



THE CITY OF SAN DIEGO

DATE: May, 7 2009

TO: Honorable City Councilmembers and Budget Review Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Office of the City Auditor Fiscal Year 2010 Proposed Budget**

On April 27, 2009, at the request of Councilmember Kevin Faulconer, Audit Committee Chairman, I presented my FY 2010 budget to the Audit Committee. To comply with his request, I prepared the Office of the City Auditor Fiscal Year 2010 Proposed Budget memorandum, dated April 23, 2009, and associated PowerPoint presentation. Both of these documents are attached for your review. Under City Charter Section 39.1, the Audit Committee recommends the annual compensation of the City Auditor and annual budget of the Office of City Auditor to the City Council.

Budget Memorandum Synopsis

In my proposed budget memorandum, I articulated the need for total staffing of 20 principal auditors and reported that the Mayor's proposed FY 2010 budget did not meet the recommended staffing levels. Specifically, I reported the following:

Under the Mayor's proposed FY 2010 budget that provides funding for 11 auditors, the Office remains nine positions short of the recommended target. The Audit Committee needs to decide and recommend whether to build up the staffing over three years, four years, or an alternate time period.

In addition to the auditor positions, the Office has additional staffing requirements that need to be addressed. These staffing requirements include a fraud investigator, executive secretary, and audit manager.

The Audit Committee deliberated and reiterated their commitment to staff the Office of the City Auditor over a three-year period (FY 2009 is year 1). Specifically, the Audit Committee made a motion that recommended that my proposed FY 2010 budget be increased to include funding for one fraud investigator position and three additional principal auditor positions. The three principal auditor positions were to be funded as of January 1, 2010 as a cost saving measure.



Budgeting Future Revenue

During the budget hearing, there was a discussion concerning the IBA's proposal to budget future audit recoveries as revenues to pay for audit positions and services. There are several factors which significantly impact the viability of this proposal. First, by budgeting future audit recoveries as revenues to pay for audit staff, the Office of the City Auditor could be considered less than independent or objective because of the potential perception that audits would be designed strictly to yield financial recoveries. Effective audits include other important non-monetary goals such as ensuring compliance with legal or contractual requirements and improving the quality of services provided to the public. Consequently, a focus on just financial recoveries de-emphasizes the importance of these goals. Second, audit results may yield increased non-general fund revenue that may not be transferable to the Office of the City Auditor. Third, the audit results may yield cost savings that will be realized in future years or require special action to achieve. Fourth, the audit recommendations that result in recoveries or future cost savings can be greatly dependent on the Administration's implementation. Finally, I know of no other audit organization that budgets future recoveries as revenue in their budget. Based on these factors, I do not support this funding mechanism.

Conclusion

The Office of the City Auditor has an integral part in providing accountability and oversight of City operations, programs, and performance. Without additional future audit resources, the Office will be less likely to initiate a sufficient number of high-risk audits, which requires the City Council to assume the residual risk of key City activities operating with inadequate audit review. Increased audit staffing will provide the opportunity to initiate audits that seek to increase revenue or achieve cost savings and initiate fraud hotline investigations in a timely manner. I would be available to discuss Office of the City Auditor staffing needs at any future Budget Review Committee meeting or City Council meeting.



Eduardo Luna
City Auditor



THE CITY OF SAN DIEGO

DATE: April 23, 2009
TO: Honorable Members of the Audit Committee
FROM: Eduardo Luna, City Auditor
SUBJECT: Office of the City Auditor Fiscal Year 2010 Proposed Budget

At the request of Council Member Kevin Faulconer, Audit Committee Chairperson, I am presenting the Office of the City Auditor FY 2010 budget information for the Audit Committee's consideration. Under City Charter Section 39.1, the Audit Committee recommends the annual compensation of the City Auditor and annual budget for the Office of the City Auditor to the City Council.

Proposed Fiscal Year 2010 Budget

The Office of the City Auditor was established in FY 2009 with a \$1,677,628 budget. This amount included funding for 11 FTE's: one City Auditor, one audit manager, one audit analyst, and eight auditor positions. In FY 2010, the Mayor proposed adding three auditor positions and increasing the total budget to \$2,975,011, which includes \$1.0 million for the annual CAFR audit. The proposed FY 2010 budget is broken down in the following manner:

Table with 4 columns: Category, FY 2009, FY 2010, Change. Rows include Positions, Personnel Expense, Non-Personal, Subtotal, Annual CAFR Audit Expense, and TOTAL.

