountant & Cost System Coordinator, San Francisco Airport
Ruth Garcia Merino	Program Performance Auditor II	Bachelor of Science Business Administration, Finance and Accounting, 1978	Member, IIA, San Jose Chapter	Business Banking Officer, Bank of America
Robin A. Klenke, MBA	Program Performance Auditor II	M.B.A., 1986 Bachelor of Arts, Anthropology/Linguistics, 1982	Member of the Board of Governors, IIA, San Jose Chapter; Member, ASPA, Santa Clara Valley Chapter	Manager/Chief Technician, El Camino Hospital
Christopher S. Lambert, CFE, CIA	Program Performance Auditor II	Bachelor of Science Accounting, 1983	Second Vice President, IIA, San Jose Chapter; Member, IIA, San Jose Chapter; Member, Bay Area Chapter of Association of Certified Fraud Examiners and National Association of Certified Fraud Examiners	Senior Field Auditor, Firestone Tire Rubber Co.
Sherry A. Langbein, MBA, CIA	Program Performance Auditor II	M.B.A., 1986 Bachelor of Arts Health Education, 1972	Member, IIA, San Jose Chapter; Board of Directors San Jose Management Association	Internal Auditor, Watkins-Johnson
Linda Curtis Stover	Secretary to the City Auditor	Vocational Teaching Credentialed 1979 Vocational Supervising Credentialed 1984 Management/Supervision Certificate 1980		Program Coordinator, Santa Cruz County Office of Education
Minh Tran Nguyen	Senior Word/Micro Processor Operator	Associate in Arts Office Administration & Word Processing 1985		Secretary, IBM Corporation
Mary Da Rosa	Senior Typist Clerk	Word Processing 1986 Clerical Support 1989		Title Examiner, American Title Insurance Company

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

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Brad Handshy	Typist Clerk II (Part-time)			
Gregory W. Elliott, M.A.	Student Intern	Associate in Arts 1987 Bachelor of Science 1989 M.A. 1992 Economics		None
John Advani	Student Intern	Currently enrolled in California State University, Hayward, Accounting and Economics. Expect to graduate by June 1993		Shift Manager, McDonald's

## **Office Of The City Auditor Performance Audit**

The City Charter requires the Office of the City Auditor to undergo a peer review performance audit on a biennial basis. The Office has undergone four audits since the performance audit requirement was instituted.

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

An independent auditor conducted the Office's subsequent performance audits in 1989, 1991, and 1993. The objective of these audits was to determine the Office's compliance with generally accepted government auditing standards, based on the peer review guidelines issued separately by the NSAA and the National Association of Local Government Auditors (NALGA). The independent auditor's 1989, 1991, and 1993 reports stated that the Office's system of quality control provided reasonable assurance of compliance with the professional standards. Appendix C shows the independent auditor's 1993 report.

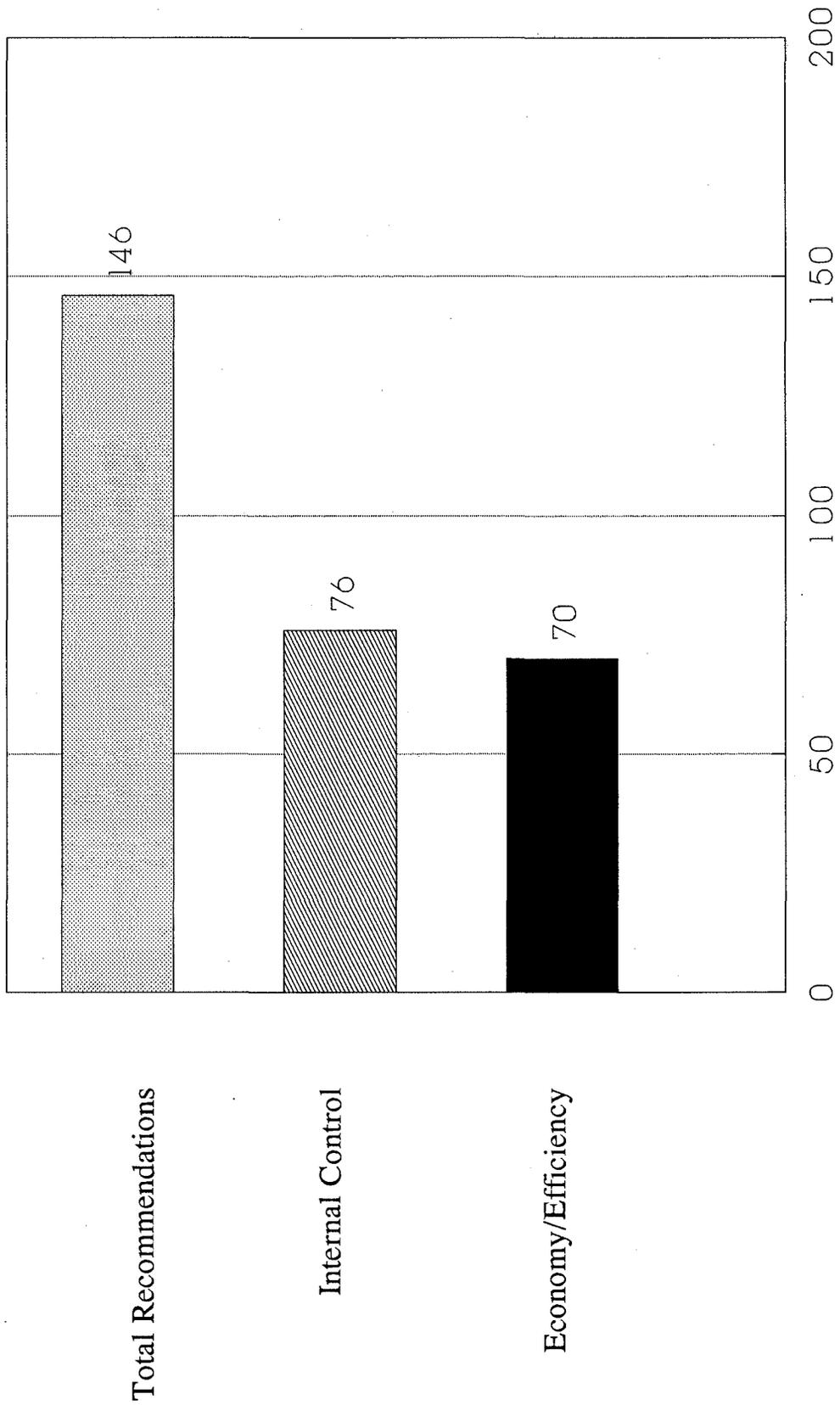
## **SUMMARY OF WORK PERFORMED** **JULY 1991 THROUGH JUNE 1993**

From July 1991 through June 1993, the Office of the City Auditor completed 21 performance/financial audit reports and special studies and 8 recommendation follow-up reports. These activities identified an estimated \$11.5 million in opportunities for the City to increase revenues or reduce costs. In our opinion, the \$11.5 million is conservative. Specifically, we included only the first year of identified cost savings or additional revenues when, in fact, some of these savings or revenues will be realized year after year. For the two-year period, audit costs were approximately \$2.3 million. As a result, from July 1, 1991, through June 30, 1993, the Office achieved a return on investment of 5 to 1, exceeding its 3-to-1 objective. Schedule I (page 24) summarizes the activity costs and results for the two-year period.

From July 1991 through June 1993, our audit reports contained 146 recommendations to improve the economy, efficiency, effectiveness, and internal control within City government and the Redevelopment Agency. These recommendations bring the total recommendations to 688 since the City Auditor started in May 1985. To date, the City Administration and the Redevelopment Agency have fully or partly implemented over 82 percent of the recommendations. Chart IV shows the number of recommendations made, including internal control and efficiency/effectiveness recommendations, from July 1991 through June 1993. Charts V and VI show the status of implementation and the types of recommendations made from May 1985 through July 1993.

