



OFFICE OF THE
CITY AUDITOR

**ACTIVITIES AND ACCOMPLISHMENTS
OF THE OFFICE OF THE CITY AUDITOR
JULY 1993 THROUGH JUNE 1995**

A REPORT TO THE
SAN JOSE
CITY COUNCIL

OCTOBER 1995

95-05



CITY OF SAN JOSÉ, CALIFORNIA

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

GERALD A. SILVA
City Auditor

October 17, 1995

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, 1993, Through June 30, 1995.*

The two years covered in this report have been productive, challenging, and rewarding. I am very grateful to the City Council for the support given this Office. I am also grateful to the City Administration for its cooperation during the conduct of our audits. While this Office has improved over the past two years, further improvements are possible and necessary. This Office will continue to strive to secure those improvements for the City Council and, ultimately, the residents of San Jose. I will present this report to the Finance Committee at its October 25, 1995, meeting.

Sincerely,

Gerald A. Silva
City Auditor

finaltr
GS:mtn

cc: Regina Williams
Debra Figone
Sherry Langbein



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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 1993 through June 1995.

The goal of the Office is to promote accountability to the public and to improve the economy, efficiency, and effectiveness of City government. 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.

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 significantly exceeded this standard by identifying \$15 in savings or increased revenues for every dollar of audit cost. Specifically, from July 1993 through June 1995, the Office produced 23 reports and special studies containing 104 recommendations. These reports identified \$34.6 million in opportunities to reduce costs or increase revenues compared to \$2.3 million in audit costs. 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 and accounts kept by or for the City including the examination and analysis of fiscal procedures and the examination, checking, and verification of accounts and expenditures;
- Conduct performance audits, as assigned by the City Council, to determine whether (1) City resources are being used in an economical, effective, and efficient manner; (2) established objectives are being met; and (3) desired results are being achieved;
- Conduct special audits and investigations as assigned by the City Council;
- Submit a monthly report to the City Council of the Office activities, findings, and recommendations to improve the administration of the City's fiscal affairs; and
- Perform other such auditing functions consistent with the City Charter and submit reports as required.

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

Goals, Mission, And Objective

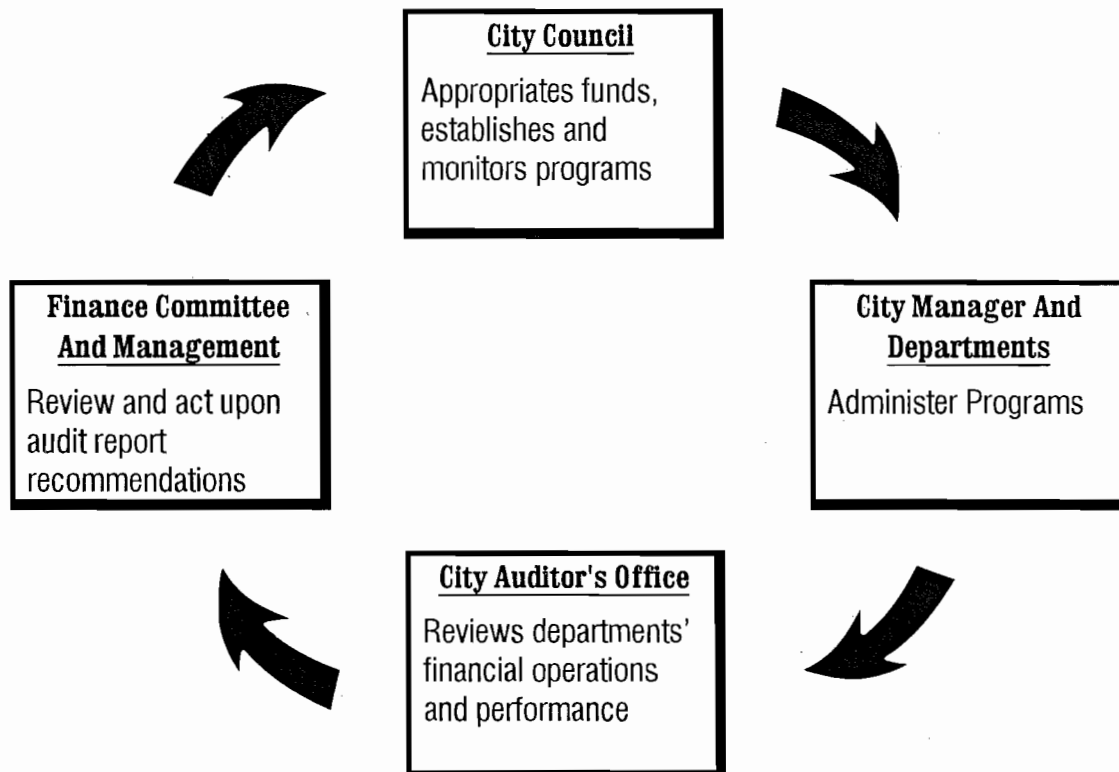
The goals of the Office of the City Auditor are to promote accountability to the public and to improve the economy, efficiency, and effectiveness of City government. Our mission is, at the direction of the City Council, to conduct or cause to be conducted financial and program performance reviews of 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 provide reasonable assurance that the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

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

In accordance with the City Charter, an independent accounting firm conducts the financial statement and financial related audits of the City. 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 determine (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (2) the causes of inefficiencies or uneconomical practices; and (3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

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

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

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

Special Studies

The 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.

Sales And Business License Tax Audit

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

- San Jose retail businesses that do not file sales tax returns;
- San Jose's portion of sales taxes misallocated to other jurisdictions; and
- San Jose businesses that have paid sales taxes but not their San Jose business licenses.

Audit Recommendations Follow-up

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

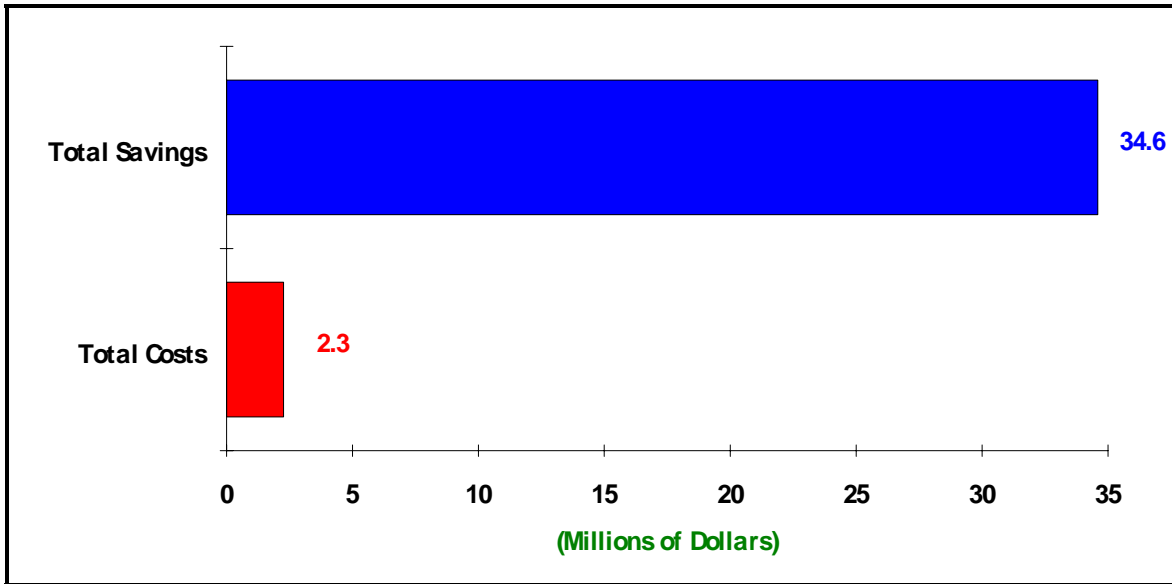
BENEFITS TO THE CITY OF SAN JOSE

The City Auditor's expanded audit approach has benefited the City 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 significantly exceeded this objective from July 1993 through June 1995 by achieving an audit payback ratio of over \$15 in cost savings or increased revenue for every \$1 of audit cost. Specifically, as shown in Chart II, from July 1993 through June 1995, the Office of the City Auditor identified an estimated \$34.6 million in opportunities for the City to increase revenues or reduce costs. In our opinion, the \$34.6 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 that same two-year period, audit costs were approximately \$2.3 million.

CHART II
SAVINGS/REVENUES VS COSTS JULY 1993 THROUGH JUNE 1995



As Chart III shows, from May 1985 through June 1995, the Office of the City Auditor identified \$66.5 million in cost savings or revenue enhancements against \$10.5 million in audit costs, achieving a ten-year audit payback ratio of over \$6 in cost savings or increased revenue for every \$1 of audit cost.

