

City of San Diego
Office of the Independent Budget Analyst

MONTHLY SNAPSHOT OF REPORTS AND ACTIVITIES FOR SEPTEMBER 2011

Reports Highlighted for the Month of September 2011:

Highlights of Major Reports Issued in the Month of September:

[Report No. 11-52](#) “Review of the Outside Auditor’s Performance and Agreement”

In 2009, the City Council authorized an Agreement with Macias Gini & O’Connell (MGO) to audit the City’s financial statements for fiscal years 2009 through 2013. In approving the Agreement, the City Council directed the IBA to review and evaluate MGO’s performance after the financial statement audits for fiscal years 2009 and 2010 had been completed. This report was provided in response to that direction and assisted the Audit Committee in fulfilling their City Charter responsibility to monitor the engagement of the City’s outside auditor.

The IBA evaluated MGO’s performance under the current Agreement which covers the City’s financial statement audits for fiscal years 2009 and 2010.

Despite unanticipated City delays in the availability of the FY 2010 financial statements, MGO had been responsive and timely in performing audit work for the City.

A recent news story raised questions about what a financial statement audit should reasonably be expected to catch. After discussing this issue with other auditors and MGO, the IBA acknowledged that this was a difficult question to answer. Public expectations related to audits often exceed professional audit requirements; however, we believed these were reasonable questions and were discussed by the Audit Committee and MGO.

This item was discussed at the Audit Committee on September 12, 2011. A motion was passed to receive the IBA report. It also directed the City Auditor to respond in writing regarding MGO not raising issues related to alleged abuses of public funds by Southeastern Economic Development Corporation and San Diego Medical Services Enterprise and whether that was in accordance with national audit standards and MGO’s contract with the City.

[Report No. 11-53](#) “Fire-Rescue Alarm Permit Fee Proposal”

The FY 2012 Adopted Budget included \$910,000 in budgeted revenue for the implementation of the Fire-Rescue Fire-Harmful Gas Alarm Permit Fee. A separate action was required by the Council to adopt the resolution and ordinance to formally approve the revised Fee Schedule and modified Municipal Code associated with the implementation of this new fee. A request for the implementation of a Fire-Rescue Alarm Permit Fee in FY 2012 was included in the City Council’s April 11, 2011 Budget Resolution.

“Review of the Outside Auditor’s Performance and Agreement”

[Report No. 11-52](#) (9/9/11)

[Executive Summary](#) (9/9/11)

[Attachment](#) (9/9/11)

“Fire-Rescue Alarm Permit Fee Proposal”

[Report No. 11-53](#) (9/9/11)

[Executive Summary](#) (9/9/11)

“First Amendment to the Third Rehabilitation Grant Agreement with the NTC Foundation”

[Report No. 11-55](#) (9/22/11)

[Executive Summary](#) (9/22/11)

“Draft RFP Scope of Work for Accounts Payable Revenue Recovery Audit”

[Report No. 11-57](#) (9/23/11)

[Attachment](#) (9/26/11)



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The proposed fee was intended to be fully cost recoverable. The projected revenue included in the FY 2012 Adopted Budget was based on a December 1, 2011 start date for the implementation of the program. The proposal before the Council reflected an earlier start date of November 1, 2011. With an earlier start date, the revenue for FY 2012 is projected to be \$1,084,008 when reflecting 8 months of collection, representing an additional \$174,008 above the original budget of \$910,000.

The IBA reviewed the methodology used by Fire-Rescue to determine the appropriate fee for cost recovery for the proposed Fire-Rescue Alarm Permit Fee and the associated revenue. This report examined the proposed methodology, the fiscal impacts of the fee, and provided additional information regarding the current Police Alarm Permit Program that the Fire-Rescue Alarm Permit Program will be consolidated with. With the pending release of the CAO performance audit of the Police Department Permits and Licensing Unit, any findings and recommendations pertaining to the Police Alarm Permit Program will be relevant to the current proposed Fire-Rescue Alarm Permit Program. With this, and other cost recovery considerations, it was recommended that the Fire-Rescue Alarm Permit Program be reviewed after one year of actual data relating to false alarm occurrence and permit compliance. Any proposed changes to the program and any necessary modifications to the fee amount based upon this review should be brought to the Council for consideration.

The Fee Schedule was discussed at City Council on September 12, 2011, Item 151 and was approved with a vote of 5-3.

