
Performance Audit of the San Diego Police Department's Permits and Licensing Unit

IMPROVEMENTS TO REGULATORY POLICIES AND DEPARTMENTAL
PROCEDURES FOR DETERMINING FEES AND ISSUING PERMITS
COULD ENHANCE PUBLIC SAFETY WHILE REDUCING CITY COSTS

OCTOBER 2011

Audit Report
Office of the City Auditor
City of San Diego



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THE CITY OF SAN DIEGO

October 31, 2011

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is a performance audit on the San Diego Police Department's Permits and Licensing Unit. This audit found that improvements to regulatory policies and internal controls are needed to enhance public safety, while improving operational efficiencies and effectiveness. This report is in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 52 of the report.

If you need any further information please let me know. We would like to thank staff from the San Diego Police Department and the City Treasurer's Office. All of their valuable time and efforts spent on providing us information are greatly appreciated. The audit staff responsible for this audit report are Edward Moreno, Kyle Elser, and Chris Constantin.

Respectfully submitted,

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Results in Brief

Finding 1 The City and the San Diego Police Department (SDPD) would benefit from a more systematic approach to reviewing which types of occupations and businesses should be regulated through the permit and monitoring process. The Department does review the types of permits and licenses it requires—last doing so in 2009 and 2011—but its review approach is limited in that it focuses on fee calculations and not the effectiveness of current regulatory requirements to enhance public safety and does not sufficiently assess the advisability of regulating additional activities.

As a result, the City may be regulating some occupations or businesses that pose a relatively limited public safety risk while overlooking unregulated activities that pose greater risk. The Department's review approach needs to include (1) a more systematic evaluation of regulated and unregulated activities from a public safety standpoint and (2) a process for informing the City Council about recommended changes, including changes to the San Diego Municipal Code (SDMC).

Finding 2 The SDPD needs a more comprehensive approach to ensuring its permit and monitoring services are being delivered as effectively as possible. Responding to budget cuts made in fiscal year 2010, the SDPD changed its approach for providing monitoring services, replacing ten civilian positions with five sworn officer positions. At the same time, the number of permitted businesses fell by about 34 percent. Thus far, its administrative focus has been to determine how to allocate costs across existing permit holders in only a small portion of the businesses and occupations it regulates under the permit and monitoring program.

The SDPD has yet to assess the broader impact of these staffing and workload changes on fees and operations. Our analysis of alarm fees—the largest source of permit income—shows that considerable adjustments, both to fees and operations, need to be made to ensure regulatory efforts are as effective as possible. Further, the entire permit and monitoring program is hampered by significant turnover, insufficient formal training, and lack of performance information. The SDPD's approach needs to include (1) a strategic rethinking of how it provides services in the most effective manner, (2) a methodology that better matches permit fees with activities performed, and (3) improvements in training and performance measurement.

Finding 3 The SDPD's procedures for checking application requirements, collecting fees, and reporting revenue need improvement. These improvements are needed not only for recovering the cost of regulating the designated businesses and occupations, but also to ensure that applicants are fully complying with Municipal Code requirements. We found the following problems:

- The SDPD is having difficulty keeping accurate and consistent records of amounts collected.
- Some businesses are allowed to operate for a period of time without permits—in three cases we reviewed, more than 18 months.
- Permits are issued without completing required background checks or not complying fully with the Municipal Code.
- Fines and penalties are frequently not assessed, resulting in approximately \$300,000 of lost revenue for the function in fiscal year 2010.
- Processing of pawn shop sales records is falling behind and is not in compliance with State law.

To address these problems, we recommend the following:

- Reviewing the City accounting, business tax collection, and GuardCard systems to assess the best way to update, upgrade, or replace them.
- Integrating and aligning certain administrative processing

of police permits within the Office of the City Treasurer.

- Establishing appropriate guidance for conducting and overseeing permit application reviews.
- Establishing an automated system to process permit applications and changing the SDPD practice so that applicants pay the cost of their background investigation.
- Automating the reporting of pawn shop sales records and creating policies and procedures to ensure processes comply with State law.

We made 15 recommendations to improve the SDPD's Permit and Licensing operations. The City Administration agreed or partially agreed with all 15 recommendations, and provided a written response to the audit, which can be found after page 52 of this report.

Introduction

In accordance with the City Auditor's Fiscal Year 2011 Audit Work Plan, we conducted a performance audit of the San Diego Police Department's Permit and Licensing Unit (the Unit). We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor thanks the SDPD and the Office of the City Treasurer for their assistance and cooperation during this audit. Their valuable time and efforts spent on providing us information are greatly appreciated.

Background

The San Diego Police Department (SDPD) works to uncover and prevent illegal activity from occurring in businesses and occupations regulated under the San Diego Municipal Code (SDMC).

The SDMC designates certain businesses and occupations as police regulated and subject to specific requirements.¹ Police-regulated businesses are required to obtain police permits as a prerequisite to operate. Some of these requirements include, but are not limited to, background checks of principal individuals, submission of business records, and specific operational limitations and specifications. The SDPD is granted the authority to issue permits, conduct regular inspections of businesses, and enforce SDMC regulations.

The SDPD established a Permits and Licensing Unit to enforce the regulations with the mission to

*"...uncover and prevent illegal activity from occurring in those businesses or occupations that have the propensity for such activity."*²

As shown in Exhibit 1 below, the Unit classified regulated activities into 33 permit types.³ Applicants submit new applications for a permit or an annual renewal and appropriate fees to the Permits and Licensing Unit located at the SDPD headquarters.⁴ Applicants of alarm permits can renew their permit online or in person for two-year permits.

¹ *San Diego Municipal Code Article 3 Division 1*

² San Diego Police Department, *Vice Operations Manual*, (San Diego, CA: August 2010), 3.

³ Permit types are groupings by similar industries and correspond to 45 separate business permits.

⁴ Although the Vice Operations Manual includes ice cream vendors, neither the SDMC nor the SDPD require ice cream vendors to obtain permits.

Exhibit 1

Permit Types Issued by the Unit

Alarm Permit	Entertainment Single Event	Outcall Nude Entertainer
Adult Entertainer	Entertainment	Pawnbrokers
Arcade	Firearms Dealer	Peep Booths
Auto Dismantler	Going Out of Business Sale	Pool Rooms
Auto Pawn	HHP Business	Promoter
Bingo License	Holistic Health Practitioner	Secondhand Dealer Non Tangible Property
Card Room Worker	Massage Establishment	Secondhand Dealer Tangible Property
Casino Party	Massage Therapist/Off Premise	Solicitors, Peddlers, and Interviewers
Curb Painter	Money Exchange House	Swap Meets
Driver Application	Nude Entertainment Business	Tobacco Retailer
Entertainment After Hours	Outcall Nude Entertainment Business	Tow Truck Driver

Source: Auditor Generated from San Diego Police Department Quick Reference Guide

Operations The Unit utilizes both civilian staff and sworn police officers to oversee police-regulated businesses. Additionally, the Unit coordinates enforcement-inspection activities for certain entertainment and massage establishment permits with the SDPD Vice Operations Unit (Vice). Civilian staff process applications while sworn officers conduct appropriate background checks and required application reviews to determine whether the applicant meets SDMC requirements. In certain cases, officers designate certain restrictions on businesses, such as requiring security guards. Staff notifies applicants of the status of their applications and, in the case of permit approval, mails the permit to the applicant.

Processing of Applications and Fees Applicants submit their new and/or renewal applications to civilian staff, which are responsible for accepting applications, collecting fee payments, and verifying that applications are complete and submitted with appropriate supporting documentation.

Staff processes fee payments into an electronic cash register, which produces a receipt that is given to the applicant. Staff places the permit application into the cash register and records a duplicate copy of the receipt onto the application for the Unit's records.

For permit renewals, staff checks that applications and fees are submitted no later than 30 days after permit expiration.⁵ These renewal time windows have been established to ensure that police officers have the appropriate amount of time to investigate and evaluate the applicant's fitness to hold a permit and also to ensure that the permit holder cannot operate in San Diego for extended periods of time without undergoing an appropriate background investigation.

Application Review

Once application payments have been processed, the Unit staff transfer applications to police officers for review. The police officers review applications to ensure the applicant has met all the requirements of their permit application. They check personal information, criminal history, and whether educational certifications and other permits and licenses have been obtained, as required by applicable State and Federal laws.

One of the most important components of the application review process is the criminal background check. The SDMC prohibits applicants with certain criminal histories to operate regulated businesses or conduct regulated activities. If an applicant is found to have been convicted of a prohibited criminal offense within the past five years, police officers will reject such applications and provide the applicant information on appealing the decision.

If a permit is denied, the Unit's Sergeant reviews the application to confirm that the reviewing police officer's decision is justified. Once a final determination is made to either approve or deny a permit, the Unit notifies the applicant of the decision via mail.

Inspection Activity

Officers conduct inspections based on complaints filed, intelligence from patrol units, and, for certain activities, officers coordinate inspections with Vice. Police officers conduct limited enforcement inspections of businesses to ensure compliance with the permit's regulatory requirements. In December 2009, the Unit replaced ten civilian staff positions with five sworn officer positions. The Unit continued to use

⁵ The exception is the firearms-dealer permit, which must be submitted at least 30 days before permit expiration.

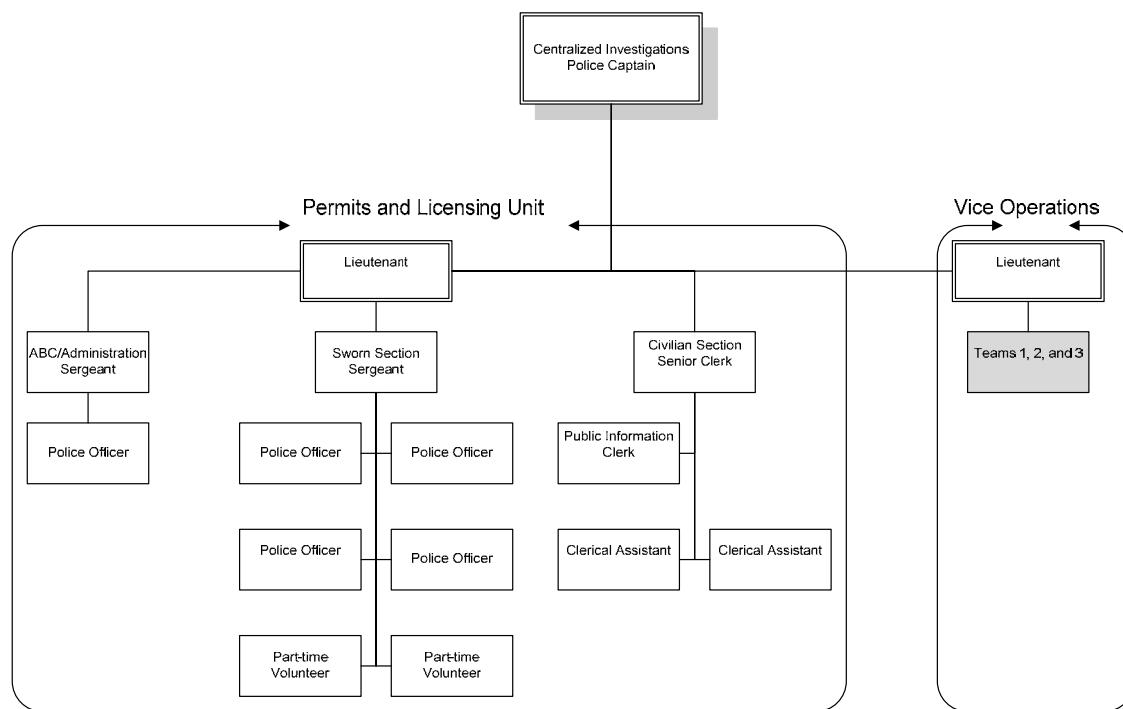
two volunteers to augment to the existing staff. The change impacted inspection efforts by limiting the amount of hours available to conduct all of the Unit's activities, such as application reviews, background investigations, and enforcement inspections.