CHART III
SAVINGS/REVENUES VS COSTS MAY 1985 THROUGH JUNE 1995

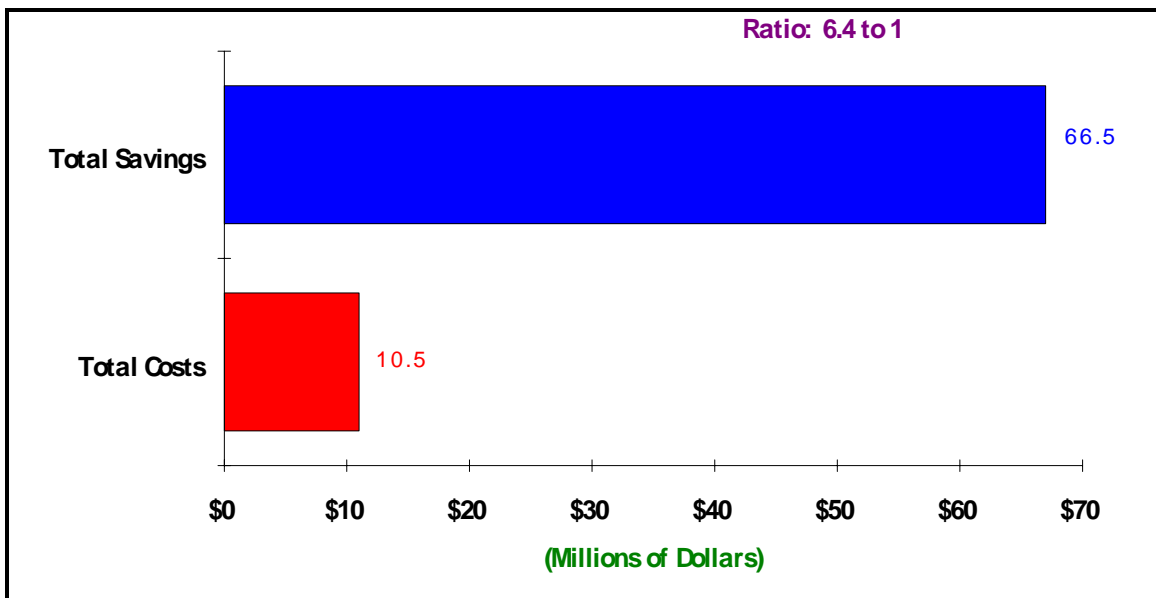
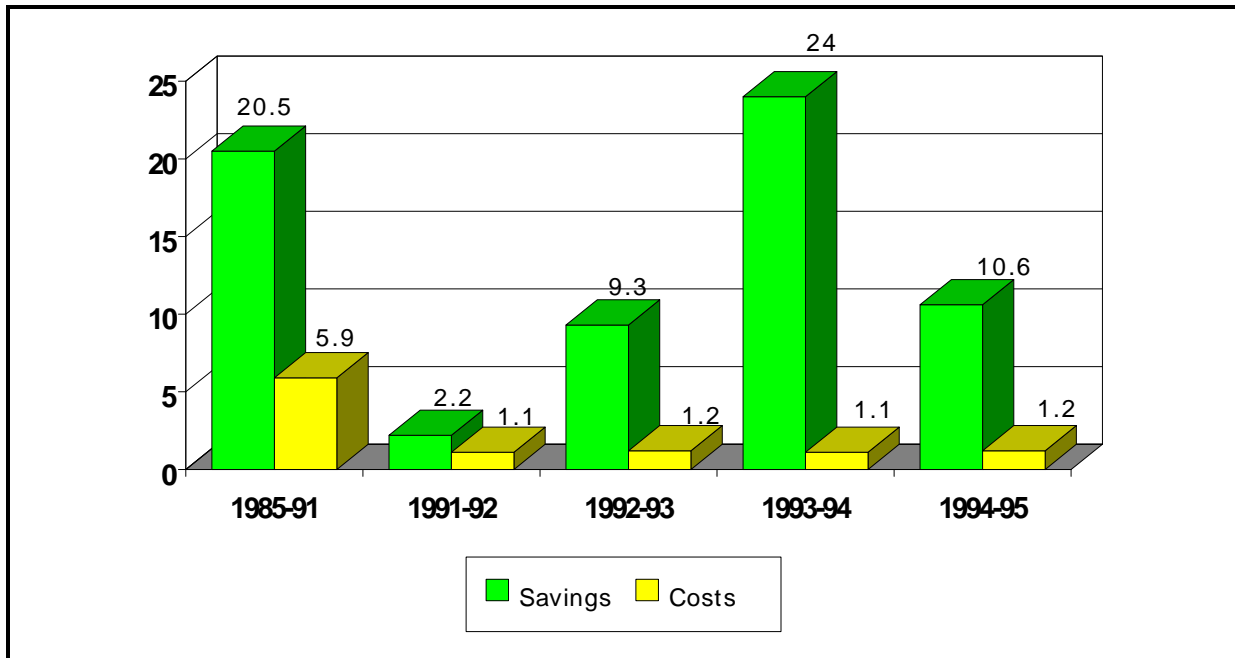


Chart IV compares the cost savings or revenue enhancements against the audit costs for the period May 1985 through June 1991 and for 1991-92, 1992-93, 1993-94, and 1994-95

CHART IV
SAVINGS/REVENUES VS COSTS
FOR THE PERIOD MAY 1985 THROUGH JUNE 1991
AND FOR 1991-92, 1992-93, 1993-94, AND 1994-95



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

Section 805 of the City Charter establishes the Office of the City Auditor and provides for the City Council to appoint the City Auditor and the manner in which the City Council may remove the City Auditor from office. Specifically, Section 805 states in part:

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

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

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

Budget

Over the past ten years, the budget of the Office of the City Auditor has averaged slightly more than \$1 million per year, with approximately 94 percent spent for salaries and benefits (See Table I). During the past ten years, the Office of the City Auditor has averaged 17.5 authorized full-time positions, including both audit and administrative staffs. Due to a Citywide hiring freeze, the Office has operated at a reduced staffing level for the last four years.

TABLE I
OFFICE OF THE CITY AUDITOR
ADOPTED BUDGET AND STAFFING LEVEL
FROM 1985-86 TO 1994-95

<u>Fiscal Year</u>	<u>Authorized Positions</u>	<u>Personal</u>	<u>Nonpersonal</u>	<u>Equipment</u>	<u>Total Budget</u>
1985-86	19	\$ 944,919	\$92,410	\$21,647	\$1,058,976
1986-87	19	948,853	94,700	32,266	1,075,819
1987-88	19	974,660	56,475	0	1,031,135
1988-89	18	979,231	49,475	0	1,028,706
1989-90	18	1,106,756	40,025	9,100	1,155,881
1990-91	18	1,122,442	50,265	17,500	1,190,207
1991-92	17	1,158,311	50,265	40,000	1,248,576
1992-93	16	1,207,635	50,265	0	1,257,900
1993-94	15	1,097,977	31,064	0	1,129,041
1994-95	15.5	1,175,813	31,064	0	1,206,877

Audit Strategy

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

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

In 1987, the Office of the City Auditor changed its auditing strategy to reflect new American Institute of Certified Public Accountants (AICPA) pronouncements. In pursuing this audit strategy,

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

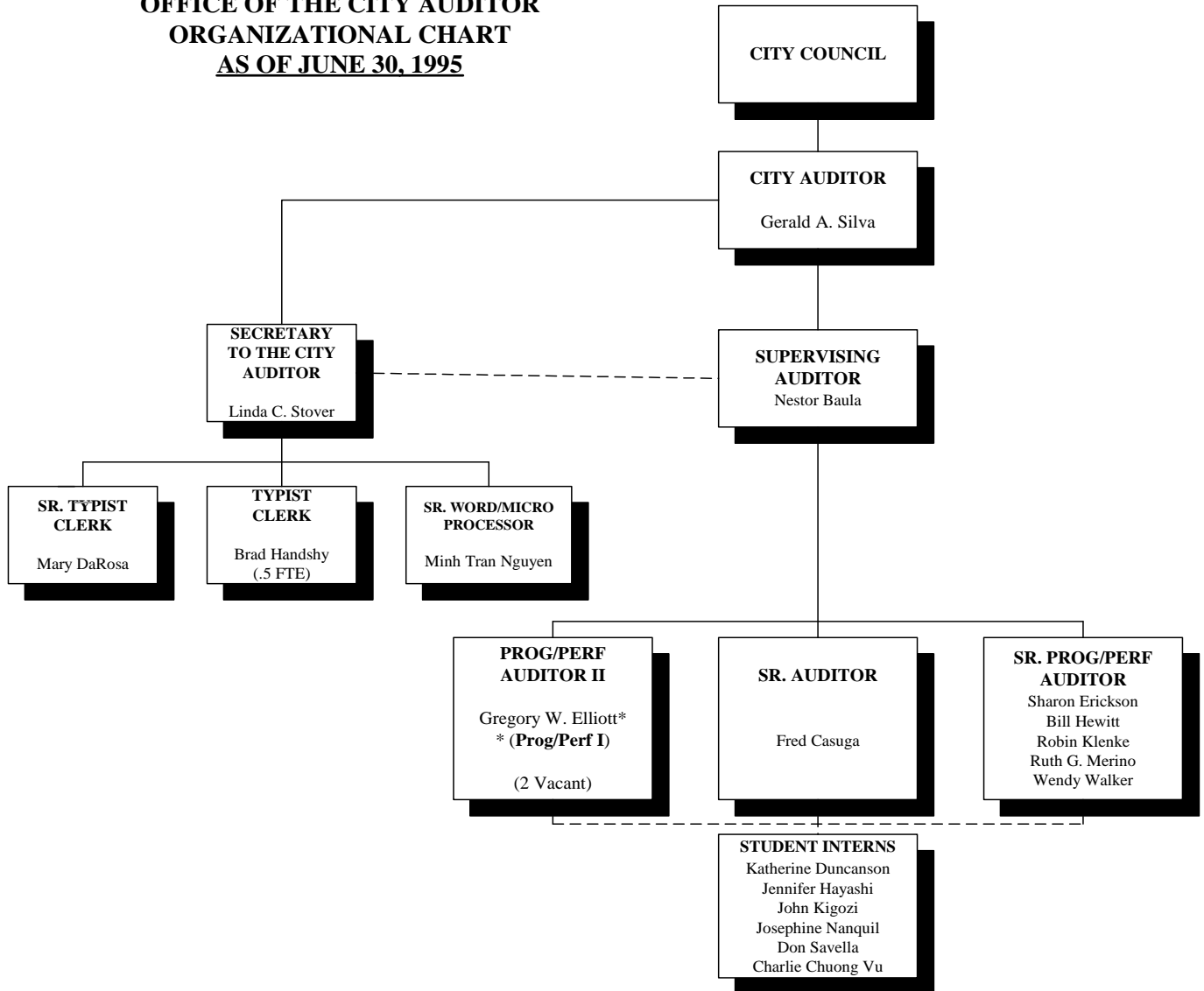
Office Staffing

In 1985, to implement expanded-scope performance audits, the City Council authorized the City Auditor six additional staff for a total of 19 positions. As of June 30, 1994, the City Auditor's Office had lost four of its authorized positions due to budget constraints. As of June 30, 1995, the Office of the City Auditor consisted of the City Auditor, a supervising auditor, nine auditors, four administrative staff, and six part-time student interns.¹ Chart V shows the organizational chart for the Office of the City Auditor as of June 30, 1995.

¹ Starting in July 1995, the Office of the City Auditor was authorized an increase in staffing and hired a second supervising auditor, one additional program performance auditor II and filled one program performance auditor II vacancy.

CHART V

**OFFICE OF THE CITY AUDITOR
ORGANIZATIONAL CHART
AS OF JUNE 30, 1995**



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

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

The City Auditor is 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 former member of the American Institute of Certified Public Accountants' Members in Government Committee. He was recently selected to serve on the Association of Government Accountants' National, State and Local Government Committee for three years.

