




THE CITY OF SAN DIEGO

DATE: February 27, 2009

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor 

SUBJECT: **Requested Proposal to Expand the CCDC Audit Scope**

At the request of the Audit Committee, Sjoberg Evashenk Consulting, Inc. has submitted the attached proposal regarding the feasibility and associated costs to issue an audit report regarding the “selection and reporting” of the chief executive of the Centre City Development Corporation. The consultant’s proposal provides two alternatives for the Audit Committee’s consideration. Alternative A recommends utilizing the “optional consulting services” provision of the existing contract and increasing the original contract by \$35,000 to address the Audit Committee’s request. Alternative B recommends reducing planned audit hours by eliminating several audit objectives established in the original contract and redirecting the hours to meet the request. The consultant has indicated that both alternatives will require additional planning and field work.

In terms of timeframe, in order to provide a report by April 8, 2009, the consultant needs to commence field work on March 9, 2009. We should note that the additional costs necessary to expand the original contract scope will require City Council approval. Any additional work cannot begin until the City Council docket and approves the revised contract, and according to the consultant’s time estimates, the report will be provided 30 days after the work begins.

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor



MEMORANDUM

Date:

February 26, 2009

To:

Eduardo Luna, City Auditor
City of San Diego

From:

Kurt R. Sjoberg, Partner
Sjoberg Evashenk Consulting, Inc.

Subject:

Audit Committee Request for Expedited Audit Report on CCDC's Chief Executive Selection and Reporting

On February 23, 2009, the audit committee instructed Sjoberg Evashenk Consulting to prepare a proposal regarding the feasibility and associated cost, if any, to expedite delivery of a memo on the "selection and reporting" of the chief executive/president of the Centre City Development Corporation (CCDC).

Although the requested memo is less comprehensive than a broad assessment of all governance issues related to CCDC, the Redevelopment Agency and the City Council, it does, nonetheless, require that our firm review several key governance issues to provide a valid, on-point analysis for the selection and reporting protocols to be used in recruiting CCDC's chief executive/president. Moreover, because this report will be a public document from which important policy decisions will be made, our firm must conduct the additional audit efforts underlying this special request in compliance with Government Auditing Standards, as promulgated by the Comptroller General of the United States.

In this memorandum we outline our proposal for the expedited delivery of a report that fully meets generally accepted government auditing standards by April 8, 2009. This memo also describes the additional audit work that will be required to complete the expedited report, and the additional resources we will dedicate to this effort.

SCOPE & OBJECTIVES

The scope of the requested expedited report is limited to the "selection and reporting" of the chief executive of CCDC. This will entail an expansion of our original scope of work in three important areas. First, the original scope of work for this audit did not address activities related to the "selection" of a chief executive. Nevertheless, with the addition of a few critical fieldwork steps, as outlined below, we will be able to provide the Audit

Committee with timely information that will help in reaching key decisions regarding the governance of CCDC in the future. Second, while we have begun our benchmarking efforts by contacting redevelopment agencies throughout California and the nation, these agencies will not be viable sources for information regarding “selecting” a chief executive since their leadership teams are traditional government management employees – specifically, San Diego’s redevelopment model utilizing not-for-profit corporations like CCDC and SEDC is unique. Consequently, we will need to expand our benchmarking efforts to identify best practice selection techniques beyond the redevelopment arena by including cities that use not-for-profit corporations to deliver other municipal services and/or activities.

Third, addressing the Audit Committee’s request for an assessment of the “reporting” relationship of the chief executive presents some additional issues that will require a shift in resources during fieldwork, as well as some additional tasks. As noted in our January 28, 2009, Bi-Weekly Status Report, we described our approach to addressing the issue of governance and reporting while remaining within the original audit scope for this project. The scope of the current audit focuses on (1) the reporting relationship between CCDC, as a contractor, and the Redevelopment Agency (Agency), and on (2) the level of existing oversight facilitated by the type of information provided by CCDC to the Agency (as described in RFP Objectives 1, 3, 8 and 9).

In our February 23, 2009 presentation to the Audit Committee, we further described the scope of our inquiry as it pertains to governance and reporting; including assessing whether the existing governance structure is sufficient to:

- Provide City officials with reliable, accurate, and timely information needed to maintain accountability and to make key policy decisions.
- Provide the public and City officials with reasonable assurance that redevelopment activities are transparent and appropriate.
- Provide CCDC with the authority and flexibility to achieve redevelopment goals in the Centre City area.