# CHART IV

## RECOMMENDATIONS MADE JULY 1991 THROUGH JUNE 1993

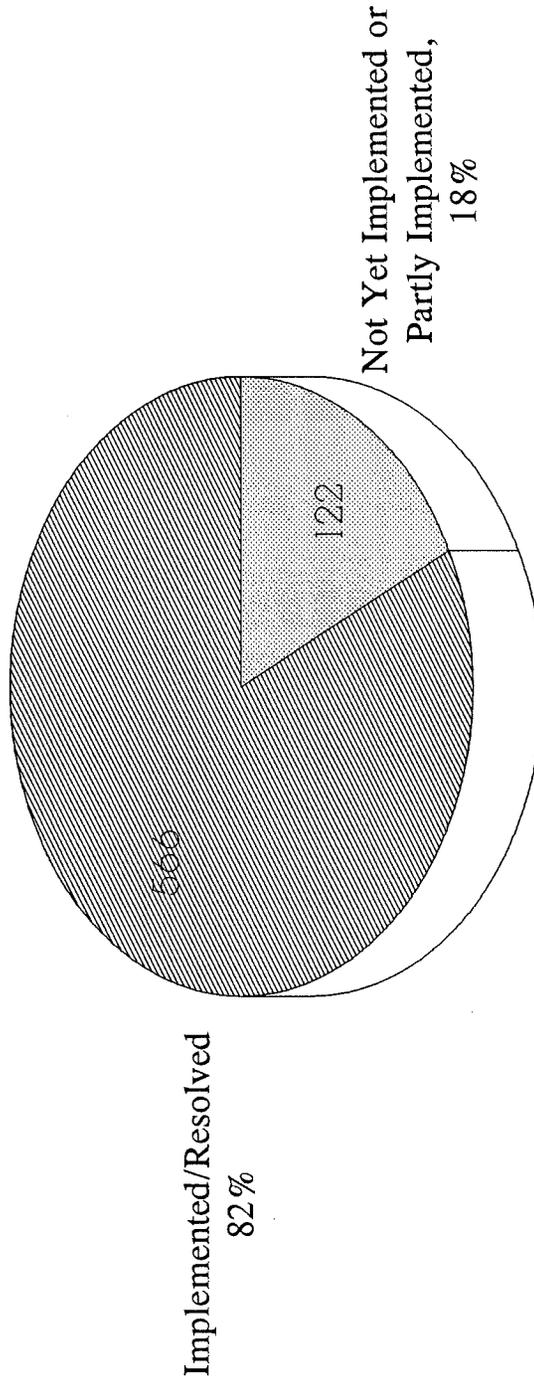


# CHART V

## STATUS OF RECOMMENDATIONS

### ACCUMULATED

MAY 1985 THROUGH JUNE 1993



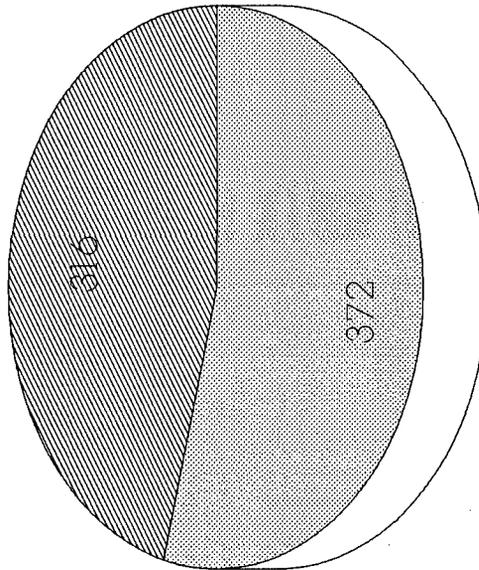
**688 Total Recommendations**

# CHART VI

## TYPES OF RECOMMENDATIONS ACCUMULATED

MAY 1985 THROUGH JUNE 1993

Internal Control 46%



Economy/Efficiency 54%

**688 Total Recommendations**

**SCHEDULE I**

**SUMMARY OF ACTIVITY COSTS AND RESULTS  
FOR THE PERIOD JULY 1991 THROUGH JUNE 1993**

<u>Report</u>	<u>Date</u>	<u>Report Title</u>	<u>Audit Cost</u>	<u>Identified Opportunities to Increase Revenues/Reduce Costs</u>	<u>Number of Recommendations to Improve Efficiency/Effectiveness</u>	<u>Number of Recommendations to Strengthen Internal Controls</u>
91-09	09-29-91	An Audit Of The Department Of Public Works' Cost Estimating Process	\$9,306*	\$120,000	0	6
91-10	10-15-91	An Audit Of The City's Formal Bidding Process Administered By The General Services Department/Purchasing Division	\$24,024*	\$215,000	5	12
91-11	10-22-91	Activities And Accomplishments Of The Office Of The City Auditor May 1985 Through June 1991	\$6,500*			
91-12	10-21-91	A Review Of The City Of San Jose's Downtown Parking Program	\$51,082*	\$441,000	1	1
92-01	02-05-92	An Audit of The Information Systems Department's Computer Purchasing Process	\$45,873*	\$468,000	5	2
92-02	02-10-92	An Audit Of The Fire Department's Accounts Receivable Collection Process	\$59,073	\$493,000	4	3
92-03	03-18-92	Oversight Of The City Annual Financial Audit	\$13,255	\$124,000		
92-04	04-29-92	City-wide Overtime Review	\$19,876		1	0
92-05	05-21-92	An Audit Of The Department Of Public Works' Capital Projects Management--Unit-Price And Time And Material Contracts	\$91,543	\$371,000	3	5
92-06	05-29-92	A Review Of The Disposal Of Unclaimed Police Department Property	\$43,269		7	1
92-07	06-19-92	A Preliminary Assessment Of The Office Of Environmental Management's Internal Control Structure	\$64,567		3	1
<b>PAGE SUBTOTAL</b>			<b>\$428,368</b>	<b>\$2,232,000</b>	<b>29</b>	<b>31</b>

\* - Does not include costs incurred during 1990-91

<u>Report</u>	<u>Date</u>	<u>Report Title</u>	<u>Audit Cost</u>	<u>Identified Opportunities to Increase Revenues/Reduce Costs</u>	<u>Number of Recommendations to Improve Efficiency/Effectiveness</u>	<u>Number of Recommendations to Strengthen Internal Controls</u>
92-08	07-29-92	An Audit Of The Department Of Public Works' Capital Projects Management--Contract Change Orders	\$42,586		0	7
92-09	08-07-92	An Audit Of The San Jose Police Department Property And Evidence Unit	\$43,269	\$44,000	7	5
92-10	09-10-92	An Assessment Of The Housing Department's Control Over Its Housing Rehabilitation Programs	\$97,033	\$10,000	4	10
92-11	10-20-92	An Audit Of The Redevelopment Agency's Financial Forecasting And Reporting Process	\$158,228		9	11
92-12	12-07-92	An Audit Of The Human Resources Department Employee Benefit Fund Program	\$28,425	\$4,100,000	3	0
93-01	01-12-93	An Audit Of The San Jose Municipal Water System's Accounts Receivable Collection Process	\$71,541	\$64,000	6	10
93-02	04-02-93	A Review Of The 1992 Emergency Medical Services Dispatch Process And Response Times In San Jose With Comparison To 1990 Performance	\$97,348		4	0
93-03	04-09-93	An Audit Of The City Of San Jose's Transient Occupancy Tax Revenues	\$49,371	\$579,000	1	0
93-04	06-03-93	An Audit Of The Fire Department--Hazardous Materials Storage Permit Fees	\$104,001	\$3,700,000	3	0
93-05	05-03-93	An Audit Of The Department Of General Services/Vehicle Maintenance Division--Police Vehicles	\$50,196	\$732,000	4	2
<b>PAGE SUBTOTAL</b>			\$741,998	\$9,229,000	41	45
<b>REPORTS ISSUED</b>			\$1,170,366	\$11,461,000	70	76

<u>Report</u>	<u>Date</u>	<u>Report Title</u>	<u>Audit Cost</u>	<u>Identified Opportunities to Increase Revenues/Reduce Costs</u>	<u>Number of Recommendations to Improve Efficiency/Effectiveness</u>	<u>Number of Recommendations to Strengthen Internal Controls</u>
		Recommendations Follow-up	\$ 33,656			
		Internal Audit Quality Control	84,237			
		Departmental Administration	155,503			
		Vacation, Holiday, and Other Leaves	399,837			
		Training	54,964			
		Miscellaneous Projects & Activities	211,362			
		Assignments in Progress	<u>230,382</u>			
		Subtotals	<u>\$1,169,941</u>			
		Total Audit Costs	<u>\$2,340,307</u>			

**Performance Measures**

**July 1991  
Through June 1993**

Identified Opportunities to Increase Revenues or Reduce Costs	\$11,461,000
Total Audit Costs	\$2,340,307
Ratio of Identified Opportunities to Increase Revenues or Reduce Costs to Total Costs	5 to 1

## **SUMMARY OF AUDIT REPORTS AND SPECIAL STUDIES**

The following summarizes the audit reports and special studies that the Office of the City Auditor has issued from July 1991 through June 1993.

### **AN AUDIT OF THE DEPARTMENT OF PUBLIC WORKS' COST ESTIMATING PROCESS (SEPTEMBER 1991)**

*Additional Procedures Would Help Ensure Compliance  
With The Department Of Public Works' Cost Estimating Requirements*

In its Federal Acquisition Regulation Supplement on Estimating Systems, the United States Department of Defense identifies the 15 characteristics of an adequate estimating system. In addition, the city of San Jose's (City) Department of Public Works (DPW) has developed Construction Cost Estimating Procedures that require proper documentation of project scopes, source and budget information, engineers' estimates, analyses of bids, bid summaries, contingency and engineering and inspection cost provisions, reviews and approvals, and other documentation. Our review of 15 construction project files revealed that required documentation was missing for 6 projects. By emphasizing the need for compliance with its Construction Cost Estimating Procedures and by establishing a system to monitor such compliance, the DPW will have added assurance that its project files (1) are adequately documented, (2) contain complete historical and auditable data for future project comparisons, and (3) will sustain the City's position should any subsequent disputes or claims arise.

*The Department Of Public Works' Contract  
Change Order Process Can Be Improved*

The DPW has developed procedures for administering contract change orders for construction projects. Our review of 13 construction projects for which contract change orders were necessary revealed some noncompliances with the DPW's procedures for contract change orders for 9 of the projects. In addition, we found that of the 56 contract change orders required for these 13 projects, the DPW should have anticipated the work involved for 17 change order items, thereby making the change orders unnecessary. By emphasizing the need for compliance with its Contract Change Order Procedure and for thorough reviews of plans and specifications, and adopting throughout the DPW the two standard change order forms the Design and Construction Division uses, the DPW will have added assurance of compliance with its procedures. Furthermore, the accuracy of engineers' estimates may improve.

**AN AUDIT OF THE CITY'S FORMAL BIDDING PROCESS ADMINISTERED  
BY THE GENERAL SERVICES DEPARTMENT/PURCHASING DIVISION (OCTOBER 1991)**

*Additional Procedures Are Needed To Enhance Compliance  
With Formal Bidding Requirements Of The City Council, City Code,  
Administration, And Authoritative Sources*

City Council Resolution No. 62248 authorized the City Manager or his designee to execute various purchase orders and agreements of more than \$20,000 that were essential to City operations from June 27, 1990, through August 13, 1990. The City Manager was to report such purchase orders and agreements to the City Council during August 1990 or in the City Manager's quarterly report to the Council for the fourth quarter of fiscal year 1989-90 or the first quarter of fiscal year 1990-91. Our review revealed five formal bids that

should have been reported in accordance with Resolution No. 62248 but were not. In addition, Municipal Code Section 4.84.020 prescribes the conditions under which persons (including vendors) using or occupying City-owned real property are required to obtain insurance. During our audit we identified two instances when vendors should have had proof of insurance on file with the City but did not. We also noted that the City did not monitor the receipt of the affirmative action plans for any of the 13 awarded bids we reviewed to verify vendor compliance with the City's nondiscrimination and affirmative action policies. Further, we noted two instances when Purchasing's written procedures or bid package specification requirements regarding vendor performance bonds were not followed. Finally, we noted two instances when City departments approved additional work without going through Purchasing or obtaining prior City Council approval. By implementing additional procedures, the City can enhance its compliance with formal bidding requirements and reduce the City's exposure to legal and financial liability, vendor nonperformance, noncompliance with nondiscrimination and affirmative action policies, and the performance of unauthorized work.

*The City Of San Jose Can Improve Its Formal Bidding Process*

A formal bidding process for state and local governments should be open and fair, encourage competition, and provide the purchasing entity with the best product at the lowest possible price. Our review revealed that the City can improve its formal bidding process. Specifically, we noted the following:

- City departments can prepare bid specifications that are too restrictive;
- City departments have too much discretion in adding or deleting bid options to determine the low bidder;

- City departments can evaluate bids on the basis of criteria not spelled out in the bid specifications;
- The City has not established a formal bidders list and is not monitoring the vendors' performance after it awards them bids;
- Some bid tabulation sheets are incomplete or unverified;
- Additional written procedures and guidelines are needed to lend consistency to the City's formal bidding process;
- The City's formal bidding process needs additional documentation; and
- The filing of bid documents can be better organized.

