

OFFICE OF AUDITS & ADVISORY SERVICES



GRAND JURY AUDIT OF THE CITY OF SAN DIEGO'S CORPORATE PARTNERSHIP DEVELOPMENT PROGRAM

FINAL REPORT

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

April 4, 2018

Jeff Bryson, Foreperson
County of San Diego Grand Jury
550 West C Street, Suite 860
San Diego, CA 92101-3513

Dear Mr. Bryson:

FINAL REPORT: GRAND JURY AUDIT OF THE CITY OF SAN DIEGO'S CORPORATE PARTNERSHIP DEVELOPMENT PROGRAM

Enclosed is our report on the Grand Jury Audit of the City of San Diego's Corporate Partnership Development Program. The report addresses the audit objective specified in the Grand Jury request letter dated November 8, 2017.

Our audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

Thank you for the opportunity to be of service to your office. If you have any immediate concerns about the report, please contact me at (858) 495-5661.

Sincerely,

JUAN R. PEREZ
Chief of Audits

AUD:ML:nb

Enclosure

c: Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller

INTRODUCTION

Audit Objective At the request of the County of San Diego Grand Jury (Grand Jury), the Office of Audits & Advisory Services (OAAS) completed an audit of the Corporate Partnership & Development Program's management processes.

Background In February 2000, the City of San Diego (City) passed Council Policy 000-40 Marketing Partnership Policy (Marketing Partnership Policy) which established the Municipal Marketing Partnership Program (MMPP), with the intent that the City would seek opportunities to generate revenue from partnerships with the corporate community, in order to enhance municipal services and facilities in the City. The MMPP was later renamed the Corporate Partnership Development Program (CPD program), and is overseen by the Corporate Partnership & Development department (CPD).

The MMPP objectives are to establish and guide relations with business partners, generate revenue to fund existing and additional facilities, projects, programs and activities, and to minimize the perception that the City has become corporatized by limiting the number of corporate partners while maximizing the cumulative revenue from the partners.

The purpose of the Marketing Partnership Policy is to provide guidelines for developing and managing the municipal marketing partnerships to ensure that each partnership supports the City's goal of service to the community.

Audit Scope & Limitations

The scope of the audit included:

- CPD's authority, structure, budget, roles, and responsibilities.
- CPD's procedures in place to identify, establish, and manage agreements within the CPD program.
- Detailed review of a sample of agreements.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Reviewed City Council policies related to marketing partnerships, donations acceptance, naming of city assets, and records management and retention.
- Conducted interviews to determine the structure of CPD; authority CPD has to enter into agreements, including Mayoral and City Council approvals; roles and responsibilities of CPD.

- Conducted interviews to identify processes for managing agreements, processes for requesting sponsorships, evaluating interested parties, and tracking sponsorship revenue.
- Inspected documentation related to the CPD program, including but not limited to, Requests for Sponsorships (RFS), agreements, contracts, leases, agreement administration and financial documents, and budget committee updates.
- Conducted a review of revenue generated by CPD to verify funds received since program inception, and to review tracking processes performed.
- Conducted a review to determine whether RFSs were created in accordance with policy.
- Conducted a review of agreements to evaluate the adequacy of terms and alignment of agreement to the Marketing Partnership Policy.
- Conducted a detailed review on a sample of agreements to ensure the adequacy of administration and invoicing practices, and to determine City and sponsor compliance with terms of agreement.

AUDIT RESULTS

Summary

Within the scope of the audit, OAAS concluded that there is not reasonable assurance that CPD management practices are proper and adequate. As a result, the City of San Diego is unable to determine the overall success of CPD. The exceptions noted and recommendations are included in the body of the report.

Fact I:

Roles and Responsibilities of CPD

CPD is responsible for implementing the City-wide CPD program. Additional duties of CPD include coordinating grants, employee discounts, and developing and drafting the City's policies for Naming of City Assets and Donation Acceptance.

Currently, CPD has three employees:

- **Director of Corporate Sponsorship and Development:** Responsible for serving as the City's primary point of contact with corporations interested in developing marketing partnerships with the City, sponsoring City programs and activities, or making charitable donations to the City.
- **Program Manager:** In coordination with the Director, oversees fulfillment of sponsorship and grant agreements, and assists in proposal/application research and preparation. In addition, oversees

CPD's compliance with administrative and operational City policies, regulations and processes.

- **Associate Management Analyst:** Responsible for contract fulfillment; coordinating program's compliance with administrative and operational City policies, regulations and processes; website content management and monitoring.