1 There was an error in budgeted personnel expense, and Financial Management will increase this figure by approximately \$39,000 in the revised proposed budget.



Proposed Budget Impact On Number of Planned Audit Hours

We estimate that with the current proposed budget of 14 positions with 11 auditors, the Office would have 16,860 audit hours to conduct performance audits—a 47 percent increase from FY 2009. Part of this increase is from already having the majority of audit staff on hand at the beginning of the fiscal year, which was not the case last year. Consequently, the Office would be able to initiate and complete a greater number of performance audits than was proposed in FY 2009.² With 11 auditors, the Office would propose an audit work plan of about 25 audits and related projects.

Proposed Budget Does Not Meet Recommended 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. In a March 19, 2008, memorandum to the Mayor and Audit Committee members, I stated that to have an effective and manageable auditing function, the City of San Diego should have at least 20 auditors, two audit managers, and two support staff. At that time, the Office was comprised of the internal auditor, one audit manager, and three auditors. As a result, I proposed that the City consider adding 17 principal auditor positions in a strategic manner that allowed the new audit staff to be effectively managed, trained, and assimilated into the Office. Specifically, at the March 24, 2008, Audit Committee meeting, three, four, and five year staffing plans were discussed. The following table shows the annual increase in the number of auditors that would be required to achieve the recommended staffing levels.

	Year 1	Year 2	Year 3	Year 4	Year 5	
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total
Three Year Staffing Plan	5	6	6	0	0	17
Four Year Staffing Plan	5	4	4	4	0	17
Five Year Staffing Plan	5	3	3	3	3	17

Under the Mayor's proposed FY 2010 budget that provides funding for 11 auditors, the Office remains nine positions short of the recommended target. The Audit Committee needs to decide and recommend whether to build up the staffing over three years, four years, or an alternate time period.

² The FY 2009 work plan included 21 new audit assignments and projects that totaled 11,470 audit hours.

Staffing Costs Associated With Recommended Staffing Plans

Depending on which staffing plan the Audit Committee decides to recommend to the City Council, the Mayor’s proposed FY 2010 budget for the Office of the City Auditor may need to be modified. As shown in the next table, if the Audit Committee recommends staffing the Office over three years, three additional positions will be required, and one position to build up staffing over four years. Both of these staffing plans require additional funding. If the Audit Committee recommends staffing the Office over a five year timeframe, no additional budget modifications are required.

	FY 2010 Principal Auditor Target	Proposed FY 2010 Principal Auditors	Difference	Additional Personnel Costs	Additional Non- Personnel Costs	Total
Three Year Staffing Plan	6	3	3	\$427,191	\$32,304	\$459,495
Four Year Staffing Plan	4	3	1	\$142,397	\$10,768	\$153,165
Five Year Staffing Plan	3	3	0	\$0	\$0	\$0

Another option that the Audit Committee may want to consider regarding the three year staffing plan is to recommend adding three auditors at the beginning of the 2010 calendar year. This staffing approach will require funding the positions for half of FY 2010 at a cost of \$245,900.

Additional Staffing Needs

In addition to the auditor positions, the Office has additional staffing requirements that need to be addressed. These staffing requirements include a fraud investigator, executive secretary, and audit manager. The below table provides additional information on the positions and associated staffing costs.

Position	Background	Total Cost
Fraud Investigator	<p>The Office does not have a dedicated investigator for the Fraud Hotline. The number of fraud and accounting related complaints made in the first and second quarter of FY 2009 is of concern due to the number of hours required to investigate fraud complaints. Currently, fraud-related complaints are assigned to Auditors, who investigate complaints in-between audit assignments as time permits. Of concern, we have at least three fraud-related complaints that we have been unable to investigate in a timely manner due to a lack of sufficient resources. If the Office is to investigate all fraud related complaints in a timely basis, the Office will need at least one investigator position dedicated to handle the Fraud hotline complaints.</p>	\$153,165
Executive Secretary	<p>The Office lacks administrative and clerical support staff to effectively manage the Office. Currently, the Audit Manager and Audit Analyst handle administrative-related duties, such as distributing reports and scheduling meetings.</p>	\$80,906
Audit Manager	<p>Under the Proposed FY 2010 budget, the Office will have 11 auditors. Under the current organizational structure of the Office, the 11 auditors report to one audit manager. This span of control is of concern because up to ten simultaneous audits may be underway at one time. Further, in FY 2010 the Office will be responsible for overseeing the contract for the annual CAFR audit that require additional management oversight.</p>	\$188,372

Conclusion

The City faces extraordinary financial circumstances that require difficult budgetary decisions and personal sacrifices. The Office of the City Auditor has an integral part in providing accountability and oversight of City operations, programs, and performance. Based on our risk assessment that we issued in January 2008, we identified 46 high-risk areas that should be audited on a regular basis. Without additional future audit resources, the Office will be less likely to initiate a sufficient number of high-risk audits. As a result, the City Council would have to consider the residual risk of key City activities operating without adequate audit review. Increased audit staffing will provide the opportunity to initiate audits that seek to increase revenue or achieve cost savings, and initiate Fraud Hotline investigations in a timely manner.

