

Internal Control Items with a Direct Impact on Financial Reporting - IT

Exhibit B

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
1	Inappropriate access to modify user application security in the OPIS procurement system.	2003 KPMG Report	Yes	The user security access for the three inappropriate users was removed immediately when discovered by KPMG. The City has scheduled regular, semi-annual reviews of this type of system access to ensure continued compliance.	Jun-04	NA	<p>Yes - Reviewed a memo to Jay Goldstone, CFO from Matt McGarvey, CIO dated June 19, 2007 that the above mentioned items were reported as "implemented." Obtained and reviewed a list from purchasing staff that shows who is authorized to create vendors. Obtained and reviewed a list from purchasing staff of all accountants and their profiles. Contacted Purchasing Division and Comptroller Department staff to obtain documentation regarding the semi annual reviews the departments are supposed to conduct together.</p> <p>Access profiles have been changed to ensure there is a segregation of duties. The first semi-annual review with Purchasing of authorized users is scheduled to be completed before the end of calendar year 2007, followed by June 2008 and so forth. This item has been accepted by Internal Audit as remediated.</p>

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2	Lack of review of VOS exception reports in the Risk Management Department.	2003 KPMG Report	Yes	For all claim payments that are successfully transferred from VOS to Accounts Payable (AP) there is already a process in place to balance and reconcile the VOS report to the AP run. There is also an error report generated for those claim payments not successfully transferred from VOS to AP. That report is generated on Monday and Wednesday nights. Effective June 7, 2004, the Risk Management Information Systems Analyst (ISA) provides this error report to the Senior Clerk Typist on the morning following its run. The Senior Clerk Typist reconciles the payments that erred and makes the necessary payment corrections. This will ensure that the City's data is accurate, complete and valid.	Jun-04	NA	<p>Yes - Per Risk Management, the review process is as follows: Daily reconciliations for bill payments. A "payment total bill review" report is printed from VOS and each payment is reconciled to ensure information is accurate. Notation is made for any payment not generated due to inadequate vendor information on this report.</p> <p>Additionally, each night the VOS system generates an "exception" report identifying any payments with inadequate vendor information. This "exception" report mirror's the information in the "payment total bill review" report.</p> <p>Daily when the audit of the bills for import to the AP system is complete, the clerk will look at the "exception" report to confirm the bills with inadequate vendor information are the same vendors on the "payment total bill review" report. The "exception" report is shredded once complete.</p> <p>Reviewed a sample of the Bill Review report and verified that the report included notations for invalid entries and the clerk's initial and date. This item has been accepted by Internal Audit as remediated.</p>

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3	Inappropriate user access - FAMIS (fixed asset) application.	2003 KPMG Report	Yes	The "ALL" profile was removed for all three users in June 2004. In addition, the Comptroller's Office started preparing and distributing a Quarterly User Security Report to user departments in April 2007 listing the staff, including profile type, with security access to the FAMIS application. The department's Deputy Director or designee is required to review, make appropriate changes to and sign off on the security report and return to the Financial Systems Division of the Comptroller's Office.	Jun-04	NA	Yes - Reviewed a copy of the Quarterly User Security Report for the Fixed Asset Department (Comptroller's Office) and verified that there are no employees with an "ALL" profile and that all employees with access are current City employees within the Comptroller's Office. This item has been accepted by Internal Audit as remediated.
4	The change management system within the City lacks electronic controls to ensure that programs are modified by one programmer at a time and that programs are not modified after approval and prior to their move into the production system.	2005 MGO Report on IT	Yes	The City's IT Security Guidelines and Standards require a separation of duties between development and production environments. The City and SDDPC use an established Change Management process for approval (after customer acceptance testing) and notification when moving applications from development into production.	Sep-04	NA	Yes - Verified the separation of duties requirement per the IT Security Guidelines and Standards and reviewed the Change Management Process and the levels of approval required in this process. This item has been accepted by Internal Audit as remediated.