The Unit also collaborates with Vice, which is composed of 15 detectives, three Sergeants, and one Lieutenant and divides work in San Diego into three geographic areas. Their work consists of both overt and covert inspections of certain regulated businesses. According to enforcement officers, they dedicate about 50 percent of their time to permits and licensing related activities, such as entertainment and massage establishments. Their work related to entertainment establishments is driven by State Alcohol Bureau Control (ABC) regulations related to the appropriate sale of alcohol. The other 50 percent of their time is dedicated to prostitution and gambling. Prior to 2010, this section was divided into four districts and staffed by five additional detectives; however, budget constraints resulted in the reduction of this unit to its current staffing level and realignment of service areas.

Exhibit 2 depicts the current organizational structure of the Unit and Vice.

Exhibit 2

The SDPD Permits and Licensing Unit Organizational Chart



Source: OCA analysis of Unit personnel staff rosters

Records Management The Unit also receives assistance from the SDPD's Records Management, which conducts data-entry services on pawn shop and secondhand dealer sales receipts. State of California laws require pawn shops and secondhand dealers to submit daily sales receipts to local law enforcement agencies. Once the Unit receives the pawn shops sales receipts, they forward the slips to Records Management, which enters data into the State of California Automated Property System and the County of San Diego database, the Automated Regional Justice Information System (ARJIS).

Records Management is responsible for inputting two types of receipts—serialized and non-serialized. Serialized items are those that have a distinct identification number, while the non-serialized are usually items such as jewelry. In addition to pawn receipts, Records Management is also responsible for processing other SDPD records, such as manual citations and police field interview cards. Exhibit 3 shows the types of records the Unit is responsible for processing, average number of tickets per day, processing priority, and deadlines to enter the data.

Exhibit 3

Record Types and Priority Requirements

Type of Record	Average Number of Tickets Per Day	Priority Level	Deadline to Enter into Database (in Days)
Pawn Tickets			
<i>Serialized</i>	350	Med	20
<i>Non-serialized</i>	600-800	Low	30
Field Interview cards	400-500	High	10
Gangs	150	High	10
Drugs/Narcotics	150	High	10
Misdemeanor Citations	100	Low	15-20
Traffic Citations	400-500	High	10
Traffic Accidents	50-80	High	Next Day
Crime*	96**	High	Same Day
Arrests (Adult and Juvenile)	(NA)	High	7

Source: The SDPD Records Management

* This includes Burglary, Larceny, Assault, Robbery, Stolen Vehicles, and Missing Persons as displayed by ARJIS.

** Statistics obtained from ARJIS

Staffing, Expenses, and Revenues

Staffing and Expenses

As of June 2011, the Unit is staffed by four civilians and five police officers, who process new applications, renewals, collect fees, and/or conduct background investigations. There are also two volunteers that assist with processing applications. Between fiscal year 2008 and 2010, the Department expended about \$1.2 million annually in personnel services, fringe benefits, and supplies. Exhibit 4 breaks out the Unit's expenses for fiscal years 2008 through 2010.

Exhibit 4

Fiscal Year 2008 – 2010 Unit Expenses

EXPENSES	2008	2009	2010
Personnel Services	687,755	656,323	720,430
Fringe Benefits	414,851	413,588	433,952
Supplies/Services/Other	136,655	106,525	118,522
Total	1,239,261	1,176,436	1,272,904

Source: OCA analysis of City accounting system expenses (amounts rounded to nearest dollar)

While the Department reduced the number of budgeted full-time equivalents in fiscal year 2010, the Unit cost did not significantly change.

Permits and Revenue

The Unit regulates 33 permit types for regulated activities. Between fiscal years 2008 and 2010, the Unit issued about 77,000 permits, which amounted to nearly \$10 million in total revenue receipts. Appendix I shows the revenue and number of permits for each regulated activity or business.

From fiscal year 2008 to fiscal year 2010, alarm permits (residential and commercial) generated the most total revenue—amounting to \$6 million in revenue (64 percent of the total revenue)—and represented 63,620 of the 76,782 permits issued (83 percent of total permits). While alarm permits generate the most revenue, this permit type also incurred \$4.2 million in program costs in fiscal year 2010. These program costs are primarily the result of the SDPD's response to false-alarm calls. False-alarm calls result in SDPD officers being dispatched to the scene where an alarm was triggered, but where no crime could be identified.

In order to reduce false alarms, the SDPD enforces a permit revocation policy. The revocation policy outlines how many false alarms someone is allowed in a given time period. If the false-alarm count exceeds the number allowed in the revocation schedule, the SDPD is legally required to send the alarm user a letter of revocation before they are charged a penalty. The revocation policy also escalates penalties for causing a certain number of false alarms within a given time frame. Under the SDMC, the Department is not allowed to

legally charge a fine until the residence or business is officially notified via U.S. mail.

Exhibit 5 shows the number of false alarms that are allowed in a certain time period.

Exhibit 5

The SDPD False Alarm Revocation Schedule

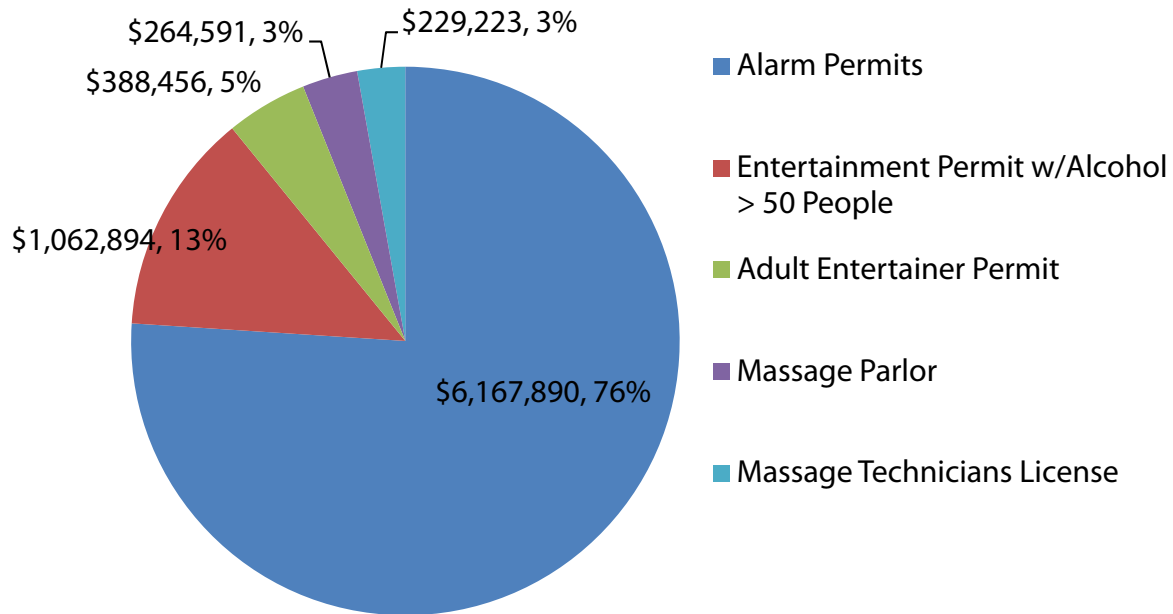
Number of Allowable False Alarms	Time Period
1 False alarm	30 days
2 False Alarms	In any 90-day period
3 False Alarms	In any 180-day period
4 False Alarms	In any one-year period

Source: Auditor generated from Council Resolution 304894

Other significant permits, such as entertainment establishments of 50 or more people with alcohol, adult entertainers, massage establishments, and massage technicians generated a combined \$1,945,163 in revenue (20 percent of total revenue) and represented 6,274 of 76,782 permits (8 percent of total permits). Exhibit 6 shows the top five revenue-generating permit types.

Exhibit 6

Fiscal Year 2008 through Fiscal Year 2010 Top Five Revenue Generating Permits



Source: Auditor generated from City accounting systems.

Note: We did not include tow-company referral fees, emergency cost recovery revenue, and late fees as these are not directly related to the issuing of permits or licenses.

The remaining 27 permit types generated \$1,570,251 in revenue (16 percent of total) and represented 6,888 issued permits (9 percent of total).⁶

Permit Fees

The SDMC prescribes the assessment of regulatory permit fees on all regulated activities and businesses. To ensure costs are recovered, the SDPD determines the appropriate permit fee on a periodic review of the amount of work civilian personnel and police officers dedicate to a given industry. This calculation takes into account administrative time and staffing costs from reviewing applications and conducting enforcement inspections. The City Department also assesses an investigation fee and photo fee to recover the costs of criminal history checks and updates to applicant photographs for certain regulated business. For burglar alarms, the SDPD

⁶ SDPD merges automobile pawn permits with pawnbroker permits, resulting in 27 permit types instead of 28.

includes false alarm response costs in the permit fee.

The City Council must approve all fees before they can be charged to applicants. In fiscal year 2010, the SDPD requested recommended permit fee adjustments increases to various permits, which, according to the SDPD, would achieve full cost recovery for the majority of permit and licensing services provided. The City Council approved fee increases for most industries except entertainment, firearms, and money exchange permits.⁷

**Coordination with the
Office of the City
Treasurer**

Businesses or individuals applying for a police-regulated permit must first apply for a City business tax certificate issued through the City Treasurer. The City Treasurer issues a business tax certificate and marks each account for the SDPD to clear upon the issuance of a police permit. This clearance does not prevent the business tax certificate from going into effect immediately. The City Treasurer maintains their business tax certificate information in the Treasurer's Tax Collection System, which is used by the SDPD to store police permit information for each application, excluding alarms, adult entertainment/outcall nude, and massage permits. The SDPD maintains alarm permits in an in-house alarm data system, while the other permits reside in a database called GuardCard.

The SDPD clears business tax certificates in the Treasurer's Tax Collection System once the SDPD reviews the application for a police permit and concludes that the applicant satisfactorily meets all the requirements of the SDMC, including successfully passing the criminal background check.

We should note that this process only applies to new applications. For renewals, the City Treasurer does not mark any business tax certificate for the SDPD's review. Since the issuance of a business tax certificate or police regulatory permit is not contingent on the issuance of one another, renewals do not coincide and expire on different dates. Further, an applicant must visit two separate locations—the City Treasurer's Office and the SDPD—to obtain appropriate

⁷ *San Diego Resolution Number R-306901*. In June 2011, the City Council took action to revise fees and enforcement inspection hours for entertainment and money exchange permit types.

permitting for regulated activities. As a result, City administration has explored the possibility of centralizing all permit issuance functions into one location.

We note that the Mayor's office has undertaken a comprehensive city-wide study to determine best practices and explore a single "one stop shop" for all city permits.

SDPD Data Systems

The SDPD uses an in-house alarm data system to track false alarms and process compliance notifications to alarm users. The system interfaces with the Department's computer-aided dispatch system and is reviewed by a dedicated police officer on a continuing basis to ensure accuracy and enforce compliance.