By (1) formalizing and standardizing the preparation and evaluation of bid specifications and submittals and vendor solicitations and performance, (2) improving the tabulation of bids, (3) developing additional written procedures and guidelines for formal bidding, (4) improving the documentation of the formal bidding process, and (5) better organizing formal bid files, the City will have greater assurance that its bidding process is open, fair, competitive, and economical.

#### **A REVIEW OF THE CITY OF SAN JOSE'S DOWNTOWN PARKING PROGRAM (OCTOBER 1991)**

*The City Administration's June 25, 1991, Presentation  
To The City Council Needs To Be Clarified And Enhanced*

On June 25, 1991, the City Administration and the Redevelopment Agency made a presentation to the San Jose City Council on current and proposed downtown parking policies. Our review revealed that the City Administration and Redevelopment Agency's presentation to the City Council did not

- Clearly define which off-street parking facilities would be affected by the validated parking and free parking aspects of the proposed downtown parking program or give a clear picture of what those changes would be;
- Accurately report the total cost of the current or proposed validated and free parking programs; or
- Justify continuing the existing validated and free parking programs or set measurable objectives for them.

Furthermore, our review disclosed that the City and the Redevelopment Agency do not have a consistent inventory of the downtown off-street parking facilities and spaces. During our review, we developed information concerning the above issues for City Council consideration when deciding current and future policies for downtown off-street validated and free parking.

We recommended that the City Manager and/or the Redevelopment Agency set specific and measurable objectives for the validated and free parking under the downtown parking program to allow for an assessment of the need to continue the program. We also recommended that they maintain a current, complete, and consistent inventory of downtown off-street parking facilities and spaces, including written procedures for (1) conducting parking inventories, (2) including or not including parking spaces that are not available to the general public, (3) including or not including specific information, (4) scheduling physical counts, (5) verifying information, or (6) sharing the results of physical counts with other City departments or the Redevelopment Agency.

**AN AUDIT OF THE INFORMATION SYSTEMS DEPARTMENT'S  
COMPUTER PURCHASING PROCESS (FEBRUARY 1992)**

*The City Can Save Money And Process Requests  
For Computers And Computer Software Faster*

Since November 1989, the City Administration has required that the Information Resource Center (IRC) within the Information Systems Department (ISD) review all City department or office requests for computers or computer software. Our review of IRC's processing of these requests revealed that

- It takes an average of 122 days from the time City departments or offices request computers or computer software to the time of delivery;
- IRC does not adequately check computer requisitions from City departments and offices;
- City departments and offices are not satisfied with the IRC ordering and installation services;
- IRC and Purchasing have not analyzed vendor performance and reliability as a basis for deciding whether the City should continue to purchase computers from certain vendors; and
- Computer users in City departments and offices have not received sufficient training in the use of computers.

IRC can improve the economy and efficiency of the City's computer and computer software purchasing by (1) conducting a City-wide computer requirements analysis; (2) working with the City's Computer Systems Users Committee, Computer Systems Policy Committee, departments, and offices to standardize and bid City-wide computer purchases; (3) performing more stringent checks of computer requirements pertaining to each computer requisition and recommending the most cost-effective system to meet those requirements;

(4) documenting vendor performance and reliability; (5) providing training to other City departments and offices in the use of computers; and (6) using the state of California's cooperative purchasing contract. By so doing, we estimate that City departments and offices can acquire computers and software about 90 days faster and the City could save as much as \$468,000 per year in computer equipment and software costs.

**AN AUDIT OF THE SAN JOSE FIRE DEPARTMENT'S  
ACCOUNTS RECEIVABLE COLLECTION PROCESS (FEBRUARY 1992)**

*Increased Fire Department Inspections Would Generate  
An Additional \$330,000 In Annual Revenues And Reduce  
The Threat Of Fires Or Other Life-Threatening Incidents*

As part of the City's fire safety permit process, the San Jose Municipal Code gives the Fire Chief discretionary authority to conduct fire safety and hazardous materials inspections. According to the Municipal Code, these inspections are designed to

- *Enforce fire prevention laws and ordinances for the safeguarding of life and property from fire or other hazardous conditions;*
- *Ascertain and correct conditions which would reasonably tend to cause fire or contribute to its spread; and*
- *Abate any condition that constitutes an immediate hazard to life by reason of fire, explosion, or panic; potential fire, explosion, or panic; or other hazardous conditions.*

About 50 percent of the time, inspections result in the inspectors identifying a hazardous condition that could cause fire, explosion, accident, or environmental damage. Additionally, these permits and inspections generate

about \$2 million per year in revenues for the City's General Fund. Despite a marked increase in the number of inspections from 1988 to 1990, our review of the San Jose Fire Department's (SJFD) fire safety and hazardous materials inspections revealed that in 1991

- The SJFD did not complete the inspection of 42 percent of the assigned facilities for fire safety and 45 percent of the assigned facilities for hazardous materials within the annual inspection period.
- Instead of an annual inspection cycle, the SJFD inspected assigned facilities for fire safety on a 21-month cycle and assigned facilities for hazardous materials on a 22-month cycle.
- Fire safety inspectors spent only 36 percent and hazardous materials inspectors spent only 10 percent of their total present hours actually doing annual inspections.

As a result, in 1991, potentially hazardous conditions went undetected for an additional nine or ten months and the City's General Fund did not receive about \$330,000 in inspection fee revenues. By increasing the percent of fire safety and hazardous materials inspectors' time actually spent doing inspections from 36 and 10 percent of present hours to 61 and 18 percent respectively, the SJFD could inspect all assigned facilities on an annual basis and increase General Fund revenues by about \$330,000 per year.

*More Aggressive Collection Efforts For Delinquent  
Fire Department Permits, Inspections,  
And Late Fees Could Generate An Additional \$163,000*

The SJFD has its own accounts receivable system called FIBS (Fire Inspection Billing System) for permits, inspections, and late fees. Our review of the SJFD's FIBS revealed that

- On the average, the SJFD bills for inspections more than 60 days after inspections are completed or Hazardous Materials Management Plans are received. In one instance, we noted that the SJFD billed for an inspection 500 days after the inspection was made;
- FIBS accounts that are over 90 days delinquent have increased from \$91,530 in June 1989 to \$297,261 in June 1991;
- During 1988-89 through 1990-91, the SJFD cancelled more than \$500,000 in FIBS accounts; and
- The SJFD could collect an additional \$163,000 of the more than \$325,000 in delinquent FIBS accounts.

Therefore, during 1988-89 through 1990-91, the SJFD cancelled or failed to collect more than \$825,000 in FIBS accounts. This includes the more than \$500,000 in FIBS accounts the SJFD has cancelled and the delinquent FIBS accounts totalling over \$325,000. As a result, the City's General Fund has not received the permit, inspection, and late fees and interest income to which it is entitled and businesses that have not paid for requisite permits and attendant inspections continue to operate in San Jose. By pursuing delinquent businesses more aggressively, we estimate that the SJFD could collect an additional \$163,000 for the City's General Fund.

*The Fire Department's Manual Billing System Needs Additional Controls To Protect It From Errors, Omissions, And Defalcations*

The SJFD uses a manual billing system for non-routine inspections and services. Our review of these manual billings revealed that

- The SJFD's manual billings exceed \$250,000 per year;

- The SJFD does not have an accounts receivable system for these manual billings; and
- The SJFD's controls over the manual billings are inadequate.

As a result, the SJFD's annual \$250,000 in manual billings are susceptible to errors, omissions, and defalcations. By using pre-numbered invoices, establishing an accounts receivable system, and separating the accounting, billing, and cashiering functions for these revenues, the SJFD will be able to establish the additional controls it needs over its manual billings.

#### **CITY-WIDE OVERTIME REVIEW (APRIL 1992)**

*In 1991 Nearly All Statistical Indicators Of City-Wide Overtime Expenditures Were Down When Compared To 1990*

Our review of City-wide overtime in 1991 revealed the following:

- All pertinent overtime statistics decreased when compared to 1990;
- Paid overtime decreased \$901,325, compensatory time (comp-time) earned decreased \$423,877, and total overtime decreased \$1,325,202 compared to 1990;
- The Police Department had the highest percentage of overtime to base pay;
- The top 500 City overtime earners worked 28,248 fewer hours and earned \$513,112 less in overtime than in 1990;
- The number of employees who earned 40 percent or more of their base pay in overtime decreased from 39 in 1990 to 23;
- The City's end-of-year comp-time liability was \$7,003,060--2 percent less than 1990; and

- The City Manager's Second Quarterly Overtime Report had a \$183,101 error.

In our opinion, the Administration should either use the computer programs the City Auditor's Office uses to produce its overtime reports, or develop guidelines for payroll reporting units to follow when reporting on overtime. By so doing, the Administration will improve the efficiency and accuracy of its quarterly overtime reporting process.

**AN AUDIT OF THE DEPARTMENT OF PUBLIC WORKS'  
CAPITAL PROJECTS MANAGEMENT OF UNIT-PRICE AND  
TIME AND MATERIAL CONTRACTS (MAY 1992)**

*The Department Of Public Works Needs To Develop Additional Policies,  
Procedures, Forms, And Documentation To Ensure The Correctness  
Of Payments To Contractors For Time And Material And Unit-Price Contracts*

The Department of Public Works (DPW) is primarily responsible for managing the City's capital projects. In 1990-91, the City awarded 106 construction contracts for approximately \$51 million. Of these contracts, \$37,800,000 were unit-price contracts and \$538,000 were time and materials (T&M) contracts; the remaining were lump-sum contracts. Our review of the DPW's management of unit-price and T&M contracts revealed that

- The DPW needs additional written policies and procedures regarding what its inspectors are expected to do or what responsibilities inspectors, project managers, and division chiefs are assuming when they sign off on different documents;
- The DPW lacked adequate procedures regarding how inspectors should conduct inspections, prepare inspection reports, or authorize payments to contractors;
- The DPW lacked standardized forms for inspection reports;

- The DPW approved some payments to contractors without adequate supporting documentation;
- Inadequate separation of duties existed in that DPW employees who verified contractor work also approved contractor billings; and
- The Office of Affirmative Action and Contract Compliance's role in monitoring prevailing wage requirements is organizationally inefficient.

As a result, the DPW relies on contractors to submit accurate billings which, in turn, exposes the City to the risk of paying for work not actually performed. By developing additional written policies, procedures, and forms and by requiring additional documentation and separation of duties over the contractor payment process, the DPW can have added assurance that payments to contractors for unit-price contracts and T&M contracts are correct.