I will be happy to discuss these issues at the next Audit Committee meeting.

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

Eduardo Luna
City Auditor

*Office of the City Auditor
Fiscal Year 2010
Proposed Budget*

**Audit Committee Meeting
April 27, 2009**

Office of the City Auditor FY10 Proposed Budget

- The City Auditor Department was established in FY09 with a \$1,677,628 budget.
- FY09 budget included 11 FTE's: 1 City Auditor, 1 Audit Manager, 1 Audit Analyst, and 8 Auditor positions.
- In FY 2010, the Mayor proposed adding 3 Auditor positions.
- Increasing the City Auditor budget to \$2,975,011, including \$1 million for the annual CAFR audit.

Office of the City Auditor FY10 Proposed Budget

- We estimate that with the current proposed budget of 14 positions with 11 auditors, the Office would have 16,860 audit hours to conduct performance audits.
- With 11 auditors, the Office would propose an audit work plan of about 25 audits and related projects.

Office of the City Auditor FY10 Proposed Budget

	FY 2009	FY 2010	Change
Positions	11	14	3
Personnel Expense	\$1,562,609	\$1,823,496	\$260,887
Non-Personal Expense	115,019	151,515	36,496
Subtotal	1,677,628	1,975,011	297,383
Annual CAFR Audit Expense	0	1,000,000	1,000,000
TOTAL	1,677,628	2,975,011	1,297,383

Office of the City Auditor FY10 Proposed Budget

- Jefferson Wells recommended the City should have at least 24.5 audit FTEs to provide sufficient audit coverage for the City of San Diego.
- Previously discussed adding 17 Auditor positions in a strategic manner that allowed new audit staff to be effectively managed, trained, and assimilated into the Office.
- At the March 24, 2008 Audit Committee meeting, 3, 4, and 5 year audit staffing plans were discussed to add 17 Auditors to the 5 existing staff (1 Internal Auditor, 1 Audit Manager, 3 Auditors.) to bring the total to 20 Auditors.

Office of the City Auditor FY10 Proposed Budget

The following table shows the annual increase in the number of auditors that would be required to achieve the recommended staffing levels.

	Year 1 FY2009	Year 2 FY2010	Year 3 FY2011	Year 4 FY2012	Year 5 FY2013	Total Add'l
Three Year Staffing Plan	5	6	6	0	0	17
Four Year Staffing Plan	5	4	4	4	0	17
Five Year Staffing Plan	5	3	3	3	3	17

The current proposed FY 2010 budget that provides funding for 11 total auditors (3 additional in FY10) remains nine positions short of the recommended target .

Office of the City Auditor FY10 Proposed Budget

Depending on which staffing plan the Audit Committee decides to recommend, the City Auditor's proposed FY10 budget may need to be modified.

	FY 2010 Principal Auditor Target	Proposed FY 2010 Principal Auditors	Difference	Additional Personnel Costs	Additional Non- Personnel Costs	Total Costs
Three Year Staffing Plan	6	3	3	\$427,191	\$32,304	\$459,495
Four Year Staffing Plan	4	3	1	\$142,397	\$10,768	\$153,165
Five Year Staffing Plan	3	3	0	\$0	\$0	\$0

The Audit Committee may want to consider adding 3 more Auditors at the beginning of the calendar year 2010 to achieve the 3 year staffing plan. This approach will require funding the positions for half of FY 2010 at a additional cost of \$245,900.

Office of the City Auditor FY10 Proposed Budget

In addition to the Auditor positions, the Office has additional staffing requirements that need to be addressed.

- **Fraud Investigator - \$153,165**

The Office does not have a dedicated investigator for the Fraud Hotline.

- **Executive Secretary - \$80,906**

The Office lacks administrative and clerical support staff to effectively manage the Office.

- **Audit Manager - \$188,372**

With more auditors conducting reviews simultaneously, another Audit Manager will be needed for adequate supervision.

Office of the City Auditor
FY10 Proposed Budget

Questions?