The SDPD also uses a system called GuardCard to process and store permit information related to adult entertainment, outcall nude entertainment, and massage permits. This system stores applicant pictures and requires that the SDPD personnel manually assign permit numbers to each applicant.

The SDPD uses a cash register to process application payments. The register itemizes payments by permit type and allows the SDPD personnel to print out daily summaries and monthly totals onto a paper register tape. This system is used to track, account, and reconcile all permits and licenses issued with revenue collected. Deposits are also tracked through the City's SAP accounts receivable module and recorded in specific general ledger accounts.

Objectives, Scope, and Methodology

To improve oversight and ensure that City programs are effective and efficient, we conducted a review of the San Diego Police Department's Permits and Licensing Unit (the Unit) in accordance with The City Auditor's Fiscal Year 2011 Audit Work Plan. This report, which summarizes the results of our work, focuses on the following questions:

- Do current services adequately protect the public?
- Are services being delivered as effectively as possible?
- Are permits and other transactions being processed effectively and efficiently?

In conducting this review, we focused our scope on the compliance and enforcement requirements of the San Diego Municipal Code (SDMC). For fiscal year 2010, we interviewed officials and judgmentally sampled 110 permit files for adult entertainers, entertainment establishments, firearms and tobacco retailers, massage therapists and businesses, and pawn shops to determine whether applications are being processed efficiently and effectively. We also reviewed 20 police permits that expired in February 2010 to determine the City's effectiveness of ensuring that businesses and individuals renew their police permit and maintain a valid business tax certificate. The use of sampling was not to establish a level of noncompliance, but rather to identify problems with compliance above an allowable error rate of zero—as indicated by Unit staff. In addition, we reviewed the SDPD's Vice Operation's Manual and the applications used to process permits.

To determine the effectiveness of the Police Department's enforcement work and ensure public safety, we interviewed police officials and obtained information on their practices and

processes. We compared this information to practices from other police jurisdictions in order to determine if opportunities exist to enhance public safety. We also reviewed what other jurisdictions were doing and what types of public-safety risks are being regulated.

To assess the effectiveness of the Unit's service delivery and the effectiveness and efficiency of its processing of permits and other transactions, we interviewed financial officials from the SDPD and the Office of the City Treasurer and reviewed all monthly register records for fiscal year 2010. We also reviewed City accounting records and annual budget documentation submitted to the City Council for the period of fiscal years 2008 through 2010, inclusive. Additionally, we reviewed false alarm information as provided by the SDPD, examined strategies for reducing false alarm costs as suggested by the False Alarm Reduction Association, and the National Burglar and Fire Alarm Association and reviewed practices of other cities. Lastly, we also interviewed representatives for third-party software related to the SDPD's pawn shop slip processes to identify opportunities for automation, reducing costs, and enhancing reporting. We assessed the reliability of the SDPD's data by taking a judgmental sample of fiscal year 2010 permit applications and reviewing corresponding information in City Treasurer's business tax collection system. In addition, we performed data reliability testing of permit revenue by reviewing the City accounting systems and register receipt records. Our observations and findings are detailed in the following audit results.

Audit Results

Finding 1: The SDPD Can Enhance Public Safety by Developing a More Systematic Way to Assess Which Activities Warrant Regulation through Permits and Monitoring

The City and the San Diego Police Department (SDPD) would benefit from a more systematic approach to reviewing which types of occupations and businesses should be regulated through the permit and monitoring process. The Department does review the types of permits and licenses it requires—last doing so in 2009 and 2011—but its review approach is limited in that it focuses on fee calculations and not the effectiveness of current regulatory requirements to enhance public safety and does not sufficiently assess the advisability of regulating additional activities.

As a result, the City may be regulating some occupations or businesses that pose a relatively limited public-safety risk while overlooking unregulated activities that pose a greater risk. The Department's review approach needs to include (1) a more systematic evaluation of regulated and unregulated activities from a public safety standpoint and (2) a process for informing the City Council about recommended changes, including changes to the San Diego Municipal Code (SDMC).

Effective Protection of Public Safety Involves Partnership between the Department and City Council

Effective regulation of businesses and occupations that pose a public safety risk involves both the City Council and the SDPD. The City Council is empowered to regulate businesses in order to promote safe and orderly operations, while the SDPD is responsible for enforcing the regulations the Council puts in place. The regulations serve to protect the public or facilitate the SDPD's ability to address vice and illegal activities associated with these specific activities. For example, City regulations require background checks for regulated activities, such as door-to-door solicitors. Such checks prevent individuals with criminal histories—such as sex offenses,

robbery, or burglary—from obtaining valid permits, thereby preventing them from legally operating in activities where past criminal histories would indicate an increased risk to public safety. By prohibiting solicitors from having convictions for robbery, burglary, or sex offenses, the City provides residents with a measure of protection from exposure to persons who may pose undue risk.

The City has the ability to enhance public safety by proactively identifying potential public-safety risks, establishing appropriate regulations to mitigate against risks, and evaluating the effectiveness of current regulations in promoting public safety. The City Council can enhance public safety by regularly reviewing these regulations, evaluating their effectiveness, and revising as necessary to respond to emerging issues. However, in order for this review to be effective, the City Council needs timely information and recommendations from operating departments. The SDPD can assist the City Council in identifying opportunities where appropriate regulations can increase public safety.

Information the City Council May Need for Regulatory Decisions Is Not Systematically Assembled

Although the SDPD does perform some internal reviews of the types of permits it issues, these reviews fall short of providing the Department and the City Council with information needed to systematically assess (1) whether the right activities are being regulated and (2) whether the existing level of regulation is working effectively. We identified several ways in which existing reviews fall short.

Reviews Do Not Clearly Identify and Assess Unregulated Activities that May Need Regulation

We found that other jurisdictions regulate activities that currently are not regulated in San Diego. Exhibit 7 shows examples of these activities and occupations and the related public safety threats these jurisdictions decided such activities pose. We also identified activities and occupations that other jurisdictions are considering for regulation, or that organizations have recommended for possible regulation. For example, in Riverside County, a city is considering an ordinance to require background checks on all elderly caregivers because the community has experienced increases in sex-offenders

operating as caregivers.⁸ Similarly, the National Foundation to Prevent Child Sexual Abuse recommends the public conduct background checks of caregivers and those that have access to children, the elderly, or the disabled before they are employed.

Exhibit 7

Activities or Industries Unregulated by the SDPD

Activity/Industry	Police Department	Public-Safety Risk
Bath/Tanning Salons	Los Angeles	Prostitution
Childcare Facilities	Las Vegas	Sexual Offenders
Ice Cream Vendor	San Jose	Sexual Offenders
Key Duplicator	Los Angeles	Burglary/Theft
Psychics	Las Vegas	Fraud/Deceit
Skating Rinks	Los Angeles	Disturbing the Peace

Source: Auditor generated from review of permits and licenses in other cities

Our point here is not that these specific additional activities should be regulated. Rather, the point is that we could find no indication that the SDPD had formally evaluated whether such activities should be considered for regulation in San Diego. For example, neither the SDPD nor the City Council appears to have considered the National Foundation to Prevent Child Sexual Abuse's recommendation to conduct criminal background checks on caregivers with access to children, the elderly, or the disabled. Instead, the City's current tendency is to respond to some threats in a reactive rather than proactive manner. For example, the City established licensing requirements for pedicabs only after a serious accident involving an unlicensed pedicab driver resulted in a fatality.

Reviews Do Not Communicate Changes in Inspection and Enforcement Activity for Activities Currently Being Regulated

Another limitation of SDPD's current reviews is that the City Council may not get sufficient information to consider regulatory changes for activities that are currently being regulated. For example, under the SDPD's enforcement inspection methodology created in fiscal year 2009, the Department did not determine inspection and enforcement hours for regulated activities such as arcade/pool rooms, automobile dismantlers, bingo games, casino parties, curb painters, and promoters. While the SDPD may leverage other

⁸ ABC, *Concern Over Menifee Sex-offender Caregivers*, (Los Angeles, CA.: October 2011). (http://abclocal.go.com/kabc/story?section=news/local/inland_empire&id=7719193H)

resources such as patrol monitoring of large promoted events, it appears the SDPD may not be certain what level of inspection or enforcement activity, if any, is required for these types of activities. As such, appropriate City staff should discuss whether continued regulation of these activities serves the purpose of enhancing public safety.

*Reviews Do Not Address
Changes in Regulatory
Activities in Other Levels
of Government*

Finally, the SDPD's reviews do not help the City Council determine whether changes in the regulatory environment are affecting the City's regulatory activities. For example, the City may need to review its current massage therapist regulations because the State of California recently repealed certain State regulations. The repealed regulations previously designated local governments as the sole entity authorized to enact permits and licensing ordinances related to the massage industry. As of September 2009, State law establishes that the California Massage Therapy Council (CMTc) would also be charged with the certification of massage practitioners and therapists. These new State requirements may deem certain City regulations ineffective and/or redundant if massage practitioners and therapists obtain certifications through the CMTc. As a result, the City may need to revise and/or remove regulatory language that no longer applies to SDPD's mission to mitigate public-safety risks.

**More Systematic
Approach Would Offer
Several Advantages**

Several advantages would accrue from a more systematic approach to assessing which occupations and businesses warrant the City's regulation.

- First, a more systematic approach would enable the SDPD and the City Council to stay abreast of the kinds of developments discussed above—emerging threats, potentially diminishing threats, and changes in the regulatory activities of other levels of government.
- Second, it would allow the City Council to evaluate the effectiveness of regulations on certain activities to determine if City efforts are succeeding or can be strengthened. For example, the City can establish minimal regulations, such as requiring background criminal checks, to protect children from being exposed to sexual predators or ensure individuals entering a home have not been convicted of robbery. In these instances, a

City police permit would provide assurance that the individual has been checked for these types of criminal offenses at some point in the past 12 months. The absence of a process to periodically and systematically assess potential and emerging public safety threats and to evaluate the efficacy of regulating them results in risks remaining unaddressed.

- Third, it would allow the SDPD to propose changes to City regulations that would enable the Department to better carry out its responsibilities. In some cases, for example, existing SDMC requirements do not offer sufficient authority for the SDPD to respond to emerging issues. According to the SDPD, the department has some history of identifying problems and seeking Council approval for SDMC changes to increase enforcement in cases such as daytime loitering and curfews; however, this is less the case for police-regulated activities. When we requested that the department provide evidence that they identify emerging public-safety risks related to police-regulated activities and bring them forth to the Council, the Department could not do so. Instead, the SDPD provided evidence that they requested Council approval on other issues, which were not directly related to police-regulated activities.

To promote safety of the public, we recommend that:

Recommendation #1 The San Diego Police Department should conduct an annual review of the City's police-regulated activities to:

1. Assess the effectiveness of existing regulations in reducing crime and vice-related activity,
2. Identify emerging threats, which may be best addressed through additional regulation,
3. Identify regulatory activities of other levels of government or organizations and assess their benefit for implementation in San Diego,
4. Propose modification and/or elimination of regulations which do not effectively encourage public safety, and
5. Present a completed assessment of the four areas above for the City Council's consideration. (Priority 3)

Finding 2: The SDPD Can Enhance Effectiveness of Monitoring Efforts by Better Assessing How Services Are Delivered and Fees Are Set

The San Diego Police Department (SDPD) needs a more comprehensive approach to ensuring its permit and monitoring services are being delivered as effectively as possible. Responding to budget cuts made in fiscal year 2010, the SDPD changed its approach for providing monitoring services, replacing ten civilian positions with five sworn officer positions. At the same time, the number of permitted businesses declined by about 34 percent. Thus far, the SDPD's administrative focus has been to determine how to allocate costs across existing permit holders in only a small portion of the businesses and occupations it regulates under the permit and monitoring program.