Fact II: Marketing Partnership Policy

CPD has the authority to enter into marketing partnership agreements per the Marketing Partnership Policy, effective February 1, 2000. The Marketing Partnership Policy addresses the City's guidelines and responsibilities related to identifying, establishing, and managing corporate partnerships.

According to CPD, the program is not under the Purchasing & Contracting department because the purchasing function involves spending taxpayer funds, while CPD agreements have no purchasing elements.

The Marketing Partnership Policy defines a "Marketing Partnership" as a mutually beneficial business arrangement between the City and a third person, wherein the third person provides cash and/or in-kind services to the City in return for access to the commercial marketing potential associated with the City.

The policy also states that third persons may become marketing partners with the City in the sponsorship of City-approved programs, projects, events, facilities and activities where such partnerships are mutually beneficial to both parties, and in a manner consistent with all applicable policies and ordinances set by the City.

A marketing partnership is memorialized by an agreement. An agreement is not a considered a contract.

Observation I: CPD Did Not Adequately Track and Memorialize Sponsorships

OAAS was unable to validate the total number and dollar value of sponsorships because CPD did not document and maintain a list of agreements in a permanent file. We also noted the following errors related to identifying, memorializing, and tracking agreements:

- **List of Corporate Partners is Inaccurate and Incomplete** – CPD provided a list of past and current corporate partners. However, OAAS found the list was incomplete and inaccurate. Further, the list did not match CPD's website. Specifically, OAAS found:
 - A company named Waxie was missing from the list, though the company paid \$2,000 to sponsor a City event in FY 2012-13 and FY 2013-14. A review showed Waxie was also missing from the CPD website.

- CPD included National University as current corporate sponsor on its website, though the company is an employee discount partner.
- CPD included Authority for Freeway as a past corporate partner on its website; however, the company was missing from the list. Other documents reviewed showed the sponsor's name as Service Authority for Freeway Emergencies.
- **CPD Did Not Memorialize Sponsorships** – OAAS also found that CPD did not enter into an agreement with Waxie before accepting the sponsorship. According to CPD, an agreement was not completed because the sponsorship was for a promotional event, not a City sponsorship agreement. The Marketing Partnership Policy requires the development of an agreement with corporate sponsors.
- **Policy Does Not Adequately Define a Marketing Partnership Agreement** – OAAS found that CPD entered into a number of different types of agreements for sponsorships including, marketing partnership agreements, corporate partnership agreements, promotional agreements, licensing agreements, and a stadium naming rights agreement. Yet, a review of the Marketing Partnership Policy showed that the policy didn't list the types of agreements which fell under the scope of the policy. As a result, OAAS could not ensure that all agreements within the program could be identified.

City Council Policy 000-25 – Records Management Program, Section D – Vital Records states that each department head shall establish systems for protecting vital records in accordance with the policy and procedures established by the City Clerk's office. The Marketing Partnership Policy states that CPD is responsible to implement the City-wide CPD program, and to track and report on a quarterly basis all marketing partnerships developed by City departments.

Without proper identification and tracking of City sponsorships, the City cannot accurately identify corporate sponsors, or the value of sponsorships to the City. Failure to enter into an agreement for sponsorship increases the risk that the City or third party does not perform agreed upon duties or receive agreed upon rights. Acceptance of a sponsorship without an agreement can result in improper vetting and approval of sponsorships within the City.

Opportunity for Improvement:

1. The City should update the Marketing Partnership Policy to require CPD to keep up-to-date and accurate records of all sponsorships and agreement values. Also, the policy should be updated to include all of the types of agreements considered within the CPD program.
2. CPD should record and maintain a listing of all agreements in a permanent file, including but not limited to, name of sponsor, contract, services provided, agreement type, agreement number, number of amendments, agreement start and expiration dates, and related contracts, agreements, or leases.

3. CPD should update its website to accurately reflect past and current sponsors of the City.

Fact III: Total Revenue Generated by the CPD Program

According to the CPD website, the CPD program has generated over \$27 million in revenue for the City from past and current corporate partnerships with companies and organizations.