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5	Lack of documented policies and procedures for information security.	2003 KPMG Report	Yes	<p>The City's draft Administrative Regulation (AR) 90.63, "Security and Acceptable Use" and the "IT Security Guidelines and Standards" were developed to include this recommendation. The draft AR was reviewed by the Office of the CIO and additional language pertaining to privacy was subsequently included in February 2006. The draft AR was routed for approval signatures to appropriate departments and the City Attorney's office. The IT Security Guidelines and Standards were approved by the Information Technology Governance Committee (ITGC) and distributed to department directors for implementation on September 15, 2004.</p> <p>An IT Security Advisory Committee has been meeting monthly since December 2004, to maintain and implement the IT Security Guidelines and Standards. Additionally, a web page has been established on the City's Intranet site, so all City employees can see the latest security practices and the City's IT Security Guidelines and Standards and the pending AR, at this URL: http://citynet.sandiego.gov/informationsecurity/policies/index.shtml.</p>	Sep-04	NA	Yes - Verified, per the Information Security Committee Webpage, that the committee has been meeting monthly. In addition, reviewed draft AR 90.63 and the IT Security Guidelines and Standards and verified the inclusion of this recommendation. Although the draft AR 90.63 still needs final approval, this item has been accepted by Internal Audit as remediated.

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6	Inappropriate RACF (security software) administrator access.	2003 KPMG Report	Yes	SDDPC reviewed the number of Administrators with this privilege and found only three SDDPC employees with RACF "system-SPECIAL" administrator rights. Of these, two represent the primary and backup administrators. The third was a second backup. This third "system-SPECIAL" administrator rights were removed by November 2, 2004. Our view is that two specific users with this level of administrative authority are acceptable for an operation the size of the City's. However, we will monitor this situation and may find it necessary to add an additional ID with "system-SPECIAL" rights if we find that a single backup is not sufficient.	Nov-04	NA	Yes - Verified, per a screen print, that there are only 2 employees with access to the System Administrator or "system-SPECIAL" functions within RACF. There is a 3rd, RACF Master ID that was used to install the system. However, the 3rd can only be used by either one of the 2 employees with access and is used only as a emergency ID, should it ever be needed. This item has been accepted by Internal Audit as remediated.
7	Lack of segregation of duties in the payroll/personnel departments.	2003 KPMG Report	Yes	Screens J0230, J0231, J0232 and J0233 are used for time input/edit in the City Automated Personnel Payroll System (CAPPS) on a daily, weekly or bi-weekly basis (depending on input screen). All Personnel Department staff profiles have been changed to "look" only access on the above mentioned screens, effective Fall 2004. In addition, the Comptroller's Office is now preparing and distributing a Quarterly User Security Report to user departments listing the staff, including profile type, with security access to the CAPPS application. The department's Deputy Director or designee is required to review, make appropriate changes to and sign off on the security report and return to the Financial Systems Division of the Comptroller's Office.	Jan-05	NA	Yes - The draft KPMG report went into more detail regarding this finding as follows: "Payroll/Personnel have segregation of duties conflicts. Personnel has "write" access to screens that should only be "write" accessible by the Payroll Department. Specifically, the user profile "JPER" has "write" access to the following screens: J0230, J0231, J0232, and J0233." Therefore, testing included verifying that the "JPER" profile has been changed to "Look" or "Browse" only access for screens J0230, J0231, J0232 and J0233. This item has been accepted by Internal Audit as remediated.

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8	Segregation of duties conflicts for procurement activities.	2003 KPMG Report	Yes	Employees in the Comptroller's Office no longer have access to modify or create vendors used in the OPIS system. Of the Auditor employees, none have access to process all three of the following functions: create vendors, approved Purchase Orders, and enter invoices. In addition, none have duties or access that would be in conflict with each other.	Jan-06	NA	<p>Yes - Reviewed a memo to Jay Goldstone, CFO from Matt McGarvey, CIO dated June 19, 2007 that the above mentioned items were reported as "implemented." Obtained and reviewed a list from purchasing staff that shows who is authorized to create vendors. Obtained and reviewed a list from purchasing staff of all accountants and their profiles.</p> <p>Access profiles have been changed to ensure there is a segregation of duties. This item has been accepted by Internal Audit as remediated.</p>

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9	Inappropriate access to create vendors in OPIS (procurement system).	2003 KPMG Report	Yes	Only specifically designated Purchasing Division staff has access to create vendors in OPIS, effective January 2006. Auditor employees have access to only view vendors in OPIS. To ensure proper access security, the Comptroller's Office and Purchasing Division have scheduled regular, semi-annual reviews of authorized users.	Jul-06	NA	<p>Yes - Reviewed a memo to Jay Goldstone, CFO from Matt McGarvey, CIO dated June 19, 2007 that the above mentioned items were reported as "implemented." Obtained and reviewed a list from purchasing staff that shows who is authorized to create vendors. Obtained and reviewed a list from purchasing staff of all accountants and their profiles. Contacted Purchasing Division and Comptroller Department staff to obtain documentation regarding the semi annual reviews the departments are supposed to conduct together.</p> <p>Access profiles have been changed to ensure there is a segregation of duties. The first semi-annual review with Purchasing of authorized users is scheduled to be completed before the end of calendar year 2007, followed by June 2008 and so forth. This item has been accepted by Internal Audit as remediated.</p>