#### **AN AUDIT OF THE UNCLAIMED POLICE DEPARTMENT PROPERTY (MAY 1992)**

##### *The Department Of General Services Needs To Improve Its Physical And Administrative Controls Over Unclaimed Property*

The San Jose Municipal Code imposes on the Director of General Services the responsibility to protect and/or dispose of the unclaimed property that the San Jose Police Department transfers from its Property Room. Our review of the manner in which of General Services stores and disposes of unclaimed property revealed the following:

- Physical security over unclaimed property is inadequate;
- Written policies and procedures are inadequate; and
- Segregation of duties is inadequate.

As a result, unclaimed property in the custody of General Services is subject to being lost, misplaced, or stolen. In order to improve its physical and administrative controls over unclaimed property, General Services should (1) review its list of persons authorized to enter its Central Warehouse after normal hours; (2) require authorized persons to have individual alarm codes or to telephone the alarm company after entering the warehouse; (3) change the Central Warehouse safe combination; (4) develop written policies and procedures for the handling, auctioning, and disposal of unclaimed property; (5) immediately inventory, auction, or otherwise dispose of the jewelry in its safe; and (6) provide for additional segregation of duties over unclaimed property from initial pick-up to auction or disposal.

*The Department Of General Services Needs To Formally Contract For Unclaimed Property Auctioneering Services And Fully Report Auction Results To The City Manager*

The San Jose Municipal Code requires the Director of General Services to contract with auctioneers for auctioning unclaimed Police Department property. In addition, the Municipal Code requires General Services to report to the City Manager information regarding the disposition of property. Our review of General Services' handling of unclaimed property revealed that General Services

- Has only a verbal agreement with the vendor that auctions unclaimed property for the City; and
- Does not provide the City Manager with Municipal Code-required information.

In order for General Services to comply with the Municipal Code, it should enter into a written contract with the vendor that auctions the City's unclaimed

property and provide the City Manager with all Municipal Code-required information on disposition of unclaimed property.

**PRELIMINARY ASSESSMENT OF THE OFFICE OF ENVIRONMENTAL MANAGEMENT'S INTERNAL CONTROL STRUCTURE (JUNE 1992)**

In a memorandum dated October 1, 1991, the Acting Director of the Office of Environmental Management (OEM) recommended that the City Council ". . . direct the City Auditor's Office to modify its workplan and immediately begin a "Risks and Threats Analysis" based on the new Office of Environmental Management's organizational structure." On October 22, 1991, the City Council directed the City Auditor's Office to conduct the risk and threats analysis OEM requested. The City Auditor's Office completed a preliminary survey of OEM on December 2, 1991, and on January 15, 1992, requested the Acting Director of OEM to respond to a list of threats. On April 13, 1992, OEM provided the City Auditor's Office with a draft response to the list of threats. On May 15, 1992, OEM provided the City Auditor's Office with a second draft response to a portion of the list of threats. As of June 5, 1992, OEM had not provided a final response due to competing priorities and the ongoing evaluation of a potential reorganization of environmental services City-wide. Because OEM's draft responses were not complete and OEM did not adequately respond to several identified threats, the City Auditor's Office requested OEM to expand upon and/or clarify some of its responses to the list of threats.

The City Auditor's Office has completed a preliminary assessment of OEM's internal control structure based on OEM's draft responses to the list of threats. The City Auditor's preliminary assessment of OEM's internal control structure may change when OEM provides its final response.

Based on OEM's draft responses to the list of threats, the City Auditor's Office has determined the following:

- There are 23 valid threats OEM will consider addressing as soon as possible with existing resources;
- There are 21 threats that are not threats currently, but for which OEM will need to develop controls in the future;
- There are 22 threats for which OEM has informal controls in place to mitigate or eliminate the threat; therefore, OEM needs to formalize and document the controls;
- There are 77 threats for which OEM has documented the controls in place, but the City Auditor's Office needs to perform additional audit work in order to determine that the controls are working as intended;
- There are 26 threats that relate to environmental management, yet do not appear to be the responsibility of OEM;
- There are 78 threats for which the City Auditor's Office needs additional information from OEM in order to complete the preliminary assessment; and
- There are 2 threats on which the City Auditor's Office disagrees with OEM's assessment of the threats.

To give the proper attention to OEM's response to the list of threats, the Acting Director of OEM has assigned staff to a Risk and Threats Task Force for the purpose of developing controls to address identified threats. In order to complete the risk and threats analysis that the City Council directed, OEM should refer this preliminary assessment to the Risk and Threats Task Force as a basis for completing its mission and develop and implement controls and procedures to address agreed upon threats.

**AN AUDIT OF THE DEPARTMENT OF PUBLIC WORKS' CAPITAL PROJECTS  
MANAGEMENT -- CONTRACT CHANGE ORDERS (JULY 1992)**

*The Department Of Public Works Can More Effectively Negotiate  
The Price Of Contract Change Orders By Ensuring Adherence  
To Its Existing Procedures And Implementing Additional Procedures*

From April 1, 1991, through July 9, 1992, the Office of the City Clerk processed 404 DPW contract change orders worth \$2,879,165. The DPW's Construction Estimating Procedures require that the project manager prepare a change order estimate for a

- Determination of reasonableness of quotations submitted by the contractor; and
- Basis of negotiation with contractor to determine agreed prices for contemplated change.

In addition, the DPW's Construction Estimating Procedures specify a range of precision for contract change order estimates of +10 percent or -5 percent. However, our review revealed that DPW's project managers are not consistently preparing the required contract change order estimates. Further, we determined that DPW's Construction Estimating Procedures do not include several elements that could improve the DPW's ability to negotiate the price of contract change orders to the benefit of the City. By ensuring adherence to its existing procedures and adopting additional procedures, the DPW will improve compliance with its cost estimating procedures and improve its ability to negotiate the price of contract change orders.

**AN AUDIT OF THE SAN JOSE POLICE  
DEPARTMENT'S PROPERTY AND EVIDENCE UNIT (AUGUST 1992)**

*The San Jose Police Department Needs To Improve The Security  
Over Its Computerized Narcotics And Property Tracking Systems*

The San Jose Police Department (SJPD) uses two computerized systems to maintain custody over Property Room items—a Narcotics Evidence Tracking System and an EVITRAX Property Tracking System. Our review revealed lax security over these two systems. Specifically, we identified the following:

- Both systems lack adequate password protection;
- Neither system has an adequate audit trail to document access to or modifications of its database;
- The EVITRAX system's database is cluttered with information on closed cases that should be archived;
- The EVITRAX system lacks adequate backup and recovery contingency plans and has inaccurate information in its database; and
- Information in the EVITRAX system is unnecessarily replicated in manual records.

The SJPD can improve the security over its computerized tracking systems and improve operational efficiency by periodically changing the systems' database passwords, improving database access and modification documentation, archiving database information for closed cases, establishing a backup and contingency plan for the EVITRAX system, immediately updating the EVITRAX database for property status changes, and eliminating unnecessary duplicate property records.

*The San Jose Police Department's Policies Regarding Inspections  
And Audits Of The Narcotics Vault And Audits And Inspections  
Of Cash In The Property Room Are Not Being Followed*

The SJPD has policies that require unscheduled quarterly inspections of the narcotics stored in the narcotics storage area and monthly spot inspections and quarterly audits of Property Room cash and money transactions. However, our audit revealed a general noncompliance with the SJPD's policies. As a result, the SJPD is exposed to the misuse or misappropriation of the narcotics or cash in the Property Room. The SJPD can reduce its exposure to these risks by adhering to already existing policies.

*The San Jose Police Department Needs To Improve Its Controls  
For Unclaimed Property Returned For Internal Use*

The SJPD turns unclaimed property from the Property Room over to the Department of General Services for storage and ultimate disposition. Currently, the SJPD is one of only two City departments that request unclaimed property for their own internal use. Our audit of the Property Room included a test inspection of the unclaimed property the SJPD has retained for its use. The results of our inspection were that we could not locate 3 of the 73 items we selected for testing. The SJPD can improve its control over the unclaimed property it uses internally by periodically taking an inventory of these items and adopting other procedures. In addition, the City could save money if other City departments were allowed to request unclaimed property from General Services.

*The City Of San Jose Should Pursue The Return Of About \$44,000  
In Unclaimed Cash From Closed Cases That The City Remitted  
To Santa Clara County Between March 24, 1991 And January 9, 1992*

Historically, the City has retained possession of fairly significant amounts of unclaimed cash from closed cases. However, on or about March 24, 1991, the Santa Clara County District Attorney ordered that, in the future, unclaimed cash from closed cases be turned over to Santa Clara County (County). The City and County recently agreed that the City will continue to retain possession of unclaimed cash from closed cases. However, the City needs to pursue the return of about \$44,000 in unclaimed cash it remitted to the County from March 24, 1991, to January 9, 1992.

**AN ASSESSMENT OF THE HOUSING DEPARTMENT'S  
CONTROL OVER ITS HOUSING REHABILITATION PROGRAMS (SEPTEMBER 1992)**

*The Housing Department Can Minimize Its Risk And Improve  
Its Controls By Renegotiating Its Loan Servicing Agreements  
And Making Its Quarterly Delegation Of Authority Report  
To Council Conform With Municipal Code Requirements*

The Housing Department (Housing) has various legal commitments resulting from Municipal Code requirements and agreements Housing has entered into with loan servicing agencies. As part of our audit, we reviewed selected agreements, supporting documents, and procedures for compliance with these legal commitments. Our review disclosed that

- Housing needs to renegotiate its agreements with U.S. Escrow and Continental Community Funding;
- The City is losing about \$10,400 in interest annually because \$160,000 of City funds on deposit with U.S. Escrow and Continental Community Funding are in non-interest bearing accounts; and

- Housing's quarterly delegation of authority report submitted to Council is not in accordance with Municipal Code requirements.

As a result, Housing is dealing with a provider of service under a terminated agreement, is losing potential interest revenues, and is not adequately reporting its activities.