Observation II: CPD Inaccurately Reported Revenue Generated by the Program

A review of CPD's Program Historical and Future Estimated Revenue Summary (Revenue Summary) showed that the total amount reported as generated was calculated based on estimates rather than actual amounts collected. CPD did not provide documentation to support actual revenue generated before FY 2011-12, or FYs 2014-15 to 2015-16. As a result, OAAS was unable to verify the accuracy of the revenue amount generated by the CPD program. Additional errors and inconsistencies were found that contributed to the inaccuracy of the revenue amount reported, specifically:

- CPD included \$1.5 million in revenue from Pepsi Bottling Group in FY 1998-99, which was before the CPD program began; however, Qualcomm was missing from the Revenue Summary. According to CPD, it did not monitor or report on the agreement with Qualcomm because the agreement had been in place before CPD was formed. CPD stated that the City's Real Estate Asset Department had been responsible for administering and tracking the agreement. Based on a review, OAAS found that the agreement met the definition of a marketing partnership. As a result, CPD should have included the Qualcomm agreement on its Revenue Summary.
- The Revenue Summary included approximately \$6.4 million in projected revenue from FY 2017-18 through FY 2024-25. OAAS was unable to determine why CPD included amounts from outside of the years of the program.
- CPD included approximately \$343,000 in cash and in-kind services from grants and employee discount partners.
- CPD included \$257,000 of revenue reportedly generated through the early sale of City vehicles in FY 2012-13. CPD did not provide support for the amount. CPD stated that the Lifeguards/Fire Department had provided the auction value to CPD, but no other information was provided. As a result, CPD was unable to provide documentation showing how CPD determined the total profit from the auction, and how the portion of the proceeds was determined, if any, that was directly attributable to the CPD program because of the early sale of the vehicles.
- CPD did not accurately and consistently identify sponsors by name on the Revenue Summary. For example, CPD listed Rainbow Vending and

Canteen Vending as one sponsor, Rainbow/Canteen Vending, though they had separate agreements. In another example, Zipcar and Car2go were listed as one sponsor named “car share.”

The Marketing Partnership Policy states that CPD is responsible to implement the City-wide CPD program and track and report on a quarterly basis all marketing partnerships developed by City departments.

Opportunity for Improvement:

CPD should develop a process to document and retain actual revenues collected from each sponsor in the CPD program. Further, the total amount of revenue generated should be distinguished from the net benefit of the program.

Fact IV:

City Changed to Strong Mayor Form of Governance

In 2004, San Diego voters changed the City Council-Manager form of governance to a Mayor-Council “strong Mayor” form of governance on a trial basis beginning in 2004. The change was made permanent in 2010.

Observation III:

Outdated Policies Result in Improper Approvals

OAAS found that policies governing the CPD program are no longer applicable to the City’s governance structure. As a result, CPD processes are not consistent with policies. Specifically, the policy requires City Manager approval on sponsorship amounts between \$50,000 and \$250,000, and City Council approval on amounts above \$250,000. The City no longer employs a City Manager. According to CPD, the Mayor, or Mayor’s designee, is considered the City Manager for approval purposes.

It is unclear why the policy has not been updated to reflect the City’s new governance structure, though CPD stated that it would take an updated Marketing Partnership Policy forward as the department involved in the policy.

Lack of updated policies can result in an inconsistent approval process or lack of City Council and Mayor approval to accept sponsorships.

Opportunity for Improvement:

The City should update the Marketing Partnership Policy to reflect an adequate approval structure under the City’s strong Mayor form of governance.

Fact V:

Marketing Partnership Process

As part of the marketing partnership process, policy requires that CPD define the scope of the program and community need. Next, CPD must develop an RFS for each opportunity valued at \$250,000 or greater and submit the RFS to the City Council for approval.

OAAS reviewed a sample of RFSs to determine whether potential sponsors were notified of their responsibilities with regards to addressing conflicts of interest with the City and whether RFSs were developed in accordance with policy.

Observation IV: CPD Lacks Policies and Procedures for Identifying and Addressing Conflicts of Interest with Sponsors of the CPD Program

Based on our review, OAAS found that CPD's process for reviewing and selecting corporate sponsors does not require sponsors to disclose potential conflicts of interest, or City departments to review for potential conflicts of interest with the City. Our analysis showed that 8 of 8 RFSs reviewed did not include a requirement that potential sponsors must complete conflict of interest disclosures.

According to CPD, for agreements where the RFS is included in the Request for Proposal (RFP), the City Attorney reviews the RFS to ensure that no conflicts of interest are present, and that any agreement serves the best interest of the City and excludes the pay-to-play practice from any single vendor.

A comparison of the Marketing Partnership Policy to sponsorship policies from three cities¹ throughout the U.S. showed that San Diego was the only city that did not specifically address conflicts of interest in its policy.

OAAS found that CPD drafted a San Diego City Council Policy 900-20, Naming of City Assets, which addresses conflicts of interest with the city. Specifically, the policy states that the City "may not accept funding as part of a naming or renaming proposal that would create any conflict of interest, as set forth in the City's Ethics Ordinance and the Fair Political Practices Commission regulations."