The SDPD has yet to assess the broader impact of these staffing and workload changes on fees and operations. Our analysis of alarm fees—the largest source of permit income—shows that considerable adjustments, both to fees and operations, need to be made to ensure regulatory efforts are as effective as possible. Further, the entire permit and monitoring program is hampered by significant turnover, insufficient formal training, and lack of performance information. The SDPD's approach needs to include (1) a strategic rethinking of how it provides services in the most effective manner, (2) a methodology that better matches permit fees with activities performed, and (3) improvements in training and performance measurement.

Program's Objectives Should Include Effective Operations and Cost Recovery

The San Diego Municipal Code (SDMC) authorizes the SDPD to regulate certain activities to achieve the Department's mission to uncover and prevent illegal activities from occurring in those businesses or occupations that have the propensity for such activity.⁹ The code also calls for regulatory costs involved to be borne by permit holders, in the form of regulatory fees.¹⁰ Three things are implicit in these requirements:

⁹ *San Diego Municipal Code §33.0101* and SDPD Vice Operations Manual.

¹⁰ *San Diego Municipal Code §33.0307*.

- The SDPD's permitting and licensing program is to be effective in its mission;
- Regulatory fees are to be reasonable and cover the costs of an effective program; and
- Permittees and residents are to derive a benefit from the fees paid and activities performed.

The City Council's User Fee Policy establishes a requirement to set fees to fully recover program costs or provide a rationale for setting fees below 100 percent cost recovery. Specifically, it is the policy of the City of San Diego that the cost of inspecting, regulating, and enforcing the laws of the SDMC is to be borne by the permit holder in the form of regulatory fees. However, City Council policy also specifies that the nature and extent of the benefit to the fee-payer, as well as residents, shall be considered when setting cost recovery levels.¹¹

The SDPD's cost recovery model was last updated in 2009. In that year, the SDPD surveyed its compliance officers to determine the time necessary to perform enforcement inspections for each of the 33 permit types regulated by the SDPD. From the survey, the SDPD determined the appropriate fees to charge permit holders based on a calculation of the average amount of enforcement inspection hours required for each individual permit.

Effect of Major Changes to Program's Inspection Resources Have Yet to Be Fully Assessed

Responding to budget reductions in fiscal year 2010, the SDPD reduced staffing for the Unit's compliance section from ten civilians to five sworn officers. At the same time, the number of permitted occupations and businesses decreased from 5,159 to 3,373 (34 percent).

The SDPD has yet to assess the full impact these reductions will have on enforcement inspections. Its projections showed that the number of staff hours available for inspections by Unit personnel would decline from 10,938 to 5,200.¹² Our analysis indicates available hours may be even lower. In comparing workloads associated with enforcement inspections, we found reported differences from effort performed by civilian staff to

¹¹ *San Diego Council Policy 100-05.*

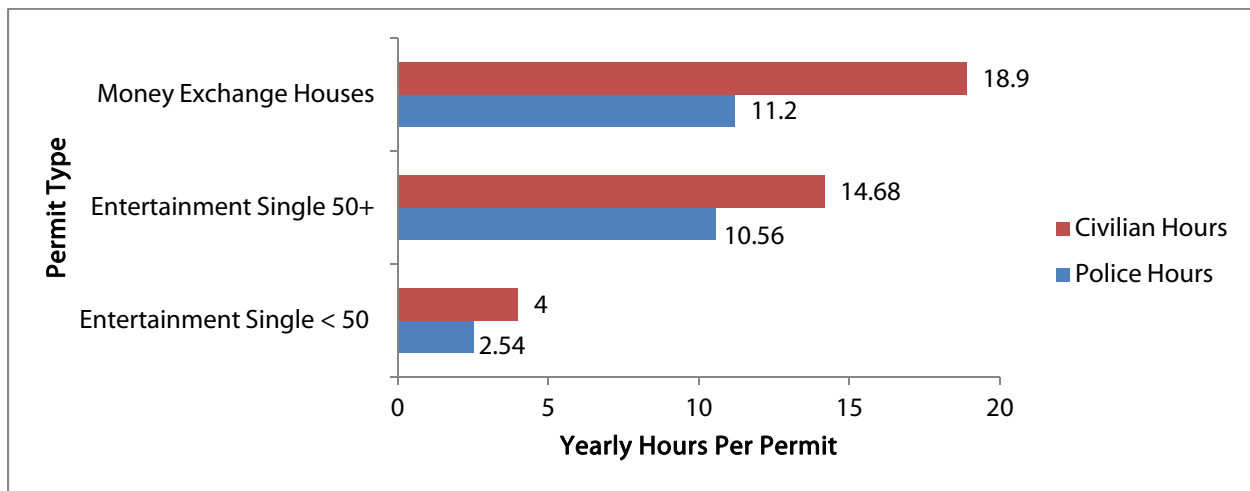
¹² *FBA 2010 Police Efficiency Study.*

current effort for sworn staff. According to an SDPD analysis, civilian staff members dedicated about 75 percent of their time to field enforcement inspections, while the Independent Budget Analyst (IBA) recently reported sworn officers perform this activity 50 percent of the time.¹³ Even this figure may be too high. Current Unit staff indicated to us that current workload limits their ability to conduct field enforcement inspections to anywhere between two and 20 percent of total time.¹⁴

Based on the SDPD partial analysis, less time will be available to inspect each business that continues to be regulated. In June 2011, the City Council approved the SDPD changes to enforcement inspection hours for three of 33 permit types. For three permits, Exhibit 8 compares the number of inspection hours available when civilian employees performed these activities to the number of hours currently proposed for inspections by sworn police officers. For money exchange houses, for example, the number of hours per establishment dropped by 7.7 hours, from 18.9 to 11.2 hours.

Exhibit 8

Enforcement Inspection Hours: FY 2009 Civilian Employees and FY 2012 Police Officers



Source: Auditor generated from City Council Resolution R-306901

¹³ IBA 2010 Police Fee Efficiency Study

¹⁴ In addition to the time dedicated by the Permits and Licensing Unit, the SDPD also obtains some enforcement help from the Vice Operations, which dedicates about 50 percent of its time to performing covert and overt enforcement inspections primarily of entertainment venues and massage establishments. However, these inspections are based on complaints and are not generally driven by a City-wide risk-based assessment of vice activities or 100 percent inspection coverage.

The SDPD has also not comprehensively updated its cost-recovery model to account for this changed operating environment. Although staffing was reduced, the replacement of civilians with more expensive sworn personnel did not result in a reduction of cost, but rather resulted in an increase in total cost from about \$1.2 million in fiscal year 2009 to \$1.3 million in fiscal year 2010. As most permit fees were not reassessed to reflect the staffing changes, permit holders are paying for higher cost employees, while receiving less available hours. This can be seen even in the revised fee structure for the three permit types that have been reassessed. In the case of money exchange houses, even though the service level was reduced by 7.7 hours per permit, the permit fee increased from \$505 to \$952 (89 percent).

To date, the SDPD has not been able to fully evaluate the impact of program changes on the nature and extent of benefits to permit holders. Moreover, the SDPD is unable to demonstrate that fees are higher, equal to, or less than the cost of services being provided.

Analysis of Alarm Fees Shows Operations and Cost Recovery Issues Are Intertwined

Among the 33 types of permits administered under this program, alarm permits generate by far the largest share of revenue. As Exhibit 6 (see Introduction, page 13) shows, about three-fourths of all permit revenue comes from this one source. Given its significance, we analyzed this particular regulatory activity in considerable depth. What we found was a clear need to consider operational results in deciding how to set permit fees. We found that conditions in the City's alarm program resulted in permit holders paying for false alarms they did not generate and for costs which should have been collected from alarm systems that slipped outside the permit program. Other deficiencies in program operations also contribute to inefficiency and increased costs.

Penalties for False Alarms Provide a Disproportionately Low Share of Revenue

In fiscal year 2010, 38,774 of 40,654 (95 percent) of all alarm calls to which police responded were false. Although responding to false alarms creates a cost for the City, the alarm systems generating these false alarms bore only a small portion of the cost. Specifically:

- Out of \$2.8 million in total revenue from the alarm program in fiscal year 2010, only about \$186,500 (7 percent) was in the form of false alarm revocation penalties—that is, fines paid when the number of false alarms exceeded limits allowed under the program. We identified one alarm company that generated 9,531 false or cancelled alarms, costing San Diego residents almost \$1 million in response costs, while the company incurred no penalty.
- About 33 percent of all alarm calls were initiated by alarm systems that were not covered by permits. Some of the approximately \$1.4 million in costs associated with police response to these unpermitted alarm systems was borne by existing permit holders through a higher permit fee.¹⁵ In other words, false alarm costs are factored into the cost of an alarm permit and passed on to residents and business owners who maintained proper permits. Part of the cost was also subsidized by all City taxpayers through the General Fund, because current permit revenues do not recover 100 percent of alarm program costs.

By implementing false alarm best practices to focus false alarm penalties on alarm offenders and limiting the number of allowable false alarms, the City can encourage false alarm reduction and potential alarm fee reductions. In general, other California cities we studied assess penalties after fewer false alarms than San Diego's policy allows. San Diego's approach of including false alarm costs in the \$100 residential permit fee (two-year permit) and up to five or more false alarms per permit for a two-year period before a penalty is assessed results in the highest alarm fees of all the top-ten-sized California cities.¹⁶ For example, San Francisco assesses a \$45 annual residential alarm fee (\$90 for two years), but San Francisco only allows for one false alarm per year before assessing false alarm penalties.¹⁷ In another example, the City of Long Beach provides a three-year permit, which costs about \$11 annually and allows for only one false alarm before assessing penalties.

¹⁵ SDPD Crime Analysis statistics on false alarms.

¹⁶ If an alarm user does not exceed the number of allowable false alarms within the specified SDMC grace periods, they can avoid a penalty altogether. Additionally, we did not provide an exact number of allowable false alarms beyond five because the number can vary depending on the circumstances.

¹⁷ San Francisco residents apply for a permit through the alarm company and not the City. This approach, cited as part of best practices in analyses of alarm systems, is not followed in San Diego.

The False Alarm Reduction Association—an association of public-safety agencies—identified several approaches in use in other cities to reduce false alarms. Some of these approaches involve holding alarm companies responsible for the cost of false alarms, requiring alarm companies to ensure residents have valid permits, enabling cities to recover reasonable costs of its services, outsourcing the administrative components of the alarm program for enhanced tracking and billing, and reducing false alarms. For example, the City of Seattle, Washington employed some of these best practices, and, according to their police department, the practices reduced its false alarm rates by 60 percent while maintaining a \$10 per alarm system fee—a rate which is about 20 percent the cost of City of San Diego permit. Implementing successful practices for false alarm reduction could reduce the average of 100 daily police hours currently utilized to respond to false alarms, freeing up limited police resources to respond to other higher-priority activity.

