



THE CITY OF SAN DIEGO

DATE: January 14, 2021
TO: Honorable Members of the Audit Committee
FROM: Andy Hanau, City Auditor
SUBJECT: Office of the City Auditor's FY2022 Proposed Budget

Summary

The Office of the City Auditor conducts audits and investigations that save money, increase the efficiency and effectiveness 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, as is currently the case due to the COVID-19 pandemic. Therefore, we request that the Audit Committee support maintaining the Office of the City Auditor's budget, with no additions or cuts, for FY2022.

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, I am presenting the Office of the City Auditor's adopted Fiscal Year (FY) 2021 adopted budget in Exhibit 1 for the Audit Committee's consideration as the basis for our FY2022 proposed budget.

Exhibit 1

City Auditor's FY 2021 Adopted Budget

Table with 2 columns: Category and FY2021 Adopted Budget. Rows include Positions (FTE), Salaries and Wages, Fringe Benefits, Subtotal, Non-Personnel, Subtotal, CAFR Audit Expense, and Total.



Proposed Changes for Fiscal Year 2022 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 8 percent (approximately \$312,000) of our total overall budget. If the Audit Committee approved this reduction, it would have a significant negative impact on our operations. It would result in either reduced staff levels or furloughing staff, which would greatly diminish our productivity.

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.

The Audit Committee should note that the cost of the City's financial audit, the Comprehensive Annual Financial Report (CAFR), is included in our budget; in our opinion, the cost associated with the financial audit should be excluded from any budget reduction calculations requested.

- **CAFR Expense** – An expense of \$350,000 for the CAFR audit performed by the external auditor, Macias Gini & O'Connell LLP (MGO), is included in the City Auditor's FY 2021 budget. The timing and significance of expenses incurred by this contract inflates the City Auditor's annual budget and skews the true cost of performance audit and Fraud Hotline investigation services. Including the CAFR audit expense, the City Auditor's total current adopted FY2021 budget is \$4.0 million.

In previous years, the administration has requested a 3.5 percent budget reduction, and at the direction of the Audit Committee, we submitted a 3 percent reduction for our FY2018 budget, which totaled \$110,191. This reduction was accepted by the Administration and significantly reduced our discretionary budget. Since then, the administration has requested additional reductions to our annual budget, and the Audit Committee has unanimously recommended for Council to adopt the City Auditor's budget with no cuts from the approved prior year's budget. This is because any substantial reductions would have a significant impact on our operations as described above.

While we are not proposing any reductions for our office, the administration has implemented a 2.6 percent Citywide contract reduction. This reduction for the OCA is equal to \$19,325 and we have analyzed this reduction and determined it will not significantly

impact our FY2022 operations. However, in future fiscal years, we will evaluate the impact of this cut as it relates to our initiatives and may request this amount be restored to our budget. Any additional cuts such as the 8 percent reduction will have a major negative impact on our operations.

Conclusion

While we recognize that the City's budget will be highly impacted next year, furloughing and laying off City Auditor staff will limit our ability to identify City cost savings, revenues, and efficiencies at a time when they are most critically needed. Due to the City's projected budget deficit, we are not requesting any new audit positions or new budgetary additions for our FY2022 proposed budget. Instead we request that the Audit Committee recommend that our FY2022 budget remains intact with no cuts except for the 2.6 percent (\$19,325) reduction in our contracts budget from the approved FY2021 budget. Any further budget reductions for the City Auditor's FY2022 budget would have a significant negative impact on OCA operations.

I look forward to discussing the City Auditor's FY2022 Proposed Budget at a future Audit Committee meeting.



Andy Hanau
City Auditor

cc: Honorable Mayor Todd Gloria
Honorable City Council Members
Jay Goldstone, Chief Operating Officer
Matthew Vespi, Chief Financial Officer
Rolando Charvel, Director & City Comptroller, Department of Finance
Andrea Tevlin, Independent Budget Analyst