



## THE CITY OF SAN DIEGO

DATE: April 8, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Office of the City Auditor Fiscal Year 2011 Proposed Budget**

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Under City Charter Section 39.1, the Audit Committee recommends to the City Council the annual compensation of the City Auditor and annual budget for the Office of the City Auditor. To facilitate the Audit Committee's deliberation, I am presenting the Office of the City Auditor FY 2011 budget information for the Audit Committee's consideration.

### **Fiscal Year 2011 Office of the City Auditor Budget Requirements**

The Office of the City Auditor has an integral role in providing accountability and oversight of City operations, programs, and performance. With the historic recession affecting most of the United States, the City of San Diego is experiencing one of the most challenging economic environments in history. This environment requires extra vigilance and innovation to maximize the use of limited resources.

From July 2008 through December 2009, the City Auditor's Office completed 23 performance audits, five agreed-upon procedures reviews, eight hotline investigative reports, and administered four outside audit contracts, which produced 40 audit reports. These reports contained 274 recommendations to improve economy, efficiency, and effectiveness within City government. In total, the City Auditor's Office identified \$7,425,271 in potential monetary recoveries and cost savings for the City, which equates to \$3 in potential savings for every \$1 of audit costs.

The Audit Committee and City Council recognize the value of effective audit services and increased the City Auditor's Office staffing from an initial five full-time equivalent (FTE) positions in July 2008 to 18 FTE positions in January 2010. For FY 2011, the minimum additional budget required to provide the same level of audit services is \$226,363 as shown in Exhibit 1.



**Exhibit 1**

	<b>FY 2010 Budget</b>	<b>Proposed FY 2011 Budget</b>	<b>Change</b>
Positions	16.5 <sup>1</sup>	18.0	1.5
Personnel Expense	\$2,118,468	\$2,330,439	\$211,971
Non-Personnel	162,949	177,341	14,392
Subtotal	2,281,417	2,507,780	<b>226,363</b>
Annual CAFR Audit Expense	250,000	942,374 <sup>2</sup>	692,374
<b>TOTAL</b>	<b>\$2,531,417</b>	<b>\$3,450,154</b>	<b>\$918,737</b>

The decision to augment City Auditor's staffing at midyear FY 2010 instead of the beginning of FY 2010 provided personnel savings equivalent to 1.5 FTE for FY 2010. The proposed FY 2011 budget includes the full-year cost of the approved positions.

Currently, the budget of the City Auditor's Office includes the annual contract cost of the Comprehensive Annual Financial Report (CAFR) performed by the external auditor, Macias Gini & O'Connell LLP.<sup>2</sup> The timing and significance of expenses incurred by this contract show abnormal variation in the City Auditor's Office annual budget and skews the true cost of performance audit services. To more accurately reflect the cost of the performance audit function, the Audit Committee can recommend moving the annual CAFR audit expense from the City Auditor's Office department budget to a citywide account category.

**Recommended Office of the City Auditor Staffing Levels**

In a March 2008 study addressed to the Audit Committee, Jefferson Wells recommended that the City of San Diego should have at least 24.5 FTE audit positions to provide sufficient audit coverage for auditing high-risk areas on a three-year cycle. Currently, the office is comprised of the City Auditor, two audit managers, 13 auditors, one fraud

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<sup>1</sup> The Audit Committee added 3 positions midyear for FY 2010 increasing FY 2010 FTE from 16.5 to 18. As a result, the action necessitated increasing FY 2011 FTE positions by 1.5 and expenses by \$226,363 to annualize the cost of these positions.

<sup>2</sup> In FY 2011, the budgeted Annual CAFR audit expense increased from \$250,000 in FY 2010 to \$942,374 because the City Auditor's FY 2010 budget included only a portion of the contract amount for the FY 2010 CAFR audit (the cost of the FY 2009 CAFR audit was in the FY 2009 budget). The City Auditor's FY 2011 budget includes the remainder of the FY 2010 CAFR contract audit costs, and a portion of the contract amount for the FY 2011 CAFR audit.

investigator, and one support staff. As a result, current staffing remains substantially below Jefferson Wells recommended staffing level necessary to address the high-risks of City operations.

While the staffing additions in FY 2010 are paying dividends in strengthening City Auditor's Office activities, the City remains exposed that high-risk areas will not be audited. The Audit Committee has previously expressed a desire to address this exposure by augmenting City Auditor's Office staffing. Exhibit 2 highlights the cost of augmenting staff and offers an alternative similar to the solution for FY 2010 to reduce the fiscal impact in FY 2011.

**Exhibit 2**

<b>Positions</b>		<b>Add Position Beginning FY 2011</b>	<b>Add Position Midyear FY 2011</b>
Cost to Add 1.0 Auditor Position <sup>3</sup>		\$153,165	<b>\$76,583</b>
Cost to Add 3.0 Auditor Positions <sup>3</sup>		\$459,495	<b>\$229,748</b>
<b>Potential Savings Identified by FTE</b>	1.0 FTE	\$459,495	\$229,748
	3.0 FTE	\$1,378,485	\$689,244

The Audit Committee may want to consider delaying additional positions until midyear in order to minimize the increase in personnel cost. This staffing approach will require funding an audit position for half of FY 2011 at a cost of \$76,583 per FTE.

**Additional Staffing Needs**

In addition to the auditor positions, the Office has additional staffing requirements that need consideration. The Office lacks administrative and clerical support staff to effectively manage the Office. As a result, audit managers and professional staff perform routine administrative-related duties, such as formatting and distributing audit reports, maintaining case files, and scheduling trainings and meetings at a substantial cost premium than the cost of basic administrative support. In order to reduce the inefficient cost of this activity and allow professional staff to focus on more value added audit activities, the Audit Committee could consider adding an administrative support position to the City Auditor's Office. We estimate the total cost of an administrative support position is \$104,365.

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<sup>3</sup> Costs include salary, fringe, and non-personnel expenses such as training and equipment.

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I look forward to presenting this budget at the Audit Committee meeting scheduled for April 12, 2010.

A handwritten signature in cursive script that reads "Eduardo Luna". The signature is written in black ink on a white background.

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Eduardo Luna  
City Auditor