TABLE II

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

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Gerald A. Silva, CPA, CGFM	City Auditor	Bachelor of Science, Accounting , 1967	Former member of the Board of Governors, IIA, San Jose Chapter; Past President, National Association of Local Government 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; selected to serve on the Association of Government Accountants' National, State and Local Government Committee for 1995-96, 1996-97, and 1997-98	State Budget Director , State of Arizona Director of Program Auditing , State of Arizona Audit Manager , California Auditor General's Office Public Accounting
Nestor S. Baula, CPA, CIA, CFE	Supervising Auditor	Bachelor of Arts, Accounting and Economics , 1971	Member, IIA; Association of Certified Fraud Examiners; California Society of CPAs	Senior Auditor , Castle & Cooke, Inc.
Michael Edmonds, CIA (Hired after June 30, 1995)	Supervising Auditor	Bachelor of Arts, Political Science , 1974	Member, IIA; Member, National Association of Local Government Auditors	Internal Auditor , Contra Costa Water District, Staff Auditor , California Office of the Auditor General
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.
Wendy Walker	Senior Program Performance Auditor	Bachelor of Science, Accounting , 1986.	President, WINGS; Boardmember, SJMA.	Supervising Senior Accountant , KPMG Peat Marwick

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

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
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, CISA	Senior Program Performance Auditor	Bachelor of Science, Business Administration, Finance and Accounting , 1978.	Member, IIA, San Jose Chapter; Member, Information Systems Audit and Control Association.	Business Banking Officer , Bank of America
Robin A. Klenke, MBA	Senior Program Performance Auditor	M.B.A., 1986 Bachelor of Arts, Anthropology/Linguistics , 1982.	Second Vice President, IIA, San Jose Chapter; Membership Chair, ASPA, Santa Clara Valley Chapter	Manager/Chief Technician , El Camino Hospital
Cynthia Honke, CPA <i>(Hired after June 30, 1995)</i>	Program Performance Auditor II	Bachelor of Science, Accounting , 1991.	Member, IIA, San Jose Chapter	Supervising Senior Accountant , KPMG Peat Marwick
Eduardo Luna, MPA <i>(Hired after June 30, 1995)</i>	Program Performance Auditor II	Bachelor of Science, Political Science , 1987 Master in Public Affairs, 1989.	Member, IIA, San Jose Chapter	Evaluator , U.S. General Accounting Office; Urban Consortium Manager , Public Technology, Inc.
Gregory W. Elliott, M.A.	Program Performance Auditor I	Associate in Arts, 1987 Bachelor of Science, 1989 M.A., Economics , 1992.	Member, IIA, San Jose Chapter	Auditor Intern , City Auditor's Office, San Jose, CA.

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

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Linda Curtis Stover	Secretary to the City Auditor	Vocational Education-- Teaching Credential, 1979 Vocational Education-- Supervision Credential, 1984 Management/Supervision Certificate, 1980.	California Association of ROPs	Program Coordinator, Santa Cruz County ROP, Office of Education
Minh Tran Nguyen	Senior Word/Micro Processor	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
Brad Handshy	Typist Clerk II (Part-time)	Administrative Assistant Certificate, 1991		Desktop Publishing Assistant, VLSI Research; English Writing Sample Evaluator, East Side Union High School District.

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

AUDITOR	TITLE	EDUCATION	PROFESSIONAL AFFILIATIONS	PRIOR WORK EXPERIENCE
Amy Brown <i>(Hired after June 30, 1995)</i>	Auditor Student Intern	Bachelor of Arts, Political Science , 1994 Currently enrolled in a Master in Public Administration program, graduating in June, 1996.		Field Representative for Assemblyman Sweeney; Student Intern for Oakland Mayor Harris.
Josephine Nanquil	Auditor Student Intern	Currently attending Santa Clara University, major in Accounting.		None.
Diosdado Savella	Auditor Student Intern	Associate in Arts, 1992 Currently attending San Jose State University, major in Accounting		U.S. Army Intelligence Corps; Technician, National Semiconductor.
Charlie Vu	Auditor Student Intern	Currently attending San Jose State University, major in Finance		None.

Abbreviations

AICPA	American Institute of Certified Public Accountants	CPA	Certified Public Accountant
ASPA	American Society for Public Administration	CQA	Certified Quality Auditor
CFE	Certified Fraud Examiner	GFOA	Government Finance Officers Association
CGFM	Certified Government Financial Manager	IIA	Institute of Internal Auditors
CIA	Certified Internal Auditor	SJMA	San Jose Management Association
CISA	Certified Information Systems Auditor	WINGS	Women in Government Service

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. Specifically, Section 805.2 of the City Charter states:

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

The Office has undergone five audits since the performance audit requirement was instituted.

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

An independent auditor conducted the Office's subsequent performance audits in 1989, 1991, 1993, and 1995. 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 National State Auditor's Association (NSAA) and the National Association of Local Government Auditors (NALGA). The independent auditor's 1989, 1991, 1993, and 1995 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 1995 report.

SUMMARY OF WORK PERFORMED **JULY 1993 THROUGH JUNE 1995**

From July 1993 through June 1995, the Office of the City Auditor completed 23 performance/ financial audit reports and special studies and 8 recommendation follow-up reports. These audit reports contained 104 recommendations to improve the economy, efficiency, effectiveness, and internal control within City government. Since the City Auditor started in May 1985, the Office has made 792 such recommendations. To date, the City Administration and the Redevelopment Agency have fully implemented or resolved over 90 percent of these recommendations. Chart VI shows the number of recommendations made, including internal control and efficiency/effectiveness recommendations, from July 1993 through June 1995. Charts VII and VIII show the status of implementation and the types of recommendations made from May 1985 through June 1995. Schedule I (page 21) summarizes the activity costs and results for the period of July 1993 through June 1995.