Lack of a requirement for potential sponsors to complete a conflict of interest disclosure increases the risk that the City will fail to identify actual or potential conflicts of interest, or the appearance of a conflict of interest, during the marketing partnership process.

Opportunity for Improvement:

1. The City should update the Marketing Partnership Policy to address how the City will identify and address conflicts of interest between the sponsors and the City.
2. CPD should develop and revise procedures to ensure that it appropriately addresses conflicts of interest in the CPD program.

Observation V: Inadequate Development of Requests for Sponsorships

For the eight RFSs reviewed, OAAS found the following errors:

- One of the RFSs reviewed did not include a description of the benefits of participation.
- Seven of the RFSs reviewed did not include the description of the open and competitive procedures.

¹ OAAS reviewed policies for the City of San Jose, California, Portland, Oregon, and Southlake, Texas.

The policy requires that each RFS include a summary of the partnership opportunity, benefits of participation, and description of the open and competitive procedure.

Table 1. Summary Analysis of CPD Request for Sponsors

No.	Purpose of Request for Sponsorship	Included in RFS	
		Benefits of Participation	Open and Competitive Procedures
1	Request for Financial Services Partner	✓	
2	Request for Vending Services		
3	Request for Bike Sharing Program	✓	
4	Request for Service Line Warranty Partner	✓	
5	Lifeguard Vehicle Partnership	✓	
6	Car Share Partnership Program	✓	
7	San Diego Project Heart Beat Partner	✓	
8	Request for Golf Maintenance Equipment	✓	✓

According to CPD, it did not include the benefits of participation in the RFS for vending service because it was implied that the benefit was the revenue generated by the vending machines. It is unclear why CPD did not include required provisions for open and competitive procedures in the RFSs.

Failure to include the required provisions increases the risk that the City will receive a decreased number of sponsors who respond to the RFSs, which could result in the City having a smaller number of sponsors to choose from when selecting a sponsorship.

Opportunity for Improvement:

CPD should develop a process to review and verify that all required elements are included in the RFS.

Fact VI:

Sponsorship of a City-wide Bike Sharing Program

The City entered into an agreement with DecoBike to implement a bike sharing system in August 2013. The agreement required the Phase I Operational Rollout² date to occur within nine months of signing the agreement, with an option to delay the start date for an additional six months. Phase I had a ceiling of 1,800 bicycles and 180 station areas.

DecoBike agreed to pay a marketing rights fee consisting of a commission on the total gross revenue of bike and kiosk advertisements and bike rentals, and membership sales. For the first year of operation, DecoBike agreed to pay the City a combined guaranteed commission of \$25,000, less credits due, in one lump sum on or before 12 months following the Phase I Operation Rollout date. For agreement years 2 – 10, DecoBike agreed to pay the City the greater of the combined sales and advertising commissions or the minimum guarantee payment specified by the agreement.

² The date that the majority of bike sharing stations are made available to the public.

Table 2. Minimum Guaranteed Payment Year 2, 3 and 4

Agreement Year	Minimum Guaranteed Payment
2	\$50,000
3	\$100,000
4	\$100,000

The agreement also required DecoBike to develop and submit an implementation plan that included a Site List, map of proposed bike station locations, including a summary of public comments, implementation schedule, and marketing plan. The City was required to approve the implementation plan. According to the agreement, additions, removals, and relocations of station areas must be agreed upon, and the Site List updated to reflect the updates within 30 days of the proposed change.

Further, the parties agreed to use their best efforts to adhere to the implementation schedule. DecoBike could seek extension for specific dates in the schedule, stating the reason for the delay. Further, the agreement states that the City shall not unreasonably withhold its approval.

CPD and the City's Department of Transportation (DOT) are responsible for the administration of the agreement. As part of the agreement, the City is required to dedicate staff time and resources toward the review and approval of suitable locations to place bike stations throughout the City.

Observation VI: Improper Oversight and Administration of the Agreement with DecoBike Resulted in Less Sponsorship Revenue

OAAS found that the DecoBike agreement is generating significantly less revenue than was anticipated due to a number of factors. OAAS noted the following:

- The City did not retain sufficient documentation of a delay to the Operational Rollout of the bike sharing system. OAAS found that the City approved the delay of the start date to October 31, 2014, the latest start day allowable by the agreement. However, the Operational Rollout date for Phase I was in late January 2015. CPD and DOT did not provide documentation showing an additional extension was granted, or the reason for the delay.
- Invoices were not submitted on time. According to the agreement, DOT should have submitted the first invoice to DecoBike no more than a year from the Operational Rollout date and each year thereafter.