*The Housing Department Can Enhance Its System Of Controls Over The Rehabilitation Programs By Improving Project Documentation, Contractor Evaluations, Loan Accounting, And Its Electronic Data Processing Contingency Plan*

Housing's system of controls over its Housing Rehabilitation Programs is extensive, and it actively incorporates a number of good management techniques. Housing has identified and implemented most of the internal controls needed to mitigate the threats we identified during our risk assessment of the Housing Rehabilitation Programs. However, we reviewed the use of certain controls in practice and identified areas for improvement. Specifically, our review disclosed that

- Housing does not have adequate documentation of contractor pre-screening interviews, bid evaluations, and description of work approvals;
- Housing does not evaluate contractor performance as a basis for deciding whether to continue using the same contractors in the future;
- Neither the Housing Department nor the Finance Department are fully reconciling subsidiary rehabilitation loan ledgers and other detail loan listings to the City's general ledger or to each other;
- Housing does not have a policy to identify and write off uncollectible loans; and

- Housing's electronic data processing (EDP) contingency plan is not adequate and does not consider all the major computer systems used by the Housing.

Housing can improve its system of internal controls over its Housing Rehabilitation Programs by (1) documenting contractor pre-screening interviews, bid evaluations, and description of work approvals, (2) evaluating contractor performance, (3) coordinating with the Finance Department to eliminate duplicative detail loan listings and fully reconcile subsidiary rehabilitation loan ledgers to the City's general ledger, (4) developing a policy to identify and write off uncollectible loans, and (5) preparing an EDP contingency plan covering all the major computer systems used by Housing.

*The Housing Department Needs To Complete  
The Documentation Of Its Policies And Procedures*

Written policies and procedures are an essential part of an organization's internal control structure. Policies are general statements that guide thinking and action in making decisions. Procedures detail the manner in which the staff should perform their duties in implementing the policies. Policies and procedures should be in writing to (1) reduce the need for managerial direction of routine matters, (2) improve efficiency through standardization of actions, (3) facilitate the training of personnel, and (4) document institutional knowledge so that operations can continue in the absence of key employees.

Our review of Housing's internal controls disclosed that

- Housing needs additional documentation of controls relating to its Housing Rehabilitation Programs;
- The Rehabilitation Unit has not fully documented the reports it prepares or uses in connection with the Housing Rehabilitation Programs; and

- In March 1992, Housing issued a draft of the *Rehabilitation Program Handbook*, designed to document the policies and procedures for the various rehabilitation programs. However, the handbook is still incomplete with regard to certain aspects of the programs.

Housing can improve its policies and procedures documentation by (1) preparing or completing its documentation of its internal controls for the Housing Rehabilitation Programs, (2) using the controls listing presented in this report to identify which of its internal controls still require complete documentation, (3) completing its inventory and documentation of the reports it prepares or uses in connection with the Housing Rehabilitation Programs, and (4) setting a target date for issuing its *Rehabilitation Program Handbook*.

**AN AUDIT OF THE REDEVELOPMENT AGENCY'S  
FINANCIAL FORECASTING AND REPORTING PROCESS (OCTOBER 1992)**

*The Redevelopment Agency Can Improve Its Financial Accountability*

The San Jose Redevelopment Agency Board (Board) is mandated by California Community Redevelopment Law to approve the annual budget and amendments to the annual budget of the Redevelopment Agency (Agency). As such, the Board needs timely and sufficient financial information to adequately discharge its fiscal and policymaking responsibilities. However, our review of the financial information the Board regularly receives revealed that the Agency does not submit monthly financial information to the Board and has no written procedures for preparing interim financial reports. In addition, the Agency does not submit the Capital Cost Reports or cash flow projections it prepares internally to the Board, and the cash flow projections that the Agency prepares cover at most only a 12-month period. Finally, in our opinion, the memorandums the

Agency presents to the Board for major budgetary or policy decision-making purposes lack adequate financial information. Specifically, we noted the following omissions in memorandums and other information the Agency presented to the Board:

- A November 27, 1990, memorandum and a February 4, 1991, Mid-year Capital Budget Review memorandum failed to identify that implicit in the Agency's budget model policy change was the refunding of \$415 million in debt;
- A March 3, 1992, memorandum lacked sufficient financial information to allow the Board to make an informed decision regarding the approval of \$82 million in additional bonds;
- The Agency's proposed 1992-93 through 1996-97 five-year Capital Improvement Program (CIP) failed to identify that implicit in the proposal was the concept of wrap-around tax allocation bond financing that could cost as much as \$144 million in additional interest payments; and
- The Agency has not identified for the Board that, beginning in 1992-93, the Agency's current expenses will exceed current revenues.

As a result, the Board lacks the financial information needed to monitor the Agency's budget and assess its financial condition. The Agency can improve its financial accountability to the Board by (1) reporting directly to an established finance committee, (2) submitting monthly financial reports to the Board, (3) submitting quarterly Capital Cost Reports to the Board, (4) providing the Board with adequate financial information when requesting approval of bond issues or other financial considerations, and (5) demonstrating in its budget model that there are sufficient current revenues to pay for its current expenditures.

*The Redevelopment Agency Can Improve  
The Reliability Of Its Revenue Forecasting Model*

The Agency annually prepares a five-year projection of revenues. The Agency's five-year revenue projections are important because they are the basis for two major types of Board planning decisions--bond financing and capital projects. As with all revenue projection models, the reliability of the Agency's model is a function of the basic econometric assumptions built into the model and the methodology the Agency uses to convert those assumptions into projected revenues. As part of our audit of the Agency, we analyzed and evaluated the five computerized spreadsheets the Agency uses to forecast revenues. Our analysis and evaluation revealed the following:

- The Agency's computerized spreadsheets do not sufficiently document the Agency's revenue projection methodologies or computations;
- The Agency does not keep adequate records to assess the validity of the econometric assumptions used in previous revenue projections;
- The Agency does not keep adequate records to assess the reliability of the assessed values of land, personal property, improvements, utility land, and exemptions used in its revenue forecasting model;
- The Agency incorrectly assumes in its revenue forecasting model that secured and unsecured property tax rolls will grow at the same rate;
- The Agency incorrectly assumes in its revenue forecasting model that assessed values will grow at the same base growth rate in all redevelopment areas;
- The Agency's methodology for anticipated new construction tends to overstate projected revenues;
- There are several technical errors in the Agency's revenue forecasting model;

- The Agency does not document the sources of or reasons for the econometric assumptions built into its revenue forecasting model;
- The Agency no longer provides a base case, best case, and worst case scenario for its five-year revenue projections;
- The Agency does not have written procedures or instructions for preparing its five-year revenue projections; and
- The Agency does not adequately monitor the number or amount of property tax appeals in redevelopment areas.

As a result, the Agency's 1991-92 through 1995-96 five-year projection contained about \$2.5 million in correctable errors. In addition, the Agency's econometric assumptions in its revenue forecasting model are not known to the Board. Further, the Agency may not prepare its five-year revenue projections consistently or correctly. Finally, the Agency may not be adequately informed on property tax assessment trends. The Agency can improve the reliability of its five-year revenue projections by (1) documenting its computerized spreadsheets, (2) evaluating the econometric assumptions in prior years' revenue projections, (3) improving its revenue projection methodologies, (4) correcting technical errors in its revenue forecasting model, (5) establishing an economic policy committee to review the econometric assumptions in its revenue forecasting model, (6) preparing base case, best case, and worst case scenarios for its five-year revenue projections, (7) developing written instructions and procedures for preparing five-year revenue projections, (8) working closer with the Santa Clara County Assessor and County Counsel on property tax appeals in redevelopment areas, and (9) monitoring and reporting on the status of property tax appeals in redevelopment areas.

*Opportunities Exist To Enhance The Redevelopment Agency Board's  
Ability To Assess The Status Of The Agency's Capital Improvement Program*

San Jose's adopted redevelopment plans stipulate that the debt financing necessary to complete redevelopment must be in place by December 31, 2001. Accordingly, the Agency needs to make definitive and quantifiable plans to facilitate identifying and funding the most crucial capital projects by the end of the year 2001. However, our review of the Agency's CIP revealed that

- The Agency has not developed the definitive goals, workplans, and cost estimates that the Board requested in 1987;
- During the past three fiscal years, the percentage of the Agency's annual capital budget expended or encumbered has declined; and
- The Agency's annual capital budget lacks necessary financial information.

As a result, the Board and the public do not have the information needed to assess the status of San Jose's redevelopment effort. To facilitate the Board's policymaking authority, the Agency should (1) implement Board-adopted City Auditor recommendations regarding definitive goals, workplans, and cost estimates and (2) incorporate additional and more descriptive financial information in its annual capital budget.

*The Redevelopment Agency Needs To Improve  
Its Administration Of Contracts Of \$20,000 And Under*

The Agency may award contracts of \$20,000 and under without prior Board approval. These contracts are subject to the Agency's informal purchasing process. From July 1, 1989, through December 31, 1991, the Agency executed and/or completed 210 contracts of \$20,000 and under, including multiple contracts to the same vendors for similar services. In addition, our review revealed

that the Agency needs to include written procedures in its Administrative Procedures Manual regarding service contracts relating to construction projects, the solicitation and handling of sealed bids, and a policy against splitting purchases or contracts to avoid a formal bidding process.

**AN AUDIT OF THE HUMAN RESOURCES DEPARTMENT'S  
EMPLOYEE BENEFIT FUND PROGRAM (DECEMBER 1992)**

*The City Can Save \$4.1 Million In Employee Benefit Payments  
Without Compromising The Fiscal Integrity Of Its Employee Benefit Funds*

As part of its annual budget, the City appropriates funds to cover anticipated expenditures for various employee benefit funds. Our review of the employee benefit fund appropriations revealed that the City was overly conservative when it estimated the funds needed in the 1992-93 budget.

Specifically, we found the following:

- Beginning in 1988-89, the City and its employees have contributed too much for life insurance. As a result, actual life insurance reserves exceed the Human Resources Department's own reserve requirements by \$2.3 million. The City's share of this excess reserve is \$1.3 million. In addition, the City can save about \$697,000 by not contributing its 1992-93 appropriation for life insurance.
- From 1991-92 to 1992-93, the City increased its Kaiser and Lifeguard appropriation more than necessary to accommodate actual Kaiser and Lifeguard plan increases. As a result, the City can reduce its Kaiser and Lifeguard appropriation by \$2.1 million.

By adopting the City Administration's proposed health benefit rate changes, reevaluating benefit fund program reserves and appropriation amounts, further adjusting, suspending, or rebating benefit fund contributions, and

improving on how it calculates the benefit fund appropriations, the City could save as much as \$4.1 million in 1992-93 and ensure accurate and reliable expenditure estimates in future budgets.

**AN AUDIT OF THE SAN JOSE MUNICIPAL WATER SYSTEM'S  
ACCOUNTS RECEIVABLE COLLECTION PROCESS**

*The San Jose Municipal Water System Needs To Evaluate  
The New Rate Structure Put Into Effect As Of April 1, 1992*

On March 24, 1992, the City Council approved a resolution to increase the San Jose Municipal Water System (SJMWS) rates and increase the monthly service charges which would be effective April 1, 1992. Accordingly, the SJMWS needs to evaluate the effect of the new rates along with the water conservation program to determine whether rates are appropriate for the services being provided.