CHART VI
RECOMMENDATIONS MADE--JULY 1993 THROUGH JUNE 1995

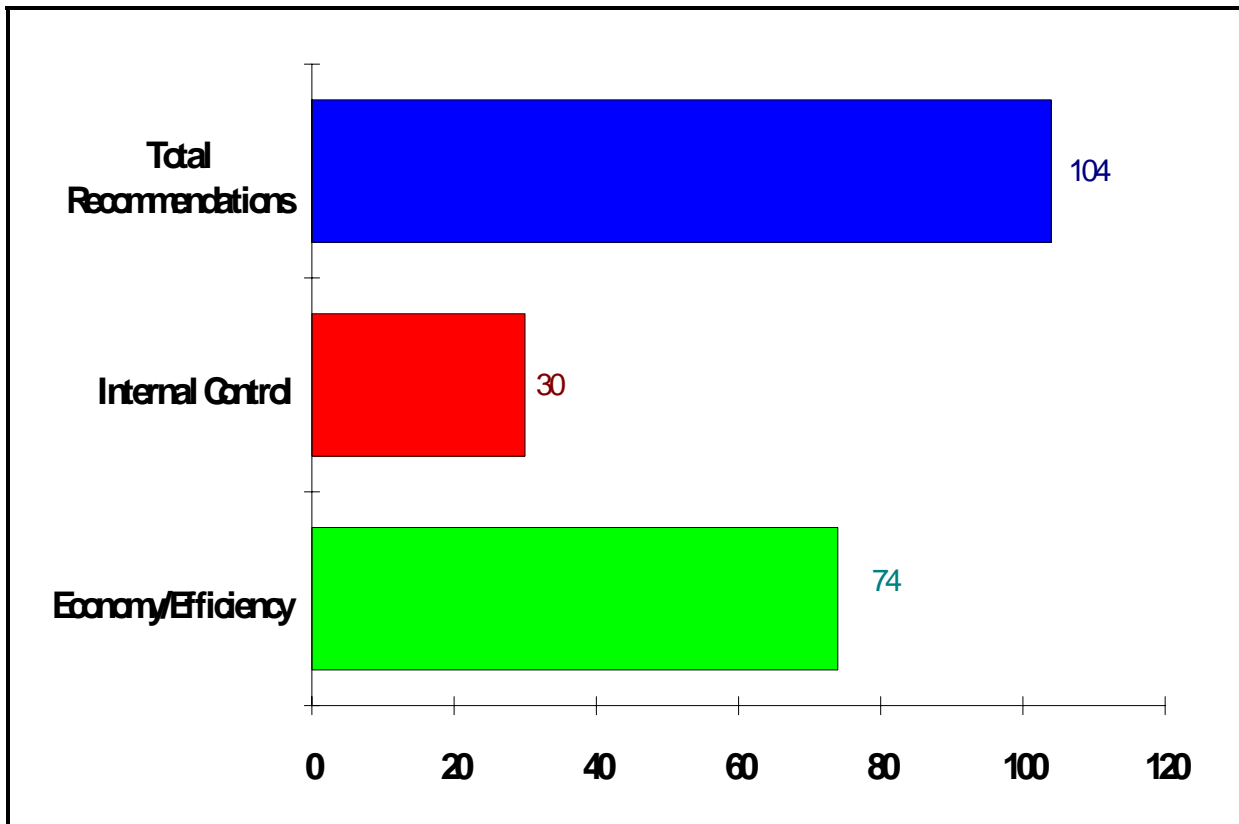


CHART VII
STATUS OF RECOMMENDATIONS--MAY 1985 THROUGH JUNE 1995

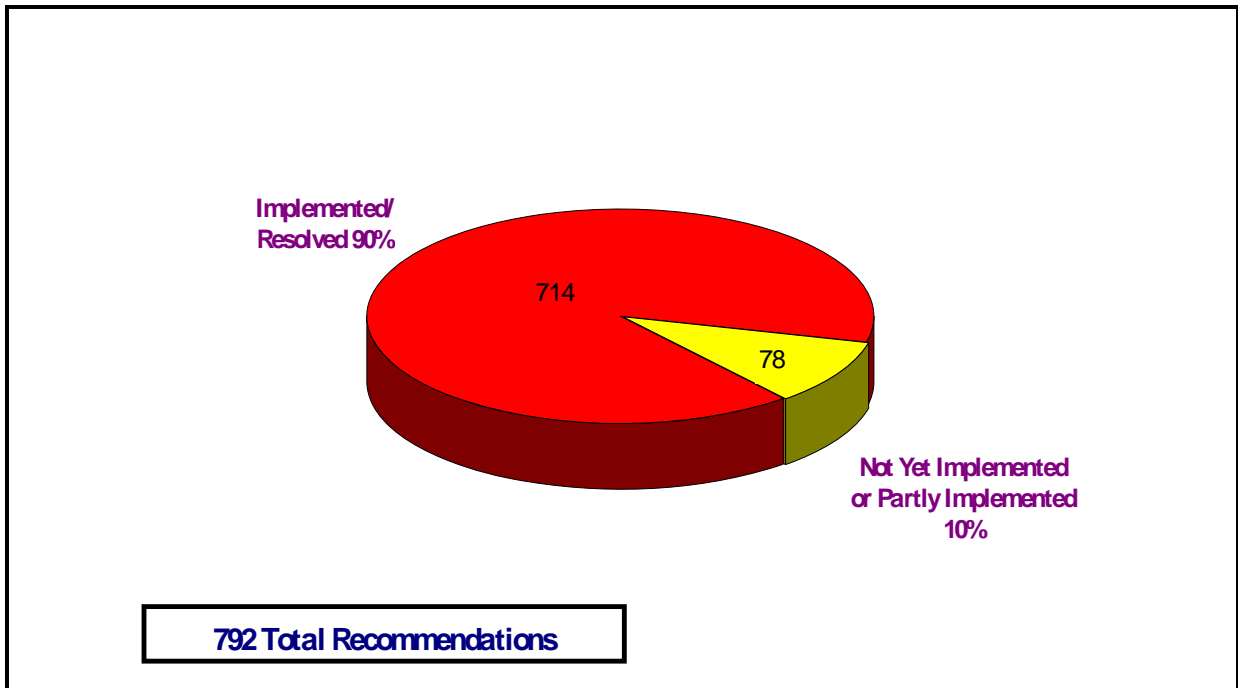
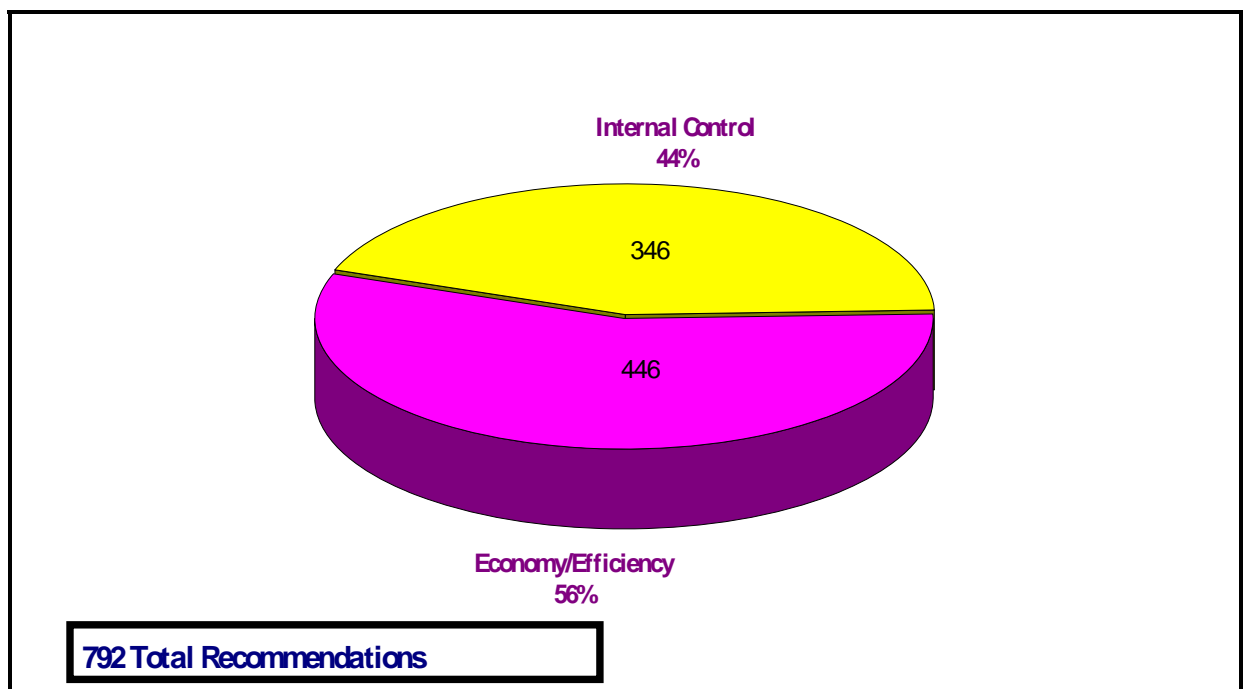


CHART VIII
TYPES OF RECOMMENDATIONS--MAY 1985 THROUGH JUNE 1995



SCHEDULE I

SUMMARY OF ACTIVITY COSTS AND RESULTS FOR THE PERIOD JULY 1993 THROUGH JUNE 1995

Report Number	Date	Report Title	Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness	Number of Recommendations to Strengthen Internal Controls
93-06	08-10-93	Activities And Accomplishments Of The City Auditor - July 1991 Through June 1993	\$5,548		0	0
93-07	09-07-93	An Audit Of The City Of San Jose's Franchise Fees And Tax Remittances	\$27,319	\$1,708,000	6	0
93-08	11-05-93	An Audit Of The City Of San Jose Employees' Health Benefits	\$35,592	\$2,900,000	3	1
93-09	11-19-93	An Audit Of The San Jose Police Department's Operations Support Services Division	\$31,030		4	1
93-10	12-03-93	An Audit Of The City Of San Jose's Investment Of Workers' Compensation Program Fund Reserves	\$22,531	\$2,335,000	2	0
94-01	01-21-94	An Audit Of The City Of San Jose's Workers' Compensation Program Claims Database	\$67,594	\$8,200,000	2	5
94-02	01-21-94	A Review Of San Jose Fire Department Emergency Medical Services Response Times From July 1, 1993 Through September 30, 1993	\$13,362		0	0
94-03	06-02-94	An Audit Of San Jose Business License Taxes	\$38,546	\$8,905,000	9	2
94-04	06-10-94	Santa Clara County Cities Association Audited Financial Statements For Five Months Ended June 30, 1990 and Years Ended June 30, 1991, 1992, and 1993	\$12,690		4	2
94-05	08-19-94	An Audit Of The City Of San Jose's Workers' Compensation Program	\$73,410	\$1,740,000	29	12
9225	11-1994	An Audit Of Parking Citations Processing - West Computil .	\$32,185		0	0
9416	11-1994	Update Of Recommendations Regarding Weed Abatement	\$1,300	\$144,000	1	0
9403	11-1994	City Auditor Involvement In Negotiations With Santa Clara County Regarding Booking Fee Charges	\$13,065	\$4,200,000	2	0

Report Number	Date	Report Title	Audit Cost	Identified Opportunities to Increase Revenues/ Reduce Costs	Number of Recommendations to Improve Efficiency/ Effectiveness	Number of Recommendations to Strengthen Internal Controls
9505	01-1995	Analysis Of The Criteria For Assessing Performance Of The Workers' Compensation Investigation Unit	\$1,040		0	0
9414	01-1995	Review Of The San Jose Development Corporation Financial Reports	\$3,449		0	0
95-01	03-15-95	An Audit Of The City Of San Jose Employees' Health Plan	\$97,531	\$1,905,000	7	2
9506	03-1995	Response To Weed Abatement Complaints - City Versus County	\$1,300		0	0
95-02	05-05-95	A Review Of Booking Fee Cost Reimbursement	\$27,726	\$1,293,000	3	2
9512	05-1995	Review Of Revenue And Cost Analysis Of Paramedic Options B And D	\$2,351		0	0
9507	05-1995	Internal Auditor's Report On Supplemental Schedule Of Federal Financial Assistance - OCJP Live Scan Terminal Project	\$2,654		0	0
95-03	05-31-95	An Audit Of The San Jose Police Department - Communications Division's Staffing And Scheduling	\$239,227	\$860,000	2	3
9411		Sales And Business License Tax Audit	\$116,135	\$440,000	0	0
9522		Oversight Of The Annual Financial Audit	\$3,145		0	0
		Recommendations Follow-up	\$49,724			
		Internal Audit Quality Control	\$137,415			
		Departmental Administration	\$119,002			
		Audit-Related Activities (Meetings, Time-Reporting, etc.)	\$223,203			

Other Assignments	Audit Costs	Identified Opportunities to Increase Revenues/Reduce Costs	Number of Recommendations to Improve Efficiency/Effectiveness	Number of Recommendations to Strengthen Internal Controls
Vacation, Holiday, and Other Leaves	\$305,798			
Training	\$77,331			
Miscellaneous Projects And Activities	\$22,031			
Dropped Or Deferred Assignments	\$35,341			
Prior Period Assignments	\$71,301			
Assignments In Progress	\$343,517			
Totals	\$2,253,393	\$34,630,000	74	30

Performance Measures

July 1993 Through June 1995

Identified Opportunities to Increase Revenues or Reduce Costs	\$ 34, 630,000
Total Audit Costs	\$2,253,393
Ratio of Identified Opportunities to Increase Revenues or Reduce Costs to Total Costs	15 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 1993 through June 1995.

Activities and Accomplishments of the City Auditor -- July 1991 through June 1993 (August 1993)

This report summarizes the activities and accomplishments of the Office of the City Auditor from July 1991 through June 1993. This report also includes the independent auditor's 1993 report on the quality control review of the Office of the City Auditor.

An Audit Of The City of San Jose Franchise Fees and Tax Remittances (September 1993)

*Earlier Remittances Of Transient Occupancy Taxes And
Cable Television Franchise Fees Would Produce A One-
Time Revenue Increase Of \$1.6 Million And Increased
Interest Earnings Of About \$28,000 Per Year*

During 1992-93, the City's Finance Department collected \$137 million from sixteen categories of franchise fees, taxes, and permit revenues, of which twelve are estimated to exceed \$1 million each in remittances. Our review of these twelve franchise fee, tax, and permit categories revealed that

- Seven categories are paid monthly, while five are paid quarterly or less frequently;
- Of the five categories paid quarterly or less frequently, two--transient occupancy taxes (TOT) and cable television franchise fees--are the most susceptible to being paid on a monthly basis; and
- Monthly remittances of TOT and cable television franchise fees would generate a one-time revenue increase for the City of \$1.6 million and annual increased interest earnings of about \$28,000.

Accordingly, by amending the *San Jose Municipal Code* to allow for monthly remittance of TOT and cable television franchise fees, the City would, without incurring additional costs or raising taxes, (1) receive a one-time \$1.6 million revenue increase,

(2) increase its annual interest earnings by \$28,000, and (3) reduce the risk of hotels defaulting on paying their TOTs.