Table 3. Comparison Billing Dates for Deco Bike Agreement

Agreement Year	Invoice Date Per Start Date	Date of Invoice Submitted to DecoBike
1	January 2016	August 1, 2016
2	January 2017	August 24, 2017

- Revenue estimates were based on the deployment of 1,800 bikes; however, the City claims that approximately 700 bikes were deployed. According to DOT, generally half of the bike docks are left empty at each bike station so bike riders have a place to return the bike when their trip ends. However, OAAS did not find evidence that this methodology was recorded in the agreement or related files. A review showed that in 2014, DOT approved the implementation plan which included a Site List with 114 approved bike station areas and 2,023 bike slots.
- The Site List is inaccurate and incomplete because DOT did not track changes made to the list that was approved in 2014. In 2017, the Site List showed only 90 stations areas. OAAS compared the approved and current version of the Site List and noted the following:
 - DOT reported that eight station areas were added to the system, but the Site List was not updated to reflect the changes.
 - According to DOT, the State of California's Coastal Commission chose to exercise their right for permitting and approval of station areas. As a result, the City required DecoBike to remove 15 station areas. However, OAAS found that 12 of the station areas did not trace to the Site List. Specifically, OAAS found station areas did not match, the station area had not been approved, or was missing from the Site List. Further, DOT could not provide an explanation for the difference in the Site List.
 - The Site List does not reconcile with the bike transaction detail report provided by DecoBike. Specifically, the report showed that there were 106 station areas in 2017. Further, 28 of those station areas did not trace to the Site List. Also, 12 station areas were on the Site List, but not found on the detail report.
 - OAAS found that DOT did not date stamp, document justification for changes, or record approvals for changes made to the Site List.

Without an accurate and complete record of bike stations placed throughout the City, DOT is unable to calculate the total number of bike docks available. As a result, DOT is unable to determine the total number of bikes deployed.

The Marketing Partnership Policy requires CPD to provide guidance to all City departments regarding the interpretation and application of the Marketing Partnership Policy.

The lack of effective internal controls over the reporting and tracking of the DecoBike program prevents the City from properly tracking the quantity of stations and bikes deployed. Further, the inability to track the number of stations and bikes results in the City being unable to properly invoice DecoBike, and ultimately unable to assess the success or failure of the CPD program.

Opportunity for Improvement:

1. If changes to the terms in the agreement are required, such as the extension of the Phase I Operational Rollout, CPD should ensure that an amendment to the agreement is submitted to City Council for approval.
2. The City should submit invoices to DecoBike in accordance with agreement payment terms.
3. The City should require CPD to coordinate or provide training related to the administration of the agreements.
4. CPD and DOT should improve their oversight of the DecoBike program to ensure that approvals/removals of DecoBike station areas and number of bikes deployed are properly approved and tracked.

Observation VII: CPD Lacks a Process for Determining the Net Benefit of the DecoBike Sponsorship

The DecoBike agreement required the City to remove metered parking spaces to make way for station areas. Though the City provided the estimated loss in revenue for each meter, OAAS found that CPD did not track the number of removed meters.

A review showed that DOT approved the removal of 16 meters in 2014, however, CPD documents showed that 4 of the meters were not removed. In 2017, the Site List showed that there were 14 meters removed to make way for station areas.

CPD estimated that the total loss of revenue per meter was approximately \$3,750.

\$3,750 x 14 = \$52,500 annual loss in parking revenue per year

According to CPD, the revenue generated by the meters would go to fund programs that would enhance pedestrian and bike mobility. CPD also stated that any responsibilities, liability, operations or maintenance costs are detailed in the agreement. All agreements need City Council approval, so any additional costs/operations not already covered by the existing agreement/budget need City Council approval.

The agreement states that the Site List shall indicate whether the removal of one or more existing parking meters is necessary to install a bike sharing station. DecoBike is not responsible for any lost revenue to the City resulting from the removal of parking meters. A review of the Marketing Partnership Policy found departments are not required to analyze and report on the net benefits of sponsorship.

The inability to determine the total costs and benefits of the sponsorship, and the lack of historical data about sponsorships, results in the City being unable to determine the success of the DecoBike agreement.

Opportunity for Improvement:

The City should update the Marketing Partnership Policy to require that CPD and departments perform and document analysis of the total net benefit of accepting a sponsorship.

