
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 203

Approval of FY 2010 Budget for San Diego Data Processing Corporation

OVERVIEW

Item 203 on the City Council docket of Monday, June 22, 2009 requests the approval of the Fiscal Year 2010 Budget of the San Diego Data Processing Corporation (SDDPC). In addition, the action requests staff to return to the Rules, Open Government, and Intergovernmental Relations Committee with an update on the Master Services Agreement between the City and SDDPC.

SDDPC first presented its FY 2010 Proposed Budget to the City Council's Budget Review Committee at the May 7th budget hearing, as did all of the City's independent agencies. Since that time, the FY 2010 budgets for the Redevelopment Agency (including CCDC and SEDC) and the Housing Commission were approved by the appropriate legislative bodies on Tuesday, June 9 and Tuesday, June 16, respectively.

Budget Process Reform for Independent Agencies

City oversight of its independent agencies was strengthened this year through direction given to provide budget information consistent with all other City departments; implementation of a new technical budget review process conducted by the City's Financial Management Department; and inclusion of the independent agencies into the City's regular budget hearing process resulting in a two-step review process at the legislative level for the first time. These budget reforms are vital to ensuring a robust review of the budgets of the City's independent agencies.

The IBA recommends that further improvements be made to the budget process timeline to advance budget reviews by the independent agencies and their respective boards to more closely align with the City's budget review and hearing process.

In the IBA's Review of the FY 2010 Proposed Budget, the IBA recommended that City Council approval of the SDDPC Budget should be required (in a departure from recent past practice) in order to comply with the Operating Agreement, as it is currently written. At the May 7th budget hearing, City Attorney Jan Goldsmith also indicated that City Council approval of the SDDPC Budget is required. The City Attorney also discussed that requirements for budget approval by the City Council may be more appropriate for inclusion in the bylaws of SDDPC, rather than the Operating Agreement.

Recap of Issues Discussed at the May 7th Budget Hearing

The Board of Directors approved the FY 2010 Budget for SDDPC on March 26, 2009. At that time, the FY 2010 Budget reflected an increase of \$1.8 million in salaries and fringe benefits, and a reduction of \$1.5 million in non-personnel costs, for a total budget of \$46.8 million. The budget included the addition of 22 positions, some of which had already been hired, to address increased workload requested by the City's OneSD project (5), other City projects (6), SDCERS (3), ARJIS (5) and SDDPC administration (3). The budget for FY 2010 eliminates funding for bonuses.

At the May 7th budget hearing, SDDPC staff indicated that the Board was to approve a 6% reduction to employee compensation, consistent with actions taken impacting City employees, which reduces the SDDPC budget approximately \$1.6 million since the initial FY 2010 proposal, as shown in the chart below. This action reduces the SDDPC budget to \$45.2 million for FY 2010.

SUMMARY OF BUDGET CHANGES					
	FY 2009	FY 2009 PROJECTED	FY 2010 PROPOSED	FY 2010 REVISED	FY 2010 Budget Change
Personnel					
Salaries & Wages	20,070,000	19,831,077	21,364,410	20,229,939	(1,134,471)
Overtime	163,000	205,500	166,040	166,040	-
Fringe Benefits	6,566,000	6,673,500	7,053,644	6,603,986	(449,658)
<i>Subtotal</i>	\$ 26,799,000	\$ 26,710,077	\$ 28,584,094	\$ 26,999,965	\$ (1,584,129)
Non-Personnel					
Data/Voice Circuits & Lines	4,896,000	5,195,500	4,555,672	4,555,672	-
Professional Services	1,562,000	2,331,000	1,456,632	1,456,632	-
Equipment & Software Maint.	6,899,000	6,744,000	5,367,429	5,367,429	-
Depreciation	4,434,000	4,227,000	4,984,847	4,984,847	-
Facilities	1,102,000	1,105,500	1,091,976	1,091,976	-
Supplies & Others	846,000	520,000	769,628	769,628	-
<i>Subtotal</i>	\$ 19,739,000	\$ 20,123,000	\$ 18,226,184	\$ 18,226,184	\$ -
TOTAL	\$46,538,000	\$46,833,077	\$46,810,278	\$45,226,149	\$ (1,584,129)

The Mayor's May Revision to the FY 2010 Budget, dated May 18, 2009, also described that the SDDPC budget would be reduced by 6% in the area of employee compensation. Rates paid by the City for SDDPC services were revised to reflect the reduced costs for

next year, and City departmental IT budgets were reduced accordingly, directly translating this reduction into savings to the City's budget.

At the budget hearing, Councilmember Gloria requested additional detail be provided on position salary and fringe benefit costs for Fiscal Years 2008 and 2009, as well as the cost of SDDPC services to be provided to OneSD. In addition, Councilmember Frye requested a list of revenues associated with OneSD. Responses to these requests were provided in the May 20, 2009 referral response memorandum from the City's Financial Management Director.

Audit of SDDPC

On May 5, the City Auditor released his Audit of San Diego Data Processing Corporation's Compensation and Budgeting Practices. The audit found that SDDPC budgeting and compensation policies could be improved, and that Council approval of SDDPC's annual budget was not directly obtained as required by the Operating Agreement during the review period. Six recommendations were made to strengthen SDDPC's budgeting and compensation practices, including amending the SDDPC Operating Agreement to require the development of a written budget policy; to require SDDPC to submit salary and wage ranges for each of its job classifications, including actual executive salaries and benefit packages, during the annual budget process; and to develop additional controls over the agency budgeting process to ensure that the required budget approvals are obtained.

The City Auditor is also performing a follow-up audit on the recommendations made to SDDPC in an audit report issued in 2004, and the target date for issuance of the final report is June 30, 2009.

Master Services Agreement

City management and SDDPC staff are working on the creation of a new Master Services Agreement (MSA) to replace the existing Operating Agreement. It is planned that staff will come to the Rules Committee to provide an overview of the new MSA, which is to include updated procedures and time schedules related to budget preparation, among other areas. Concurrently, a review of the SDDPC bylaws will be undertaken to determine if revisions are needed for new operational requirements.

The City Attorney's Office is evaluating the legal issues surrounding the level of detail and the issue of approval of the SDDPC annual corporate budget by the City Council and/or the Mayor, and the results of the legal research will be included in the new MSA. The City Council may wish to provide direction in this area at this time, during the development of the proposed MSA document.

To the extent possible, the IBA recommends that consistency be achieved with changes being proposed to the Operating Agreements for SEDC and CCDC to address any oversight or operational deficiencies, and to strengthen budgetary control and reporting,

and that findings and recommendations made by the City Auditor will be addressed and incorporated in the proposed MSA and corporation bylaws, as appropriate.

OneSD Preparedness

At the May 7th budget hearing, Councilmember Gloria also inquired as to SDDPC’s ability and expertise to provide ongoing support to the City and OneSD as it transitions to an SAP environment. The City’s Financial Management Director indicated that an assessment was currently underway, and it was possible that gaps may exist which may need to be addressed through alternative contracting arrangements, depending on the assessment outcome.

The City Council’s Rules Committee will be receiving an update on the status of the City’s OneSD (ERP) Project on Wednesday, June 24. This update describes that the assessment of the readiness of technical and business staff to support the OneSD production system will be reported to the Rules Committee at its next scheduled update (in July).

CONCLUSION

The IBA recommends that the City Council approve the FY 2010 Budget for the San Diego Data Processing Corporation, and request staff to return to the Rules, Open Government, and Intergovernmental Relations Committee with an update on the Master Services Agreement between the City and SDDPC.

In addition, we recommend that further improvements be made to the budget process timeline of the independent agencies to more closely align with the City’s budget review and hearing process.

To the extent possible, the IBA recommends that consistency be achieved with changes being proposed to the Operating Agreements for SEDC and CCDC to address any oversight or operational deficiencies, and to strengthen budgetary control and reporting, and that findings and recommendations made by the City Auditor will be addressed and incorporated in the proposed MSA and corporation bylaws, as appropriate.

The City Council may wish to provide direction to staff related to the Master Services Agreement at this time, during the development of the proposed document.

[SIGNED]

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