Lack of Notification Requirement Allows Many Alarm Systems to Remain Unpermitted

The San Diego Municipal Code (SDMC) does not require alarm companies to report information regarding monitored alarm systems to the City, which eliminates an effective mechanism to identify all monitored alarms for the purpose of complying with permit requirements. As a result, the City is unable to ascertain if they have identified all monitored alarms for the purpose of determining a cost recovery permit fee. As previously mentioned, about 33 percent of alarm calls came from unpermitted alarm systems in fiscal year 2010; therefore, it appears there is a high likelihood that there are significant numbers of alarms systems which go unpermitted and undetected.

The City's inability to identify unpermitted alarm systems penalizes alarm holders who comply with City ordinance. The SDMC also establishes that both the alarm users and alarm businesses share the responsibility of ensuring that proper permits are being obtained. Alarm companies are required to obtain a permit for customers and collect permit fees, except if they use an agent or a subcontractor to install the alarm system—which is generally the case. Additionally, the SDMC

makes it unlawful for any alarm user to operate an alarm system without first obtaining a permit from the SDPD. To the degree that alarm systems go unpermitted, however, alarm program costs are allocated across fewer permit holders, thereby increasing the cost of an alarm permit.

The lack of available information about alarm systems also creates unnecessary workload for the SDPD. Since alarm companies are not required to identify and permit all monitored alarms for the City, the City cannot identify them until the residents incur an alarm. This process of tracking, following up, and responding to unpermitted alarm systems generates additional work.

*Other Operational
Deficiencies Add to Costs*

The SDPD's alarm fees and penalty assessment process does not allow for the consistent tracking and collection of false alarm fees and penalties. The SDPD staff indicated that even when staff successfully track and notify alarm users that they need to pay permit fees or penalties, the Permits and Licensing Unit does not undertake collection efforts or forward incidents to the City Treasurer. Further, in-house alarm system weaknesses hinder staff's ability to consistently and properly track and account for false alarms and non-payment on permit renewals and/or penalty assessments. As a result, the City forgoes additional revenue to recover the costs of responding to false alarms and prompt payment of permit fees. Implementing changes could reduce staff workload associated with this processing and result in a possible reduction of costs to permit holders.

**Program Effectiveness
Also Hampered by
Staffing, Training, and
Performance
Measurement Issues**

The SDPD has not formally identified what level of staffing, structure, and organizational processes would encompass a comprehensive program to achieve the requirements of the SDMC to perform permitting and licensing effectively. The changes in staffing from ten to five and the resulting changes in hours to perform enforcement inspection activity on individual permits have placed administrative focus on determining how to allocate existing costs to permit holders. The focus does not appear to be to determine what an effectively staffed and organized activity would cost, coupled with the appropriate regulatory fees to assess permit holders.

While Unit staff focuses efforts on responding to complaints, the SDPD has not conducted an analysis to identify the type and level of enforcement inspection services needed to accomplish its mission and the tradeoffs between using sworn or civilian staff required. For example, the SDPD is unable to determine how many individuals are necessary to accomplish the goal of effectively reducing illegal activity in regulated businesses, or whether the cost would justify the benefits received. Consequently, there is some disconnect between what the department does and the level of benefit received by permit holders and residents.

Such an analysis would be consistent with national standards. Specifically, the Commission on the Accreditation of Law Enforcement Agencies (CALEA) promulgated Standards for Law Enforcement Agencies—which state that a law enforcement agency allocates personnel in accordance with documented workload assessments conducted at least once every three years.¹⁸ In describing this standard, the Commission recommends that the law enforcement agency should attempt to prevent over or understaffing by ensuring that the personnel strength is consistent with workload and accounts for factors such as nature or number of tasks and their complexity, location, and time required for completion.

The Unit also experiences significant turnover and lacks a formalized training program. According to Unit staff, longevity allows staff to become familiar with permit holders and businesses and allows for a better understanding of conditions which may be relevant to the permitting process. However, sworn officers average a tenure of about nine months—insufficient time to see all permit applicants even once—versus approximately four and a half years for the previous civilian compliance officers. Further, the SDPD does not provide formalized training to officers on permit regulatory requirements, department processes, or documentation procedures to ensure officers execute their responsibilities appropriately and consistently. Given the short tenure of officers, we believe the Unit is currently hard-pressed to prepare officers to perform effectively.

¹⁸ CALEA *Standard 16.1.2*

Although officers generally maintain logs to track their activities, the Unit does not collect and use this performance information to improve operations. During this audit period, the Unit was unable to readily present statistical information showing the percent of permittees inspected by permit type, rate of non-compliance, or comparison between actual hours per inspection and anticipated hours per inspection used in the department's fee methodology. While these measures are not required and no standard template or requirement exists to define and use appropriate measures to improve performance, other cities, such as San Jose, utilize some measures to track permits and licensing performance.¹⁹ Performance measurement offers the SDPD an opportunity to improve operations and accountability through the use of a well-thought performance measurement system by tracking key measures and evaluating unexpected deviations from expected performance. Again, such actions would be consistent with national standards. In particular, the International City/County Management Association (ICMA) indicates that monitoring performance measures helps identify ways to improve performance, pinpoint where problems are occurring, and provide information about how well the Unit it is doing relative to program goals.²⁰

**Improved Approach
Requires Action on
Several Fronts**

The Permits and Licensing Unit is not as effective in its mission as it could be because it (1) has not undertaken a strategic evaluation of the activity, staff, and operational requirements to accomplish their mission; (2) has not updated its fee and activity methodology to reflect current operating conditions; (3) experiences significant turnover of sworn personnel and lacks sufficient formalized training; and (4) does not collect and utilize comprehensive performance measurement to evaluate and improve performance. To address these overall issues, we recommend the following:

¹⁹ *San Jose 2011-2012 Proposed Operating Budget:*
(<http://www.sanjoseca.gov/budget/FY1112/03ProposedOperating/09.DepartmentsPolice.PDF>)

²⁰ ICMA, *Local Government Police Management* (Washington, D.C.: 2003), 464.

- Recommendation #2** The San Diego Police Department review its permits and licensing mission to enhance public safety, assess operational requirements to achieve the Units goals, and adjust Unit activities, types and levels of staffing, and methods to deliver services cost effectively. (Priority 3)
- Recommendation #3** The San Diego Police Department review and revise its fee and activity methodology to reflect current operating conditions. (Priority 3)
- Recommendation #4** The San Diego Police Department establish a formalized training program which prepares new Permits and Licensing Unit employees to perform effectively and consistently. Further, the San Diego Police Department should evaluate conditions leading to frequent turnover and take immediate steps to increase employee tenure. (Priority 3)
- Recommendation #5** The San Diego Police Department's Permits and Licensing Unit should establish and utilize a performance measurement system which allows for continuous monitoring and operational adjustment to maximize performance. (Priority 3)

To address issues related specifically to the permitting of alarm systems, we recommend the following:

- Recommendation #6** The San Diego Police Department work with the City Attorney's Office to determine how the City Council can modify the San Diego Municipal Code to ensure alarm companies and/or subcontractors are held accountable for:
1. Ensuring all monitored alarm systems operate with proper City permits, and
 2. Reducing instances of false alarms from repeat offenders.

Further, the SDPD and the City Attorney should evaluate and develop appropriate actions for City Council approval to hold alarm companies and/or subcontractors responsible for unpaid permit fees and/or penalties or to require alarm companies and/or subcontractors to collect fees and penalties on the City's behalf. (Priority 3)

Recommendation #7 The San Diego Police Department work with the City Attorney's Office to develop San Diego Municipal Code changes for the City Council's approval which:

1. Adopt national strategies to reduce false alarms
2. Establish a more effective penalty program to recover false alarm costs from false alarm offenders, and
3. Reduce the inclusion of false alarms costs from the calculation of an alarm permit fee. (Priority 3)

Recommendation #8 The San Diego Police Department assess the capabilities of current alarm-data systems and departmental process to ensure accurate tracking and collection of false-alarm expenses, timely collection of permit and penalty fees, and remitting unpaid fees to the City Treasurer for collections. (Priority 3)

Finding 3: Improvements Are Needed to Ensure Effective Processing of Permit Applications and Revenues

The San Diego Police Department's (SDPD's) procedures for checking application requirements, collecting fees, and reporting revenue need improvement. These improvements are needed not only for recovering the cost of regulating the designated businesses and occupations, but also to ensure that applicants are fully complying with the San Diego Municipal Code (SDMC) requirements. We found the following problems:

- The SDPD is having difficulty keeping accurate and consistent records of amounts collected.
- Some businesses are allowed to operate for a period of time without permits—in three cases we reviewed, more than 18 months.
- Permits are issued without completing required background checks or not complying fully with the SDMC.
- Fines and penalties are frequently not assessed, resulting in approximately \$300,000 of lost revenue for the function in fiscal year 2010.
- Processing of pawn shop sales records is falling behind and is not in compliance with State law.

To address these problems and enable effective processing of permit applications and associated revenues, we recommend that the City and the SDPD (1) review the City accounting, business tax collection, and GuardCard systems to assess the best way to update, upgrade, or replace them; (2) integrate and align certain administrative processing of police permits within the Office of the City Treasurer (City Treasurer); (3) establish appropriate guidance for conducting and overseeing permit application reviews; (4) establish an automated system to process permit applications and change the SDPD practice so that applicants pay the cost of their background investigation; and (5) automate the reporting of pawn shop sales records and create policies and procedures to ensure processes comply with current and upcoming State laws.

Discrepancies in Record-Keeping Increase the Risk that City Funds May be Misused

We found variances between revenues as collected in register records, expected collections (given the number of permits issued and the current fee structure), paper records of revenue deposits, and amounts actually deposited into City accounts. Specifically, we found that in fiscal year 2010

- register records show that the SDPD collected \$6,914,585;
- we calculated that the SDPD should have collected \$6,918,395 based on the number of permits issued and the current fee structure;
- deposit slips show that \$6,828,426 was deposited into City accounts; and
- City accounts show that total revenue deposited actually amounted to \$7,001,117.

Factors at work in these variances included collecting some fees based on an outdated fee schedule and not maintaining all deposit slip records.²¹ These factors, along with the discrepancies they caused, can be tracked to the following three weaknesses:

- **Inadequate separation of duties.** We previously found that the SDPD did not establish clear separation of duties for accepting cash permit payments, balancing the cash register, and depositing money into City bank accounts. Consequently, we issued a memorandum to the City Administration and the SDPD to ensure prompt resolution of the problem. As a result of our memorandum, the SDPD created a plan to ensure that there is no comingling of responsibilities and separated tasks into three distinct processes—intake, balancing, and verification—to be handled by different staff members at all times. As a result of this finding and the issues identified with alarm payments, our office will be conducting further review to ensure the integrity of fiscal year 2010 revenue collections.
- **Deficiencies in the accounting system.** The Unit uses duplicate account numbers for a number of permit revenue types in the City accounting system. For

²¹ For example, in July 2009, fees for alarm permits increased to \$100.25 for a residential permit and to \$173.25 for a business permit. From July 2009 through November 2009, however, the SDPD accepted alarm payments at the previous rates of \$55 for a residential permit and \$95 for a business permit.

example, revenues from investigations, casino parties, arcade/pool rooms, and tobacco application fees will all be combined and deposited into one account without any detail about each revenue type. The SDPD officials told us they do not know how the account groupings occurred, which were carried over from the previous City accounting system. They also noted that new groupings occurred when the City transitioned to the new accounting system.

