

**CITY OF SAN DIEGO**  
*Office of the Auditor & Comptroller*

**MEMORANDUM**

February 17, 2006

**TO:** Honorable City Council Members

**FROM:** John Torell, CPA, City Auditor

**SUBJECT:** Monthly Fiscal Update

**COPY:** Mike Aguirre, City Attorney  
Andrea Tevlin, IBA  
Ronne Froman, COO  
Jay Goldstone, CFO

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**CITY AUDITOR'S FISCAL STATUS UPDATE**

**February 17, 2006**

***Purpose and scope –***

The purpose of this monthly report is to measure, on a timely basis, the extent to which each department's actual revenues and expenditures either conform to or deviate from the budget as passed by the City Council.

The current report compares by department, FY 2006 *budgeted* expenditures with *actual* amounts for the period July 1, 2005 through January 27, 2006, representing 57.8% of the fiscal year. Also, *budgeted* revenues are compared with *actual* amounts for the same period. The primary objective of this analysis is twofold:

1. To identify those departments with significant variances between amounts budgeted and amounts expended (or revenues generated) to date; and
2. To determine the need (if any) to adjust departmental budgets *to reflect departmental requirements for the remainder of the fiscal year.*

***Overview –***

1. FY 2006 Budget Overview: The budget as approved by the Council for FY 2006 including budget adjustments to date is presented below.

### Budget Overview

Original Budget	\$ 865
Revisions--Kroll (\$4 million of the \$10 million earmarked)	5
Current Budget	\$ 870

2. Projected Over Budget Revenues: Per the table below, revenues totaling \$24 million are projected to be generated in FY 2006 over and above the City's original revenue estimates. \$4 million of this amount has already been encumbered to pay prior outstanding investigatory expenditures. Offsetting this encumbrance, however, is \$5 million in funds set aside at the end of last fiscal year which is available for appropriation in the current year - for a total of \$25 in unbudgeted revenues.

#### Projected FY06 Overbudget Revenue

	Original Budget	Projected Revenue	Over (Under)
Property Tax	\$ 290	\$ 321	\$ 31
Sales Tax	144	140	(4)
TOT	67	70	3
Property Transfer Tax	15	14	(1)
MVL	10	8	(2)
Other	171	168	(3)
Net Over/(Under) Budget Revenues			24
Transfer from State Contingency Reserve			5
Budget Revisions for Kroll			(4)
			\$ 25

3. Projected Demands on Over Budget Revenues: Although projected revenues exceed budgeted revenues by \$25 million, we project additional unbudgeted expenditures approximating \$24 million as shown below.

#### Additional Anticipated Expenses

Projected Departmental Operating Deficits	\$ 8
Kroll/Wilkie Farr Investigatory Expenditures	9
Other Investigatory Expenditures	3
Public Liability	3
Additional Tans Interest Expenditures	1
	\$ 24

### ***Analysis -***

The Auditor's newly installed Financial Reporting System was utilized in the 'Budget vs. Actual' comparisons for the purpose of identifying departments with significant variances to date (per step 1 above). For purposes of further analysis, we selected departments whose actual expenditures to date varied significantly from amounts budgeted.

In addition, we selected certain departments whose FY 2005 'Budget vs. Actual' results indicated the need for significant FY 2005 year-end adjustments.

Based upon the above criteria, the management personnel from the following departments were contacted by the Auditor's staff to develop estimates of fiscal performance through the remainder of the fiscal year for the purpose of determining if budget modifications would be necessary.

1. Dept 120 – Fire-Rescue

Fire has expended 61.8% of their budget due to over budget personnel expenditures. However, they expect to have over budget revenue, but not enough to fully mitigate the department's deficit. At this point, Auditor's projection shows this to be the case with approximately \$2 million of deficit not offset by over budget revenue. Fire is showing this 'uncovered' deficit to be even higher at \$5 million.

2. Dept 110 – Police

Police has expended 59.3% of their budget due to over budget expenditures. However, they expect to have over budget revenue, but not enough to fully mitigate the department's deficit. At this point, Auditor's projection shows this to be the case with an estimated \$0.6 million deficit projected at year-end. Police is showing this projected deficit to be at least \$4 million by year-end due to over budget expenditures in various accounts such as overtime, data processing and gasoline.

3. Depts 010, 029, 039 and 040 – Mayor, Council Administration, Business Center Management, and City Manager

Due to the change from the City Manager form of governance to the Strong Mayor form of governance, many functions once performed in one of the above departments has been moved to another department in this group. Additionally, the Independent Budget Analyst function was created in the Council Administration budget.

As a result, the budgets for these departments need to be reviewed and realigned. For instance, up to \$600,000 needs to be transferred from the Mayor Department and Citywide Program to Council Administration. Other functions once charged to various departments, including Enterprise Funds, are now being charged to the City Manager Department.