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10	By June 30, 2007, evaluate the information technology needs of the City, including benchmarking of existing systems against available systems suitable for management of the City's finances and the preparation of timely and accurate CAFRs and budgets.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Complete. On January 5, 2007 San Diego Data Processing Corporation (SDDPC) issued a Request for Proposals (RFP) for the Enterprise Resource Planning (ERP) system software. Prior to issuing the RFP, the information technology needs of the City were evaluated, including benchmarking its existing systems against available systems in the market. Two qualified proposals were received by the proposal due date of February 9, 2007. On May 12, 2007 the SDDPC Board of Directors authorized the negotiation and execution of a contract with SAP AG to provide software and maintenance support for the City's ERP Project. On June 12, 2007 SDDPC executed a contract with SAP AG to provide the ERP software and maintenance for the ERP Project.	Apr-07	NA	Yes - On May 15, 2007, the City Council adopted Ordinance No. O-19618, authorizing the Mayor to enter a lease-purchase agreement with IBM Credit LLC to establish a credit Facility (IBM Credit Facility) to finance the implementation of the City's ERP Project. On June 11, City Council passed Resolution No. R-302710 authorizing the Mayor to draw against the IBM Credit Facility for the purpose of acquiring the equipment, software, and services selected by SDDPC for the implementation of the City's ERP Project, and to add CIP #92-000.0, Enterprise Resource Planning System Core Capital Project, fund 500711, to the CY07 Capital Improvements Program. On June 12, 2007, SDDPC executed a contract with SAP AG to provide the ERP software and maintenance for the ERP Project. This item has been accepted by Internal Audit as remediated.

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11	Inappropriate access to enter invoices in the accounts payable system.	2003 KPMG Report	Yes	Generic accounts are no longer used and each user now logs in with a unique user ID and password. Additionally, Auditors staff no longer has the capability to enter receiving reports for outside departments.	May-07	NA	<p>Yes - The Accounting Operations Manager in the Comptroller's Office provided auditor with the AP Receiving User Security Report. Each user has a unique user ID. In addition, the Ops Manager also provided auditor with a screen printout from each user in the Comptroller's Office showing that access is denied to the C7503 screen – the screen to enter receiving reports (invoices) into the AP system.</p> <p>Note: 2 employees have the authority to override the C7503 access. This is the Accounting Operations Manager and the Accountant IV in Accounting Operations. This override capability is required to adjust the "received by date" in the AP system at fiscal year end when the receiving department has input it into the AP system incorrectly. The correction is needed to ensure expenses are captured in the correct FY. When an override is done, a "Super-User Activity Report" is generated and is sent to Internal Audit. This item has been accepted by Internal Audit as remediated.</p>

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12	<p>Business processes in places to identify, summarize, reconcile, and report pertinent financial data were not formalized or documented and generally did not contain necessary controls to adequately assure the accuracy of data reported in the City's CAFR or the efficacy and ease of access to management data. Significant impediments to the accessibility of data inherent in the City's financial accounting and reporting system, together with a general lack of automated processes, resulting in the numerous manually intensive, tedious processes. The results include increased workloads, more opportunities for human error which is inherent in all manual processes, and significant delays in meeting deadline dates. Therefore, a combination of the following should be implemented: a Financial Reporting Division should be established, various duties among the Auditor & Comptroller operating division should be re-allocated, a Chief accountant position should be created, and a new Financial Reporting System should be created.</p>	A&C Internal Control Report	Yes	<p>The City has assigned qualified personnel to serve in the capacity of Director of Financial Reporting. This position reports directly to the Comptroller, who in turn reports to the CFO. In addition, the Director of Financial Reporting is the manager of the Financial Reporting Division within the Comptroller's office. This Division is responsible for CAFR preparation. The day to day functions of City-wide accounting operations is now handled by the Accounting Operations and Disbursements Division within the Comptroller's office.</p> <p>A new Financial Reporting System will need to go through the RFP and Council approval process.</p>	Oct-07	NA	<p>Yes - This item consists of 4 recommendations, 3 of which were tested and included on the Control Environment Exhibit (line item 9). The remaining recommendation involves the creation of a new Financial Reporting System. This involves the RFP process, which has been complete. Contracts have been signed with SAP for the purchase of the new system and with AXON for implementation of the new system. However, in the interim, Simpler Systems, a web based management information system that allows users to retrieve financial information concerning the City of San Diego in a user-friendly and easy to read format, has been implemented. This item has been accepted by Internal Audit as remediated.</p>
13	<p>Within 18 months, the City shall have selected a new information system and taken all steps necessary for the system's implementation.</p>	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	<p>SAP contract signed 6/13/07. Axon (System Integrator) contract signed 9/28/07.</p>	Dec-07	NA	<p>Yes - Reviewed a signed contract between SDDPC and SAP for the purchase of license for the use of software and a signed contract between SDDPC and AXON for purchase of services regarding implementation of new systems. This item has been accepted by Internal Audit as remediated.</p>

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14	Inappropriate user access of VOS (workers compensation claim system) applications in the Risk Management Department.	2003 KPMG Report	Yes	Overall, the Risk Management Department is confident that it has adequate, multi-level security controls in place for the VOS application and took action (removed or modified access) to correct the specific user accounts noted by KPMG. Since its implementation in 2003, every user of the VOS application has a unique user ID and password. Additionally, each user has a specifically identified user role, defined within the system that enables them to perform only the system tasks associated with their specific job functions. Lastly, all electronic transactions leave an audit train within the system; they are documented and traceable back to the individual performing the transaction.	Jun-04	NA	No
15	SDDPC should conduct a disaster recovery test on the mainframe applications to ensure that existing procedures are sufficient to restore the City's financial data in the event of a disaster. Findings from the testing should be incorporated into the SDDPC's disaster recovery plan for the mainframe financial applications.	2006 MGO Report on IT	Yes	A complete testing of the financial systems that run on the mainframe was done on December 13-14, 2006. The test was successful, and lessons learned were incorporated into SDDPC's Disaster Plan.	Dec-06	NA	No

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16	The City should implement and utilize an automated financial reporting system to prepare the financial statements and complete the year-end closing. The City should maintain documentation supporting adjustments to facilitate the review of financial data.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Per 2/21/07 4th Mayor Kroll Status report: Short-term plan complete. To facilitate automated financial reporting and financial documentation, the City completed the production phase of the data warehousing and business intelligence project on January 5, 2007. The application can be accessed via the following link: http://intra.sannet.gov/businessobjects/logon.do The long-term plan to remediate Kroll item 71 is the implementation of an Enterprise Resource Planning (ERP) system. Refer to item 67.	Feb-07	NA	No
17	Little control over the creation of unlimited vendor and contractor identifications.	2003 KPMG Report	In Process	SDDPC added a new field to the User ID Request system (REQID) for an expiration date on all contractor/vendor User IDs; with a default of 6 months; implemented in Oct. 2005. Other network User IDs for contractor/vendor accounts will be set to expire every 6 months, with the completion of the migration from Novell NDS to Microsoft Active Directory.	NA	Jan-08	No
18	There is no formal policy and associated procedures in place to ensure all system and application access rights are up-to-date and at an appropriate level.	2005 MGO Report on IT	In Process	Procedures were implemented in March 2007 to require Appointing Authorities to quarterly review and certify the list of their employees with access to certain financial and HR/Payroll systems; updating and/or removing access as needed. A new Administrative Regulation is in final review for "Protection of Sensitive Information and Data" that further details the policy and procedures for ensuring appropriate system access with regular reviews. Est. Completion date is Jan. 2008	NA	Jan-08	No

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19	Lack of formal process for adding/deleting users from critical systems.	2003 KPMG Report	In Process	<p>SDDPC implemented a policy and procedure in Nov. 2005 that requires specific, authorized City department contacts to approve requests for critical system access; logs of all requests are maintained by the system administrator.</p> <p>As the City migrates from Novell NDS to Microsoft Active Directory, and with a new Administrative Regulation on "Protection of Sensitive Information and Data," additional policies and procedures will be implemented for City staff.</p>	NA	Feb-08	No
20	Inappropriate system administrator access in the City Automated Personnel Payroll System (CAPPS).	2003 KPMG Report	In Process	<p>City Management does not concur with this finding.</p> <p>System Administrator access for two Payroll staff is required for proper management of CAPPS; Comptroller is developing a report to identify all actions taken in CAPPS by a System Administrator, for Internal Auditor review.</p>	NA	Mar-08	No
21	<p>Inadequate network and application password controls.</p> <p>There is no formal policy in place defining the configuration standard and expiration period for passwords. An official, City-Wide, logical security policy should define the minimum acceptable password configuration for character length, mixed alpha-numerics, and expiration period.</p>	<p>2003 KPMG Report</p> <p>2005 MGO Report on IT</p>	In Process	<p>IT Security Guidelines & Standards, issued Sept. 2004, define minimum password standards; passwords expire every 90 days; system settings lockout a user after 5 failed login attempts; mainframe will logout a user after 30 minutes without activity; new, stricter password standards will be implemented after the migration from Novell NDS to Microsoft Active Directory, using a single, central directory for user authentication. Est. Completion date is March 2008.</p>	NA	Mar-08	No