- **Deficiencies in the system for generating adult entertainer and massage therapist permits.** The SDPD's system for generating adult entertainer and massage therapist permits—GuardCard—is outdated and lacks features to ensure records can be accurately processed and reconciled to revenue transactions. The system does not prevent duplicate permit numbers from being assigned. For example, when the SDPD accepts a massage permit, the clerk must manually enter a permit number or date into the system because it does not do this automatically. As a result, multiple permit holders may be assigned the same permit number or permits may be recorded for the wrong dates. This hampers the ability to readily link and reconcile permit records, revenue transactions, and revenue deposits.

Overall, these weaknesses increase the risk that City funds may be misused. To address them, and to help ensure that permit fees are charged based on current fee schedules, we recommend the following:

- Recommendation #9** The San Diego Police Department (1) ensure the collection of permit payments adheres to fees established by the City Council and can be reconciled to specific records and (2) review the City's accounting and GuardCard systems and assess the best way to update, upgrade, or replace systems to ensure records can be reconciled and tracked correctly. (Priority 3)

**Businesses Operate
Without a Police Permit
and/or Business Tax
Certificate**

We found the City allows businesses to operate without valid police permits and/or business tax certificates.²² Specifically, we identified six cases where businesses were granted business tax certificates and allowed to conduct police-regulated activities for several months without obtaining valid police permits. For three of these cases, individuals did not have valid police permits for more than 18 months.²³ Additionally, we also identified 69 of 110 business tax certificates (63 percent) which were expired or set to expire prior to the expiration of the police permit.

The problem is one of inadequate coordination between two different offices with different but related responsibilities: the SDPD Permits and Licensing Unit, which issues police permits, and the Office of the City Treasurer (City Treasurer), which issues business tax certificates, are independent of each other and have different responsibilities. We identified these coordination issues:

- According to the City Treasurer, while they request a police-permit clearance for a new business tax certificate application, they do not require the same level of review for application renewals. Further, the City Treasurer does not conduct regular reviews of police permit expirations, as the SDPD is responsible for administering police permits.
- According to the SDPD, the City Treasurer does not provide ongoing notifications about the expiration status of a business tax certificate. While the administrative activities of physically issuing a permit, sending renewal notices for soon to expire certificates and permits, and sending past due accounts to collections are similar for both business tax certificates and police permits, the nature of the SDPD and City Treasurer functions become redundant and increase the likelihood the issues identified will persist. Further, since both functions are located about a mile apart, an applicant cannot satisfy City requirements without inconveniently visiting two locations.

²² For additional explanation of business tax certificates and related processing functions within the City Treasurer's Office, see the Introduction, p. 14.

²³ As of 10/7/2011, these three businesses maintained a valid business tax certificate, but had not renewed their police permit.

The lack of coordination and alignment of business tax certificates and police permits increases the risk that businesses and individuals continue to operate in violation of the SDMC. One specific way in which coordination can be improved is in setting identical expiration dates for police permits and business tax certificates when a new application is being processed. Further, by not unifying the police permit and business tax certificate processes, the City will continue to forgo opportunities to seamlessly enforce compliance, regulate public-safety risks, and/or collect appropriate revenue. The lack of integration for two similar functions results in an additional barrier to individuals that are wishing to conveniently start a police-regulated business in the City.

According to City officials, the City Administration has planned to address these coordination issues by integrating the administration of police permits within the City Treasurer. We agree with this action and therefore recommend that:

Recommendation #10 The City Administration proceed with its plans to integrate and align the administrative components of police permits within the Office of the City Treasurer. Establish clear regulatory language, policies, and procedures to divide administrative, enforcement, and regulatory roles and duties between the Office of the City Treasurer and the San Diego Police Department. (Priority 3)

Recommendation #11 In light of Recommendation 10, the Office of the City Treasurer ensure that the expiration of all new police permits and corresponding business tax certificates occur on the same date and develop appropriate procedures to follow-up on expired permits and collect on businesses or individuals found to be operating without a permit. (Priority 3)

Police Permits Are Issued Without Completing Required Background Checks or Not Fully Complying with the Municipal Code

Investigation of businesses and individuals applying to conduct police-regulated activities is done by conducting background checks and verifying the information in permit application. If an application is incomplete, inaccurately states information, or the applicant has been convicted of a criminal offense in the last five years or violated the restrictions of a previous permit,

the SDPD is authorized to deny a permit.²⁴ There may be additional application requirements that vary based on the police-regulated activity, such as obtaining State or Federal licenses or obtaining continuing education credits. The authority granted by the SDMC and compliance to the permit requirements is crucial to promote public safety and reduce the potential for vice activities.

We reviewed 110 permits granted in fiscal year 2010 and determined that, in 71 instances (65 percent), permit applications did not meet one or more of the SDMC requirements and should have been denied or corrected prior to permit approval. Specifically, in fiscal year 2010, we found that the SDPD did not conduct appropriate background checks for 48 of the 71 selected permits (68 percent).²⁵ Additionally, applications did not include required documentation such as articles of incorporation, business addenda, facility lease/rental agreements, and evidence of continuing education (required for certain permits), which allow police officers to identify all principal operators and business operating conditions. This information is critical to conducting thorough application reviews.

We found the SDPD was not complying with these requirements for three reasons:

- The SDPD does not have appropriate guidance articulating the requirements for reviewing and approving permit applications to ensure all SDMC requirements are met.
- Although some police officers use a checklist to verify requirements—a good control when implemented effectively—a checklist is not consistently utilized during the application review process.
- The Permits and Licensing Unit does not have a sufficient

²⁴ *San Diego Municipal Code §33.0305 and §33.4510*. Additionally, per *§33.0305(e)(2)*, some felonies that are reduced to a misdemeanor three years prior to a permit application can also result in a denial of the application.

²⁵ The SDPD subsequently provided additional information to show that, in 21 of the 48 cases, background checks were conducted in the San Diego County criminal record databases. Such limited background checks, while technically in compliance with the Municipal Code, would omit crimes committed outside of San Diego County and prevent the SDPD from making an accurate evaluation of an applicant's fitness to work in a police-regulated industry.

managerial review process to evaluate and conduct quality control on work performed by compliance officers.

Without appropriate guidance, a mechanism to consistently review applications, and a sufficient managerial review process for evaluating the permit application and review activities, the SDPD cannot ensure that it is effectively reducing the risk to public safety through robust compliance enforcement. As a result, the City remains at higher risk of individuals or businesses receiving City approval to operate when compliance reviews are incomplete or the SDMC would prohibit operations.

In response to our findings, the SDPD took immediate steps to address the conditions in their review process. The SDPD is modifying its Vice Operations Manual procedures to require police officers to print out evidence of every background check that is performed and store this documentation in corresponding files for each permit application. Additionally, the SDPD is adding audit procedures to the Vice Operations Manual to require monthly supervisory audits of selected permits to ensure that permits are being issued in accordance with the SDMC.

To improve the internal controls for permit-application reviews and enhance accountability and transparency, we recommend that:

- Recommendation #12** **The San Diego Police Department establish appropriate guidance for the Permits and Licensing Unit which**
- 1. Outlines requirements for conducting permit reviews in a consistent and complete manner,**
 - 2. Establishes a documentation trail for all required documentation,**
 - 3. Requires the maintenance of evidence and completion of sufficient background checks, and**
 - 4. Requires managerial oversight and review of the Unit to ensure effective internal operations. (Priority 3)**

Fines, Penalties, and Processing Costs Are Frequently Not Assessed, Resulting in Lost Revenue

The SDMC contains several provisions related to fines, penalties, and cost assessments that are designed to ensure that the SDPD has sufficient time to conduct thorough application reviews and criminal background checks on applicants in a manner that promotes public safety and ensures cost recovery. Permit renewals for certain industries must be submitted to the SDPD for processing before the permit expires or at most 10 days after expiration, so the applicant can avoid any penalties.²⁶ If a renewal application is submitted after the 10 day grace period, the SDPD is authorized to charge the applicant a penalty of \$25 plus 10 percent of the permit regulatory fee.²⁷ If a renewal application is not submitted with all required penalties or is not submitted within 30 days after permit expiration, the permit cannot be renewed and the applicant must start the process as a new applicant.²⁸ The SDMC also establishes that all costs related to investigating and processing an application must be borne by the applicant.²⁹

Our review of renewal permits showed that the SDPD often did not levy these penalties, nor did it charge applicants for background investigation costs related to these renewals. In all, the City lost about \$300,000 in fiscal year 2010 from not charging penalties, requiring applicants to apply for a new permit, and not charging for criminal background checks.³⁰ Specifically:

1. During our review of 21 renewals, we found that the SDPD did not charge a penalty or require applicants to apply for a new permit in 18 out of 21 (86 percent) permit renewals that fell outside of acceptable renewal periods. For example, we identified a pawn shop that submitted its permit renewal more than 10 days after its expiration and was not charged a penalty, even though the SDMC required that the permit be renewed within 10 days of permit expiration to avoid a penalty. In another case, we found that an entertainment venue submitted its permit

²⁶ *San Diego Municipal Code §33.0308(c)*. Renewal requirements for firearms dealer permits are different; they require that applications be submitted at least 30 days prior to the expiration of the permit. If not, the applicant must apply for a new permit.

²⁷ *San Diego Municipal Code §33.0308(d)*

²⁸ *San Diego Municipal Code §33.0308(e)*

²⁹ *San Diego Municipal Code §33.0307*

³⁰ About \$292,000 of this amount was related solely to background check costs for 2,812 permit renewals.

renewal eight months after its expiration date and was not required to apply for a new permit, even though the SDMC required a renewal within 30 days of the permit expiring.

2. We also identified seven firearms dealer renewal permits that were submitted outside of the authorized renewal period. We found that six of the seven (86 percent) permits were renewed when the applicant should have been required to obtain a new permit for submitting their application less than 30 days from permit expiration.
3. The SDPD does not charge applicants for conducting required background checks on permit renewals, resulting in tax payers subsidizing \$104 dollars per renewal application.

The SDPD is renewing permits outside of authorized renewal periods and is inconsistently charging penalties because staff processes permit renewals manually. We believe these errors could have been decreased or eliminated altogether if the department had systems in place to automatically notify Unit staff that a permit renewal was past due and either required a penalty fee or the applicant to submit an application for a new permit. Additionally, as identified before, the SDPD does not have sufficient managerial review over permit applications to ensure that permit renewals and the collection of penalties are being conducted in accordance with the SDMC.

The SDPD is not charging for performing background investigations on permit renewals because it is the department's practice not to do so. However, by not charging penalties or fees for criminal background checks, the SDPD is transferring the costs from permit applicants to tax payers. We found that since the majority of lost revenue would have paid for the administrative costs of Unit personnel conducting application reviews and background checks, the taxpayers subsidized the costs from the General Fund. In addition to the lost revenue we identified, by not complying with the SDMC requirements, the SDPD cannot ensure that it is giving itself the appropriate amount of time to conduct application reviews and criminal background checks in order to reduce public-safety risks.

