

CITY OF SAN DIEGO
Office of the Auditor & Comptroller
Proposed Office Reorganization

Objective: The purpose of the proposed reorganization is to re-align duties and responsibilities within the Auditor's office to better reflect the office's priorities while enhancing the efficiency, timeliness and quality of the office's business processes. *It is our goal to achieve this restructuring within the Department's current budget.*

Background: A preliminary survey of the organization of the Auditor's office disclosed numerous business processes and associated tasks that appear to have loosely evolved over time as additional needs arose for accounting data and reports. The current allocation of job tasks, workflow, span of authority, and supervisory responsibilities has led, we believe, to unclear concepts of accountability within the Department, duplicative effort, lack of adequate automation of repetitive tasks, and ultimately a work product that needs to be improved as to accuracy and timeliness.

Executive Summary

This summary addresses two major issues:

- Proposed changes to be made in the Department's **organization**; and
- Plans for reviewing and re-engineering the Department's **primary business processes**.

A long-term operating philosophy that values continuous process improvements and on-going professional training for staff will be an integral part of the reorganization.

A. Summary of Recommended Organizational Modifications:

(1) **Establish a new operating division and re-align certain tasks among existing divisions** - The Office of the Auditor & Comptroller currently has four divisions: Accounting Division, Payment Services Division, Audit Division, and Financial Systems Division. The Accounting Division, which is responsible for preparing the City's comprehensive annual financial report (the CAFR), is by far the Department's largest division, containing approximately two-thirds of the Auditor's total staff. Because of the division's size and scope of its responsibilities, CAFR preparation is relegated to one of many tasks on the division's agenda.

A major component of this proposed reorganization is to divest the Accounting Division of responsibility for numerous tasks not directly related to CAFR preparation to enable that division to more effectively focus on the CAFR. This will also permit the narrowing of accountability for the CAFR's accurate and timely preparation. Certain

other duties will be reassigned among the other divisions to achieve a more logical grouping of related tasks.

To implement this realignment of duties and responsibilities within the Auditor's office, two of our divisions would be renamed to reflect the nature of the realignment and one new division would be added.

(2) Decentralize certain proprietary and intergovernmental accounting functions - In addition, certain proprietary and intergovernmental accounting activities currently performed by the Accounting Division would be decentralized so that members of the Auditor's staff would be transferred to those departments for which they are performing the accounting function. This would enable those individuals doing the accounting work for the Water Department, Sewer Department, and SDCERS, for example, to become part of the management team for each of those departments. We believe that this modification would not only enable accounting staff to better serve the accounting needs of the individual departments but would also assist in the CAFR disclosure process by enabling staff to become more aware of operational and financial risks as they arise.

(3) Establish the Position of 'Chief Accountant' – Proper preparation of the City's annual financial statements is the responsibility of the Auditor & Comptroller's Office. These financial statements are representations of the City's management, responsibility for which cannot be delegated to the City's outside audit firms. Past reliance on the City's external audit firms to assure accurate preparation of the CAFR was essentially necessitated by a lack of a high level accounting theoretician on the Auditor's staff.

As part of our re-organization, we recommend the establishment of a "Chief Accountant" position in our office. This individual would be a Certified Public Accountant, responsible for setting City-wide accounting policies to assure accurate CAFR preparation and accounting disclosures in accordance with Government Accounting Standards Board (GASB) standards.

Please refer to Attachments A and B for the proposed and current organization of the Auditor & Comptroller's Office.

B. Summary of Projects to Review Major Business Processes:

(1) **'First Tier Projects'** - The Auditor & Comptroller's Office has identified four major projects to address internal business processes over the next six to twelve months. **These four projects are related since they each have an impact on the timely and accurate preparation of the City's CAFR.** Each project will be staffed with a four person Project Team under a 'team leader' who, in turn will report to a three person 'executive team' for the following projects:

- Review and redesign of the CAFR preparation process
- Review of City-wide internal controls

responsible for the CAFR is the Accounting Division which includes four subdivisions responsible for a broad range of issues:

- capital improvements accounting,
- general accounting operations,
- intergovernmental accounting (e.g. RDA, Retirement Fund accounting, grants, etc.), and
- accounting for proprietary funds (e.g. Water and Sewer Departments, golf courses, etc.).

To accomplish the above tasks, almost *two-thirds* of the Auditor’s total staff is assigned to the Accounting Division and report to *one* division manager resulting in an excessively broad ‘span of control’ and subsequent dilution of operating focus. Many of these tasks are not logically related and do not appear grouped together out of necessity.

