



SEDC Performance Audit

City of San Diego Audit Committee
Macias Consulting Group, Inc.
September 15, 2008



Objectives

- Evaluate efficiency and effectiveness of SEDC operations between FY 2004-05 to FY 2006-07.



Scope of Work

1. Evaluate the adequacy and appropriateness of the organization's goals and performance measures used, and the efficiency and effectiveness of the methods, procedures, and activities used to accomplish those goals.
2. Evaluate and determine the efficiency and effectiveness of SEDC's use of staff resources and consultants to achieve the organizational goals.
3. Evaluate and determine the efficiency and effectiveness of SEDC's project management procedures for redevelopment projects and properties.
4. Evaluate and determine to what extent SEDC is achieving its operational goals.



Scope of Work

5. Evaluate and determine if SEDC is following sound procurement practices that are in compliance with pertinent regulations of the State of California Health and Safety Code related to the purchase of real estate that is being developed by the organization.
6. Evaluate and determine if SEDC has sound budgeting practices and procedures and determine if their budgeting procedures provides adequate information to the Mayor and City Council based on the City's new Strong Mayor Form of Governance.
7. Evaluate and determine if the level of information provided by SEDC management to its board members is adequate and in compliance with board rules and regulations.



Scope of Work

8. Evaluate and determine if SEDC has adequate internal controls over financial management.
9. Determine the extent to which SEDC's salary and non-salary compensation programs, including benefit programs, were used over the last five fiscal years to compensate employees.
10. Determine the extent to which SEDC's compensation programs (salary and non-salary) are disclosed to the Board, the Redevelopment Agency and to the public.
11. Gather and review complete listing of the SEDC vendor file including amounts paid to each vendor during fiscal year 2008.
12. Obtain and, on a test basis, verify a listing of SEDC equipment and capital assets.



Approach

- ❑ 6 months of data collection
- ❑ Qualitative activities
 - Interviewed RDA, SEDC employees, developers, SEDC Board members
- ❑ Quantitative activities
 - Documentation review (e.g. project data, prior SEDC studies, redevelopment plans, personnel action forms, staff reports, Board meeting minutes and agenda, procurement reports, real estate acquisition data, payroll records, financial reports.
 - Financial analysis and review
 - Budget analysis
 - Internal control review
 - Best practices review



Results of SEDC Redevelopment Activity Review

- **SEDC Has Appropriate Project Area Specific Goals**
 - Implementation and work plan plans generally do not contain interim goals that relate back to the redevelopment plan goals.
 - Reports that assess SEDC's progress on its interim goals also generally do not relate back to the higher level plans.



Results of SEDC Redevelopment Activity Review

- ❑ **SEDC should continue to improve operational goals contained in Annual Work Plans that should be measurable and have specific time frames.**
- ❑ **Stakeholders have general familiarity with SEDC Organizational Goals, but concerns were cited with:**
 - SEDC communication of its long range goals, improving understanding of how the City approval processes work, and having clearer vision on some projects.
- ❑ **Stakeholders would like SEDC to do more strategic planning.**



Results of SEDC Redevelopment Activity Review

- ❑ **SEDC has implemented some components of strategic planning.**
 - SEDC has an organization-wide mission statement.
 - Conducts long-range and short-range planning in each of the four project areas.



Results of SEDC Redevelopment Activity Review

- ❑ **SEDC does not routinely report on all of its measures of success.**
 - For the measures that were tracked, SEDC created about 4,426 jobs within five developments.
 - SEDC received a 30 percent increase in tax increment. Growth in assessed property values ranged from -1 percent to 143 percent.
 - Tax allocation bonds issuances averaged about \$10.3 million in 1995 that increased to \$34.9 million in 2007.13
 - SEDC regularly reports on job creation



Results of SEDC Redevelopment Activity Review

- **SEDC Needs a Fully Developed Project Management Process**
 - Project Management is critical to project success
 - *all project management processes include planning, implementation, evaluation, and monitoring stages.*
 - SEDC has informal project management
 - SEDC President has considerable involvement in planning
 - SEDC does not have a system for measuring project management performance



Results of SEDC Redevelopment Activity Review

- **SEDC Communication Can Improve**
 - SEDC has few communication requirements
 - Type and amount of information presented to the SEDC Board is limited to action-oriented agenda items
 - SEDC Board has frequently cancelled meetings
 - Board Members are mixed in their satisfaction with communication from SEDC management



Results of SEDC Redevelopment Activity Review

□ **SEDC Generally Followed Processes When Acquiring Property**

- SEDC generally complies with provisions in the California health and safety code and its internal acquisition processes.
- Some issues were found regarding internal acquisition procedures.



Results of SEDC Redevelopment Activity Review

- Clear criteria is needed on when to issue request for proposals
 - SEDC did not issue a Request for Proposal (RFP) to obtain a developer for the Hilltop/Euclid
- Prior to the purchase of the individual properties, SEDC did not seek specific approval from its Board or the Redevelopment Agency because SEDC explained that such authorization was already provided with the project budget was approved.
- We could not determine whether SEDC paid a reasonable price for the property which SEDC paid \$150,000 more than appraisal price because SEDC did not maintain copies of the independent economic consultant reports.