To ensure that permits are no longer renewed outside of authorized renewal periods and to guarantee that all fees for penalties and criminal background checks are collected, we recommend that:

Recommendation #13 The San Diego Police Department or Office of the City Treasurer establish an automated system to process permit applications and ensure that it automatically assigns permit expiration dates and notifies staff to collect penalties and background check fees from the applicant. (Priority 3)

Recommendation #14 The San Diego Police Department enforce San Diego Municipal Code section §33.0307 and ensure to conduct and charge applicants for all permit application criminal background investigations. (Priority 1)

Pawn Shop Sales Record Processing Can be Automated to Reduce Workload and Comply with Existing and Upcoming State Regulations

According to City staff, the SDPD's Records Management Unit manually receives on average around 950 pawn shop sales records per day and has fallen behind with the processing of records by about 31,500 records.³¹ Additionally, the SDPD's manual processing of pawn shop paper sales records would be considered out of compliance when the State of California completes implementing adopted regulations that will require the sales of secondhand goods be reported to local authorities through electronic means. Due to the magnitude of pawn shop records that require manual processing, we also found that the high volume of pawn slip sales records impacts the timely processing of police officer interview cards and criminal reports related to arrests, gangs, narcotics, misdemeanor citations, traffic citations and accidents, and stolen property.

The SDMC requires that pawn shops record the transaction of goods on forms approved by the SDPD and are to be submitted to the SDPD Permits and Licensing Unit the day following the sale. Further, the SDMC establishes that the reporting of pawn-shop transactions should be done in accordance with State of California regulations. As of July 1, 2010, the State's Business and Professions Code requires that all pawn shop transactions

³¹ Records Management receives around 350 pawn shop sales records per day with serial numbers and it estimates that it receives around 600 pawn shop sales records per day without serial numbers. Due to the magnitude of work, it is only processing pawn shop sales records with serial numbers.

be recorded electronically contingent upon the Department of Justice (DOJ) completing its work to develop common reporting language.³² Currently this has not been completed and the DOJ does not have an estimated time of completion. Additionally, State regulations require that both serialized and non-serialized transactions be recorded and reported to local authorities.³³ Meeting all of these requirements is necessary to ensure police officers have timely information to investigate and recover stolen goods.

Pawn shops sales records are not being processed in a timely fashion because the level of work exceeds the amount of personnel available. According to the SDPD, due to budget cuts, the SDPD reduced the amount of personnel to its current level of eight full-time employees. In 1990, the Records Management unit had 26 full-time employees. Additionally, the SDPD informed us that it has not prepared for complying with pending State regulations to automate the processing of pawn shops transactions because of limited resources. In order to automate the process, the SDPD estimates it would need to invest approximately \$90,000 into an automated software system with potential on-going annual expenses.

Investing in an automated system could soon pay for itself in reduced overtime costs. We found that overtime related to pawn shop record processing has increased from \$88,268 in fiscal year 2009 to \$172,846 in fiscal year 2011. By not processing pawn-shop transactions in a timely fashion and not automating manual processes, the SDPD will (1) make it more difficult for police officers to investigate and recover stolen goods in a timely fashion; (2) delay the processing of other time-sensitive criminal records; and (3) use more overtime to catch up with the current workload. In addition, the SDPD could be out of compliance with State regulations once the State DOJ requires that all records of both serialized and non-serialized items be electronically recorded and reported to local authorities.

³² *California Business and Professions Code Section 21628 (j)(1) –(j)(2)*

³³ *California Business and Professions Code Section 21628 (d)*

To facilitate investigations and the recovery of stolen goods and prepare the City for compliance with State regulations, we recommend that:

Recommendation #15 The San Diego Police Department automate the reporting of pawn shop sales records and create policies and procedures to ensure processes are in compliance with State laws. (Priority 3)

Conclusion

Ensuring that the San Diego Police Department (SDPD) is effectively and efficiently processing permits and conducting enforcement inspections is crucial to the safety and security of the public because this controls vice activities. In addition, collecting fees, recording and reporting revenue, and ensuring cost recovery sustain the SDPD's work, safeguard tax revenue, and enable the City to set appropriate permit fees for the upcoming year. Lastly, continuous monitoring of emerging public-safety risks ensures that the City can proactively deter and reduce vice activities.

Our review of the SDPD's Permit and Licensing Unit revealed that opportunities exist to improve internal controls, departmental practices, and policies for regulating vice activities. As a result, we have made 15 recommendations to enhance public safety, while reducing City costs and potentially permit fees. Without changes to the Unit's operations and improvements and/or modifications to regulatory policies, enforcement will be impacted, the General Fund will continue to subsidize costs, and permit holders will continue to receive less service at higher costs.

Recommendations

- Recommendation #1 The San Diego Police Department should conduct an annual review of the City's police-regulated activities to:
1. Assess the effectiveness of existing regulations in reducing crime and vice-related activity,
 2. Identify emerging threats, which may be best addressed through additional regulation,
 3. Identify regulatory activities of other levels of government or organizations and assess their benefit for implementation in San Diego,
 4. Propose modification and/or elimination of regulations which do not effectively encourage public safety, and
 5. Present a completed assessment of the four areas above for the City Council's consideration. (Priority 3)
- Recommendation #2 The San Diego Police Department review its permits and licensing mission to enhance public safety, assess operational requirements to achieve the Units goals, and adjust Unit activities, types and levels of staffing, and methods to deliver services cost effectively. (Priority 3)
- Recommendation #3 The San Diego Police Department review and revise its fee and activity methodology to reflect current operating conditions. (Priority 3)
- Recommendation #4 The San Diego Police Department establish a formalized training program which prepares new Permits and Licensing Unit employees to perform effectively and consistently. Further, the San Diego Police Department should evaluate conditions leading to frequent turnover and take immediate steps to increase employee tenure. (Priority 3)

Recommendation #5 The San Diego Police Department's Permits and Licensing Unit should establish and utilize a performance measurement system which allows for continuous monitoring and operational adjustment to maximize performance. (Priority 3)

Recommendation #6 The San Diego Police Department work with the City Attorney's Office to determine how the City Council can modify the San Diego Municipal Code to ensure alarm companies and/or subcontractors are held accountable for:

1. Ensuring all monitored alarm systems operate with proper City permits, and
2. Reducing instances of false alarms from repeat offenders.

Further, the SDPD and the City Attorney should evaluate and develop appropriate actions for City Council approval to hold alarm companies and/or subcontractors responsible for unpaid permit fees and/or penalties or to require alarm companies and/or subcontractors to collect fees and penalties on the City's behalf. (Priority 3)

Recommendation #7 The San Diego Police Department work with the City Attorney's Office to develop San Diego Municipal Code changes for the City Council's approval which:

1. Adopt national strategies to reduce false alarms
2. Establish a more effective penalty program to recover false alarm costs from false alarm offenders, and
3. Reduce the inclusion of false alarms costs from the calculation of an alarm permit fee. (Priority 3)

Recommendation #8 The San Diego Police Department assess the capabilities of current alarm-data systems and departmental process to ensure accurate tracking and collection of false-alarm expenses, timely collection of permit and penalty fees, and remitting unpaid fees to the City Treasurer for collections. (Priority 3)

- Recommendation #9 The San Diego Police Department (1) ensure the collection of permit payments adheres to fees established by the City Council and can be reconciled to specific records and (2) review the City's accounting and GuardCard systems and assess the best way to update, upgrade, or replace systems to ensure records can be reconciled and tracked correctly. (Priority 3)
- Recommendation #10 The City Administration proceed with its plans to integrate and align the administrative components of police permits within the Office of the City Treasurer. Establish clear regulatory language, policies, and procedures to divide administrative, enforcement, and regulatory roles and duties between the Office of the City Treasurer and the San Diego Police Department. (Priority 3)
- Recommendation #11 In light of Recommendation 10, the Office of the City Treasurer ensure that the expiration of all new police permits and corresponding business tax certificates occur on the same date and develop appropriate procedures to follow-up on expired permits and collect on businesses or individuals found to be operating without a permit. (Priority 3)
- Recommendation #12 The San Diego Police Department establish appropriate guidance for the Permits and Licensing Unit which
1. Outlines requirements for conducting permit reviews in a consistent and complete manner,
 2. Establishes a documentation trail for all required documentation,
 3. Requires the maintenance of evidence and completion of sufficient background checks, and
- Requires managerial oversight and review of the Unit to ensure effective internal operations. (Priority 3)
- Recommendation #13 The San Diego Police Department or Office of the City Treasurer establish an automated system to process permit applications and ensure that it automatically assigns permit expiration dates and notifies staff to collect penalties and background check fees from the applicant. (Priority 3)

Recommendation #14 The San Diego Police Department enforce San Diego Municipal Code section §33.0307 and ensure to conduct and charge applicants for all permit application criminal background investigations. (Priority 1)

Recommendation #15 The San Diego Police Department automate the reporting of pawn shop sales records and create policies and procedures to ensure processes are in compliance with State laws. (Priority 3)

Appendix I: FY2008 – FY2010 Permits and Revenue

Permit Type	FY08	FY09	FY10	Total Revenue	Total Permits
Alarm Permit	\$1,744,742	\$1,587,056	\$2,836,092	\$6,167,890	63,620
Entertainment Permit w/Alcohol > 50 People	\$347,024	\$325,950	\$389,920	\$1,062,894	593
Adult Entertainer Permit	\$87,259	\$81,641	\$219,557	\$388,457	3,285
Massage Establishment	\$63,648	\$70,069	\$130,874	\$264,591	236
Massage Technicians License	\$66,076	\$70,891	\$92,255	\$229,222	2,160
Tobacco Permit (Includes Arcade, Casino & Poolrooms)	\$19,116	\$95,578	\$111,744	\$226,438	1,243
Nude Entertainment Establishment License	\$49,332	\$44,289	\$79,272	\$172,893	46
Holistic Health Practitioner Individual	\$77,115	\$79,659	\$ -	\$156,774	1,327
Holistic Health Practitioner Business Permit	\$14,700	\$17,370	\$102,145*	\$134,215	84
Off Premise Massage License	\$30,038	\$38,523	\$21,227	\$89,788	572
Peep Show Permits	\$18,735	\$18,900	\$50,000	\$87,635	747
Second Hand Goods Dealers	\$17,820	\$17,514	\$42,886	\$78,220	973
Outcall Nude Entertainment Business	\$16,800	\$14,112	\$47,106	\$78,018	13
Card Room Licenses	\$21,630	\$24,645	\$24,720	\$70,995	7
Outcall Nude Entertainment Permit	\$14,453	\$14,725	\$27,779	\$56,957	227
Money Exchange House	\$17,675	\$17,675	\$19,190	\$54,540	109
Automobile Dismantler	\$14,599	\$13,939	\$19,446	\$47,984	163
After Hours Ongoing	\$14,130	\$12,560	\$19,183	\$45,873	28
Entertainment Permit w/ Alcohol < 49 People	\$11,960	\$16,480	\$15,640	\$44,080	51
Firearms Dealer	\$10,560	\$15,840	\$13,561	\$39,961	62
Promoter Regulatory Fee	\$18,280	\$8,000	\$11,772	\$38,052	74
Pawnbrokers	\$12,000	\$11,750	\$13,697	\$37,447	150
Card Room Employee	\$8,955	\$8,760	\$9,760	\$27,475	415
Entertainment Permit Single > 50 People	\$9,476	\$4,169	\$6,064	\$19,709	51
After Hours Single	\$3,360	\$1,680	\$11,887	\$16,927	18
Misc Occupational License (Solicitor)	\$4,917	\$6,333	\$5,622	\$16,872	415
Entertainment Permit No Alcohol > 50 People	\$2,955	\$2,576	\$6,624	\$12,155	15
Swap Meet Permits	\$3,175	\$2,925	\$3,828	\$9,928	10
Other Business License Permit (Curb Painter, Going out Business)	\$638	\$1,081	\$2,274	\$3,993	32
Bingo Games Licenses	\$513	\$525	\$268	\$1,306	42
Entertainment Permit Single < 49 People	\$567	\$567	\$ -	\$1,134	7
Entertainment Permit No Alcohol < 49 People	\$126	\$504	\$252	\$882	7
Total	\$2,722,374	\$2,626,286	\$4,334,645	\$9,683,305	76,782

Source: OCA Analysis of City Accounting System Data

* HHP Business reflects combined totals for both HHP Business and Individual as accounts were merged into one in 2010.

Note: We did not include tow-company referral fees, emergency cost-recovery revenue, and late fees as these are not directly related to the issuing of permits. Permit totals have been obtained from the Unit's internal tracking database, which cannot be reconciled to amounts in City accounting systems.

Appendix II: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ³⁴	Description ³⁵	Implementation Action ³⁶
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

³⁴ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

³⁵ For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

³⁶ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.



THE CITY OF SAN DIEGO

MEMORANDUM

Date: October 28, 2011

To: Eduardo Luna, City Auditor

From: William Lansdowne, Chief of Police, via Wally Hill, Assistant Chief Operating Officer

Subject: Management Response to City Auditor's Audit of the San Diego Police Department's Vice Permits and Licensing Unit

This memorandum is in response to the City Auditor's Audit of the San Diego Police Department's Vice Permits and Licensing Unit (unit). The audit provided 15 recommendations directed to the San Diego Police Department and the City Administration. The San Diego Police Department (Department) has provided responses to the recommendations directed toward the Department and has deferred to the City Administration for all other responses.

The Department would like to take this opportunity to thank the City Auditor's staff for conducting the audit. The audit has provided insight into some of the challenges faced by the unit in working with outdated municipal codes and systems, and the impact of a complete turn over in staff as a result of the workforce reduction resulting from budget balancing measures the city had to take in 2010.

In reviewing the audit it is important to view the Auditor's findings through a historical perspective. In the summer of 2009 the City faced a significant budget shortfall which necessitated the elimination of 81.00 departmental civilian positions. By October 2009, the Police Code Compliance Officers (PCCO's) were informed that their positions would be eliminated. The unit was impacted by PCCO's finding other positions within the City or other employment and leaving the unit. By February 2010, the remaining PCCO's were laid off and the unit was forced to start from scratch. Although this turnover had a significant impact on the unit, it is not a systemic problem as represented by the audit report. The audit period encompasses the time period when the unit was staffed with PCCO's and only accounts for three months after the change in staffing.

The Vice Permits and Licensing unit has worked over the last year and a half to recover from the dramatic change in personnel to streamline operations and develop systems to ensure efforts are in line with the unit's mission. During this time, decisions were made and actions were taken in line with the Municipal Code to ensure public safety and in an effort to support the citizens and San Diego's business community.

The officers assigned to the unit are expected to be experts regarding their assigned industries. The officers work closely with the City Attorney's Office to ensure appropriate application of the

Municipal Code. These officers routinely communicate with business owners, managers, and line personnel to ensure compliance with the municipal code. This is accomplished through office visits, emails, phone calls, and inspections. Needless to say, the unit's current operations are much more effective and efficient as compared to the "re-start" of operations in February 2010 and we are confident that as the Auditor follows-up on this report, his office will see that to be the case.

POLICE DEPARTMENT RESPONSES

Recommendation #1

The San Diego Police Department should conduct an annual review of the City's police-regulated activities to:

1. Assess the effectiveness of existing regulations in reducing crime and vice-related activity,
2. Identify emerging threats, which may be best addressed through additional regulation,
3. Identify regulatory activities of other levels of government or organizations and assess their benefit for implementation in San Diego,
4. Propose modification and/or elimination of regulations which do not effectively encourage public safety, and
5. Present a completed assessment of the four areas above for the City Council's consideration. (Priority 3)

RESPONSE: Partially Agree. The Department consistently monitors activities throughout the City to mitigate threats and maintain public safety. Potential threats in other organizations do not necessarily translate to similar threats in San Diego. However the Department is willing to examine the costs for conducting such an assessment annually and provide those estimates to decision makers for their consideration as to the most appropriate medium and forum.

Recommendation #2

The San Diego Police Department review its permits and licensing mission to enhance public safety, assess operational requirements to achieve the unit's goals, and adjust unit activities, types and levels of staffing, and methods to deliver services cost effectively. (Priority 3)

RESPONSE: Partially Agree. The Department is willing to assess operational requirements to achieve unit goals; however absent additional resources being allocated in the midst of a budget deficit, the Department does not have the ability to increase staffing levels and will not create new fees unless mandated by the City Council. The Department is continuously on the look-out for opportunities for more efficient staffing models and appreciates that Auditor confirming this approach.

Recommendation #3

The San Diego Police Department review and revise its fee and activity methodology to reflect current operating conditions. (Priority 3)

RESPONSE: Agree. This review is currently underway for consideration for the Fiscal Year 2013 budget. Any proposed changes will be presented to the Mayor and then City Council for inclusion in the Fiscal Year 2013 budget.

Recommendation #4

The San Diego Police Department establish a formalized training program which prepares new permits and licensing unit employees to perform effectively and consistently. Further, the San Diego Police Department should evaluate conditions leading to frequent turnover and take immediate steps to increase employee tenure. (Priority 3)

RESPONSE: Partially Agree. The Department is evaluating the best way to enhance current training for new members to the unit within existing resources. Employee turnover is routine, as rotation and variety of assignments are part of the methodology used to develop future leaders within the Department and we would not like to hold well-performing employees back simply to comply with this recommendation. Training protocol will be implemented by April, 2012.

Recommendation #5

The San Diego Police Department's Permits and Licensing unit establish and utilize a performance measurement system which allows for continuous monitoring and operational adjustment to maximize performance. (Priority 3)

RESPONSE: Agree. While our employees are among San Diego's finest, performance measures are an important component of a well-run organization. The Department will establish a performance measurement system by July, 2012.

Recommendation #6

The San Diego Police Department work with the City Attorney's Office to determine how the City Council can modify the San Diego Municipal Code to ensure alarm companies and/or subcontractors are held accountable for:

1. Ensuring all monitored alarm systems operate with proper City permits, and
2. Reducing instances of false alarms from repeat offenders.

Further, the SDPD and City Attorney should evaluate and develop appropriate actions for City Council approval to hold alarm companies and/or subcontractors responsible for unpaid permit fees and/or penalties or to require alarm companies and/or subcontractors to collect fees and penalties on the City's behalf. (Priority 3)

RESPONSE: Agree. Under the guidance of the City Attorney's office, the Department will explore and present adjustments to the alarm permit program and changes to the Municipal Code to maximize the effectiveness of the program before July, 2012. Any changes or modifications will be contingent on the identification of funding sources and/or Council approval.

Recommendation #7

The San Diego Police Department work with the City Attorney's Office to develop municipal code changes for the City Council's approval which:

1. Adopt national strategies to reduce false alarms
2. Establish a more effective penalty program to recover false alarm costs from false alarm offenders, and
3. Reduce the inclusion of false alarms costs from the calculation of an alarm permit fee. (Priority 3)

RESPONSE: See Response to Recommendation #6.

Recommendation #8

The San Diego Police Department assess the capabilities of current alarm-data systems and departmental process to ensure accurate tracking and collection of false-alarm expenses, timely collection of permit and penalty fees, and remitting unpaid fees to the City Treasurer for collections. (Priority 3)

RESPONSE: See Response to Recommendation #6.

Recommendation #9

The San Diego Police Department (1) ensure the collection of permit payments adheres to fees established by the City Council and can be reconciled to specific records and (2) review the City's accounting and GuardCard systems and assess the best way to update, upgrade, or replace systems to ensure records can be reconciled and tracked correctly. (Priority 3)

RESPONSE: Partially agree. The Department has completed changes to ensure that permit fees are collected in accordance with the Municipal Code. Although the Department will review the GuardCard systems, any proposed changes will compete with many priorities for additional funding, assuming there is any to be had in the next budget cycle.

Recommendation #10

The City Administration proceed with its plans to integrate and align the administrative components of police permits within the Office of the City Treasurer. Establish clear regulatory language, policies, and procedures to divide administrative, enforcement, and regulatory roles and duties between the Office of the City Treasurer and San Diego Police Department. (Priority 3)

RESPONSE: Agree. The current plan is to integrate most administrative functions by July 2012. This effort will consolidate all business regulatory/taxation data collection (new application and renewal processes), billing notification, permit issuance and payment processing under the Office of the City Treasurer Business Tax Program, a virtual one-stop shop for business owners. The above processes are part of the permitting administrative process. The San Diego Police Department will continue to perform the administrative clearance review process and conduct permitting enforcement.

Recommendation #11

In light of Recommendation 10, the Office of the City Treasurer ensure that the expiration of all new police permits and corresponding business tax certificates occur on the same date and develop appropriate procedures to follow-up on expired permits and collect on businesses or individuals found to be operating without a permit. (Priority 3)

RESPONSE: Agree. The approach expected to be implemented by July 2012 will allow for the issuance of one *business license* for all business permitting and taxation processes. All regulatory permits will be renewed annually and businesses will be notified thirty (30) days before the expiration of the *business license*. Any business that fails to pay appropriate assessments will be cited through the Office of the City Treasurer's current Business Tax Compliance Program efforts and assessed additional penalties and non-compliant surcharges.

Recommendation #12

The San Diego Police Department establish appropriate guidance for the Permits and Licensing unit which

1. Outlines requirements for conducting permit reviews in a consistent and complete manner,
2. Establishes a documentation trail for all required documentation,
3. Requires the maintenance of evidence and completion of sufficient background checks, and
4. Requires managerial oversight and review of unit to ensure effective internal operations. (Priority 3)

RESPONSE: Agree. The Department has completed changes to the daily operations in the unit which include standardization and required documentation and oversight.

Recommendation #13

The San Diego Police Department or Office of the City Treasurer establish an automated system to process permit applications and ensure that it automatically assigns permit expiration dates and notifies staff to collect penalties and background check fees from the applicant. (Priority 3)

RESPONSE: Agree. Coordination and issuance of the proposed *business license* should be administered through the Office of the City Treasurer's Tax Collection System (TTCS). TTCS will have the ability to create regulatory clearances for new accounts and renewals. Regulatory

departments will be required to review and approve clearances prior to the *business license* expiration date. Once the regulatory department performs its clearance review and background check procedures, and the business pays its annual tax and permitting fees, a *business license* will be issued. If a business does not pay for its *business license* timely, additional penalties and interest will be assessed. The target implementation date for consolidating all business regulatory and taxation activities under the Office of the City Treasurer is July 2012.

Recommendation #14

The San Diego Police Department enforce San Diego Municipal Code section §33.0307 and ensure to conduct and charge applicants for all permit application criminal background investigations. (Priority 1)


RESPONSE: Agree. The Department has established appropriate guidelines to ensure sufficient background checks and will bring forward a proposal to charge applicants appropriate fees, consistent with Proposition 26, to the Mayor and City Council for inclusion in the FY 13 budget.

Recommendation #15

The San Diego Police Department automate the reporting of pawn shop sales records and create policies and procedures to ensure processes are in compliance with State Laws. (Priority 3)

RESPONSE: Partially Agree. The Department sees value in automating pawn slips and is currently evaluating the necessary resources for implementing such a change. To date, the City has not identified a funding source for an automated system.

Respectfully submitted,

By:  for

William M. Lansdowne
Chief of Police