ACTION: Reorganize the General Accounting Division by reallocating its current responsibilities among three divisions on a basis that more logically groups related tasks. Two of these divisions already exist, and one would be newly established. The two existing divisions would be renamed to more accurately reflect the realignment of duties as follows:

<u>Current</u>	<u>Proposed</u>
General Accounting	Financial Reporting and Budget
Payments Services	Accounting Operations and Disbursements
N/A	Specialty Accounting and Debt Management (New)

- Financial Reporting and Budget Division – This division would focus on and be responsible for the timely and accurate preparation of the City’s CAFR to include coordinating the timely gathering of necessary data, preparation of the CAFR document including necessary footnote disclosures, and preparing documentation to facilitate the annual external audit.
- Accounting Operations and Disbursements Division – This division would continue to be responsible for preparation of the City’s bi-weekly payroll and payments to outside vendors and contractors. *In addition, this division would assume the general accounting operations currently housed in the Accounting Division.*
- Specialty Accounting and Debt Management Division - This new division would be established to perform accounting tasks for a variety of accounting needs currently performed in the Accounting division. Accounting for certain proprietary funds (e.g. golf courses), intergovernmental activities (e.g. redevelopment agencies) and debt management activities would be the responsibility of this division. Separating these functions into a new division would serve to better fix responsibility for these activities and simplify

supervision and oversight of the CAFR process in the Financial Reporting and Budget Division.

2. Decentralize certain proprietary and intergovernmental accounting functions - In addition, certain proprietary and intergovernmental accounting activities currently performed by the Accounting Division would be decentralized so that members of the Auditor's staff would be transferred to those departments for which they are performing the accounting function. This would enable those individuals doing the accounting work for the Water Department, Sewer Department, and SDCERS, for example, to become part of the management team for each of those departments. We believe that this modification would not only enable accounting staff to better serve the accounting needs of the individual departments but would also assist in the CAFR disclosure process by enabling finance staff to become more aware of operational and financial risks as they arise.

Initially, staff members physically transferred to other departments would continue to report to the Auditor & Comptroller. After an agreed-upon transition period (up to one year), upon mutual agreement of the department managers, staff would be transferred to the subject department and be incorporated in that department's budget

3. Establish the Position of 'Chief Accountant' – Proper preparation of the City's annual financial statements is the responsibility of the Auditor & Comptroller's Office. These financial statements are representations of the City's management, responsibility for which cannot be delegated to the City's outside audit firms. Past reliance on the City's external audit firms to assure accurate preparation of the CAFR was essentially necessitated by a lack of a high level accounting theoretician on the Auditor's staff.

As part of our re-reorganization, we recommend the establishment of a "Chief Accountant" position in our office. This individual would be a Certified Public Accountant, responsible for setting City-wide accounting policies to assure accurate CAFR preparation and accounting disclosures in accordance with Government Accounting Standards Board (GASB) standards.

B. Summary of Projects to Review Major Business Processes:

1. **'First Tier Projects'** – brief descriptions of the four identified 'priority projects' follow: (Draft detailed 'Project Sheets' for the first two projects are included as Attachments C and D).

a. Review and re-engineer the CAFR preparation process.

- Prepare agenda for a 'lessons learned' meeting for all staff (and KPMG) based upon the 2003 CAFR experience.
- Document (flowchart and narrative) each step in the CAFR process including sources of data, methods used to gather, summarize and verify data, as well as qualifications, experience and training of specific individuals involved.

- Document the process for preparation of annual footnote disclosures accompanying the financial statements.
- Prepare tentative timeline for preparation of CAFR at year-end.
- Based on above documentation, re-design CAFR process with emphasis on internal controls to assure accuracy and timeliness of 2005 CAFR.

b. Sarbanes-Oxley review - to assess the condition of the City's internal control structure with a view towards assuring the existence of a comprehensive framework of internal controls to assist management in achieving its objectives.

- Provide formal training to department managers and financial staff covering basic internal control concepts and the role of internal controls in assisting managers to achieve their objectives.
- Develop and circulate a risk self-assessment document to be completed by each department.
- Analyze responses received and determine extent of necessary follow-up testing in each instance.
- With the assistance of departmental personnel, design controls as needed to compensate for control weaknesses identified from the risk assessment above.
- Prepare recommendations for management's consideration to strengthen controls as appropriate.

c. Survey of Financial System reporting capabilities - review and assess current reporting of management and financial data generated by the City's current financial system, as to content, format, and timeliness. Initiate several 'bridge projects' to simulate on-line, real-time data interaction capabilities.

d. Evaluate possible decentralization of proprietary accounting functions to strengthen internal controls over CAFR preparation

2. **'Second Tier Projects'** – This next level of projects is concerned primarily with reviewing current operations within the Auditor's office to improve overall efficiency and effectiveness. We will review process workflow, opportunities to automate repetitive, mundane tasks in order to maximize staff efficiency. Projects initially identified include a review of the City's bill paying process, accounting for 'construction-in-progress', petty cash and travel reimbursements, and employee timesheet preparation.

In time, all of our business processes will be reviewed and redesigned as appropriate. Revenue audit programs designed to recover underpaid transit occupancy taxes and other revenues will be reviewed as well as the quality of services provided by the Auditor's office to the redevelopment agencies, and City departments.