



DATE: January 22, 2024  
TO: Honorable Members of the Audit Committee  
FROM: Andy Hanau, City Auditor  
SUBJECT: **Office of the City Auditor's FY2025 Proposed Budget**

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### **Summary**

The Office of the City Auditor conducts audits and investigations that save money; increase the efficiency, effectiveness, and equity of City programs; and help identify and prevent fraud, waste, and abuse. These functions are even more essential when the City's resources are highly impacted and the City is projecting a budget deficit for FY2025. The administration has established a target budget reduction of 2 percent for all General Fund departments, including the Office of the City Auditor, which for OCA equates to approximately \$102,094. OCA fully understands the City's financial condition and the need for budget reduction measures, and we have thoroughly explored all options for OCA to meet the 2 percent target reduction.

However, we have concluded that the requested reduction would have a significant negative impact on operations if accepted, especially given the composition of OCA's budget. Specifically, because OCA is a small department with relatively few non-personnel resources, we would have to reduce our salary budget by 3.3 percent to achieve the 2 percent overall budget reduction requested. This would erode recent efforts to make OCA staff salaries competitive, and would likely have a significant effect on OCA staff morale, recruiting, and retention.

Based on the City's financial needs and OCA's operational realities, we provide the following proposal, which we believe provides a balanced solution.

- A 1.2 percent reduction (approximately \$61,787), which equates to 2 percent of OCA's salary budget, with the following conditions:
  - The reduction should be made on a one-time basis and not on a continuing basis that would impact our budget in future years.
  - No additional reductions, such as a salary savings factor, should be included in OCA's FY2025 budget.
  - OCA will maintain staff salaries at competitive levels and will not reduce staffing.

- Should any vacancies occur during FY2025, OCA will make every effort to hold those position(s) vacant for sufficient time to achieve the 1.2 percent overall budgetary savings.
- OCA will provide quarterly updates to the Audit Committee and Administration on progress in achieving the 1.2 percent savings.
- Should the ballot measure to provide OCA and the Audit Committee with access to independent legal counsel receive voter approval at the March 2024 election, OCA's 2025 budget should honor the will of the voters and include \$180,000 for independent legal counsel.

We request that the Audit Committee consider this proposal for FY2025. The following sections describe OCA's budget, the reduction requested by the Administration, and our alternative proposal in more detail.

### **The Audit Committee Recommends OCA's Budget to the City Council**

Under City Charter Section 39.1, the Audit Committee recommends to the City Council the annual budget for the Office of the City Auditor and the annual compensation of the City Auditor. To facilitate the Audit Committee's deliberation, **Exhibit 1** includes the Office of the City Auditor's adopted Fiscal Year (FY) 2024 budget for the Audit Committee's consideration as the basis for our FY2025 proposed budget.

### ***Exhibit 1***

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#### **City Auditor's FY2024 Adopted Budget**

<b>FY2024 Adopted Budget</b>	
<b>Positions (FTE)</b>	<b>24.0</b>
<b>Salaries and Wages</b>	<b>\$ 3,089,346</b>
<b>Fringe Benefits</b>	<b>1,372,654</b>
<b>Subtotal</b>	<b>\$ 4,462,000</b>
<b>Non-Personnel</b>	<b>292,700</b>
<b>Subtotal</b>	<b>\$ 4,754,700</b>
<b>ACFR Audit Expense</b>	<b>350,000</b>
<b>Total</b>	<b>\$ 5,104,700</b>

### **Proposed Changes for FY2025 Proposed Budget**

As per the City Charter Section 39.1, the Audit Committee recommends the City Auditor's budget to the City Council for approval. The Administration has indicated a target budget reduction for the Office of the City Auditor that is approximately 2 percent (approximately \$102,094) of our total overall budget. If the FY2025 budget includes this reduction, it would have a significant negative impact on our operations. As shown above, nearly 90 percent of OCA's budget is comprised of salary and fringe expenses. Non-personnel expenses cannot be reduced, as the Annual Comprehensive Financial Report (ACFR) must be fully funded for the City to comply with financial reporting requirements, and we must have sufficient NPE to fund contracts for critical Fraud, Waste, and Abuse and audit software, as well as fund staff continuing professional education that is required by Government Auditing Standards. Consequently, a 2 percent overall reduction could only be achieved by reducing our salary budget by 3.3 percent, which could likely only be achieved through staffing reductions, furloughs, or salary cuts. Any of these measures would diminish OCA's operational capacity and negatively impact staff morale, recruiting, and retention.

