



THE CITY OF SAN DIEGO

DATE: November 4, 2009
TO: Honorable Members of the Audit Committee
FROM: Eduardo Luna, City Auditor
SUBJECT: Office of the City Auditor Budget Analysis

At the request of Councilmember Kevin Faulconer, Audit Committee Chairperson, I am presenting an analysis on how a 27 percent reduction would affect the City Auditor's FY 2011 budget for the Audit Committee's consideration. Under City Charter Section 39.1, the Audit Committee recommends the annual compensation of the City Auditor and the annual budget for the Office of the City Auditor to the City Council.

Actual Fiscal Year 2010 Budget

In FY 2010, the City Council approved a budget to \$2,531,417 which included \$250,000 for the outside CAFR audit.

Table with 2 columns: Category and FY 2010. Rows include Positions, Personnel Expense, Non-Personal, Subtotal, Annual CAFR Audit Expense, and TOTAL.

Proposed Budget Reduction Target and Impact

On October 13, 2009, the Chief Financial Officer informed me that my Office's budget reduction target was \$442,778. At the request of the Audit Committee Chairperson, I considered how a 27 percent budget reduction would affect my office. Because 93 percent of my office's expenditures are related to personnel expenses, a 27 percent reduction would require severe cuts in personnel.

1 The 16.5 FTE positions consists of 13.5 Auditors, a Hotline Analyst, an Audit Manager, and the City Auditor.
2 Financial Management's 27 percent target budget reduction calculation excluded fringe costs and the annual CAFR.



To reach the proposed target reduction in FY 2011, I would have to leave one audit position unfilled, give notice to two principal auditors, and reduce non-personal expenses (NPE) as shown in the following table.

FY2011 Budget Reduction	
Target Reduction	\$ 442,778
Leave one position unfilled	\$ 142,496
Dismiss two filled audit positions	\$ 284,992
Reduction of NPE	\$ 15,290

Budget Reductions Would Impact Office Staffing

A \$442,778 budget reduction would have a drastic impact on Office staffing, which would reduce our ability to conduct and complete performance audits, and delay achieving the recommended audit staffing level. A direct consequence would be that the City Auditor would have to delay auditing high-risk City activities and programs, the results of which could yield savings to the City or streamline operations.

In the FY 2010 Annual Audit Work Plan, I proposed undertaking 26 performance audits and activities utilizing 19,890 audit hours and 13.5 auditor FTE's. In FY 2011, with 15 FTE auditor positions³, I plan to propose undertaking over 30 performance audits and activities utilizing 23,400 audit hours. A 27 percent budget reduction would result in the elimination of three FTE auditor positions, reduce available audit hours by 4,680, and diminish our FY 2011 audit work plan to less than 24 audits and activities as shown in the following table.

	FY 2011 Planned	FY 2011 with 27% Reduction
Auditor FTEs	15	12
Number of Audits	>30	<24
Audit Hours	23,400	18,720

³ The City Auditor's FY 2010 budget included three auditor positions that were to be added mid-year, and were budgeted as half time positions (.5+.5+.5 = 1.5 FTE). As of November 4, 2009, two of three positions are filled with expected start dates in January 2010. The FY 2011 budget was expected to increase by 1.5 FTE at a cost of approximately \$230,000 to fund these full time auditor positions. This would result in the staffing of 15 auditors to conduct audits and 3 FTEs for administrative and leadership support. Financial Management indicated that the \$230,000 increase was accounted for when they calculated the City Auditor's target budget reduction for FY 2011.

A further consequence of any budgetary reductions would be the delay of achieving the recommended staffing level of 24.5 auditor FTE's. Based on the City Council's approved FY 2010 budget decisions, it was expected that the Auditor's Office would have at least 18 FTE's (15 auditors and 3 administrative/leadership staff) in FY 2011, plus additional auditor positions in the future to reach the recommended staffing level. Any staffing reduction will result in failing to achieve the City Council's expectation of creating a strong audit function for the City of San Diego. The lack of a strong audit function in the past is one factor that has led to many of the City's operational and financial problems of today.

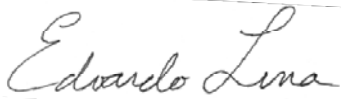
Proposal to Audit Half of All Expenditures Over Three Years Not Achievable

Another consequence is that the City Auditor would not be able to accommodate City Council Members Faulconer and DeMaio's request to establish a performance measure to audit half of the City's expenditures over a three-year period. Based on the results of the City Auditor's FY 2010 Risk Assessment, I determined that to audit half of the City's expenditures of \$3.3 billion over three years would require almost 60,000 audit hours per year or about 38 auditors. To audit half of these expenditures with the current staffing of 15 auditors would require at least six years, but more likely would require about eight years to achieve the target. The proposed target budget reduction would reduce our staffing level to 12 auditors and may take up to ten years to reach the target of auditing half of the City's expenditures.

Conclusion

The City faces extraordinary financial circumstances that require difficult budgetary decisions and personal sacrifices. In times of fiscal crisis, the need for accountability is the greatest. By conducting performance audits, the Office of the City Auditor can work towards ensuring that limited public funds are used appropriately, effectively, and efficiently.

I look forward to discussing these issues at the next Audit Committee meeting.



Eduardo Luna
City Auditor

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