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22	Inadequate application change control policies and procedures.	2003 KPMG Report	In Process	SDDPC has had a formal Change Management Process in place since July 2002; reviewed annually and updated as needed. The City will be working with SDDPC to develop a consistent policy and procedures for City staff.	NA	Jun-08	No
23	There is no formal policy and associated procedures in place to ensure that system and application access is rescinded for inactive users. This should be done as soon as the departure is realized.	2005 MGO Report on IT	In Process	The IT Standards & Guidelines (Sept. 2004) require supervisors to promptly notify department payroll staff when employees leave (transfer or terminate); payroll staff are to notify the appropriate IT contacts to make necessary user account changes (revoke access). Additional capabilities are planned after the migration from Novell NDS to Microsoft Active Directory, allowing Payroll staff direct access to request user account changes.	NA	Jun-08	No
24	A significant impediment to the accurate and timely preparation of the CAFR as well as timely monitoring and analysis of budgeted expenditures and revenues is the absence of computerized financial system that provides easy access to and adequate documentation of pertinent data. Therefore, the City should design and implement a Financial Reporting System using Web based state-of-the-art technology to provide user-friendly access to a promptly updated budget and operating results to the City's financial, policy-making, and operational departments.	A&C Internal Control Report	In Process	SAP is being implemented in the City. Project scope includes period and year end processing and reporting as well as analytics that include reporting and drill down capabilities.	NA	CY08, quarter 4	No

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25	The City should invest in capital asset information systems that accommodate CIP to reduce the current reliance on manually prepared spreadsheets. These modifications will reduce the time and expense related to gathering this information, reduce errors, and improve the accuracy of tracking CIP and recording depreciation on completed projects.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	In Process	SAP is being implemented in the City. Project scope includes implementation of SAP Project Systems to include: Create Capital Project & WBS Structure, Plan Project Costs, Capture Project Costs, Settle Project Costs, Periodic Settlement to Asset Under Construction, Close Project.	NA	CY08, quarter 4	No
26	The City should update its chart of accounts, including elimination of unnecessary accounts and funds. This chart of accounts should be consistent across all functions and funds and consolidate funds where possible. The Comptroller should review the current policies and procedures related to creating funds and accounts. If necessary, the ability to create funds and accounts should be limited. The Comptroller should consider using cost centers, index codes, or projects to achieve separate grant, program, and project tracking. The Chart of Accounts in the financial system has not been maintained with a strategic long-term focus. Specifically, each department's framework for tracking costs is unique. This makes the application of consistent business rules for the development of management reports and Citywide financial analysis very difficult. As a result, the production of financial statements and access to data for meaningful management decisions is limited.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report A&C Internal Control Report	In Process	SAP is being implemented in the City. The updated Chart of Accounts will follow best practices for Public Sector. Preliminary update is complete and is review. Chart will be finalized during Blueprint and Realization. (Est. Completion Date: Q4 CY08)	NA	CY08, quarter 4	No

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27	Within 36 months, the City's new financial information system shall have been fully tested to ensure effectiveness and efficiency and will be implemented.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	In Process	Release 1 is in Blueprint Phase. Release 2 is in Planning Phase.	NA	3 release stages with various estimated completion dates. Release 3 - estimated completion date of CY09, quarter 2.	No

Footnotes:

[1] Per information provided to Internal Audit by Management Staff and information provided via the Mayoral Kroll Status updates.

[2] "Date Reported" refers to the date the finding was reported as remediated via: 1) Memos from Management, 2) Mayoral Kroll Status Reports, 3) Status Reports to Internal Audit from Process Owners, 4) Independent Auditor's Reports and 5) Report from John Dyer, Mayoral Consultant, to Internal Audit.