Elimination Of The Exemption For Federal And State Employees Would Increase Transient Occupancy Tax Revenues By About \$80,000 Per Year

The *San Jose Municipal Code* allows an exemption from paying TOTs for federal and state employees on official business. Our audit of the City's collection of TOTs revealed that

- Most of the cities proximate to San Jose do not exempt federal and state government employees on official business from paying TOTs;
- A recent California State Attorney General's opinion makes it easier for municipalities to eliminate existing federal and state employee exemptions from TOTs;
- Most of the major cities competing with San Jose for conventions either do not exempt federal and state government employees on official business from paying TOTs or significantly restrict the exemption;
- The federal government sets lodging per diem rates for its employees at levels intended to compensate employees for TOTs;
- San Jose's federal lodging per diem rate does not compensate for TOTs; and
- The federal government will increase San Jose's lodging per diem rate to compensate employees for TOTs if San Jose eliminates its federal and state employee exemption.

In our opinion, by amending the *San Jose Municipal Code* to eliminate the federal and state employee exemption from TOTs, the City will increase revenues by about \$80,000 per year without compromising San Jose's ability to compete with surrounding communities for hotel patrons.

An Audit of the City of San Jose Employees' Health Benefits (November 1993)

Effective Health Care Cost Containment Could Save The City, Its Retirement Funds, And Employees \$2.9 Million Or More Per Year

The City offers its current and eligible former employees three health plan options of which two are health maintenance organization (HMO) plans and the third is

the City of San Jose Employees' Health Plan (CSJEHP). Those employees enrolled in the CSJEHP can save the City health care costs by using physicians and hospital services within a preferred provider organization (PPO) network. Our review revealed the following:

- Employees enrolled in the CSJEHP could have saved the City, its retirement plans, and themselves about \$1.1 million per year by using PPO physicians and hospital services;
- The City has a significantly smaller percentage of employees enrolled in HMOs and requires those employees not enrolled in HMOs to pay smaller annual deductibles, annual out-of-pocket maximums, and coinsurance percentages than the other governmental and quasi-governmental jurisdictions we surveyed; and
- The City is not achieving its premium-sharing strategy because of negotiated labor agreements.

As a result, the City, its retirement funds, and employees can save \$2.9 million or more per year and better control future cost increases by implementing specific improvements in the health care plan. In addition, our review revealed that an employee Benefits Review Forum (BRF) the Administration established in 1987 to help address issues such as health care cost containment has not been effective. In our opinion, the BRF could be a more effective vehicle for addressing the City's health care issues if (1) the Department of Human Resources (HRD) assumed from the Office of Employee Relations the administrative responsibility for the BRF; (2) the HRD provided the BRF with periodic comparative information on the City's health care programs; and (3) a third-party facilitator was used to moderate the BRF meetings.

An Audit of the San Jose Police Department's Operations Support Services Division (November 1993)

Updating The San Jose Police Department's Citation And Release Procedures And Expanding The Processing Center Could Save The City More Than \$2 Million Annually In Booking Fees

The California Penal Code allows police departments to cite and release persons under certain circumstances for misdemeanor charges. Accordingly, various cities have implemented citation and release programs that incorporate the applicable Penal Code sections. The San Jose Police Department (SJPD) has some procedures which partially address the release of an individual arrested on an on-view misdemeanor

charge. However, our review revealed that the SJPD's procedures do not yet include the applicable Penal Code sections needed to fully institute a comprehensive citation and release program. In our opinion, the SJPD should formally implement a citation and release program by

- Updating its procedures to incorporate the applicable Penal Code sections and
- Expanding the current processing center in the basement of the Police Administration Building (PAB) to accommodate the implementation of a citation and release program by moving the other SJPD functions currently located in the PAB basement to another location.

By implementing a citation and release program, the SJPD could save the city of San Jose (City) more than \$2 million annually in booking fees. Furthermore, expanding the processing center and relocating certain SJPD functions will provide enhanced services to the citizens of San Jose.

The City Needs To Review Or Audit Santa Clara County's Booking Fee Charges

California State law allows a county to collect fees from an arresting agency, such as the City, for the administrative costs of booking and processing arrested persons. Our review revealed (1) that the City has never reviewed or audited how the county of Santa Clara (County) determines the booking fees it charges the City and (2) that such reviews or audits are needed because

- From July 1, 1990, to March 31, 1993, the County collected from the City approximately \$10,970,000 in booking fees and
- Effective January 1, 1994, California State law (1) redefines the administrative costs that a county can charge an arresting agency for booking and processing arrested persons, (2) specifies the circumstances under which the arresting agency will be exempt from the payment of booking and processing fees, and (3) allows the arresting agency to recover from a convicted person the actual administrative costs of his or her booking and processing.

In our opinion, the City should review the County's records and procedures to ascertain its compliance with the new state guidelines that will go into effect on January 1, 1994. In addition, the City should implement procedures to recover those booking fees the new state guidelines prescribe.

An Audit of the City of San Jose's Investment of Workers' Compensation Program Fund Reserves (December 1993)

The Workers' Compensation Fund's Investment Earnings Can Be Increased By An Estimated \$235,000 Per Year And The Fund's Financial Statement Liability Reduced By \$2.1 Million Without Jeopardizing The Fund's Fiscal Integrity

The Workers' Compensation Fund (Fund) is pooled with other City funds for investment purposes. As of June 30, 1993, these pooled funds had an average maturity of 361 days and interest earnings of 4.765 percent. However, our review revealed that Fund reserves can be safely invested for much longer periods of time and thus realize additional interest earnings because

- The Fund has cash reserves of about \$32 million which theoretically can be invested for an indefinite period of time provided the City's biweekly payroll contributions to the Fund continue to cover ongoing Fund payouts and
- The State Compensation Insurance Fund has its cash reserves invested in instruments with an average maturity that is nearly ten (10) years longer than the City's and produces interest earnings of 6.25 percent.

As a result, we estimate that the Fund could safely realize about \$235,000 in additional interest earnings per year and the Fund's estimated financial statement liability could be reduced by about \$2.1 million if the City separately invested the Fund's cash reserves in longer maturity instruments.

An Audit of the City of San Jose's Workers' Compensation Program Claims Database (January 1994)

The City Could Have Reduced Its Financial Statement Liability For Workers' Compensation By \$4.6 Million Over And Above The \$4 Million Previously Identified As Of June 30, 1993

In 1974, the city of San Jose (City) withdrew from the state of California Workers' Compensation Program and began to self-insure its own workers' compensation program. As such, the City is responsible for paying all of the workers' compensation claims its employees file and attendant administrative expenses. Once an employee files a workers' compensation claim, the City's policy essentially requires the City to

estimate the total amount the City will have to pay over the life of the claim and to "fully fund," or set aside, a reserve of cash equivalent to that amount plus related expenses. Our audit of the City's Workers' Compensation Program (Program) revealed the following:

- The City's preliminary estimate of Program liability as of June 30, 1993, was approximately \$10.9 million more than the Workers' Compensation Fund's (Fund) cash reserves. As such, the City's fully funded policy was not being followed. The Administration has proposed a multi-year program to address this situation;
- The City's Program liability as of June 30, 1993, was based upon an actuarial study that was conducted in accordance with an internal City policy that is outdated and unauthoritative;
- Recent and future actuarial studies to determine the City's Program liability have been and will be hampered by a lack of sufficient claims history information;
- Subsequent events reduced the City's Program liability as of June 30, 1993, by \$4 million;
- Our survey of other California cities revealed that several rely on their own workers' compensation claims databases to estimate their workers' compensation liabilities;
- San Jose's average claims liability is in line with other California cities;
- Over the last three years, the City has developed a computerized database for workers' compensation claims that is now reliable and accurate enough to satisfy Governmental Accounting Standards Board requirements. This new capability obviates the need for an actuarial study to estimate the City's Program liability;
- Reliance on the information in the Program claims database and early implementation of a Governmental Accounting Standards Board pronouncement could have reduced the City's financial statement liability by an additional \$4.6 million as of June 30, 1993; and
- Administrative and auditing procedures are needed to maintain the integrity of the claims database.

Accordingly, the City could have reduced by \$4.6 million both the City's June 30, 1993, financial statement liability and the amount that the City Council will need to appropriate between now and June 30, 1999, to fully fund the Program.

A Review of San Jose Fire Department Emergency Medical Service Response Times From July 1, 1993 Through September 30, 1993 (January 1994)

Our review of San Jose Fire Department (SJFD) responses to EMS events from July 1, 1993, through September 30, 1993, revealed the following:

- The SJFD responded to 9,147 EMS events during this period;
- City Council District 3 had the highest volume of EMS events while City Council District 10 had the lowest volume of EMS events;
- When compared to 1990 and 1992, the SJFD's responses to EMS events during July 1, 1993, through September 30, 1993, were slower Citywide and were also generally slower in each City Council district;
- In only one City Council district (District 1) did the SJFD meet its turnout time objective of 2 minutes or less for 90 percent of responses;
- In only three City Council districts (Districts 3, 5, and 6) did the SJFD meet its travel time objective of 4 minutes or less for 80 percent of responses;
- City Council District 4 had the lowest percentage of responses that were 2 minutes or less for turnout time (82 percent) and 4 minutes or less for travel time (56 percent); and
- When compared to our 1992 study results, neither the SJFD's 1993 travel time nor combined turnout time plus travel time performance in City Council District 4 improved.

An Audit of the San Jose Business License Taxes (June 1994)

The City May Be Able To Collect \$7.3 Million In Back Business License Taxes, Penalties, And Interest From Real Estate Brokers And Agents, Cosmetologists, Insurance Brokers, And Sales Tax Permit Holders And Increase Annual Business License Taxes By \$1.6 Million

Unless specifically exempted by the San Jose Municipal Code, all persons or businesses conducting business in San Jose are required to pay an annual business license tax. Any person who fails to pay the tax on or before the due date is liable for a

penalty of 25 percent of one year's tax due. Should the tax remain unpaid for a period exceeding one month beyond the due date, an additional 25 percent penalty plus interest of 1.5 percent per month is assessed. Our review of real estate brokers and agents, cosmetologists, insurance brokers, and sales tax permit holders revealed that the City may be able to (1) collect \$7.3 million in back business license taxes, penalties, and interest and (2) increase annual business license taxes by an estimated \$1.6 million. It should be noted that our estimate of additional revenues may include real estate brokers and agents, cosmetologists, and insurance brokers who are not required to pay business license taxes because they are inactive, employees, or otherwise exempt. To the extent our estimate includes such persons, our estimate of additional business license taxes will be overstated. By contacting suspected unlicensed businesses through a mass-mailing program and implementing a tax amnesty program, the City may be able to cost-effectively recover a substantial portion of unpaid back business license taxes and increase its business license tax base. Furthermore, by using other City departments to inspect for current City business licenses, the City will be able to use existing resources to increase business license taxes. Finally, it should be noted that our estimate of additional business license taxes did not include numerous categories such as exempt branches, accounting and bookkeeping, consultants, attorneys, miscellaneous business services, restaurants, and janitorial services. To the extent these excluded categories include persons or businesses that should be paying business license taxes but are not, the City is losing additional revenue over and above the estimates shown above.