Results of SEDC Redevelopment Activity Review

- Consultant Selection is not transparent
 - SEDC had 71 companies providing professional and technical services valued at under \$50,000.
 - No written evidence that the President made the required disclosures to the Board.



Financial Management Results

- **SEDC's budget practices generally met CRA budget requirements.**
 - We determined that SEDC is preparing budgets that satisfy items (a), (b), and (c), but only partially satisfy items (d) and (e).
 - (a) the proposed expenditures of the agency,
 - (b) the proposed indebtedness to be incurred by the agency,
 - (c) the anticipated revenues of the agency, and
 - (d) *the work program for the coming year, including goals.*
 - (e) *an examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program.*



Financial Management Results

- Conducting a trend analysis of budgeted revenue and actual expenditures is one method that can be used to detect potential issues and/or warning signs of financial management practices.
- SEDC was very successful at keeping within its total budget; there was no information to suggest that mismanagement may be evident.



Financial Management Results

- Upon further review of expenditures, we found:
 - \$21,000 in expenditures that should not have been allowed
 - \$156,000 that did not receive Board approval
 - Questionable expenditures of \$3,000 for the Catfish Club
 - We could not determine the appropriateness of about \$4,000 in food reimbursement because SEDC does not have a policy that govern their reimbursement.
 - Employee reimbursements were made without proper receipts
 - \$174,917 in lease payments to PDP who has also contracted with SEDC on redevelopment projects.



Financial Management Results

- **Upon further review of compensation expenditures, compensation practices substantially benefited SEDC employees**
 - About \$872,000 in COLA, holiday bonus, longevity, year end acknowledgment, one-time salary adjustment, and incentive pay given to SEDC employees over the five years under review.
 - SEDC did not provide disclosure to its Board of Directors or to the City about the total compensation that was to paid to SEDC employees.
 - When salary increases were denied by the City, SEDC circumvented the decision by providing one time salary adjustments.



Financial Management Results

- The Finance Director allocated income amounts that were reviewed and approved by the SEDC President.
- The SEDC President self-authorized her own supplemental income payments.
- Staff reported that increases were not linked to performance.
- Supplement income increases were paid by using salary savings from vacant positions.



Financial Management Results

- **Other internal controls were not generally adequate and/or effective**
 - Increases in the SEDC's President's car allowances were inappropriately authorized by the SEDC's Finance Director rather than Board Chair.
 - Safeguarding controls were generally sufficient.
 - Some record keeping controls are not adequate.
 - Reconciliation controls were not performed.
 - SEDC President can override controls.
 - SEDC operating agreement is absent key requirements.



Other Issues

□ Other Issues Need Further Review

- A review of employee termination practices and their adherence to SEDC and Redevelopment Agency policies and procedures.
 - We noted
 - three SEDC employees that left the Agency in FY 2005-06 and were provided severance
 - pay totaling \$30,018 when SEDC's policies did not address severance pay.



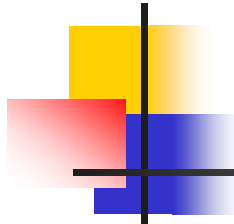
Conclusions

- SEDC can benefit from operational improvements regarding redevelopment activities
 - Better project management
 - Establish clearly defined goals
 - Increase transparency in consultant selection



Conclusions

- ❑ SEDC needs governance and organizational changes.
- ❑ Issues contained in the report stem, in part, from:
 - an outdated operating agreement
 - processes rooted in the past
 - internal controls that were not present or did not work
 - Circumvention of internal controls



Conclusions

- ❑ SEDC management believed that its practices were acceptable because they were adhering to its Operating Agreement, or to general budgeting requirements imposed by the City, or to activities consistent of nonprofit agencies.



Recommendations

- 33 recommendations related to:
 - Governance and organization
 - Policies and procedural development
 - Operational
 - Other



Recommendations

Governance and organizational changes

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.



Recommendations

2. *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.*
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.



Recommendations

4. *SEDC should fill the Manager of Projects and Development position as soon as possible.*
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.
6. SEDC should establish a part-time formal Human Resources Manager position to oversee SEDC's recruiting, hiring, staff development and termination activities.



Recommendations

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

Policies and Procedures

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.
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.



Recommendations

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.
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.



Recommendations

12. SEDC should formalize policies and procedures that describe the segregation of duties for the fiscal operations and authorization procedures.
13. SEDC should amend its merit pay policy and establish maximum award amounts.
14. SEDC should ensure that the SEDC Board of Directors approves all policies.
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.



Recommendations

16. *SEDC should eliminate the authority provided to the SEDC President to implement agency policies at her discretion.*
17. The Office of the CFO should review and approve of SEDC's newly-developed fiscal policies and procedures prior to their finalization.



Recommendations

Operational

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



Recommendations

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.
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.



Recommendations

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



Recommendations

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



Recommendations

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



Recommendations

Other

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.



Acknowledgments

- City Auditor Office
- SEDC staff