*The San Jose Municipal Water System Will Save About \$64,000  
Per Year By Implementing A Bimonthly Water Meter Reading Schedule*

The SJMWS reads water meters monthly so that it can bill its customers for their actual monthly water usage. The SJMWS' cost of monthly water meter reading is about \$135,400 annually. Our survey of other water systems indicated that other water systems follow a bimonthly water meter reading schedule. By following a similar water meter reading schedule, the SJMWS can save as much as \$64,350 annually.

*The San Jose Municipal Water System Can Improve  
Its Efficiency By Fully Utilizing Its Computer Resources*

The SJMWS uses its own computerized water billing system and the City's Financial Management System (FMS) in accounting for its accounts receivable. Our review of the SJMWS accounts receivable disclosed that the SJMWS has not fully utilized the capabilities of its computer resources. Specifically, we noted that the SJMWS manually (1) sorts customer invoices and (2) inputs daily transactions from its water billing system into the FMS. As a result, the SJMWS uses its staff resources for time-consuming work that its computer system and the City's FMS can perform more efficiently. The SJMWS can improve its efficiency and save staff time by (1) printing customer invoices sorted by customer name and address and (2) developing an automated interface between its water billing system and FMS.

*The Administration Of The San Jose Municipal  
Water System's Accounts Receivable Can Be Improved*

The SJMWS coordinates with the Accounts Receivable Section (ARS) of the Finance Department/Treasury Division in administering SJMWS accounts receivable and pursuing SJMWS delinquent accounts. Our review of the administration of SJMWS accounts receivable disclosed that

- Until recently, neither the SJMWS nor the ARS in the Finance Department prepared an accounts receivable aging schedule for monitoring collections;
- Informal procedures for identifying and pursuing delinquent accounts need to be updated, formally adopted, and performed; and
- Established procedures for purging accounts receivable ledgers of uncollectible accounts are not being followed.

The SJMWS and ARS in the Finance Department can improve the administration of SJMWS accounts receivable by (1) preparing an accounts receivable aging schedule for monitoring collections; (2) updating, formally adopting, and performing its informal procedures for identifying and pursuing delinquent accounts; and (3) following established procedures for purging accounts receivable ledgers of uncollectible accounts.

*Improving The San Jose Municipal Water System Cash Handling Procedures Will Enhance Accountability Over Revenues*

The SJMWS receives revenues through the mail, at a drop box in front of its administrative office, and over the counter at its administrative office. Our review of the SJMWS' cash handling process disclosed that certain procedures are inadequate to ensure that revenues are safeguarded and that the cash handling process is efficient and effective. Specifically, we noted that the SJMWS

- Does not deposit its receipts on the same day they are received;
- Keeps its office safe unlocked during the day and does not change the safe combination periodically;
- Does not stamp an endorsement on checks in a timely manner;
- Uses a cash receipts form that is neither pre-numbered nor dated;
- Does not adequately segregate its cash handling and recording duties; and
- Needs to complete its written procedures.

The SJMWS can enhance the accountability over its revenues by coordinating with Treasury Division of the Finance Department to include in its 1993 banking services bid specifications either courier pickup at 3:00 p.m. or

later or lockbox service to the SJMWS; locking the office safe at all times and opening it only for authorized purposes; limiting access to a limited number of employees; periodically changing the safe combination; requiring individuals to sign a log before opening the safe; stamping an endorsement on checks in a more timely manner; pre-numbering its cash receipts form and periodically accounting for its cash receipts form usage; segregating the cash handling from cash recording duties; and completing its written procedures.

**A REVIEW OF THE 1992 EMERGENCY MEDICAL SERVICES DISPATCH PROCESS AND RESPONSE TIMES IN SAN JOSE WITH COMPARISON TO 1990 PERFORMANCE (APRIL 1993)**

*When Compared To 1990, The San Jose Fire Department's Delivery Of Emergency Medical Services Improved, But Total EMS Response Times Were Longer In 1992*

Both the SJFD and Santa Clara County-contracted paramedics provide service to citizens at the scene of an EMS event. In 1992, the SJFD provided San Jose citizens with EMS services that were not available in 1990. These enhanced EMS services improve the level of emergency medical care. However, total EMS response times for both the SJFD and the County-contracted paramedics were longer in 1992 than in 1990. Specifically, our review revealed that

- SJFD dispatchers provided Pre-Arrival Instructions giving immediate medical treatment to victims in 32 percent of EMS events;
- The SJFD's average 1992 EMS total response time was 7 minutes 16 seconds compared to 11 minutes 32 seconds for the County-contracted paramedics;
- Compared to 1990, overall EMS call-handling, dispatch, and unit response performance resulted in SJFD taking 36 seconds longer to

respond to the scene in 1992, while the County-contracted paramedics took 1 minute 3 seconds longer;

- In 1992, hospital emergency rooms treated and released 50 percent of transported EMS victims compared to 55 percent in 1990; and
- The death rate for victims transported to the hospital decreased from 0.8 percent in 1990 to 0.7 percent in 1992.

*Overall, The County Improved Its Ambulance Response Time In 1992 When Compared To 1990, But County-Contracted Paramedic EMS Response In The San Jose Fire Response Area Still Did Not Meet The County Standard For Response Time*

The Santa Clara County Communications Center (County Center) is the primary Public Safety Answering Point (PSAP) for 9-1-1 calls originating within the unincorporated areas of the County, some of which are in the San Jose fire response area. In addition, the County Center answers calls to the 7-digit ambulance emergency telephone number, some of which come from the City or its contracted fire response area. During our review, we found

- EMS events in the San Jose fire response area accounted for 64 percent of total paramedic dispatches from the County Center;
- The County Center was the reporting party to the SJFD for 10 percent of total EMS events in the San Jose fire response area;
- The combined turnout and travel time for the County-contracted paramedics improved greatly from 1990 to 1992, being 1 minute 14 seconds faster in 1992;
- 88 percent of the time the paramedics arrived at their dispatch destinations in the San Jose fire response area in less than 10 minutes, just under the County standard of 90 percent;
- 30 percent of ambulance dispatches still resulted in "dry runs" with no victim transported to the hospital; and

- Despite the fact that all of the EMS events in our sample were dispatched Code 3 to the scene, only 15 percent of the hospital transports were Code 3 to the hospital.

*The San Jose Police Department Met One  
Of Its Two 9-1-1 Call-Answering Time Objectives*

The San Jose Police Department (SJPD) has the responsibility to answer all 9-1-1 calls originating in the City. For 1992-93, the SJPD Bureau of Technical Services has two 9-1-1 call-answering time objectives. Our review revealed that

- Citizens called 9-1-1 to report 77 percent of total EMS incidents in the San Jose fire response area;
- The percentage of calls for EMS from non-9-1-1 sources dramatically increased from 3 percent in 1990 to 23 percent in 1992;
- SJPD call-takers answered 62 percent of incoming 9-1-1 calls within 10 seconds, well below their objective of 90 percent;
- The overall average SJPD 9-1-1 call-answering time was 13 seconds, which was 2 seconds faster than the SJPD's objective of 15 seconds; and
- 41 percent of the time, the nature of the EMS incident resulted in SJPD call-takers creating "combined" events which were routed to both fire and police dispatchers.

*The San Jose Fire Department Met One  
Of Its Four Call-Handling And Response Time Objectives*

The SJFD is the designated first responder to EMS events within the San Jose fire response area. In addition, for 1992-93, the SJFD Bureau of Support Services has two EMS call-handling time objectives and the SJFD Bureau of Field Operations has two response time objectives. Our sample results revealed that

- SJFD dispatchers answered 87 percent of 9-1-1 calls transferred to them by SJPD call-takers within 15 seconds, falling 3 percent short of their goal of 90 percent;
- In 1992, the SJFD arrived before the County-contracted paramedics 92 percent of the time to the scene of an EMS event compared to 86 percent in 1990;
- The first due station responded to an EMS call within its response area 93 percent of the time compared to 95 percent in 1990;
- 12 percent of the SJFD's 1992 EMS dispatches resulted in "dry runs," significantly down from 20 percent in 1990;
- City-wide, the SJFD met its turnout time objective of no more than 2 minutes for 90 percent of EMS events, achieving 92 percent;
- However, 10 of 29 fire stations did not meet the SJFD's turnout time objective of not exceeding 2 minutes for 90 percent of EMS events;
- City-wide, the SJFD nearly met its travel time objective of 4 minutes or less for 80 percent of EMS events, achieving 78 percent; and
- 16 of 29 fire stations did not meet the travel time objective of 4 minutes or less for 80 percent of EMS events.

*City Council District 3 Had The Highest Volume Of EMS Events  
While City Council District 2 Had The Lowest Volume*

Part of our review was to determine where EMS events were occurring within the City. In addition, we analyzed how the SJFD met its turnout and travel time response objectives by City Council district. The results of our sample of 297 EMS events indicate that

- Downtown fire stations accounted for 24 percent of EMS call volume, while 8 of 29 stations accounted for 56 percent of the total;

- City Council Districts 3, 5, 6, and 7 were the districts with the highest EMS volume with each having more than 10 percent of total volume;
- The SJFD did not meet its turnout time objective of 2 minutes or less for 90 percent of EMS events in City Council District 4; and
- The SJFD did not meet its travel time objective of 4 minutes or less for 80 percent of EMS events in City Council Districts 1, 2, 4, 6, 7, 8, and 10.

**AN AUDIT OF THE CITY OF SAN JOSE'S TRANSIENT OCCUPANCY TAX REVENUES (APRIL 1993)**

*The City Can Collect An Estimated \$579,000  
In Transient Occupancy Taxes By Requiring  
Apartment Complexes Operating Within The Definition  
Of The City's Transient Occupancy Tax Ordinance  
To File Transient Occupancy Tax Returns*

The City's Transient Occupancy Tax (TOT) Ordinance requires hotel or apartment operators to collect the TOTs, prepare a tax return, and transmit the tax return with the amounts collected to the City's Director of Finance. Our review revealed that

- The occupancy records of a 1,700-unit apartment complex in San Jose indicated that the apartment complex had not been collecting the TOTs that it should have collected from tenants whose stays were for 30 days or less. As a result, we estimate that the City could recover from this apartment complex alone approximately \$171,000 in TOTs for rents paid during the past three years.
- An additional 15 other apartment complexes in San Jose, with a total of about 4,000 apartment units, that should have filed TOT returns have not done so. As a result, we estimate that the City could collect from these apartment complexes approximately \$408,000 in TOTs for rents paid during the past three years.