Report No. 11-55 “First Amendment to the Third Rehabilitation Grant Agreement with the NTC Foundation”

On Tuesday, September 27 the City Council was requested to approve the First Amendment to the Third Rehabilitation Grant Agreement with the NTC Foundation (“First Amendment”). The First Amendment provided additional grant funding in an amount not to exceed \$800,000 to support the Foundation’s Phase II development plan, which included the rehabilitation of eight buildings within the Civic, Arts and Cultural Center (CACC) in the Naval Training Center Historic Core. This additional funding partially mitigated a gap in the development budget resulting from a recent opinion by the City Attorney’s Office with regard to the application of prevailing wages to all Phase II development buildings. The Phase II development budget originally anticipated prevailing wages being applicable to the three buildings funded by Agency grant funds but not to all eight buildings. Staff recommended that a refund of property tax payments made by the Agency on behalf of the Foundation in early 2011 be used as the funding source for the additional grant under the First Amendment.

Overall, the IBA supported the staff recommendation and the additional grant under the proposed First Amendment. Initially, our office had concerns with the request for additional funding, particularly following the action taken by the Agency in February to pay property taxes on behalf of the Foundation. However, after speaking extensively with Redevelopment staff and reviewing the matter further, we viewed the issues as two unrelated set of circumstances. The property tax refund that was proposed to be used as the funding source for the additional grant are tax increment funds that must be used for redevelopment purposes within the NTC project area. In addition, staff indicated that the Foundation was unable to raise the necessary funding through donations or other fundraising efforts, largely due to continued weakness in economic conditions. Finally, and most significantly, if all funding sources were not in place by October 1, the Foundation would have failed to secure the New Markets Tax Credits, which would have cause the entire \$20 million financing package to unravel and jeopardize the Phase II development plan.

This item was discussed at City Council on September 27, 2011. The authorization was approved by a vote of 7-1.

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[Report No. 11-57](#) “Draft RFP Scope of Work for Accounts Payable Revenue Recovery Audit”

On June 6, 2011, the IBA presented Report Number 11-32 to assist the Audit Committee in further considering possible implementation of revenue recovery auditing services in FY 2012. This report followed two earlier reports from the Office of the City Auditor suggesting significant revenue recovery auditing opportunities may exist in the areas of accounts payable, reverse sales tax and municipal court revenues.

Following discussion of revenue recovery auditing at the June 6th meeting, the Audit Committee requested the IBA prepare a Request for Proposals (RFP) for an accounts payable audit and other types of revenue recovery audits. While willing to pursue an accounts payable audit in FY 2012, the CFO informed the Audit Committee that her staff was in the process of removing duplications from their master vendor list and would therefore not be ready for an audit until later in calendar year 2011. In directing the IBA to develop a revenue recovery audit RFP, Audit Committee members suggested the IBA be sensitive to the timing concerns expressed by the CFO.

In accordance with the Committee's direction, the IBA developed a draft RFP for Audit Committee review. This report briefly discussed key sections of the draft RFP Scope of Work for Audit Committee consideration. On October 3, 2011, the Audit Committee approved the draft RFP with a few minor modifications and forwarded it to the Mayor's Office of the City Comptroller for appropriate action. It is anticipated that the RFP will be issued in October 2011 to select an outside auditor to perform the accounts payable audit beginning in January 2012.

Other Reports Issued in the Month of September 2011:

[Report No. 11-51](#) (9/7/11)

[Attachment 1](#) (9/7/11)

[Attachment A](#) (9/7/11)

[Attachment B](#) (9/7/11)

[Attachment C](#) (9/7/11)

[Attachment D](#) (9/7/11)

[Attachment E](#) (9/7/11)

[Attachment F](#) (9/7/11)

[Attachment G](#) (9/7/11)

[Attachment H](#) (9/7/11)

[Attachment 2](#) (9/7/11)

Response to Grand Jury Report: “A New City Hall”

[Report No. 11-54](#) (9/12/11)

[Attachment 1](#) (9/12/11)

[Attachment 2](#) (9/12/11)

Response to Grand Jury Report Titled "No 'Cost' for Alarm?"

[Report No. 11-56](#) (9/23/11)

[Executive Summary](#) (9/23/11)

Preliminary Statement of Work for Landfill Operations—Updated Report

[Report No. 11-58](#) (9/27/11)

Preliminary Statement of Work for Street/Sidewalk Maintenance

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