*The Finance Department Did Not Obtain Municipal Code-
Required City Council Approval Before Waiving \$4,542 In Late
Payment Penalties On Delinquent Business License Taxes*

The San Jose Municipal Code, section 4.76.505, prescribes that public market operators must pay their estimated business license taxes for the period December 1, 1993, to November 30, 1994, in three installments.

- The first installment was due on December 1, 1993;
- The second on April 1, 1994; and
- The third on June 1, 1994.

Municipal Code, section 4.76.290, empowers the City to collect penalties and interest on the taxes not paid by the due date. In addition, section 4.76.281 does not require the Director of the Finance Department to send the operator a notice of the business license tax due. Our review indicated that a public market operator failed to pay his

December 1, 1993, installment on time and that the Finance Department did not assess and the operator did not pay the required 25 percent penalty of \$4,542. By allowing a retroactive extension of the filing deadline, the Finance Department waived the late payment penalty without first obtaining Municipal Code-required City Council approval. The Finance Department should (1) implement procedures to ensure compliance with section 1.17.010 of the Municipal Code regarding the need to obtain City Council approval before waiving late payment penalties or postponing the late payment penalty date and (2) request a City Attorney opinion on the City's ability to collect the \$4,542 penalty previously waived.

An Audit of the Santa Clara County Cities Association Financial Statements for the Five Months Ended June 30, 1990 and the Years Ended June 30, 1991, 1992, and 1993 (June 1994)

This audit report summarizes our audit of the general fund balance sheets of the Santa Clara County Cities Association (SCCCA) as of June 30, 1990, 1991, 1992, and 1993, and the related statements of revenues and expenditures, changes in fund balances, and fixed assets for the five months ended June 30, 1990, and the years ended June 30, 1991, 1992, and 1993.

An Audit of the City of San Jose Workers' Compensation Program (August 1994)

Expanded Use Of Modified Duty, Improved Intracity Coordination And Communication, And Restructured Benefits Could Have Significantly Reduced The \$2.6 Million In Disability Leave Benefits The City Paid In 1993

It is the City's policy to return employees with temporary disability occupational injuries and benefits to modified duty as soon as medically practical. In order to effectuate a modified duty policy such as San Jose's, an organization needs (1) appropriate tone at the top, (2) intraorganizational coordination and communication, (3) adequate and timely information, and (4) employees who are willing to cooperate. However, our review revealed the following regarding the City's modified duty policy:

- Coordination and communication between the Workers' Compensation Program, City departments, and the City's payroll function are not adequate regarding disability leave approvals and monitoring;
- Modified duty opportunities have been limited;
- The cost of disability leave on a departmental basis has been essentially hidden; and

- Disability leave benefits provide a disincentive for employees to return to work on a modified duty basis.

As a result, the City's disability leave usage is nearly three times the average for other California jurisdictions, disability leave cost the City \$2.6 million and the equivalent of 65 full-time employees in 1993, and there is a widespread perception that employees are abusing their disability benefits and physicians are underprescribing modified duty work. San Jose could significantly reduce its cost of disability leave in terms of dollars and lost staff time by

- Increasing the availability of modified duty work;
- Coordinating work restrictions with physicians;
- Improving intracity coordination and communication regarding modified duty;
- Developing better information regarding the cost of disability leave; and
- Restructuring employee disability leave benefits.

A Comprehensive Workers' Compensation Cost Containment Program Could Reduce The Number Of Workers' Compensation Claims Filed And The Cost Of Those Claims That Are Filed

The state of California mandates what workers' compensation benefits the City must pay to its employees with work-related injuries or disabilities. However, our review revealed that there are numerous workers' compensation cost containment opportunities of which the City is not availing itself. Specifically, we identified the following:

- The City's average Workers' Compensation adjuster case load is 353-- which is 175 percent higher than the state's recommended level and higher than other jurisdictions we surveyed;
- The City does minimal utilization review;
- The City conducts few investigations into questionable claims;
- Permanent disability advances are made without supervisory review;
- The Workers' Compensation Procedures Manual is outdated;
- Workers' Compensation charges to City departments are not based on actual costs;

- Workers' Compensation adjusters contact employees within their goal of 48 hours less than 20 percent of the time;
- The City does not have an adequate follow-up program for employees who file claims;
- Not all City departments have workers' compensation liaisons; and
- Coordination between departments, Workers' Compensation, the City's Safety Officer, and the City's retirement systems needs improving.

As a result, San Jose (1) has a higher percentage of costly litigated cases than other jurisdictions, (2) has a large number of multiple claims, (3) is not closing cases as quickly as it should, (4) may not be identifying fraudulent claims, and (5) is not getting employees back to work as quickly as it could. In our opinion, the City should provide Workers' Compensation with additional resources. In addition, the Administration and Risk Management should expand its cost containment program for workers' compensation. By so doing, the number of workers' compensation claims can be reduced along with the cost of those claims that are filed.

The City Of San Jose Needs To Take Additional Steps To Address Workplace Safety

The state of California and the City's policies and employee agreements require the City to provide a safe work environment for its employees. In addition, authoritative sources have identified prevention as the number one cost control measure for workers' compensation. During the last few years the City Administration has taken several steps to address employee safety issues which apparently have had a positive effect on the number of workers' compensation claims filed and their costs. However, our review revealed that there are several additional steps the Administration needs to take to address workplace safety. Specifically, we identified that

- When compared to other California cities, San Jose's safety program is organizationally misplaced and not adequately emphasized;
- The City's Disability Claims Task Force, formed in 1992, has been only moderately successful;
- Only one City department has performance measures for employee safety; and

- The City has budgeted very little to prevent the kind of injuries that have cost the City at least \$29.3 million in the last two years.

In our opinion, the City's Safety Officer and risk management functions should be organizationally consolidated and report directly to the City Manager. In addition, the City Manager, the Safety Officer, and Risk Manager need to take steps to further address workplace safety issues.

An Audit of Parking Citations Processing (November 1994)

This is a confidential report on an audit assignment requested by the City Attorney to perform specific audit procedures to review the processing of city of San Jose parking citations.

Update of the Recommendation Regarding Weed Abatement (November 1994)

The City Auditor recommended that the city of San Jose (City) enter into negotiations with Santa Clara County to effect transferring the responsibility for abating weeds on privately owned parcels in the city of San Jose from the City to Santa Clara County.

By so doing,

- The City's Neighborhood Services Department will be relieved of a \$132,900 per year program that is proposed to be only 50 percent cost recovery;
- San Jose and the ten other Santa Clara County cities that already use the County's program will mutually benefit from increased economies of scale; and
- San Jose property owners will save an estimated \$78,000 per year in reduced weed abatement costs.

City Auditor Involvement In Negotiations With Santa Clara County Regarding Booking Fee Charges (November 1994)

The City Auditor was the lead person in negotiating a reduction of the booking fees Santa Clara County charged to the county's cities. The resulting agreement set a fixed amount of booking fees for the next three fiscal years starting with 1994-95 and provided a mechanism to determine booking fees through the year 1999-2000. The

City's portion of the fees was \$2,993,703 which was down from the \$4,142,298 that the City paid in 1992-93, the \$3,747,712 paid in 1993-94 and the \$4,529,593 budgeted for 1994-95. If the City reduces its bookings by 15 percent in years four, five, and six of the agreement, the City's cost can be reduced by an additional \$500,000 per year.

Analysis Of The Criteria For Assessing Performance Of The Workers' Compensation Investigation Unit (January 1995)

One of the recommendations from An Audit of the City of San Jose Workers' Compensation Program (August 1994) was to conduct a targeted number of investigations and fund a one-year pilot claims investigation unit. After the one-year pilot, the audit report recommended that management should assess whether to continue and/or expand the program. This analysis presented a set of criteria for assessing the performance of the Workers' Compensation Investigation Unit.

Review of the San Jose Development Corporation Financial Reports (January 1995)

This memorandum summarizes the results of the City Auditor's review of the financial audit report and audit workpapers on the San Jose Development Corporation.

An Audit Of The City Of San Jose Employees' Health Plan (March 1995)

*The City Of San Jose Can Improve Its Health Care Plan,
Reduce Its Employees' And Retirees' Medical Costs
By More Than \$1 Million A Year, And Potentially Recover
An Additional \$905,000 In Prior Years' Overpayments*

The city of San Jose (City) offers its employees three health care plans of which one is the City of San Jose Employees' Health Plan (CSJEHP). The City contracts with PPO Alliance to administer a series of contractual arrangements with a network of physicians, hospitals, and other medical service providers. The medical service providers with which PPO Alliance contracts are the City's preferred provider organization (PPO). As such, it is in the best interest of the City and its employees that PPO Alliance contract with as many medical service providers as possible and that it negotiate the best possible price for specific medical procedures. In addition, the City contracts with a third-party administrator--Foundation Health Preferred Administrators (FHPA)--to pay and administer medical claims that medical service providers submit for payment for services to those employees in the CSJEHP. As such, it is in the best interest of the City and its employees that the FHPA pay claims in a timely manner and take advantage of all negotiated or available medical service discounts.

Our review of the City's contractual arrangement with PPO Alliance and FHPA and their performance under the City's contract revealed the following:

- At the recommendation of the Benefits Review Forum, the City awarded a contract to PPO Alliance without going through a competitive bidding process, and documented evidence does not support the City's decision to award a contract to FHPA;
- FHPA was unable to provide us with documentation for 33 of the 242 claims selected for our review;
- FHPA has not paid medical service claims in a timely manner;
- FHPA has not taken advantage of negotiated or available medical service discounts. As a result, the City's employees and retirees paid \$890,000 unnecessarily over the last four years; and
- FHPA paid about \$15,000 for ineligible claims during the last four years.

The Santa Clara County PPO option for its employees is the Preferred 100 Plan. Comparing Santa Clara County's Preferred 100 Plan to the CSJEHP revealed the following:

- PPO Alliance has not provided the City or its employees with a number of medical service providers in its PPO comparable to the County's and
- PPO Alliance has not negotiated discount rates with medical service providers in its PPO comparable to the County's PPO.

Our review also revealed that the City has an opportunity to consolidate with Santa Clara County for a PPO and that by so doing the City will be able to

- Reduce premium costs for both its employees and retirees;
- Obtain better price discounts for medical services;
- Obtain fast-payment discounts;
- Implement additional concurrent utilization reviews of medical service bills; and
- Increase employee use of the PPO.

By forming a medical services purchasing coalition with Santa Clara County, we estimate that the City will save its employees and retirees more than \$1 million a year in medical service costs and health insurance premiums. In addition, the City should pursue reimbursement of \$905,000 in prior years' overpayments.

Response To Inquiry regarding Weed Abatement Complaint Handling Procedures--City Versus County (March 1995)

This is a memorandum summarizing the City Auditor staff research on the weed abatement complaint handling procedure of the county of Santa Clara, as compared to that of the city of San Jose (City). We conducted this research to help resolve obstacles to transferring the City's Weed Abatement Program to Santa Clara County. Our research indicated that the County will modify its complaint handling procedure to accommodate the City's needs.

A Review Of Booking Fee Cost Reimbursement (May 1995)

The City Of San Jose Can Recoup An Estimated \$468,000 In Booking Fees Annually And \$825,000 On A One-Time Basis

In November 1993, the City Auditor's Office issued a report on *An Audit Of The San Jose Police Department's Operations Support Services Division*. In the audit report, we made a recommendation that the City Attorney's Office, the City Manager's Budget Office, and the San Jose Police Department (SJPD)

- Implement procedures to recover the administrative costs of booking arrestees from the convicted persons as prescribed in the new state guidelines.

As of May 1995, this recommendation has been outstanding for sixteen months. In order to determine why this recommendation is still outstanding, we contacted the Superior and Municipal Courts of Santa Clara County. The courts informed us that the city of San Jose (City) does not file necessary affidavits (notices of booking fees due) when it files complaints against defendants with the District Attorney's Office. In addition, we found that both courts have procedures that address the issue of ordering reimbursement of the booking fee costs to the arresting agency. We also contacted the presiding judge of the Municipal Court who stated that, if the City should decide to start filing affidavits, each member of the bench will consider the City's request when arriving at a disposition decision. Finally, once the SJPD begins to file affidavits, the City needs

to establish a billing and collection process to ensure that convicted persons reimburse the City for booking fee costs. We estimate that the City could recoup \$468,000 annually and \$825,000 on a one-time basis if it filed affidavits when it filed complaints against defendants with the District Attorney's Office and established a billing and collection process for booking fees.

Review Of Revenue And Cost Analysis Of Paramedic Options B And D (May 1995)

Since early 1995, the city of San Jose, Santa Clara County, and American Medical Response-West (AMRW) have been negotiating a cost sharing arrangement to fund a City paramedic-level response to emergency medical service calls known as Option D. These negotiations have resulted in AMRW agreeing to pay the City, over a four-year period, \$1,000,000 to reimburse a portion of the City's start-up costs in 1994-95 and 1995-96. In addition, AMRW has agreed to pay the City \$1,100,000 for Option D ongoing costs starting in 1996-97. According to the City Administration, this level of funding will leave a \$499,701 start-up cost shortfall and a \$471,451 ongoing shortfall (starting in 1996-97). The City Auditor's review of the City's Option D costs revealed that the City's start-up costs and ongoing costs may be overstated by \$219,198 and \$179,231, respectively. As a result, the City's start-up and ongoing shortfalls may be reduced to \$280,503 and \$292,220, respectively.

Internal Auditor's Report On Supplemental Schedule Of Federal Financial Assistance-- OCJP Live Scan Terminal Project (May 1995)

This audit report summarizes our audit of a \$32,000 Office of Criminal Justice Planning grant to the city of San Jose Police Department for a Live Scan Terminal Project for the year ended June 30, 1994. Based on the procedures we performed, we were satisfied that the receipt and expenditure of funds were in accordance with the city of San Jose's internal controls and procedures.

An Audit Of The San Jose Police Department--Communications Division's Staffing And Scheduling (May 1995)

The San Jose Police Department Can Save As Much As \$860,000 Per Year In Personnel Costs And Improve Its Service To The Public By Optimizing Its Deployment Of Dispatchers In The City's Communications Center

The San Jose Police Department's (SJPD) Bureau of Technical Services, Communications Division, employs 115 public safety dispatchers (PSDs) to answer 911

calls and non-emergency calls at the city of San Jose's (City) Communications Center (Center) to provide coverage 24 hours a day 365 days a year. During the course of our audit,

- The Division changed to off-hook answering. As a result, average 911 call answering improved from 11 seconds in June 1994 to 3 seconds in February 1995. In addition, call answering improved from 33 percent of 911 calls answered within 5 seconds in June 1994 to 83 percent of 911 calls answered within 5 seconds in February 1995.
- The Division implemented procedural changes to lower the maximum 911 call-answering time. As a result, the number of 911 calls that took over 60 seconds to answer decreased from 771 calls in August 1994 to approximately 4 calls in February 1995. In addition, the percentage of 911 calls that were lost because callers hung up before their calls were answered decreased from 6 percent in August 1994 to 2 percent in February 1995.

These improvements notwithstanding, our review also revealed the following regarding the Center's staffing and resultant efficiency and effectiveness:

- The Division staffs the Center with a 5-shift pattern with no shift starting later than 9 p.m. and allows 45 minutes for PSD briefings and
- The average PSD is on short-term or long-term leave or training 22.6 percent of the time.

In our opinion, the Center's current staffing pattern is inherently inefficient and costly and has caused the following consequences:

- The Center's staffing pattern does not correspond to call volume-driven staffing demand. As a result, significant overstaffing occurs during some periods of the day while understaffing occurs during other periods of the day;
- The Center frequently falls below its own minimum staffing level in spite of PSDs earning \$300,000 per year in paid overtime or compensatory time off;
- The Division did not meet one of its four emergency call-answering objectives in 1991-92, 1992-93, or 1993-94;

- The Division's revised emergency call-answering objectives since 1993-94 are slower than the objectives the state of California recommends;
- During June and August 1994, 15 percent and 21 percent, respectively, of those emergency callers whom PSDs deemed not to be in an emergency situation hung up after being put on hold. Those callers who hung up did so after PSDs put them on hold an average of 2 minutes 10 seconds in June 1994 and 2 minutes 31 seconds in August 1994. Further, there were 7 days during June 1994, 11 days during August 1994, 8 days during September 1994, and 8 days in February 1995 that an emergency caller whom a PSD deemed not to be in an emergency situation was put on hold for at least 15 minutes with one caller being put on hold for at least 34 minutes; and
- During February 1995, 24 percent of those emergency callers whom PSDs deemed not to be in an emergency situation hung up after being put on hold. This is twice the percentage of calls lost when compared to February 1994.

In May 1995, the Division will assume responsibility for non-emergency report-writing calls that the SJPD's Operations Support Services Division currently handles. The Division has proposed to the City Administration that it can assume this additional responsibility by adding 9 PSDs, for a total of 124 PSDs. However, our review indicates that unless the Division either adds 12 more PSDs or deploys its existing PSDs more efficiently the conditions described for emergency callers whom PSDs deem not to be in an emergency situation will be perpetuated after May 1995 and the Division will continue to function below its own minimum staffing level. Finally, the City Auditor's Office used a computer model to optimize the scheduling of PSDs in the Center. The results of our optimization were that the Division can (1) eliminate 10 PSD positions while at the same time significantly improve its ability to function at or above its minimum staffing level, (2) avoid periods of overstaffing, and (3) save the City \$860,000 per year in regular personnel, overtime, and compensatory time costs. Accordingly, we recommend that the SJPD and the City Administration use the information in this report to develop, and forward to the City Council for concurrence, a staffing proposal for the Center that is both responsive to the public's emergency calling needs and the least costly to the City.

During our audit, we noted the Division's computer system does not generate information regarding the length of time it takes to answer 911 calls which are deemed to be non-emergency and transferred to a secondary tier call-taker. We also noted that the Division has inconsistently reported on its Center call volume. Further, the Division does not report the maximum call-answering delays for answered or lost emergency and non-emergency dispatch calls. Finally, the Division is lacking an analyst position to assist in management reporting. In our opinion, the Division should generate information regarding the length of time it takes to answer non-emergency 911 calls, itemize the calls it receives by type of call, report on the maximum call-answering delays for answered and lost emergency and non-emergency dispatch calls, and include such information in its trimester program management reports. Accordingly, we recommend that the Division and the City Manager request funding for a senior analyst position for the Bureau of Technical Services during the mid-year 1995-96 budget review process.

Sales And Business License Tax Audit

This is an on-going audit of the city of San Jose's sales and business taxes which we started in July 1994. Our objectives are to identify:

- San Jose retail businesses that do not file sales tax returns;
- San Jose's portion of sales taxes misallocated to other jurisdictions;
and
- San Jose businesses that have paid sales taxes but not their San Jose business licenses.

In conducting our ongoing audit, we:

- Compared the San Jose telephone and other directories with sales tax and business tax databases to ensure that companies and individuals doing retail business in San Jose were using a San Jose sales tax identification code;
- Visited business locations at the city of San Jose's periphery and compared these business locations to the sales tax and business tax databases to ensure that businesses within the San Jose borders were using a San Jose sales tax identification code;

- Called businesses to request copies of the sales tax returns;
- Reported any identified nonfiling or misallocation of sales taxes to the State Board of Equalization; and
- Reported any nonpayment of San Jose business taxes to the Finance Department for collection.

During the first year of the audit (fiscal year ended June 30, 1995), the staff identified about \$445,000 in additional revenues. The audit findings included:

- Forty-three San Jose retail businesses as having mispaid sales taxes to another jurisdiction. We estimate that the local portion of the sales taxes to be allocated to San Jose by these businesses for the year ended June 30, 1995, and projected six quarters would be \$333,075. As of June 30, 1995, the State Board of Equalization has confirmed that \$85,478 in sales taxes from these businesses has been credited to the city of San Jose.
- Four hundred San Jose retail businesses as not having paid the San Jose business license. We estimate that these businesses owed San Jose \$111,592 in applicable past years' and current year business taxes plus penalties and interest. The Finance Department has confirmed that the City has received \$40,318 from these businesses.

Oversight of the Annual Financial Audit

The Office of the City Auditor oversaw the 1993-94 and 1994-95 financial audit and single audit conducted by the City's independent auditors, KPMG Peat Marwick LLP. The Office of the City Auditor also initiated the Request for Proposals (RFP) process to select the City's independent auditor for three fiscal years starting 1995-96.

