
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: January 31, 2008

IBA Report Number: 08-11

City Council Date: February 5, 2008

Item Number: 330

Agreement with Actuarial Service, P.C. (update)

OVERVIEW

This report is a follow-up to our Report [08-8](#) regarding the Agreement with Actuarial Service Company. The item was continued on January 22, 2008 and will be heard again at the City Council meeting of February 5, 2008. This report discusses updated contract administration controls as well as funding sources for the contract.

FISCAL/POLICY DISCUSSION

Contract Administration

In our original report, we expressed concern about the efficacy of contract administration controls to ensure that future overages and unauthorized spending would or could be precluded. An addition to the contract has since been provided which requires the contractor to provide monthly reports to the City Attorney, COO and IBA on the costs of services rendered and the funds remaining. This is an additional helpful control and we would make just two additional suggestions. First, the monthly reports should include not only information on services previously rendered, but ongoing projects and estimates for what portion of the remaining contract balance they may utilize in the coming months. Secondly, we suggest that a status update on the efficacy of these new controls be provided mid-year to the City Council or a committee, in writing and/or in public session.

The contract also provides for controls on expenses that may be reimbursed to the contractor. Specifically, section 2.D.(9) (p. 4 of the contract) does not allow for reimbursement of airfare in excess of coach or economy class fares; and lodging, meals and ground transportation costs in excess of \$300 per day. In a brief review of some of the contractor's expenses, there are several items that may not meet this test. The IBA also suggests that staff advise the City Council of how these controls are enforced in general and whether or not they need to be strengthened in this contract.

Finally, staff has advised that there are plans to split this into two contracts, one under the purview of the City Attorney and one for the Mayor, Council and IBA, each with separate pots of funding. These documents have not been provided at the time of this writing, so the IBA has been unable to review them.

Funding Sources

With regard to funding for the contract, we wish to ensure that the correction by the Financial Management Director (memo dated January 22, 2008) for the allocation of funds be included in the City Council's action. According to that memo, \$104,400 should come from the enterprise funds, per the cost allocation policy. This suggests that \$295,600 be taken from the Appropriated Reserves yet we continue to question the need for this. Although the \$280,000 appropriated for this purpose at FY 2007 Year-End was not encumbered and thus fell to fund balance shortly after its appropriation, we do reiterate other funding recommendations made in our earlier report. This includes that the \$150,000 in unauthorized work be absorbed in the operating budgets of the benefiting department(s), since there were no extenuating circumstances preventing staff from bringing this contract back at an earlier date. In addition, it serves as a measure of accountability to ensure that departments are held responsible when they commit the City to unauthorized expenditures. This would leave \$145,600 to be funded through another General Fund source.

One other funding source the IBA suggests is in Citywide – Special Consulting Services. During the budget process, the IBA identified nearly \$1.3 million in miscellaneous unallocated funds in this area. Total funding of \$2.9 million remained in the budget and, to-date, \$1.9 million is unexpended and unencumbered. The Mid-Year Report showed that this category would be fully expended by year-end, but no explanation was provided as to the costs to be incurred. Additionally, expenditures are not meeting the Mid-Year projections, leaving more funds projected to be unused. Since some of these funds were not allocated for any specific purpose, the IBA suggests that staff speak to the availability of these funds for this purpose before turning to the reserves.

Other issues

Questions have been raised as to why this agreement did not go through a competitive bidding process. While we agree with staff that the contractor's existing relationship with the City and understanding of the relevant materials and issues makes it more

economical to continue this relationship, we note that this contract was not competitively bid even at its original inception, and this contractor's unique qualifications and pricing have not been established. The IBA suggests that staff respond to this concern and suggest a timetable for competitively bidding this work, such as when this contract expires in December 2008.

Further questions have also been raised about the necessity of hiring the City's own actuary and any redundancy to the SDCERS actuary. The Kroll report recommended that the City "periodically, but no less frequently than every three years" retain an actuary to review the SDCERS valuation and to evaluate the cost of any new, proposed retirement benefits. We would note, however, that the scope of this contract includes a number of additional tasks such as assisting the Auditor & Comptroller with preparation of certain items for the CAFR and providing expert testimony and litigation support to the City Attorney.

CONCLUSION

The IBA recommends that the City Council move forward with the approval of this contract in order to enable important projects to proceed, subject to the following questions or additions:

1. The actuary's monthly status report should include an estimate of the remaining contract balance to be utilized by ongoing projects.
2. Staff should speak to contract controls that ensure vendors are not reimbursed for improper expenditures.
3. The City Council action should include \$104,400 in funding from the enterprise funds, per the memo of the FM Director, which is not specified in the docket.
4. Direct benefiting departments to absorb \$150,000 in unauthorized work within their operating budgets.
5. Explore the use of funds already remaining in the Citywide Program Expenditures, before transferring funding from reserves to Citywide.

[SIGNED]

Penni Takade
Deputy Director

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst