




THE CITY OF SAN DIEGO

DATE: January 7, 2009

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor 

SUBJECT: **Analysis of the Southeastern Economic Development Corporation (SEDC) Board of Directors' Response to the SEDC Performance Audit Recommendations**

Background

On September 8, 2008, the Office of the City Auditor issued a performance audit report on Southeastern Economic Development Corporation's (SEDC) operations. Macias Consulting Group conducted the audit. The audit report made 33 recommendations, of which, six recommendations were directed at the City and 27 recommendations directed at SEDC. On November 24, 2008, the SEDC Board Chairman formally responded to the audit and addressed their concurrence with the audit recommendations. On December 16, 2008, I met with Mr. Brian Trotier, SEDC's interim president to discuss the audit response and his planned approach for addressing the audit recommendations. On December 29, 2008, SEDC provided a revised response to recommendation #17.

Results

We reviewed SEDC's audit response and found that SEDC generally concurred with the report and 23 of the 27 recommendations directed at the agency, with a few exceptions regarding implementation approach. Four of these recommendations with exceptions are discussed below.

Recommendation #14: SEDC should ensure that the SEDC Board of Directors approves all policies

SEDC concurred that the Board of Directors shall approve “all material policies and procedures that could negatively impact or detract from the mission or the budget of SEDC.” The SEDC Board President responded that the Board of Directors “reserves the right to delegate approval of all non-material policies and procedures to either the President or the CFO.” Non-material policies may include issues such as work hours, vacation requests, and conduct. Further, the SEDC Board of Directors agreed to have all policies and procedures reviewed on a regular schedule to insure accuracy, consistency, and conformity to legal standards. During this process the SEDC Board should identify the type or category of non-material policies that can be delegated. In my opinion, this is a sufficient control to adequately monitor SEDC policies and procedures.

Recommendation #15: SEDC should amend its consultant policy and lower the threshold that would trigger SEDC Board of Director approval for professional and technical contracts/letters of agreement to \$10,000

SEDC agrees to amend its consultant policy and to lower the threshold which triggers Board approval to \$25,000 per fiscal year for each consultant. At the time of the audit, the SEDC President was not required to obtain Board approval for contracts under \$50,000. The SEDC Interim President indicated that most professional and technical contracts SEDC awards typically exceed \$25,000. Macias Consulting reported that between fiscal years 2003 and 2007, 101 companies received professional and technical service contracts with SEDC valued at \$9.5 million. Of this amount 37 companies had contracts over \$25,000, with a total value of \$9.0 million (95 percent). Whereas, 64 companies received contracts under \$25,000 with a total value of \$446,191 (5 percent). The Interim President indicated that he would amend the SEDC policy to include quarterly reporting to the Board of all contracts. In my opinion, setting the Board approval threshold at \$25,000 in conjunction with the quarterly reporting of all contracts is an adequate control to keep the Board informed of all professional and technical contracts and would strengthen the Board’s oversight of all contracting.

Recommendation #16: SEDC should eliminate the authority provided to the SEDC President to implement agency policies at her discretion

Their response states “The Board believes it must retain, in order to promote efficient day to day operations at SEDC, the right to delegate the ability to implement certain policies and procedures to either the President or the CFO.” SEDC also incorporated its response to recommendation #14 by reference. However, recommendation #16 was made because the audit found the SEDC President can override controls by choosing not to implement agency policies that are in place. In my opinion, the response does not adequately address this risk. In addition to the Board identifying the categories of policies and procedures the SEDC President is allowed to implement without Board approval, and periodically reviewing all policies and procedures, the President should be required to follow all policies that are in place.

Recommendation #17: The Office of the CFO should review and approve of SEDC's newly-developed fiscal policies and procedures prior to their finalization

The SEDC Board disagreed that the office of the City's Chief Financial Officer should review and approve SEDC's fiscal policies and procedures. The SEDC Board responded that they plan to have its new Chief Financial Officer "review, comment on, revise, and approve any new or revised fiscal policies and procedures prior to adoption and implementation by the Board." The SEDC Interim President did not agree it was appropriate for City's Chief Financial Officer to approve SEDC's fiscal policies, given that SEDC is a separate legal entity. However, given the severity of the previous SEDC President's fiscal improprieties, in my opinion, it would be prudent for the City to review and comment on SEDC's fiscal policies for reasonableness, completeness, and appropriateness related to fiscal best practices.

Follow-Up Action

The audit report recommended that the Office of the City Auditor conduct an audit within 18 months to review the status of SEDC's efforts to implement the recommendations. As part of our normal follow-up procedures, we plan to follow-up on the recommendations next fiscal year and we will report the results to the Audit Committee.

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