As this Committee is aware, the City and its residents benefit from our performance audits and Fraud Hotline investigations, which provide increased operational efficiencies, savings, and accountability. In the face of the City's budgetary challenges, the Office of the City Auditor is a key asset to ensure that limited public funds are used appropriately, effectively, and efficiently. In short, diminishing OCA's operational capacity during periods of fiscal austerity is counterintuitive. In addition, a 3.3 percent reduction in OCA's salary budget would erode recent efforts to make OCA staff salaries highly competitive.

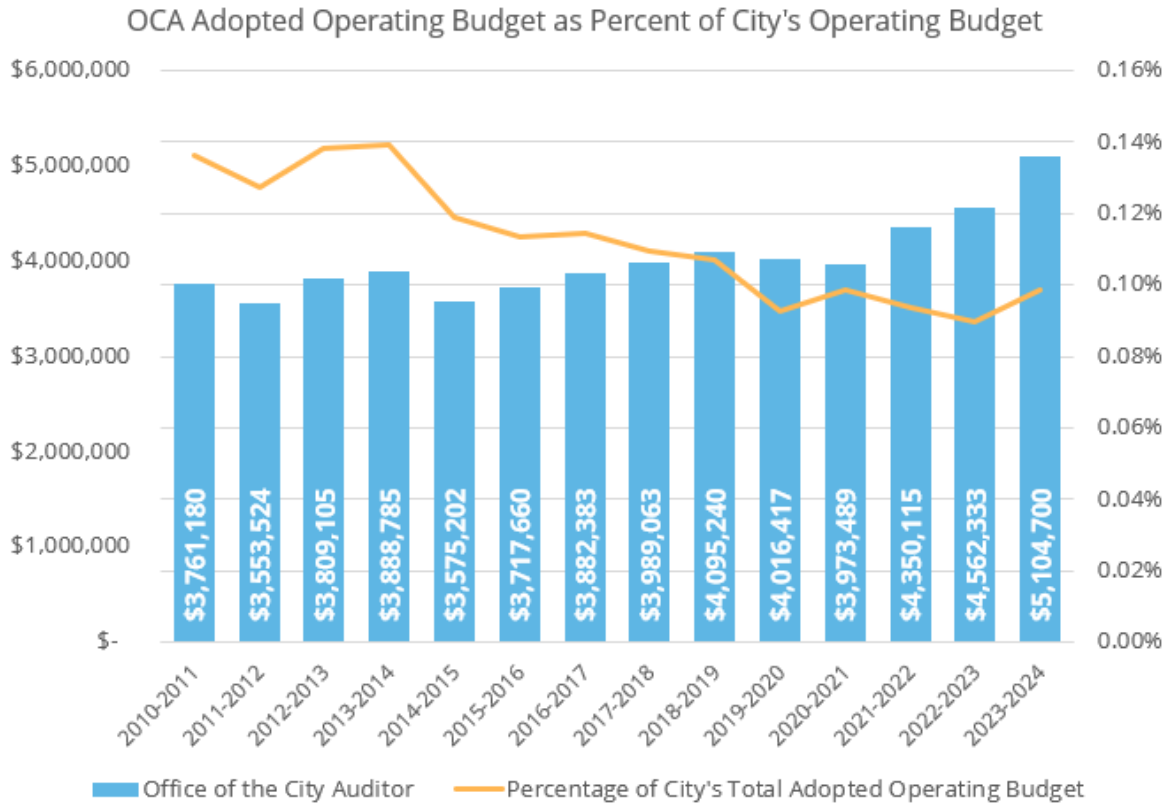
For further context, **Exhibit 2** shows OCA's budget as a percentage of the City's budget for FY2011 through FY2024. While OCA made up approximately 0.14 percent of the City's budget in earlier years, this declined to only 0.09 percent by FY2023, due to years of growth in the City's overall budget, relative stagnation in OCA's budget, and a 3 percent reduction to OCA's budget in FY2018. In short, during these years, OCA's ability to provide sufficient audit coverage of City operations declined. In addition, OCA staff salaries fell far behind those of peers, threatening OCA's ability to attract and retain highly qualified staff.