Fact VII:**Request for Sponsorship of the City's San Diego Project Heart Beat Program**

OAAS reviewed documents related to the sponsorship of San Diego Project Heart Beat (Project Heart Beat), the City's public access defibrillation program. On May 2, 2014, the City issued an RFP for Automatic External Defibrillators (AED) and related supplies, and Project Heart Beat Sponsorship. The objective of the RFP was to provide an award to a qualified vendor that represents the best overall value to the City, while meeting or exceeding the specifications and requirements of the RFP.

Specifically, the RFP requested that potential vendors pay a marketing rights fee including an annual fee of \$145,000 to sponsor Project Heart Beat, a \$175 stipend per each AED sold in San Diego County with a minimum annual guarantee of \$50,000, and a promotional budget of no less than \$15,000 annually.

The City awarded the contract to Cardiac Science beginning January 5, 2015. Per the contract payment schedule, Cardiac Science agreed to pay:

- A marketing rights fee in four installment payments of \$36,250. The agreement defined the "marketing rights fee" as cash and/or in-kind goods and/or services paid to the City by a corporation in exchange for entering into a marketing partnership with the City.
- A sales stipend in four installments at a minimum of \$12,500, per installment, on the same dates that the marketing rights fee is paid.
- A finder's fee due September 1st each year and based on 1% of all leads that result in the sales of AEDs after an annual total of \$210,000 in gross product purchases and sales.
- A promotional budget of no less than \$15,000. The agreement requests the City and Cardiac Science to develop and mutually agree to a plan of for the expenditure of promotional budget funds. The amount due shall be required per the plan. Marketing items can include: brochures, letterheads, mail campaigns, public service announcements, websites, logos, exhibits, advertising, and donations.

Project Heart Beat's mission is to save lives by establishing awareness, education, and immediate access to AEDs throughout the city and county of San Diego. According to Project Heart Beat staff, Cardiac Science had been sponsoring the program since 2001. OAAS conducted a review of documents related to administering the contract and agreement for FY 2015-16 and 2016-17.

Observation VIII: Contract Awarded in Exchange for City Sponsorship

CPD awarded a contract based on whether the contractor agreed to sponsor City programs. The RFP required potential vendors to agree to sponsor Project Heart Beat in exchange for exclusive rights in procurement of AEDs for the City. As a result, awarding a contract in exchange for sponsorship can create the appearance of a quid pro quo between the City and the vendor granted the contract. Further, there is increased risk that the City could violate open and competitive bidding procedures in appearance or in fact.

Opportunity for Improvement:

The City should reevaluate the practice allowing CPD to require that potential contractors sponsor a program.

Observation IX: Improper Oversight and Administration of Agreement with Cardiac Science Resulted in Less Sponsorship Revenue

During the review, OAAS found errors related to the administration of the agreement with Cardiac Science. Specifically:

During a review of the promotional budget amount for 2016 and 2017, OAAS found that Project Heart Beat received less than the minimum amount agreed to each year. The amounts reported for 2016 and 2017 fell short of the minimum agreed to amount by approximately \$4,760 and \$3,272 respectively.

Table 4. Difference Between Minimum Guaranteed Promotional Budget and Actual Revenue

	2016	2017
Minimum Guaranteed Promotional Budget	\$15,000	\$15,000
Actual Revenue	\$10,240	\$11,728
Difference	\$4,760	\$3,272

OAAS also found that Project Heart Beat and Cardiac Science did not create and agree to an annual promotional plan. Instead, Cardiac Science tracked the expenditures in a spreadsheet, and paid directly or charged off a portion of the promotional expenditures for services it provided directly to Project Heart Beat.

For example, the spreadsheet showed that Cardiac Science recorded \$2,000 expense to the budget when Cardiac Science staff spent eight hours to rebuild a price list and create a PDF in February 2016, and again in July 2016. Cardiac Science also expended \$500 when its staff refreshed the price list in 2017. In another example, Cardiac Science recorded an expenditure of \$1,250 for its staff to design t-shirt artwork in 2016. Because there was no annual promotional plan, OAAS could not verify that expenditures were planned and agreed to by both parties.

CPD was also missing the contract with Cardiac Science. Further, the contract received from Project Heart Beat was missing sections of the contract including, (L) Instructions, Conditions and Notices to Contractors;

(M) Evaluation Process; and Contractor's Proposals. It was unclear why CPD did not retain a complete copy of the contract, or was unable to obtain a complete copy of the contract from the City's purchasing department as the contract is still active.

Opportunity for Improvement:

1. Project Heart Beat should develop an annual expenditure plan for the program's promotional budget in accordance with the agreement.
2. Project Heart Beat should monitor and reconcile the promotional budget and accurately report the amount of promotional budget received by the sponsor.
3. CPD and Project Heart Beat should retain complete copies of contracts and supporting documents related to marketing partnerships.

