




THE CITY OF SAN DIEGO

DATE: December 1, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor 

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

Attached is the SEDC Board of Directors' response to the SEDC performance audit conducted by Macias Consulting Group. The Board of Directors agrees with 23 of the audit recommendations made and only partially agrees with 6 of the recommendations.

The Office of the City Auditor will review the response and meet with the SEDC Board Chairman to discuss the recommendations in which they do not intend to implement. We will report on the outcome of our discussions at a future Audit Committee meeting.

cc: Honorable Mayor Jerry Sanders
Honorable City Councilmembers
Jay M. Goldstone, Chief Operating Officer
Michael Aguirre, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Monitor



Southeastern
Economic
Development
Corporation

T 619.527.7345
F 619.262.9815

www.sedcinc.com

November 24, 2008

Mr. Eduardo Luna
City Auditor
City of San Diego
101 Second Avenue, Suite 1400
San Diego CA 92101

Re: *The Performance Audit of Operations of the Southeastern Economic Development Corporation Conducted by Macias Consulting Group dated September 10, 2008*

Dear Mr. Luna:

The Board of Directors (Board) of the Southeastern Economic Development Corporation (SEDC) reviewed the Performance Audit of Operations dated September 10, 2008 and is generally in agreement with the recommendations contained therein. The Board of SEDC used a best practices approach in reviewing, analyzing, and preparing its response to each recommendation.

The Board of SEDC would like to preface its response to the recommendations by expressing concern about the decision to use a branch of the same firm conducting the financial audit of SEDC to conduct this performance audit, especially since both the period of time and issues being reviewed overlap significantly.

Our specific responses to the recommendations are presented below.

A. GOVERNANCE AND ORGANIZATIONAL CHANGES

Recommendation 1:

The City should revamp SEDC's governance structure. Options to consider include: (1) amend and update SEDC's operating agreement to include representatives of the City on the SEDC Board, limitations to the SEDC President's authority; specific requirements for holding Board of Director meetings, as well as establishing requirements for SEDC Board of Directors' training, budgeting practices, communication activities, project management, financial management, performance outcomes, and mandating leave utilization; or, (2) integrate/merge SEDC under the direct control of the RDA or integrate SEDC with CCDC depending on the results of the anticipated CCDC study; or, (3) fully operate SEDC as a public agency within the City.

SEDC Response:

Agree in part and disagree in part - Southeastern Economic Development Corporation (SEDC) agrees the current operating agreement with the City of San Diego (City) should be amended and revised to update and improve the mutual covenants between the City and SEDC to (a) implement a series of checks and balances in the authority of the President of SEDC, (b) establish a minimum schedule for meetings of the Board of Directors

and Board committees, and (c) develop a formal method for training Board members in budgeting, fiduciary responsibility, communication, board oversight, financial management, and performance measurement standards. SEDC will provide initial board orientation training and continuing education for its board members, but would hope the City will adopt a standardized orientation and training session for all new board members appointed by either the Mayor or City Council.

SEDC also agrees to consider, during the process of amending and revising the operating agreement, expanding its Board of Directors by two (to 11) to include additional representatives from the Mayor's office and/or from City Council.

SEDC does not agree the area it serves would benefit from integrating/merging SEDC into either the RDA or CCDC and believes its current structure as a public benefit corporation provides the best platform for serving the citizens and communities in its defined area of influence. SEDC believes the citizens and communities within its area of influence are best served by SEDC remaining a separate legal corporate entity with a physical presence in its area of influence.

Recommendation 2:

Agree - The City should require in SEDC's Operating Agreement the position classification of a Chief Financial Officer who reports to the Board of Directors and fill the newly-created position through competitive and open recruitment.

SEDC Response:

SEDC agrees (a) to amend to its operating agreement with the City, (b) to amend its current policies and procedures, and (c) to amend its budget to allow for the immediate creation of the position of Chief Financial Officer (CFO) with such position reporting directly to the SEDC Board on financial and budget matters. The CFO position will be filled as soon as possible through a competitive and open recruitment process. The Interim Chief Administrator (ICA), under direction of the Board, has already commenced this process.

Recommendation 3:

The SEDC Board of Directors should approve all salary increases to the SEDC President.

1. Incentive pay increases should be documented in the SEDC contract with the President and directly tied to annual performance evaluations provided by the full Board of Directors.

SEDC Response:

Agree - SEDC agrees to require Board approval for SEDC's contract with its President and to require continuing Board approval for any increase in compensation including, but not limited to, incentive or merit based pay. Further, SEDC agrees any incentive or merit pay increases must be contractually tied to an annual performance evaluation of the President by the entire Board.

Recommendation 4:

SEDC should fill the Manager of Projects and Development position as soon as possible.

SEDC Response:

Agree - SEDC agrees to fill the open position for a Manager of Projects and Development (MPD) as soon as possible. The ICA has already commenced the process for filling this position through competitive and open recruitment.

Recommendation 5:

SEDC should fill a Vice President of Operations position to help oversee day-to-day operations and be responsible for SEDC's adherence and compliance to internal controls.

SEDC Response:

Agree - SEDC agrees to fill the open position for a Vice President of Operations (VPO) as soon as the new President of SEDC has been selected. The SEDC Board believes the new President of SEDC needs to have significant input into the selection process since the VPO will be reporting directly to the new President of SEDC.

Recommendation 6:

SEDC should establish a part-time formal Human Resources Manager position to oversee SEDC's recruiting, hiring, staff development and termination activities.

SEDC Response:

Agree conceptually - SEDC agrees it should employ someone with more formal experience in human resources, but the Board would like to defer a final decision on creating another new position at this time. This decision is in part due to overall budgetary considerations and in part due to the hope the new VPO will possess a background in human resources thus adequately addressing this recommendation.

Recommendation 7:

SEDC should ensure that its Board of Directors receives all the training necessary to fully perform their fiduciary responsibility of the Agency.

SEDC Response:

Agree - See the SEDC response to **Recommendation 1** which is incorporated herein by reference as to Board training in fiduciary responsibility. Further, as of this response, 8 or the 9 current SEDC Board members have attended training specifically in fiduciary responsibility.

B. POLICIES AND PROCEDURES

Recommendation 8:

SEDC should immediately develop policies and procedures for ensuring proper recordkeeping and storage that include:

- Documentation of Board member opposition to agenda items.
- Preparation of the Board minutes should be accomplished within specific timeframes, and posted on the Agency's web site.
- Filing of tape recordings of SEDC Board minutes in locations fully accessible by the public.

SEDC Response:

Agree in part and disagree in part - SEDC agrees to adopt a formal document retention policy and the ICA has already requested a copy of the current policy adopted by the City to use as a point of reference for the Board in creating such a policy.

SEDC also agrees to keep adequate documentation of any opposition by a member of the Board to any item placed on an agenda for vote by the Board or any of its committees.

SEDC disagrees with the implication by the City's consultant that SEDC does not properly prepare and post Board minutes on SEDC's website in a timely fashion. SEDC's board minutes of every meeting are transcribed and distributed with the agenda for the next regular Board meeting and are posted on SEDC's website once the minutes are accepted and approved by the Board.

SEDC agrees to implement improvements to the accessibility of audio tapes for Board meetings including, but not limited to, acquiring digital recording equipment which would allow audio tapes of the Board meetings to be posted on the SEDC website within hours. The ICA has already begun working with staff and outside technicians to accomplish this task.

Recommendation 9:

SEDC should require the reporting of quarterly expenditure reports for professional and technical services to the SEDC Board of Directors that include the types of services provided.

SEDC Response:

Agree - SEDC will implement procedures to require both the President and CFO to report at least quarterly on the cost and use of professional and technical services to SEDC in sufficient detail to allow the Board to effectively monitor the cost and necessity of such services.

Recommendation 10:

SEDC, in conjunction with the City's Personnel Department, should develop formal procedures for approving pay-outs of accrued leave, including the requirement of the SEDC Board of Director's approval for leave buy-outs of SEDC executive officers.

SEDC Response:

Agree - SEDC agrees to develop and implement formal procedures for approving pay-outs for accrued leave including, but not limited to, requiring Board approval for leave buy-outs of specified executive officers of SEDC, coordinating the new procedures with current City policies and procedures, and limiting the amount of unused leave which can accrue. SEDC's current policy limits governing the accrual of unused sick and vacation leave.

Recommendation 11:

SEDC should develop policies for expenditure allowances. These policies should define the types of allowable and unallowable expenditures. These policies should be streamlined with the City policies and take into consideration that the money being utilized are public funds and should not be used for non-governmental business.

SEDC Response:

Agree – SEDC agrees to develop and implement policies and procedures for employee expenditures including, but not limited to, defining the type of allowable and unallowable expenditures, placing limits on the amount of allowable expenditures, and coordinating the new procedures with current City policies and procedures.

Recommendation 12:

SEDC should formalize policies and procedures that describe the segregation of duties for the fiscal operations and authorization procedures.

SEDC Response:

Agree - SEDC agrees to develop and implement more detailed and formal policies and procedures which will result in segregating primary responsibility for fiscal operations, reporting, and authorization under the office of the CFO with oversight by the Board. These actions will be deferred until the CFO position is created, funded, and filled at which time the new CFO will be asked to complete this task.

Recommendation 13:

SEDC should amend its merit pay policy and establish maximum award amounts.

SEDC Response:

Agree - SEDC will amend its current merit pay policy to establish objective criteria and maximum limits for merit pay based on annual evaluation, overall job performance, successful completion of specific tasks, and then current fiscal and budgetary considerations.

Recommendation 14:

SEDC should ensure that the SEDC Board of Directors approves all policies.

SEDC Response:

Agree in part and disagree in part - SEDC agrees to require Board approval for all material policies and procedures which could negatively impact or detract from the mission or the budget of SEDC, but the Board specifically reserves the right to delegate approval of non-material policies and procedures to either the President or the CFO, acting individually or in concert. The Board further agrees to have all policies and procedures of SEDC reviewed on a to-be-determined, regular schedule to insure accuracy, consistency, and conformity to legal standards.

Recommendation 15:

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

SEDC Response:

Agree in part and disagree in part - SEDC agrees to amend its consultant policy to lower the threshold which triggers Board approval for professional and technical services contracts or letter agreements to \$25,000 per fiscal year for each consultant. SEDC will also simultaneously update its policies and procedures for the selection of such consultants (see also the SEDC response to Recommendation 29).

Recommendation 16:

SEDC should eliminate the authority provided to the SEDC President to implement agency policies at her discretion.

SEDC Response:

Agree in part and disagree in part - See SEDC's response to Recommendation 14 which is incorporated herein by reference. 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.

Recommendation 17:

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

SEDC Response:

Agree - SEDC agrees the new CFO will review, comment on, revise, and approve any new or revised fiscal policies and procedures prior to adoption and implementation by the Board.

C. OPERATIONAL

Recommendation 18:

SEDC should discontinue all forms of supplemental income payments to SEDC staff, except for merit pay as described under current policies.

SEDC Response:

SEDC agrees to implement policies and procedures which limit supplemental income to merit pay as described in current policies and as outlined in the response to Recommendation 13, above.

Recommendation 19:

SEDC should communicate on a monthly basis, a financial position report to the Board of Directors. This report would show current expenditures as they relate to each budget line item. This would include a report of current financial status as compared to the budget.

SEDC Response:

Agree - SEDC agrees to provide monthly financial reports to the Board showing current monthly and year-to-date expenditures for each line item in the budget and comparing both the monthly and year-to-date actual expenditures to the amount budgeted for the same period. The ICA has already begun to implement this change and the CFO will be responsible for completing implementation once the CFO is selected.

Recommendation 20:

The new SEDC Chief Financial Officer, in the budget presentation to the Board and supplementary submission to the City, should include a minimum of three years of budget versus actual data for revenues and expenditures, for both project budgets and corporate budgets, including variances. The budget should include detailed and precise information on base salary and other forms of compensation by employee position and estimated overtime.

SEDC Response:

Agree in principle - SEDC agrees to require the new CFO to implement new budget preparation and presentation policies and procedures to allow both the Board and the City to compare the proposed budget with actual and budgeted revenue and expense data for the trailing 3 year period. Such policies will be drafted and implemented once the new CFO is selected and presume the level of historical detail required is available to the new CFO.

Recommendation 21:

The SEDC Chief Financial Officer should include project goals and accomplishment information by project into the City's budget presentation, which will require SEDC to tie program goals and objectives to their budget.

SEDC Response:

Agree in principle - SEDC agrees to require the new CFO to include, to the same extent produced by other City agencies, individual project goals and accomplishment information in the budget it presents to the City and, if possible, tie the program goals and objectives directly to the budget. The new MPD will also be tasked with helping the CFO complete this recommendation.

Recommendation 22:

The SEDC Board of Directors should ensure that cost of living increases that are provided to SEDC employees are consistent with City cost of living increases.

SEDC Response:

Agree - SEDC will require the new CFO to ensure any cost of living increases provided to SEDC employees are consistent with the City's cost of living increases, as adjusted by the effective date of any such increase. SEDC will require the CFO to report such information to the Board prior to the effective date of any increase.

