



Southeastern  
Economic  
Development  
Corporation

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DATE ISSUED: April 28, 2010 SEDC Report No.10-004

ATTENTION: Honorable Chair and Members of the Redevelopment Agency Board  
Docket of May 4, 2010

ORIGINATING DEPT: Southeastern Economic Development Corporation

SUBJECT: Fiscal Years 2008 and 2009 Audited Financial Statements  
Pertaining to the Operations of the Corporation – General

COUNCIL DISTRICTS: District 4 and District 8

REFERENCE: Fiscal Years 2008 and 2009 Audited Financial Statements

STAFF CONTACT: Brian Trotier, Acting President/Chief Executive Officer – 619/527-7345  
Terry Darden, Chief Financial Officer – 619/527-7345

REQUESTED ACTION: That the Redevelopment Agency Board of the City of San Diego receive and file the Fiscal Years 2008 and 2009 Audited Financial Statements of the Southeastern Economic Development Corporation (SEDC).

STAFF RECOMMENDATION: That the Redevelopment Agency Board of the City of San Diego receive and file the Fiscal Years 2008 and 2009 Audited Financial Statements of SEDC.

SUMMARY: Section 2.06 of the Operating Agreement between the Redevelopment Agency (Agency) of the City of San Diego and Southeastern Economic Development Corporation requires that SEDC submit to the Agency audited financial statements prepared by an independent certified public accountant covering the operations of SEDC after the close of each fiscal year. The annual financial audit for Fiscal Year 2008 was conducted by Macias Gini & O’Connell LLP, which is included as Attachment A. The annual financial audit for Fiscal Year 2009 was conducted by Leaf & Cole, LLP, which is included as Attachment B.

FISCAL CONSIDERATIONS: None.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION RECOMMENDATION: On June 24, 2009, SEDC’s Board of Directors approved and voted unanimously to forward the Fiscal Year 2008 Audited Financial Statements to the Redevelopment Agency of the City of San Diego. On August 31, 2009, the Audit Committee of the City of San Diego also voted unanimously to recommend that the Redevelopment Agency board receive and file the Fiscal Year 2008 Audited Financial Statements of SEDC.



On October 21, 2009, at a joint meeting of the SEDC Audit and Budget & Finance Committees, Leaf & Cole, LLP presented the draft of the FY 2009 Audited Financial Statements. The committees voted unanimously to recommend that SEDC's Board of Directors approve and forward the Fiscal Year 2009 Audited Financial Statements to the Redevelopment Agency of the City of San Diego.

On October 28, 2009, SEDC's Board of Directors approved and voted unanimously to forward the Fiscal Year 2009 Audited Financial Statements to the Redevelopment Agency of the City of San Diego. On March 8, 2010, the Audit Committee of the City of San Diego voted unanimously to refer the FY 2009 Audited Financial Statements to the Redevelopment Agency Board for review and consideration. Councilmember DeMaio also requested that management provide a letter of transmittal that would address, among other things, the financial impacts of the Education Revenue Augmentation Fund (ERAF), Community Development Block Grant (CDBG) loan repayment, and general market condition changes on SEDC. We have included the transmittal letter as Attachment C.

DISCUSSION: The internal control findings listed on page 26 of the Fiscal Year 2009 financial statements have been addressed as follows:

Findings 09-1 – Cash Receipts

Condition

Cash receipts are received by the receptionist either through the mail, over the counter, or by courier and are forwarded to staff accountant who makes a copy of the receipts, endorses the checks, prepares the deposit slip, and takes the deposit to the bank. Several of these functions are considered incompatible. No employee should have access to the assets of SEDC and the accounting records that account for those assets.

Recommendation

We [Leaf & Cole] suggest that the receptionist prepare a daily list of receipts before forwarding to the staff accountant. The Chief Financial Officer could periodically compare this log with the bank statement to see that receipts are being deposited intact and timely. In addition, pre-numbered receipts should be used for all cash received and their population should be controlled. Accounts receivable records should not be maintained by individuals with access to the underlying receipts.

Remedy

SEDC has changed our current cash/check receipt procedures using the guidelines recommended by Leaf & Cole by implementing the following:

- a) The receptionist (or designee) is now recording all receipts in a "Cash Receipts Journal" on a daily basis. The journal includes the date of receipt, the payer, check number, check date, amount, the initials of the employee who received and recorded the information in the journal, and a column for notes. We have also included two additional columns identified as "SEDC" and "City," because there are times when SEDC receives checks that are to be deposited with the city treasurer. Each journal will cover one fiscal year.



- b) The CFO will request a hard copy of this journal on a monthly basis to compare to the bank statement's account of monthly deposits, and become a part of the monthly bank reconciliation supporting documentation.
- c) SEDC already has pre-numbered receipts for cash receipts; the control of these receipts also lies with the receptionist (or designee), who accounts for every receipt.

Findings 09-2 – Cash Disbursements

Condition

Signed checks are returned to the staff accountant for mailing.

Recommendation

We [Leaf & Cole] suggest that the signed checks are not returned to anyone involved in the recording of the accounts payable.

Remedy

SEDC has changed our current cash disbursement procedures using the guidelines recommended by Leaf & Cole by implementing the following:

- a) Accounts payable invoice data entry and check printing is the responsibility of the senior staff accountant. The checks and supporting documentation is prepared by the senior staff accountant then given to the CFO for signature. The checks are then given to the President/CEO for the required second signature.
- b) The checks are returned by the President/CEO to the CFO for mailing.

ENVIRONMENTAL IMPACT: This activity is not a "project" under the definition set forth in CEQA Guidelines Section 15378; therefore, pursuant to CEQA Guidelines Section 15060(c)(3), the activity is not subject to CEQA.

CONCLUSION: The Southeastern Economic Development Corporation is required to submit to the Agency audited financial statements provided by an independent certified public accountant each year. Staff is requesting that the Redevelopment Agency Board of the City of San Diego receive and file the Fiscal Year 2008 and Fiscal Year 2009 Audited Financial Statements.

Respectfully submitted,



Terry Darden  
Chief Financial Officer

Concurred by,



Brian L. Trotier  
Acting President/Chief Executive Officer

Attachments: Attachment A – Fiscal Year 2008 Audited Financial Statements  
Attachment B – Fiscal Year 2009 Audited Financial Statements  
Attachment C – Transmittal Letter