APPENDIX A

SUMMARY OF STATEMENT ON GOVERNMENT AUDITING STANDARDS

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

Introduction

Purpose	<ol style="list-style-type: none">(1) This statement contains standards for audits of government organizations, programs, activities, and functions, and of government funds received by contractors, nonprofit organizations, and other nongovernment organizations.(2) The standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy.
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Types of Government Audits

Financial Audits	<ol style="list-style-type: none">(1) Financial statement audits provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.(2) Financial related audits include determining whether (a) financial information is presented in accordance with established or stated criteria, and (b) the entity has adhered to specific financial compliance requirements, or (c) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.
Performance Audits	<ol style="list-style-type: none">(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.

Types of Government Audits (Cont.)

Other Activities of an Audit Organization	Auditors may perform services other than audits. For example, some auditors may (a) assist a legislative body by developing questions for use at hearings; (b) develop methods and approaches to be applied in evaluating a new or a proposed program; (c) forecast potential program outcomes under various assumptions without evaluating current operations; and (d) perform investigative work.
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General Standards

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

Field Work Standards for Financial Audits

Planning	The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.
Follow-up of previous findings and recommendations	Auditors should follow up on known material findings and recommendations from previous audits.

Field Work Standards for Financial Audits (Cont.)

Irregularities, Illegal Acts, and Other Noncompliance	<p>(a) Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.</p> <p>(b) Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.</p> <p>(c) Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.</p> <p>(d) Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.</p>
Internal Controls	Auditors should obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed.
Working Papers	<p>(a) A record of the auditors' work should be retained in the form of working papers.</p> <p>(b) Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.</p>

Reporting Standards for Financial Audits

<p>Communication with Audit Committees or Other Responsible Individuals</p>	<p>Auditors should communicate the following information related to the conduct and reporting of the audit to the audit committee or to the individuals with whom they have contracted for the audit: (a) the auditors' responsibilities in a financial statement audit, including their responsibilities for testing and reporting on internal controls and compliance with laws and regulations, and (b) the nature of any additional testing of internal controls and compliance required by laws and regulations.</p>
<p>Reporting Compliance with Generally Accepted Government Auditing Standards</p>	<p>Audit reports should state that the audit was made in accordance with generally accepted government auditing standards.</p>
<p>Reporting Compliance with Laws and Regulations and on Internal Controls</p>	<p>The report on the financial statements should either (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal controls and present the results of those tests or (2) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls. In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.</p>
<p>Privileged and Confidential Information</p>	<p>If certain information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.</p>
<p>Report Distribution</p>	<p>Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.</p>

Field Work Standards for Performance Audits

Planning	Work is to be adequately planned. In planning, auditors should define the audit's objectives and the scope and methodology to achieve those objectives.
Supervision	Staff are to be properly supervised. Supervision involves directing the efforts of auditors and others who are involved in the audit to determine whether the audit objectives are being accomplished. Elements of supervision include instructing staff members, keeping informed of significant problems encountered, reviewing the work performed, and providing effective on-the-job training.
Compliance with laws and regulations	When laws, regulations, and other compliance requirements are significant to audit objectives auditors should design the audit to provide reasonable assurance about compliance with them. In all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse.
Management Controls	Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgments about those controls.
Evidence	Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions. A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.
Validity and Reliability of Data From Computer-Based Systems	Auditors should obtain sufficient, competent, and relevant evidence that computer-processed data are valid and reliable when those data are significant to the auditors' findings. This work is necessary regardless of whether the data are provided to auditors or auditors independently extract them. Auditors should determine if other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data. If they have, auditors may be able to use that work. If not, auditors may determine the validity and reliability of computer-processed data by direct tests of the data. Auditors can reduce the direct tests of the data if they test the effectiveness of general and application controls over computer-processed data, and these tests support the conclusion that the controls are effective.

Reporting Standards for Performance Audits

Form	Auditors should prepare written audit reports communicating the results of each audit. Written reports (1) communicate the results of audits to officials at all levels of government, (2) make the results less susceptible to misunderstanding, (3) make the results available for public inspection, and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. The need to maintain public accountability for government programs demands that audit reports be written.
Timeliness	Auditors should appropriately issue the reports to make the information available for timely use by management, legislative officials, and other interested parties.
Objectives, Scope, and Methodology	Auditors should report the audit objectives and the audit scope and methodology.
Audit Results	Auditors should report significant audit findings, and where applicable, auditors' conclusions.
Recommendations	Auditors should report recommendations for actions to correct problem areas and to improve operations.
Statement on Auditing Standards	Auditors should report that the audit was made in accordance with generally accepted government auditing standards.
Compliance With Laws and Regulations	Auditors should report all significant instances of noncompliance and all significant instances of abuse that were found during or in connection with the audit. In some circumstances, auditors should report illegal acts directly to parties external to the audited entity.
Management Controls	Auditors should report the scope of their work on management controls and any significant weaknesses found during the audit.
Views of Responsible Officials	Auditors should report the views of responsible officials of the audited program concerning auditors' findings, conclusions, and recommendations, as well as corrections planned.
Noteworthy Accomplishments	Auditors should report noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.
Issues Needing Further Study	Auditors should refer significant issues needing further audit work to the auditors responsible for planning future audit work.

Reporting Standards for Performance Audits (Cont.)

Privileged and Confidential Information	If certain information is prohibited from general disclosure, auditors should report the nature of the information omitted and the requirement that makes the omission necessary.
Report Presentation	The report should be complete, accurate, objective, convincing, and as clear and concise as the subject permits.
Report Distribution	Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

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

<u>Responsibility</u>	<u>Action</u>
<i>City Auditor</i>	1. Prior to the beginning of the next fiscal year, submit to the Finance Committee a proposed Audit Workplan.
<i>Finance Committee</i>	2. Review and recommend City Auditor audit assignments for the next fiscal year and forward recommended City Auditor audit assignments to the City Council.
<i>City Council</i>	3. Review and approve Finance Committee recommended City Auditor audit assignments.
<i>City Council Members and City Manager</i>	4. Submit requests for City Auditor services to the Rules Committee.
<i>Rules Committee</i>	5. Forward request to City Auditor.
<i>City Auditor</i>	6. Review request. Respond to Rules Committee at next meeting. Response to include: availability of staff and resources, any external time constraints relative to the requested assignment, and other factors the City Auditor deems important.
<i>Rules Committee</i>	7. Review the City Auditor's response. Approve or disapprove the requested assignment. 8. Communicate the decision to the City Auditor, the City Council, and the assignment requestor.
<i>City Auditor</i>	9. Initiate the assignment as soon as staff become available. 10. Report monthly to the Rules Committee and to the Finance Committee the status of approved audit assignments.
<i>City Manager, City Attorney, or City Clerk</i>	11. Request City Auditor's services when an emergency situation exists.
<i>City Auditor</i>	12. Respond immediately when the request regards an emergency situation. 13. Report to the Rules Committee at its next meeting. Report will include: any requests for immediate response received, what action was taken, and the disposition of the request.

APPENDIX C

OFFICE OF THE CITY AUDITOR

CITY OF SAN JOSE

QUALITY CONTROL REVIEW

FOR THE 24 MONTHS ENDED APRIL 30, 1995

INDEPENDENT AUDITOR'S REPORT

Council Agenda: 6/27/95

Item:

9dd

OFFICE OF THE CITY AUDITOR
CITY OF SAN JOSE
QUALITY CONTROL REVIEW
FOR THE 24 MONTHS ENDED APRIL 30, 1995

REPORT

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

June 14, 1995

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

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 May 1, 1993 through April 30, 1995 and have issued a separate letter of comments thereon dated June 14, 1995. 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 Auditors 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 May 1, 1993 through April 30, 1995, 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 2 years under review.

Sincerely,



OFFICE OF THE CITY AUDITOR
CITY OF SAN JOSE
QUALITY CONTROL REVIEW
FOR THE 24 MONTHS ENDED APRIL 30, 1995

LETTER OF COMMENTS

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

June 14, 1995

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 May 1, 1993 through April 30, 1995. I have issued a separate report, dated June 14, 1995, 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. Also, during the period of this review, the Office conducted one financial audit. I reviewed these functions of the Office for conformance with the Government Auditing Standards issued by the Comptroller General of the United States. In addition, I 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 (NALGA). 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 12 reports issued during the period under review including 11 performance reports prepared by office staff and one audit 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.

Gerald A. Silva
June 14, 1995
Page 2

My review was intended to be constructive, and my purpose was to point out areas for improvement. In that spirit, I made the following comments and recommendations. 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 my 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 11 performance audits and one financial audit issued during the period reviewed, I determined that five of the reports were issued early or within 33 calendar days of the estimated date. Three of the remaining seven reports were issued from 80 to 102 days late, and the other four reports were issued from 215 to 258 days late. The average days late for the twelve audits was 100 days.

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 control the audit's progress, the Office has 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.

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,



Karl W. Dolk



GERALD A. SILVA
City Auditor

CITY OF SAN JOSÉ, CALIFORNIA

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

June 19, 1995

Mr. Karl 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 independent 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, the Office was late in issuing several reports, based on the estimated release dates stated in the Monthly Activity Report. The following were the major reasons for the report issuance delays:

- **Staff turnover and position vacancy.** During the period audited, the Office lost one Senior Program Performance Auditor and one Program Performance Auditor II. Both auditors left before completing their assignments and other auditors had to be assigned to take over the work. Furthermore, due to budget constraints, one audit staff position remained vacant during the entire period audited.
- **Slow responses from the auditees or unavailability of timely data.** During various audits, auditee staff were sometimes unavailable because of absences or other assignments, resulting in slow auditee response or untimely data. In other audits, we consumed many months attempting to resolve the audited department's or the City administration's objections to our audit findings. While time consuming, this was necessary to ensure audit report accuracy and fairness.
- **Expansion of audit scope or changing audit priorities.** At the start of an audit, the auditor is confronted by complex issues which we attempt to prioritize through our preliminary survey and risk assessment. However, during the course of the audit, new information may surface that would necessitate an expansion of audit scope or a change in audit priorities. These changes may result in the delays in the completion of the assignment.

Karl W. Dolk
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- **New On-going audit assignment.** In July 1994, we started our Audit of Sales and Business License Taxes. This new on-going assignment took audit resources that were previously devoted to the performance audits. The preparations for this audit occupied the full time of one senior auditor and much of the time of the supervising auditor. In addition, the student interns who used to help with the other audits were assigned full-time to this audit.

Predicting audit completion dates is more art than science. However, we have added more science to our estimates by implementing a rigorous audit planning, monitoring, and time-reporting system and continually refining this system. We constantly strive to improve our timeliness record and hope our efforts will be reflected in our next biennial audit.

Sincerely,



Gerald A. Silva
City Auditor

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GS:bh