Fact VIII:

Web Site Sponsorship Guidelines

In addition to the Marketing Partnership Policy, the City also has Web Site Sponsorship Guidelines (Sponsorship Guidelines) to provide direction for sponsorship recognition on the City's website, and to ensure the sponsorship displays promote the economy, tourism, and welfare of the City.

The Sponsorship Guidelines were developed as an extension to the Marketing Partnership Policy and San Diego City Council Policy 000-41, Product Endorsement (Product Endorsement Policy). The purpose of the guidelines are to allow the City flexibility to integrate sponsorship information, but limit the size, duration, location, and content of the display in order to coordinate, manage, and protect the City's website from commercialization, technology limitations, or conflicts.

According to the Sponsorship Guidelines, the City has two distinct sponsorship programs in operation. First, the City's CPD program which seeks "official" sponsors for the City in exclusive business categories. These sponsorships are referred to as marketing partnerships. Next, certain City departments, such as Parks and Recreation, operate a sponsorship program for specific programs, activities, and facilities. These are referred to as department sponsorships.

The guidelines state that though certain sponsorships may include promotional activity through the media, sponsorship is not advertising. Advertising is the direct promotion of a company through space and air time bought for that specific purpose. Whereas, sponsorship promotes a company in association with the City. According to the Sponsorship Guidelines, the City's website will not be used for the sale and display of commercial advertising in any form.

Observation X:

CPD and Web Site Sponsorship Guidelines

OAAS found the following inconsistencies between CPD policies and procedures and the Sponsorship Guidelines:

- CPD stated that it did not participate in the creation or enforcement of the Sponsorship Guidelines. The guidelines were issued by the City's IT department to address website sponsorships. Further, CPD is not aware if the guidelines have been updated, and stated that the guidelines defer to CPD agreements and terms for implementation. CPD did not know whether the guidelines were in use. However, OAAS found that the Cardiac Science agreement required that the Project Heart Beat webpage be kept consistent with all City policies and the City's Web Site Sponsorship Guidelines.
- Sponsorship Guidelines forbid advertising sponsor's products and services; however, OAAS found that Project Heart Beat's webpage advertised promotional items and listed only Cardiac Science products and services, including links to pricing sheets.
- Sponsorship Guidelines include defined terms related to marketing partnerships that are not included in the Marketing Partnership or the Product Endorsement policies. Specifically, the policies do not provide a definition of key terms, including but not limited to, sponsor, sponsorship, advertisement, or corporate marketing value.
- Sponsorship Guidelines stated there are different types of sponsorships and that marketing partnerships are official and exclusive sponsorships. However, the Marketing Partnership Policy does not define whether there is more than one type of sponsorship at the City. Exclusive agreements result in the City's inability to seek other sponsors, and can limit the amount of revenue generated through sponsorships to the City.

Opportunity for Improvement:

1. The City should review and update policies related to sponsorship, naming rights, product endorsements, and all other relevant policies and guidelines to ensure that terminology is clearly and consistently defined within the policies, and that policies are easily distinguished from one another.
2. The City should ensure all sponsorships are coordinated through the CPD department to ensure proper vetting and approvals of sponsorships.
3. The City should require CPD to coordinate or provide training related to the development of sponsorships for City departments.
4. CPD and Project Heart Beat should remove advertisements of Cardiac Science products from the City's website and pamphlets.

Observation XI: Roles and Responsibilities of Managing Agreements are Not Clearly Defined

OAAS performed a detailed review of sample agreements to determine whether the agreements correctly identified the administration roles and responsibilities of departments. Based on our review, OAAS found that 5 of

15 agreements did not accurately identify the City department responsible for administering and monitoring agreements.

A review showed that the Marketing Partnership Policy does not require CPD to designate the departmental roles and responsibilities within the agreement.

Table 5. Comparison of Departmental Responsibilities for Administering Agreements (CPD Versus Agreement Provisions)

No.	Sponsor	Agreement #	Department Responsible for Administering the Agreement	
			Per the Agreement	Per CPD
1	Cardiac Science	R-309319	CPD	CPD & Project Heart Beat
2	Deco Bike	O-20279	CPD	CPD & Department of Transportation
3	San Diego County Toyota Dealers Association	R-307037	CPD	CPD & Lifeguard
4		O-20623	CPD	CPD & Lifeguard
5	Service Line Warranties	R-311197	CPD	CPD & Public Utilities Department

Failure to designate departmental responsibility for managing aspects of each agreement can result in a lack of accountability in managing agreements. Further, there is increased risk that the City will not designate departments with the appropriate expertise to manage agreements, which could result in the inability to ensure agreement terms are fulfilled by both parties.