To improve its collection of TOTs, the City should (1) require those apartment complexes operating within the definition of the City's TOT Ordinance to file TOT returns for the past three years and (2) assess TOTs, interest, and/or penalties due from these establishments.

**AN AUDIT OF THE FIRE DEPARTMENT'S HAZARDOUS MATERIALS STORAGE PERMIT AND INSPECTION FEES (JUNE 1993)**

*The City Can Recoup About \$900,000 Annually And \$2.8 Million In Unrecouped Prior Years' Cost By Including Hazardous Incident Team Costs In Its Hazardous Materials Program Cost Recovery System*

The City's Hazardous Materials Program (Program) operates on a cost recovery system. The San Jose Municipal Code allows the Program to recover its operating costs. Although the Program is recovering its costs as budgeted, it does not recover the SJFD Hazardous Incident Team (HIT) costs. The HIT's primary purpose is to deal with large-scale or technically complicated emergency hazardous materials incidents. According to the City Attorney, the HIT costs that are related to the Program's permitted facilities can be considered costs of administering the Program. Accordingly, the City could recoup current and prior years' costs by including HIT expenditures in the cost recovery for the Program. By so doing, the Program could

- Generate \$900,000 annually in additional fees to cover HIT current costs and
- Reimburse the General Fund about \$2.8 million for the HIT costs the City incurred but did not recoup in prior years.

Our review also revealed that the City can recover these additional costs by

- Restructuring the hazardous materials storage permit fees to reflect the volume and degree of the hazard potential of permittees with large inventories of hazardous materials;
- Collecting hazardous materials storage permit fees from hazardous materials handlers that are currently exempt, including City enterprises, school districts, and other government agencies; and
- Collecting hazardous materials storage permit fees from retailers who stock hazardous materials packaged for consumers.

In our opinion, the SJFD should (1) include in the cost recovery system for the Program the costs of the HIT activities that relate to the Program; (2) report to the City Council on the feasibility of recouping prior years' Program-related costs that the General Fund subsidized; and (3) revise its Program fee structure considering the above alternatives.

**AN AUDIT OF THE DEPARTMENT OF GENERAL SERVICES'  
VEHICLE MAINTENANCE DIVISION--POLICE VEHICLES (MAY 1993)**

*The City Of San Jose Needs To Amend Its Memorandum Of Agreement  
With The San Jose Peace Officers Association In Order To Afford  
The City Council And City Administration The Opportunity To Save  
An Estimated \$488,000 Per Year In Vehicle And Motorcycle  
Replacement And Operating Costs And \$191,000  
In Vehicle Maintenance Division Staff Time Costs*

The City's memorandum of agreement (MOA) with the San Jose Peace Officers Association (POA) stipulates how often SJPD vehicles and motorcycles are to be replaced. Our audit revealed that when compared to ten other government jurisdictions,

- The City's MOA with the POA is the only union contract that stipulates when patrol vehicles and motorcycles are to be replaced;

- The City replaces patrol vehicles sooner than seven other jurisdictions; and
- The City replaces police two-wheeled motorcycles sooner than eight of the other nine jurisdictions that use motorcycles.

In addition, the City's MOA with the POA memorializes certain past practices that are outdated, costly, or inefficient. These practices include officers taking home vehicles and motorcycles and Vehicle Maintenance Division equipment mechanic assistants fueling police vehicles. The City will begin negotiating a new MOA with the POA in May 1993, as the current MOA being followed expired on July 4, 1992. Eliminating police patrol vehicle and motorcycle replacement criteria and restrictive past practice language in the City's MOA with the POA would afford the City Council and the City Administration the opportunity to save an estimated \$488,000 per year in vehicle and motorcycle replacement and operating costs and \$191,000 in Vehicle Maintenance Division staff time costs.

*The City Of San Jose Can Save An Estimated \$53,000 Per Year  
By Not Painting San Jose Police Department Vehicles With Traditional Colors*

The City annually pays \$17,000 for the traditional blue and white paint on its 90 new vehicles and pays another \$36,000 to repaint the 90 vehicles taken out of service. Our audit revealed that several other local jurisdictions do not paint their police patrol vehicles in the traditional black and white or similar traditional colors. By changing the color scheme for the SJPD vehicle fleet to a basic white plus logo, the City could save an estimated \$53,000 per year in painting and repainting costs. Over the life of the current fleet of 300 vehicles, the City could save an estimated \$177,000 in painting and repainting costs.

## **APPENDIX A**

### **SUMMARY OF STATEMENT ON GOVERNMENT AUDITING STANDARDS**

#### **I. Introduction**

##### **A. 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. In conducting these types of audits, auditors should follow the applicable standards included and incorporated in this statement.

#### **II. Types of Government Audits**

##### **B. Financial Audits**

1. Financial statement audits determine (a) whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows or changes in financial position in accordance with generally accepted accounting principles, and (b) whether the entity has complied with laws and regulations for those transactions and events that have a material effect on the financial statements.
2. Financial related audits include determining (a) whether financial reports and related items, such as elements, accounts, or funds are fairly presented, (b) whether financial information is presented in accordance with established or stated criteria, and (c) whether the entity has adhered to specific financial compliance requirements.

##### **C. 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.

##### **D. Understanding the Audit Objectives and Scope**

1. Audits may have a combination of financial and performance audit objectives, or may have objectives limited to only some aspects of one audit type.
2. Auditors should follow the appropriate standards in this statement that are applicable to the individual objectives of the audit.

#### **E. Other Activities of An Audit Organization**

1. **Services other than audits:** The head of the audit organization should establish policy on which audit standards from this statement should be followed by the auditors in performing such services. However, as a minimum, auditors should collectively possess adequate professional proficiency and exercise due professional care for the service being performed.
2. **Investigative work:** The head of the audit organization should establish policy on whether the audit standards in this statement, or some other appropriate standards, are to be followed by the employees performing this work.
3. **Nonaudit activities:** The head of the audit organization should establish policy on what standards in this statement are to be followed, or whether some other appropriate standards are to be followed, by the employees in performing this type of work.

### **III. General Standards**

- A. Qualifications:** The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.
- B. 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.
- C. Due Professional Care:** Due professional care should be used in conducting the audit and in preparing related reports.
- D. Quality Control:** Audit organizations conducting government audits should have an appropriate internal quality control system in place and participate in an external quality control review program.

### **IV. Field Work Standards for Financial Audits**

- A. Relationship to AICPA Standards**
  1. The standards of field work for government financial audits incorporate the AICPA standards of field work for financial audits, and prescribe supplemental standards of field work needed to satisfy the unique needs of government financial audits.
  2. The field work standards of the AICPA and the supplemental standards in Chapter 4 of this statement apply to both financial statement audits and financial related audits.

**B. Planning:**

1. Supplemental planning field work standards for government financial audits are:

- a. Audit Requirements for all Government Levels: Planning should include consideration of the audit requirements of all levels of government.
- b. Legal and Regulatory Requirements: A test should be made of compliance with applicable laws and regulations.

(1) In determining compliance with laws and regulations:

- (a) The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of financial related audits.
- (b) The auditor should also be aware of the possibility of illegal acts which could have an indirect and material effect on the financial statements or results of financial related audits.

**C. Evidence (Working Papers)**

1. The AICPA field work standards and this statement require that: A record of the auditors' work be retained in the form of working papers.

2. Supplemental working paper requirements for financial audits are that working papers should:

- a. Contain a written audit program cross-referenced to the working papers.
- b. Contain the objective, scope, methodology and results of the audit.
- c. Contain sufficient information so that supplementary oral explanation are not required.
- d. Be legible with adequate indexing and cross-referencing, and include summaries and lead schedules, as appropriate.
- e. Restrict information included to matters that are materially important and relevant to the objectives of the audit.
- f. Contain evidence of supervisory reviews of the work conducted.

**D. Internal Control**

1. The AICPA field work standards and this statement require that: A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.

## V. Reporting Standards for Financial Audits

### A. Relationship to AICPA Standards

1. The standards of reporting for government financial audits incorporate the AICPA standards of reporting for financial audits, and prescribe supplemental standards of reporting needed to satisfy the unique needs of government financial audits.
2. The reporting standards of the AICPA and the supplemental standards in chapter 5 of this statement apply to both financial statement audits and financial related audits.

### B. Supplemental reporting standards for government financial audits are:

1. **Statement on Auditing Standards:** A statement should be included in the auditors' report that the audit was made in accordance with generally accepted government auditing standards. (AICPA standards require that public accountants state that the audit was made in accordance with generally accepted auditing standards. In conducting government audits, public accountants should also state that their audit was conducted in accordance with the standards set forth in chapters 3, 4, and 5.)
2. **Report on Compliance:** The auditors should prepare a written report on their tests of compliance with applicable laws and regulations. This report, which may be included in either the report on the financial audit or a separate report, should contain a statement of positive assurance on those items which were tested for compliance and negative assurance on those items not tested. It should include all material instances of noncompliance, and all instances or indications of illegal acts which could result in criminal prosecution.
3. **Report on Internal Controls:** The auditors should prepare a written report on their understanding of the entity's internal control structure and the assessment of control risk made as a part of a financial statement audit, or a financial related audit. This report may be included in either the auditor's report on the financial audit or a separate report. The auditor's report should include as a minimum: (a) the scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk, (b) the entity's significant internal controls or control structure including the controls established to ensure compliance with laws and regulations that have a material impact on the financial statements and the results of the financial related audit, and (c) the reportable conditions, including the identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing the control risk.
4. **Reporting on Financial Related Audits:** Written audit reports are to be prepared giving the results of each financial related audit.
5. **Privileged and Confidential Information:** If certain information is prohibited from general disclosure, the report should state the nature of the information omitted and the requirement that makes the omission necessary.
6. **Report Distribution:** Written audit reports are to be submitted by the audit organization to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits,

including external funding organizations, unless legal restrictions, ethical considerations, or other arrangements prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for taking action and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

## **VI. Field Work Standards for Performance Audits**

- A. Planning.** Work is to be adequately planned.
- B. Supervision:** Staff are to be properly supervised.
- C. Legal and Regulatory Requirements:** An assessment is to be made of compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives.
  - 1. Where an assessment of compliance with laws and regulations is required: Auditors should design the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives.
  - 2. In all performance audits: Auditors should be alert to situations or transactions that could be indicative of abuse or illegal acts.
- D. Internal Control:** An assessment should be made of applicable internal controls when necessary to satisfy the audit objectives.
- E. Evidence:** Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' judgements and conclusions regarding the organization, program, activity, or function under audit. A record of the auditors' work is to be retained in the form of working papers. Working papers may include tapes, films, and discs.

