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RIVERSIDE: Consultants say the city has grown to where it needs its own internal auditors.

BYLINE: BONNIE STEWART; THE PRESS-ENTERPRISE**BODY:**

For the past five years, Riverside's financial auditors have told the city it needs its own internal audit department.

The city has grown too large and handles too much money - a \$ 209 million budget last year - not to have one, two contracted auditing companies have said.

But every year, city leaders have shelved the recommendation.

"It certainly is a good idea," City Manager George Carvalho said. "It's a budgetary issue. . . . If we can do it economically, I would consider it."

At its meeting this month, the City Council accepted the 2003 financial audit and ordered it to be filed without mention of the internal audit advice it contained. Some city leaders, however, may resurrect the recommendation and look at ways other cities have used their audit departments to trim fat and streamline the way they do business.

Every year the city has an annual financial audit that examines its accounting practices and annual financial report. But that audit doesn't go deep into the workings of the city, searching for ways to save taxpayer dollars.

Internal auditors provide a system of checks and balances, making sure city managers and employees are not wasting resources, said Rod LeMond, a certified public accountant with McGladrey & Pullen, the company that did Riverside's latest annual financial audit.

"You don't get an internal audit function because you are concerned about fraud," he said. "You get big enough and more and more employees and more leveraged and you need to know management's wishes are being done."

The statewide budget crunch that has thrown local governments into the belt-tightening mode hasn't dampened city Finance Director Paul Sundeen's support for auditing.

Riverside "must develop an internal audit capability," Sundeen told Carvalho this month in a letter. Auditing can save the city money, he wrote.

Sundeen said he has made the same recommendation for the past three years.

But the budget always gets in the way.

"To suggest that the city can't afford an independent review of spending programs, particularly by a city already spending \$ 209 million a year, makes taxpayers wonder whether maybe the city's leaders are really more concerned about what the auditor might find," said Greg Turner, general counsel of the California Taxpayers' Association.

McGladrey & Pullen made its recommendation because of the size and complexity of the city, said LeMond.

"It's not because anything is wrong," he said. "It's because its time has come."

OTHER CITIES

Many finance experts say audit departments more than pay for themselves.

San Jose's auditing department saved that city \$ 30 million last year simply by looking at the way it bought cars, said city auditor Gerald Silva.

Part of the savings came when auditors discovered the city was planning to order 96 new police cars at \$ 31,000 per car even though 124 police sedans that had never been driven were sitting in a parking lot.

Over the years, for every \$ 1 spent on internal auditing, the city has saved \$ 7, said Silva, who now oversees a staff of 14 auditors. On a smaller scale, Stockton, which is about the same size as Riverside and has a \$ 236 million annual budget, has a six-member auditing department.

"We have found some people misbehaving," said city auditor F. Michael Taylor. "We've encountered fraud."

In 1998, Taylor's department discovered the city's water provider had violated its contract, taking \$ 6 million from the city.

TOUGH SELL

Not everyone in Riverside is sold on the audit idea.

Newly elected Councilman Dom Betro said his experience as a businessman makes him skeptical, but he is open to look at evidence that might take the city in that direction.

"Although you do get down to a more nitty-gritty level, my experience is that the cost, time and effort don't necessarily result in significant cost savings."

Steven Frates, senior fellow at the Rose Institute of State and Local Government at Claremont McKenna College, said it's more important for a city to have a competent city manager than an audit department.

Cities are better off hiring outside auditors on a case-by-case basis rather than have the continuing cost of a separate department, he said.

A few years ago, Riverside had one internal auditor who reported to the city manager. But that position was eliminated.

The issue came before the City Council, but it didn't lead to a "sustained discussion," said Mayor Ron Loveridge.

"We didn't refer it to the finance committee," he said. "We just deleted the position and went on with city business."

He said he now plans to ask the council's finance committee to revisit the issue.

But even adding back one auditing position wouldn't be adequate for Riverside, said the city's annual financial auditor KPMG in 2000.

"The issues facing large businesses today (which the City is) require a greater level of resources and diversity of expertise than can be provided by any one person," KPMG's report said.

KPMG also told the city it needs a five-year audit plan.

"I think that after five years of that recommendation, this council will take that seriously," said Riverside Councilman Frank Schiavone.

* * *

Riverside's growing responsibility

Riverside's budget and population are on the rise. Since 1994, the budget has grown by 28 percent and its population by 12 percent. Its revenues grew by 37 percent during the same period - from about \$ 134 million in 1994 to more than \$ 194 million in 2003.

City of Riverside population

General Expenditures

General Revenues

SOURCE: CITY OF RIVERSIDE, COMPREHENSIVE ANNUAL FINANCE REPORT
FISCAL YEAR ENDING JUNE 30, 2003

(For complete graphic, see microfilm.)

NOTES:

FOR COMPLETE GRAPHIC, SEE MICROFILM

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