



**THE CITY OF SAN DIEGO
M E M O R A N D U M**

DATE: October 28, 2025

TO: Honorable Councilmember Marni von Wilpert, District 5

FROM: Rolando Charvel, Department of Finance Director and City Comptroller

SUBJECT: Response to Questions Regarding the Performance Audit of the City's Contract Management

This memorandum responds to your questions raised during the October 6, 2025, Council meeting on Item 201 – Performance Audit of the City's Contract Management. During the presentation, you requested clarification regarding the budgetary impact of expenses for vehicle and equipment rentals associated with the Herc Inc. contract and whether any services or programs were affected to accommodate these costs.

The Performance Audit of the City's Contract Management Process by the Office of the City Auditor identified approximately \$6.7 million in spending above the previously authorized contract limit related to the Herc Inc. vehicle and equipment rental contract. These expenditures were subsequently brought forward and retroactively authorized by the City Council in April 2024.

The vehicle and equipment rental contract with Herc Inc. was utilized by multiple City departments, primarily the Transportation Department, Stormwater Department, and Public Utilities Department.

There are two layers of authorization that govern City spending.

- The first relates to procurement thresholds, which are established under the San Diego Municipal Code and ensure that contracts are properly authorized and executed before any commitment of City funds.
- The second relates to budgetary authorization, which is governed by the Annual Appropriation Ordinance adopted by the City Council. This ordinance provides departments with spending authority within the Council-adopted budgetary limits.

Together, these controls ensure that expenditures, including those under contracts such as Herc Inc., are consistent with both the City's legal and fiscal frameworks.

Departmental Expenditures and Budgetary Oversight

Departments have discretion to incur non-personnel expenditures within their overall appropriated budgets to effectively deliver services and programs. In accordance with the

Appropriation Ordinance, budgetary control is maintained at the Personnel Expenditure (PE) and Non-Personnel Expenditure (NPE) category levels, rather than at the individual line-item or commitment-item level. This provides departments flexibility to manage operational needs—such as vehicle and equipment rentals—while staying within their total budget authority.

The Department of Finance (DoF) continuously monitors fund balances, revenues, and expenditures across all City departments and funds. Throughout the fiscal year, DoF prepares and submits monthly and quarterly financial performance reports to City Council that identify significant variances and recommend corrective or mitigating actions.

For example, in the FY2024 Third Quarter Budget Monitoring Report, DoF analyzed projected savings and overages across all departments and requested Council approval to use available savings to offset overages elsewhere. This approach allows departments to continue essential operations without disruption even when unforeseen expenses—such as rental vehicle needs—arise.

As an illustration, certain conditions like a wetter-than-average year can reduce irrigation costs in Parks and Recreation, creating offsetting savings to help absorb unexpected costs in other areas such as equipment rentals.

Disclosures Related to Rental Expenses

According to the audit, most of the overages associated with the Herc Inc. contract occurred during Fiscal Year 2024. The FY2024 Third Quarter Budget Monitoring Report identified the following projected overages and rental-related expenditures:

- Transportation Department – Approximately \$2.0 million in fleet vehicle and equipment rentals as part of a \$5.3 million total overage in the Contracts and Services category. These rentals were necessary to sustain operations pending the delayed delivery of replacement vehicles.
- Stormwater Department – About \$4.0 million total overage in the Contracts and Services category, including emergency equipment rentals following the January 2024 storm event for debris removal and channel maintenance. Some of these overages were offset by \$1.8 million in special consulting services and \$1.2 million in appropriation increases authorized by Council in the mid-year budget actions related to the January 2024 winter storms.
- Public Utilities Department – Operations for the Water and Sewer funds are supported by large enterprise funds that, while still subject to procurement thresholds and budgetary limits, can more readily absorb additional rental costs due to the scale of their operations without impacting service delivery.

Additional information regarding expenditure overages and savings for each department can be found in the [Fiscal Year 2024 Third Quarter Budget Monitoring Report](#).

Citywide Mitigation Actions and Year-End Results

To ensure that the General Fund and other operating funds closed the fiscal year in balance, the City implemented several mitigation actions during FY2024:

1. Suspension of non-essential spending beginning December 2023.
2. Encumbrance of non-discretionary budgets (e.g., utilities, fuel, IT, and debt service) and partial restrictions on overtime.
3. Executive review and approval of hiring requests beginning March 2024 to control personnel costs.
4. Reduction in fringe benefit costs, including lower-than-projected expenditures for Other Post-Employment Benefits (OPEB) and Workers' Compensation, which generated substantial citywide savings.
5. Deferral of a planned General Fund reserve contribution, freeing up \$8.4 million to support ongoing operations.
6. Financing of certain capital improvement projects, releasing \$25 million in cash resources, including \$10.8 million returned to the General Fund and \$14.2 million redirected to pay debt service for CIP projects that would have otherwise been incurred by the General Fund.
7. Refuse Disposal rate relief and other fund-level adjustments that reduced costs in impacted departments.

Through these combined efforts, the City realized approximately \$18 million in expenditure savings and closed FY2024 with a balanced budget. This resulted in additional Excess Equity in the General Fund, that was later appropriated for use during Fiscal Year 2025.

In summary, the City takes a comprehensive, citywide approach to managing its budget—balancing operational needs across departments to minimize service-level impacts. Through the Department of Finance's ongoing monitoring, embedded budgetary controls, and periodic reporting to City Council, the City ensures that overages in one area are offset by savings in another, preserving continuity of essential public services even during unanticipated events such as major storms or supply chain delays. These monitoring reports also serve as a key mechanism for communicating significant variances in revenues and expenditures to the Council, allowing for timely corrective action and transparent financial oversight.

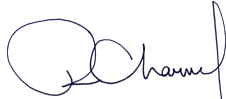
At the same time, as acknowledged in the Purchasing & Contracting (P&C) Department management response to the audit, there is a need to adopt additional measures to strengthen oversight and adherence to contract limits. P&C has advanced these commitments by developing a written contract alteration process, clarifying approval thresholds, and improving SAP-Ariba integration through the development of the Ariba Contract Tracker (ACT) report.

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Finally, P&C is working to expand procurement knowledge & procedures across departments through the ongoing Procurement Academy and Procurement Champions training programs to ensure consistent contract compliance Citywide.

Should you have any further questions or wish to discuss this matter in more detail, I would be pleased to provide additional information or clarification.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Rolando Charvel', with a stylized circular flourish at the beginning.

Rolando Charvel
Department of Finance Director and City Comptroller

RC/rc

cc: Honorable Mayor Todd Gloria
Honorable Members of the City Council
Honorable City Attorney Heather Ferbert
Paola Avila, Chief of Staff, Office of the Mayor
Charles Modica, Independent Budget Analyst
Matthew Vespi, Chief Financial Officer, Office of the Mayor
Scott Wahl, Chief of Police, Police Department
Robert Logan, Fire Chief, Fire-Rescue Department
Kristina Peralta, Deputy Chief Operating Officer, Office of the Mayor
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