As you are aware, the Committee unanimously supported an increase in OCA's FY2024 budget to add positions, help right-size OCA and increase audit coverage, and make OCA staff salaries highly competitive. Thanks in part to the Audit Committee's support, the Mayor and City Council included additional resources in OCA's budget, which reversed the previous downward trend. While this is greatly appreciated, we note that this increase only

brought OCA up to 0.10 percent of the City's overall budget, meaning we are still under-resourced compared to earlier years. In other words, for every \$100 the City spends, only about 10 cents is spent on OCA.

**Exhibit 2**

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### **OCA's Proposed FY2025 Budget Reductions**

While OCA is under-resourced, we recognize the City's budgetary situation. As noted above, we have explored multiple options to meet the requested budget reduction targets, and have determined the full 2 percent cut (\$102,094) would not be feasible without significantly impacting OCA operations and staff morale, recruiting, and retention. Therefore, we propose the following alternative, which achieves the majority of the Administration's request, while minimizing the negative operational impacts of a reduction.

- We propose that the 2 percent cut be applied only to OCA's salary budget. This equates to a reduction of \$61,787, or 1.2 percent of OCA's overall budget. Based on historical trends, OCA routinely has one or more vacancies during the course of the fiscal year. To help achieve budgetary reductions, OCA would commit to holding any vacancies in FY2025 open long enough to achieve targeted reductions. OCA would provide quarterly status updates to the Audit Committee and City Administration throughout the fiscal year, including progress made towards achieving the 1.2 percent reduction. We submit that this course of action would achieve necessary reductions, while ensuring that OCA's recent salary adjustments to competitive levels and personnel right-sizing, which this Committee and Council supported, remain intact.
- Based on our analysis, OCA requests that the 2 percent salary budget reduction should be a one-time reduction for FY2025, not an ongoing structural adjustment.
- OCA requests that no additional reductions, such as adding a salary savings factor, be applied to our FY2025 budget.
- The City Council placed Measure A on the March 2024 ballot, which would provide access to independent legal counsel for OCA and the Audit Committee. In the event that the ballot measure receives voter approval, OCA requests that the FY2025 budget honor the will of the voters and include \$180,000 for independent legal counsel.

**Conclusion**

We recognize the City's budget constraints in the coming year, and OCA is committed to helping the Administration meet necessary budgetary reduction targets. However, given the composition of OCA's budget and the need to maintain operational readiness, a bluntly applied 2 percent budget cut increases the City's risk and diminishes our ability to retain qualified staff, and serve the City and our residents by identifying savings, potential revenues, and efficiencies through our audits and investigations.

OCA appreciates and values this Committee's support of our mission, and we equally value the Committee's input on this challenging issue. Contingent on the Audit Committee's support, we request that the Audit Committee accept the proposal outlined above and recommend that the City Council accept OCA's proposed plan.

I look forward to discussing the City Auditor's FY2025 Proposed Budget at the January 2024 Audit Committee meeting.

Respectfully submitted,



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Andy Hanau  
City Auditor

cc: Honorable Mayor Todd Gloria  
Honorable City Council Members  
Eric Dargan, Chief Operating Officer  
Matthew Vespi, Chief Financial Officer  
Rolando Charvel, Director & City Comptroller, Department of Finance  
Charles Modica, Independent Budget Analyst