While these original questions of oversight and transparency are crucial to any assessment of the overall governance and reporting structure of CCDC, they do not address a critical issue that appears to be at the heart of the Audit Committee’s request. Specifically, in recruiting a new CCDC chief executive, the City needs to determine to whom the chief executive would be responsible and accountable—such as reporting to the Mayor, the Agency Board, or both—and for the approach chosen, the impact this would have on the roles and responsibility of the CCDC Board.

To adequately address the Audit Committee’s request, we will prepare a special report that incorporates our conclusions and findings only as they pertain to the selection and reporting of CCDC’s chief executive. In the final report for the performance audit of the CCDC issued later in the year, we will include our analysis of the remaining governance issues described above.

METHODOLOGY

To complete this expedited report, we will need to conduct the following additional tasks:

- Analyze CCDC's current reporting structure for its Chief Executive and assess the various impacts to its Charter and By-laws of any changes contemplated.
- Interview key CCDC, Agency and city officials regarding the past selection and reporting protocols and identify related issues, ideas and concerns (including additional stakeholders and other San Diego nonprofit corporations—e.g., Housing Commission—that employ differing governance models)
- Expand benchmarking to non-redevelopment public benefit non-profit corporations to identify best and leading practices in the selection and reporting of chief executive/president positions.

As mentioned above, our benchmarking activities thus far have focused exclusively on redevelopment agencies throughout California and the nation, and have focused on the organizational/governance structure, core business processes, and performance measurement, among others. However, San Diego's redevelopment model (i.e., utilizing two public benefit nonprofit corporations) is relatively unique among other redevelopment agencies.

The public benefit corporation structure is not unique, however, in other areas of government operations, including economic development, visitor's bureaus, housing and public works financing. We believe that by expanding our benchmarking to include such organizations, we can provide the Audit Committee with other alternatives or models to consider for the governance structure, chief executive selection processes, and lines of reporting and responsibility between the executive and the governmental body—alternatives that would not be available if we limited benchmarking to redevelopment agencies.

- Determine the viability of alternative reporting scenarios in the City of San Diego through interview and inquiry of City Attorney and mayoral and council staff.
- Finally, to remain compliant with Government Auditing Standards, the delivery of an expedited report will be subject to the same rigorous planning, documentation, and reporting quality control standards as would any other report. This includes:
 - Clearly outlining the revised scope and objectives with the auditee (CCDC).
 - Planning additional audit work based on the Audit Committee's request and based on our assessment of audit risk, including audit work designed to detect potential violations, fraud or abuse.
 - Developing an understanding of the business processes, pertinent legal/regulatory requirements (specifically regarding corporate governance, reporting and hiring), and internal controls significant to the additional areas under review.

- Obtaining and clearly documenting audit work papers, cross referenced to the draft report, to support fully developed conclusions and findings in the report.
- Conducting an Exit Conference with responsible officials (CCDC and Agency) to obtain their perspectives relating to the findings and recommendations, and incorporate their response into the final report.

RESOURCES AND ASSOCIATED COST & SCHEDULE

Below we present two alternatives that will enable our firm to submit an additional expedited report to the City Auditor for the Audit Committee's consideration. Both alternatives will require additional planning and fieldwork to commence March 9, 2009—any delay here will impact our ability to deliver a report by April 8th.

We anticipate that associated fieldwork will be completed by March 27 and that a draft report will be completed by April 3rd. Once completed, we will conduct our internal quality control review and schedule an Exit Conference with the City Auditor and CCDC to take place by April 6, 2009. This will enable us to deliver a final report to the City Auditor by April 8, 2009. We have determined that an additional 220 hours of additional personnel time, at a cost of \$35,000, will be required to achieve this additional work.

Alternative A

The first alternative is to utilize the "Optional Consulting Services" provision in the existing contract—which has established fixed, fully-burdened hourly labor rates for key personnel for conducting optional consulting services on an as-needed basis during the term of the contract—to increase the contract amount by an additional \$35,000. Because we will not be reducing resources dedicated to the 12 objectives already established in the original scope of work, the delivery of this additional report will not impact the delivery of the original Audit Report in June 2009.

Alternative B

The second alternative would be to reduce resources (220 staff hours valued at \$35,000) by eliminating several objectives established in the existing contract and redirect them to the tasks required to fulfill the Audit Committee's request. As this constitutes a scope change, a contract amendment would be required. Furthermore, we expect that redirecting resources to deliver an expedited report by March 31, 2009, will delay the delivery of the original Audit Report from June to July 2009.

Thank you for your consideration. Please advise us of your decision at your earliest convenience.