Recommendation 23:

SEDC should clarify and further develop its real estate acquisition policy. This should include, but not necessarily be limited to, detailing when SEDC should use Request for Proposal and when it should go back to its Board of Directors or the City Redevelopment Agency Board for subsequent approval of acquisitions.

SEDC Response:

Agree - SEDC agrees to review, revise, develop, and implement a new real estate acquisition policy which clearly spells out when SEDC may use an RFP process to proceed with an acquisition, when the SEDC staff will have to take an acquisition decision to the SEDC Board for approval, and when SEDC will have to seek acquisition approval directly from the City Redevelopment Agency Board. The new MPD will be responsible for completion of this task.

Recommendation 24:

SEDC should correlate implementation plan goals with redevelopment plan goals and present the revised documents for formal Board approval.

SEDC Response:

Agree. - SEDC agrees to revise and correlate the new implementation plan goals with overall redevelopment plan goals and to request formal approval by the Board for the revised plans. The new MPD will be responsible for completion of this task.

Recommendation 25:

Annual work plans should include a timeframe for completion of work plan tasks.

SEDC Response:

Agree - SEDC agrees annual work plans should include a timeframe for completion of milestone tasks identified in each work plan. This task will be assigned to the MPD for implementation once hired.

Recommendation 26:

Accomplishment reports should link specific accomplishments back to the operational goals in project area work plans and include information on remaining work to be completed.

SEDC Response:

Agree - SEDC agrees accomplishment reports should link specific accomplishments to operational goals in each project area work plan and should include information on any work yet to be completed to meet the goals delineated in each work plan. This task will be assigned to the MPD for implementation once hired.

Recommendation 27:

In accordance with best practices, SEDC should develop an agency-wide strategic plan. This process should include City and community outreach to solicit strategic planning feedback.

SEDC Response:

Agree in principle - SEDC agrees to commence as soon as practicably possible the development of an agency wide strategic plan. SEDC will use community and City outreach, as well as third party consultants, to solicit feedback and input into the planning process. SEDC believes this strategic plan should be coordinated with similar plans from CCDC and the RDA itself to ensure a cohesive strategic plan for all redevelopment activity within the City. Implementation and coordination for the strategic plan will be assigned to the new President.

Recommendation 28:

SEDC should ensure the agency-wide strategic plan links to the Mayor's vision for the City.

SEDC Response:

Agree in principle - SEDC agrees to work to coordinate and to link its strategic, community, and project work area plans with the Mayor's vision for the City. As noted in SEDC's response to Recommendation 27, SEDC's strategic plan needs to be developed in coordination with similar plans created by CCDC and the RDA. The responsibility for completing this task will lie with the new President.

Recommendation 29:

SEDC should make its consultant selection process more transparent by:

- a. Documenting consultant need in the files, including a justification for selecting a sole source consultant, when such a consultant is used; and
- b. In accordance with SEDC's policies and procedures, the President should disclose all new consultant contracts, including contract extensions, at the monthly meeting of the Board of Directors.

SEDC Response:

Agree - SEDC agrees and plans to overhaul its consultant selection process to include new policies and procedures governing the justification for using consultants, competitive selection of consultants, limitations on the use of sole source consultants, limitations on the term for consultants' agreements, limitations on renewing or extending consultants' agreements beyond the initial term without approval by the Board, disclosure of all new consultant contracts to the Board and the public, and monthly updates to the Board by the President on consultant activity and progress toward completion of a project. For additional detail on this and related items, see SEDC's response to Recommendations 9 and 15, above.

D. OTHER

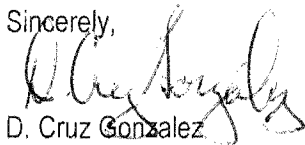
Recommendations 30-33:

30. The City should consider examining the feasibility and the extent to which supplemental compensation that was not properly authorized should be reclaimed by the City.
31. The City should determine the full impact of 403B contributions on the City stemming from the supplemental compensation increases.
32. The City's Internal Auditing function should conduct an audit within 18 months to review the status of SEDC's efforts to implement the recommendations contained in this report.
33. The City should examine the appropriateness of SEDC's charitable contribution activities.

SEDC Responses:

N/A – SEDC defers to the City in preparing responses to this set of recommendations and pledges to coordinate with the City in implementing any action required.

Sincerely,



D. Cruz Gonzalez
Board Chairman

- c: Honorable Mayor Jerry Sanders
Members of the City Council Audit Committee
Andrea Tevlin, Independent Budget Analyst