Opportunity for Improvement:

CPD should develop a process to ensure departments are appropriately designated as the administrator of their respective duties in CPD program agreements.

Observation XII: Inadequate Document Retention Policies

OAAS found that the CPD Records Disposition Schedule (Disposition Schedule) does not ensure that marketing partnership agreements and related documents are retained throughout the life of the agreement. Specifically, the Disposition Schedule incorrectly classifies CPD project records, including contracts/agreements, as routine administrative working files that should be retained for no more than five years, rather than the life of the agreement. The Disposition Schedule, which was approved by the Director Corporate Sponsorship and Development, has been in effect since at least October 23, 2013.

OAAS also found that the Marketing Partnership Policy does not require CPD to record and maintain CPD project records for at least the life of the agreement. As a result, the City could face potential liability related to the premature destruction of records.

A review of the City of San Diego General Records Disposition Schedule for Records Common to City Departments shows that the City categorizes

all agreements, contracts, and leases as “Agreements.” The City generally requires that agreements are held for the term of the agreement plus years.

Opportunity for Improvement:

1. The City should update the General Records Disposition Schedule for Records Common to City Departments to include marketing partnerships and other agreements entered into by the department under Section B “Agreements.”
2. The City should update the Marketing Partnership Policy to require that CPD maintain CPD program agreements and files for at least the life of the agreement.
3. CPD should update the Disposition Schedule to properly reclassify agreements, and ensure that agreements and files are retained for at least the life of the agreement.

Observation XIII: CPD Did Not Provide Quarterly Updates of the CPD Program

CPD did not provide supporting documentation that it submitted quarterly updates from FY 2012-13 to current. As a result, OAAS found that CPD did not track and provide quarterly updates of all marketing partnerships as required by policy.

According to CPD, no formal quarterly updates are provided, nor are they necessary or desired. Further, CPD stated that the policy is outdated as it has not matched CPD’s practices for reporting for several years.

The Marketing Partnership Policy states that CPD is responsible to implement the City-wide CPD program, and to track and report on a quarterly basis all marketing partnerships developed by City departments.

Lack of timely and required updates to the City Council on the status of marketing partnerships decreases the City’s public transparency and hinders public access to information about the success of the CPD program.

Opportunity for Improvement:

CPD should produce quarterly reports on the status of all marketing partnerships developed by City departments as required by policy, and provide them to City Council.

Fact IX:

Contract for Consulting Services to Develop Marketing Partnerships

On November 7, 2012, the City entered into a contract to retain a consultant to assist with the development of community/program partnerships, typically non-exclusive business partnerships, focusing on specific city-funded programs and/or facilities. The contract was in effect until July 31, 2015.

Under the terms of the contract, the City agreed to pay Good Solutions Group 20% of the cash and 7% of donated goods or services, pursuant to any eligible partnership agreement for first time partnership agreements. For commission on renewals, the City agreed to pay the consultant 15% of cash payments or donations and 5% of the value of in-kind donations of

goods or services received as a result of the renewal within three years after termination of the contract.

Fact X: Donation Acceptance Policy

City Policy 100-02, Donation Acceptance (Donation Policy) defines a donation as a monetary (cash contribution), endowments, personal property, real property, financial securities, equipment, in-kind goods or services, or any other asset that the City has accepted, and for which the donor has not received any goods or services in return. Further, a donor is defined as a person or other legal entity that proposes or provides a donation to the City. The policy became effective June 25, 2014.

Observation XIV: Contract Obligated the City to Pay a Percentage of Donations

The City agreed to pay Good Solutions Group a percentage of donations that it brought into the City through the development of community/program partnerships. However, the Donation Policy defines a donation as monetary or in-kind goods given to the city for which no goods or services are provided in return. As a result, donations do not fall within the scope of the CPD program.

According to CPD, the contract with Good Solutions Group was initiated to help develop a marketing partnership with Tommy Bahama; however, an agreement was not executed. Subsequently, the contract with Good Solutions Group expired and there were no amendments.

CPD also stated that the consultant used the word “donations” instead of in-kind in the contract. CPD also stated that the marketing partnership agreement, had it been executed, would have clarified that the contractor would be paid a percentage of in-kind goods or services, not donations.

Opportunity for Improvement:

CPD should develop a process to ensure the use of terminology in CPD program agreements, contracts, and leases are consistent and aligned with policy.

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