## **VII. Reporting Standards for Performance Audits**

- A. Form:** Written audit reports are to be prepared communicating the results of each government audit.
- B. Timeliness:** Reports are to be issued promptly so as to make the information available for timely use by management and legislative officials, and by other interested parties.
- C. Report Contents**
  - 1. **Objectives, Scope, and Methodology:** The report should include a statement of the audit objectives and a description of the audit scope and methodology.
  - 2. **Audit Findings and Conclusions:** The report should include a full discussion of the audit findings, and where applicable, the auditor's conclusions.
  - 3. **Cause and Recommendations:** The report should include the cause of problem areas noted in the audit, and recommendations for actions to correct the problem areas and to improve operations, when called for by the audit objectives.

4. **Statement on Auditing Standards:** The report should include a statement that the audit was made in accordance with generally accepted government auditing standards and disclose when applicable standards were not followed.

5. **Internal Controls:** The report should identify the significant internal controls that were assessed, the scope of the auditor's assessment work, and any significant weaknesses found during the audit.

6. **Compliance With Laws and Regulations:** The report should include all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

7. **Views of Responsible Officials:** The report should include the pertinent views of responsible officials of the organization, program, activity, or function audited concerning the auditors' findings, conclusions, and recommendations, and what corrective action is planned.

8. **Noteworthy Accomplishments:** The report should include a description of any significant noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.

9. **Issues Needing Further Study:** The report should include a listing of any significant issues needing further study and consideration.

10. **Privileged and Confidential Information:** The report should include a statement about any pertinent information that was omitted because it is deemed privileged or confidential. The nature of such information should be described, and the basis under which it is withheld should be stated.

**D. Report Presentation:** The report should be complete, accurate, objective, and convincing, and be as clear and concise as the subject matter permits.

**E. Report Distribution:** Written audit reports are to be submitted by the audit organization to the appropriate officials of the organization audited, and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions, ethical considerations, or other arrangements prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action 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.

## **VIII. AICPA Generally Accepted Auditing Standards**

### **A. General Standards**

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.

2. In all matters relating to the assignment, the independence in mental attitude is to be maintained by the auditor or auditors.

**B. Standards of Field Work**

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

**C. Standards of Reporting**

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

**APPENDIX B**  
**OFFICE OF THE CITY AUDITOR**  
**CITY COUNCIL APPROVAL OF**  
**ASSIGNMENT PROCEDURE**

<b><u>Responsibility</u></b> _____	<b><u>Action</u></b> _____
City Auditor	1. Prior to the beginning of the next fiscal year, submit to the Finance Committee a proposed Audit Workplan.
Finance 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 Finance 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 Rules Committee and to the Finance Committee the status of approved audit assignments.
City Manager, City Attorney, or City Clerk	11. Request City Auditor's services when an emergency situation exists.

City Auditor

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

APPENDIX C

OFFICE OF THE CITY AUDITOR  
CITY OF SAN JOSE  
QUALITY CONTROL REVIEW  
FOR THE 25 MONTHS ENDED APRIL 30, 1993

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**INDEPENDENT AUDITOR'S**

**REPORT**

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OFFICE OF THE CITY AUDITOR  
CITY OF SAN JOSE  
QUALITY CONTROL REVIEW  
FOR THE 25 MONTHS ENDED APRIL 30, 1993

REPORT

RECEIVED  
JUN 16 1993

CITY AUDITOR

KARL W. DOLK  
Certified Public Accountant  
5508 State Avenue  
Sacramento, California 95819  
(916) 452-4406

June 9, 1993

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

Dear Mayor and Members:

I have reviewed the system of quality control to obtain a reasonable assurance of compliance with generally accepted government auditing standards in effect for the Office of the City Auditor of City of San Jose for audits issued during the period April 1, 1991 through April 30, 1993 and have issued a separate letter of comments thereon dated June 9, 1993. I have conducted my review in conformity with the policies and procedures for quality control peer reviews established by both the National State Auditors Association (NSAA) and the National Association of Local Government Auditors (NALGA). I tested the Office's compliance with the system of quality control policies and procedures to the extent I considered necessary in the circumstances. These tests included the application of the Office's policies and procedures to selected audit engagements.

In performing my review, I have given consideration to the general characteristics of a system of quality control as described in the quality control peer review guidelines issued separately by the NSAA and by the NALGA. Such a system should be appropriately comprehensive and suitably designed in relation to the Office of the City Auditor's organizational structure, its policies, and the nature of its functions. Because variance in individual performance can effect the degree of compliance with the Office of the City Auditor's prescribed quality control policies and procedures, adherence to all policies and procedures in every case may not be possible. Nevertheless, compliance does require the Office to adhere to prescribed policies and procedures in most situations.

In my opinion, the system of quality control provided reasonable assurance of compliance with generally accepted government auditing standards for the Office of the City Auditor of the City of San Jose in effect for audits issued during the period April 1, 1991 through April 30, 1993, met the objectives of the quality control peer review guidelines separately established by the NSAA and the NALGA, and was being complied with during the 25 months under review.

Sincerely,



Karl W. Dolk

OFFICE OF THE CITY AUDITOR  
CITY OF SAN JOSE  
QUALITY CONTROL REVIEW  
FOR THE 25 MONTHS ENDED APRIL 30, 1993

LETTER OF COMMENTS

**KARL W. DOLK**  
*Certified Public Accountant*  
5508 State Avenue  
Sacramento, California 95819  
(916) 452-4406

June 9, 1993

Mr. Gerald A. Silva  
City Auditor  
151 W. Mission Street, Room 109  
San Jose, California 95110

Dear Mr. Silva:

I have reviewed the system of quality control for the audits issued by the Office of the City Auditor of the City of San Jose during the period April 1, 1991 through April 30, 1993. I have issued a separate report, dated June 9, 1993, on my review of that system. This letter should be read in conjunction with that report.

The Office of the City Auditor has designed and implemented a comprehensive system of quality control policies and procedures that are very effective. During my review, I did not find any significant weaknesses in the internal quality control system.

Background

The office performs performance audits of City departments, offices or agencies to determine whether resources are managed and utilized in an economical and efficient manner, the causes of inefficiencies or uneconomical practices, whether desired results are being achieved, and whether City Council objectives are being met. In addition, the office conducts special audits and investigations as assigned by the City Council. I reviewed these functions of the Office for conformance with the Government Auditing Standards issued by the Comptroller General of the United States. I also assessed the Office's quality controls and procedures for audits issued.

I performed this review using the guidelines separately prepared by the National State Auditors Association (NSAA) and the National Association of Local Government Auditors. In selecting audit engagements for review, I was guided by the policies and procedures for performing quality control reviews approved by NSAA. I selected engagements for review from a list of reports provided by the Office. This listing contained 21 reports issued during the period under review including 19 performance reports prepared by office staff, one informational study, and one review of financial statements. I selected a representative sample of three audits for review in a manner that allowed me to examine the work of most of the auditors employed during the period under review.

My review was intended to be a constructive one, and my purpose was to point out areas for improvement. The absence of extensive comments of a complimentary nature does not, therefore, imply that the quality control system of the Office is deficient or unsound.

#### Timeliness of Reports

As part of the review of the Office, I was required to analyze the timeliness of reports. Government Auditing Standards require audit reports to be issued promptly to make information available for timely use by management and elected officials. The Office is not required by charter or by the City Council to meet specific reporting deadlines. For reports issued during the period I reviewed, the City Auditor provided the City Council with estimated release dates as part of the Monthly Activity Report. Based on the dates originally provided to the City Council for each of the 19 performance audits and one informational study issued during the period reviewed, I determined that three of the reports were issued early, five were issued on time, and three were issued within 33 days of the estimated dates. Six of the remaining nine reports were issued from 67 to 143 days late, and the other three reports were issued from 189 to 235 days late. While the Office did not always meet the City Auditor's projected issue dates during the period under review, there was a marked reduction in average days late as shown in the following table:

7/1/87 to 6/30/89	17 reports	181 days late
7/1/89 to 3/31/91	19 reports	125 days late
4/1/91 to 4/30/93	20 reports	64 days late

Predicting the completion date of an audit is an uncertain process. City management and the City Council rely on the City Auditor's predicted date in order to use the report. The City Auditor's estimated report issue dates may be altered for various reasons including expansion of audit scope, unavailability of timely data, slow responses from the audited entities, changing audit priorities, and staff turnover. In order to better control the audit's progress, the Office has implemented a sophisticated time reporting system that identifies audit hours by audit objective, requires staff to inform the City Auditor of timing variations, and assists management in predicting audit completion dates.

#### Prior Report Recommendations

As part of my review of the Office's quality control policies and procedures, I reviewed the recommendations from the management letter accompanying the April 30, 1991, quality review report.

Gerald A. Silva  
June 9, 1993  
Page 3

Both of the recommendations were implemented. Policies to implement one of the two recommendations were included in the Office's Operations Manual. In addition, my review of audits and Monthly Activity Reports disclosed that the policies had been implemented.

This letter of comments is intended solely for the City Auditor of the City of San Jose and should not be used for any other purpose, except at the discretion of the City Auditor. I appreciate the cooperation and assistance extended by the management and staff of the Office of the City Auditor. Their assistance was invaluable in the timely completion of this project.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Karl W. Dolk', with a large, stylized flourish above the name.

Karl W. Dolk



GERALD A. SILVA  
City Auditor

## CITY OF SAN JOSÉ, CALIFORNIA

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151 W. MISSION STREET, ROOM 109  
SAN JOSE, CALIFORNIA 95110  
(408) 277-4601

June 22, 1993

Mr. Karl W. Dolk, CPA  
5508 State Avenue  
Sacramento, CA 95819

Dear Mr. Dolk:

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

I am pleased that the auditor did not find any significant weaknesses in the Office's internal quality control system. The auditor stated that our system of quality control provided reasonable assurance of compliance with generally accepted government auditing standards and that we met the objectives of the NSAA and NALGA quality control peer review guidelines during the period audited.

As the auditor noted, we have made significant improvements in the timely issuance of our reports. We have already implemented a rigorous audit planning, monitoring, and time-reporting system. By following our system more vigilantly, we will continue to improve our timeliness record.

Sincerely,

  
Gerald A. Silva  
City Auditor

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GS:mtn