4. General Services

Dept 532 – Facilities Maintenance

Facilities Maintenance has expended 69.9% of their budget due to \$1.2 million in over budget expenditures and \$1.8 million due to unforeseen projects (Plaza Hall \$1.1 million, Concourse \$0.4 million, and DRC roof \$0.3 million). Funding sources for the \$1.8 million have not yet been identified. The Department expects to have over budget revenue to mitigate the \$1.2 million in over budget expenditures. However, at

this point, the Auditor's projection shows only \$0.6 million of over budget revenue leaving a projected year-end deficit of \$2.4 million.

#### Dept 537 – Parking Management

Parking Management has expended 67.6% of their budget due to over budget expenditures. However, the Department expects to have over budget revenue to mitigate the deficit. At this point, Auditor's projections show no over budget revenue available for mitigation, leaving an uncovered deficit of \$0.8 million. This is a recurring problem; the Department has for the past six years run over budget because it has not been adequately budgeted for daily operational needs.

*In addition to the Departments focused upon above other Departments are discussed briefly in the section entitled Other Departments.*

#### ***Pending Issues -***

Supplemental Budget Positions - Many Departments rely upon over budget revenue to “fix” their budgets. Over budget revenue is typically generated by “supplemental” positions. These supplemental positions represent employees on a departments payroll but not in the department's budget. In order to have budgets that accurately reflect departmental resource consumption and to enhance departmental accountability, we should work towards including supplemental positions in the budgets of those departments benefiting from the expenditure.

Monthly Revenue and Expenditure Estimates - The lack of monthly budget estimates *hinders analysis of 'Budget vs. Actual' results* thereby potentially inhibiting timely adjustments to the budget or obscuring the need for timely management action in certain circumstances.

The Auditor's new Financial Reporting System provides actual revenues and expenditures on a daily basis. Monthly budget estimates would enable timely and more meaningful comparisons of budgeted vs. actual data enabling the budget office to make midcourse corrections, including budget amendments, to keep the budget in balance. Such analyses would also identify potential trouble spots enabling management to take timely corrective action if necessary.

To facilitate timely analyses, the Auditor's Office is initiating, pursuant to our Charter responsibilities, a ***Monthly Projection*** (MoPro) monitoring program to include monthly meetings with selected department directors or a specified designee.

The objective of these collaborative sessions will be to determine reasons (timing differences, unforeseen events, etc.) for any significant variances between budgeted and actual amounts to date and *the potential resolution of these discrepancies.*

To facilitate an effective budget monitoring process going forward, the Auditor's Office will be working with the IBA and the departments to transition to a monthly budgeting

process over the next several years (i.e. so that revenue amounts should be budgeted during those months when collection is expected and expenditures budgeted for those months when they are expected to be incurred).

In the meantime, the Auditor's Office will assign FY 2007 revenue and expenditure budget estimates to monthly periods based actual revenue and expenditure numbers for the past three years based upon a "Revenue/Expenditure 3-yr. Monthly Trend-By-Department" report. This report will be produced by our new Financial Reporting System.

Annual Appropriations Ordinance – The annual budget as passed by the City Council is given the force of law by the Appropriations Ordinance. It is this ordinance that becomes the operative document for the Auditor & Comptroller when determining whether or not funds are available for expenditure, and/or to initiate transfers and to augment City reserves. In our professional experience, the Appropriations Ordinance as currently adopted by the City Council, provides unparalleled administrative flexibility in allowing funds to be appropriated without prior approval of Council. This flexibility results in a weakening of budgetary controls and a less than desirable level of transparency and accountability in the City's finances.

### ***Other Departments -***

#### Dept 150– Homeland Security

Homeland Security has expended 122.3% of its budget due to over budget personnel expenditures. However, the Department expects to have over budget revenue to mitigate the deficit. Per Financial Management there is \$330,000 of over budget revenue to mitigate \$500,000 of the projected deficit.

#### Dept 042 – Community Development

Community Development has expended 99.8% of their budget due to over budget expenditures and covering the funding for the 6 to 6 program of about \$400,000. However, the Department expects to have over budget revenue from block grant funding to cover such expenditures. At this point, Auditor's projections show this to be the case.

#### Dept 075 – Neighborhood Code Compliance

Neighborhood Code Compliance has expended 73.1% of its budget. Auditor's projections show that the Department will end the fiscal year with a deficit of \$1.1 million due to over budget expenditures. The Department and Auditor expect to have over budget revenue available to mitigate this deficit.

Depts 052 & 056 – City Treasurer and Financing Services

City Treasurer has expended 56.3% of its budget while Financing Services has expended 28.6% of its budget. This is the first year that these functions have been split into two separately budgeted departments. While Financing Services has many vacancies, which account for their under spending, we believe the Treasurer will be over budget. The Departments may need to request salary saving transfer from Financing Services to City Treasurer to cover any shortage.

Attachments:

Statement of appropriations, Expenditures and Encumbrances  
Revenue Status Report