

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

Exhibit E

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	The CFO and Mayor should submit annually to the City Council as part of the annual budgeting process, a rolling five-year proposed plan that contains major items, including capital expenditures, deferred maintenance, debt payments and other major contractual obligations, major revenues by category and a forecast of gross cash receipts and gross cash expenditures.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Per 11/22/06 3rd Mayor Kroll Status report: Complete. The Mayor announced the City's first five year financial plan on November 14, 2006. The plan will be presented to the City Council on November 29, 2006. The plan addresses major items, including capital expenditures, deferred maintenance, debt payments and other major contractual obligations, major revenues by category and a forecast of gross cash receipts and gross cash expenditures. The plan can be accessed on the City's website at: http://www.sandiego.gov/mayor/pdf/five_year_plan_11_15.pdf	Nov-06	NA	Yes - Reviewed the Agenda for Committee on Budget and Finance of the City Council meeting for November 29, 2006 in which the CFO presented his report on the Five Year Financial Plan. Also reviewed was the Five Year Financial Outlook. This item has been accepted by Internal Audit as remediated.
2	The City should publish, along with the annual budget, the significant assumptions that can materially affect the budget, and a comparison of these assumptions against actual experience in recent years.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Complete per 10/30/06 2nd Mayor Kroll Status report. The City's Fiscal Year (FY) 2007 budget is complete and will be distributed in November. Included in this document is a section that describes the assumptions used to develop the budget. As the City develops its first five-year financial plan, the projections for the current fiscal year will be frequently updated. This will provide a working tool for the City Council to compare budgeted assumptions to actual data. The City of San Diego does not have actual data for FYs 2003-2005 to illustrate actual experience against the budget. In preparation of the FY 2008 budget and subsequent FY budgets, significant assumptions will be compared against actual experience for prior years.	Oct-06	NA	No

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3	The City budget should be presented by month, by department.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Per 10/30/06 2nd Mayor Kroll Status report: Complete. The City budget by month, by department for the first two accounting periods was provided to the City Council and presented to the Budget and Finance Committee on October 18, 2006. This report also contains budget to actual comparisons and an explanation of significant variances. The report was made public on the City's website. A similar report will be published on a quarterly basis. Additionally, on September 13, 2006, The Fiscal Year 2006 Summary Report was presented to the City Council. This report contains a final budget-to-actual comparison, along with explanations of variances by department.	Oct-06	NA	No
4	At least quarterly, a report should be prepared reflecting budget-to-actual comparisons by department in aggregate, with an explanation of significant variances, to be disseminated to the public.		Yes		Oct-06	NA	No
5	The City budget should present budget-to-actual comparisons by department, fiscal year-to-date, along with variances on a monthly basis.		Yes		Oct-06	NA	No
6	At year-end, a budget should be presented to the City Council containing a final budget-to-actual comparison, along with an explanation of variances by department		Yes		Oct-06	NA	No
7	Inter-departmental transfers to meet budget goals, or for any other purpose, should not be permitted unless approved in advance by the City Council.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Per 10/5/06 1st Mayor Kroll Status report: It is staff's position that this has been implemented. First, the Appropriation Ordinance has been modified to remove the kind of flexibility to move funds around that were given the City Manager and Auditor and Comptroller in prior fiscal years. In addition, the City Council, through the Business Process Re-engineering (BPR) Ordinance still has the authority to review and take action on any and all movement of funds which result from BPRs prior to staff's processing any transfers. The City Council will be asked to approve the ultimate movement of funds via an amendment to the Appropriation Ordinance periodically throughout the fiscal year.	Oct-06	NA	No

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

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8	The City's budgeting process needs to be improved. These include revising the structure of the budget to more accurately reflect the organizational structure of the City and the need to estimate budgeted revenues and expenditures on a monthly basis. In addition, the City can improve the construction of the City's annual Appropriations Ordinance in order to enhance the City Council's control over budget adjustments. Therefore, an enhanced budgeting process should be created requiring monthly estimates of budgeted expenditures and revenues, monthly monitoring of results for each City department, and a more accurate reflection of the City's organizational structure. Modify the Appropriations Ordinance to enhance City Council's control over budget adjustments.	A&C Internal Control Report	Yes	<p>This item is from the Auditor's Annual Report on Internal Controls, 1/1/2006. Since the release of this report, the Kroll Report had similar recommendations pertaining to the budgeting process – Kroll Items 8 and 11. These items were noted as complete in the Mayor's 10/5/06 1st Kroll Status report. The only item not covered in Kroll items 8 and 11 was the modification of the Appropriations Ordinance. However, this has been remediated per the Mayor's 10/5/06 1st Kroll Status report.</p> <p>The Appropriation Ordinance has been modified to remove the kind of flexibility to move funds around that were given the City Manager and Auditor and Comptroller in prior fiscal years.</p>	Oct-06	NA	No
9	Budget monitoring and development of future budgets could be further enhanced through a monthly allocation of the annual budget. An allocated budget would facilitate enhanced monitoring and thereby enable the Mayor and Council to be apprised on budgetary differences in a more timely manner. Timely notification would also allow for the appropriate action by city Council to reprioritize resources in a flexible budgeting process.	A&C Internal Control Report	Yes	In October 2006, the Budget and Finance Committee presented the first report to City Council. This report reflected the new approach to monitoring the annual budget and included actual expenditures and revenue data for periods 1 and 2 of FY2007.	Oct-07	NA	No

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10	Budgets do not reflect actual expenditures, especially when departments are asked to provide certain increased level of service with no additional resources. As a result, budget forecasts are not accurate.	A&C Internal Control Report	Yes	In October 2006, the Budget and Finance Committee presented the first report to City Council. This report reflected the new approach to monitoring the annual budget and included actual expenditures and revenue data for periods 1 and 2 of FY2007.	Oct-07	NA	No
11	Ongoing expenditures should be supported by ongoing revenues; capital projects should identify all future costs considerations and financial impacts, including direct and indirect costs for each Enterprise Fund; activities supported by user fees should be fully cost recoverable; discretionary General Fund revenues should not be earmarked; increase the General Fund reserve to the range of 7-10%; budget development should be guided by a long term or strategic plan proposed by the Mayor and adopted by the City Council; and after adoption, annual budgets should be amended only for urgent needs. Specific funding sources should be identified to pay for these needs.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes - Actions continue as process improvements	Completed: 5 Year Outlook completed in Nov 2006 and revised in April FY2007 and December 2008. Includes operating costs of capital projects approved by Council to date. Reserve policy adopted by Council November 2007 establishes reserve policy goal of 8% by 2012 that is also included in the 5 Year Outlook. Budget amended in mid-year budget adjustment process established in FY2007. Specific funding sources are identified for all new funding requests. Capital Projects Prioritization Policy presented and accepted at Budget and Finance Committee--policy requires all project costs are included in project request and 5 Year Outlook.	Dec-07	NA	No
12	In the past several years, the City has not properly budgeted sufficient resources for the Public Liability Fund in order for it to meet its annual expenditure requirements.	A&C Internal Control Report	In Process	Risk Management makes a recommendation annually to Financial Management in the budget preparation cycle based on known and anticipated losses in the coming fiscal year. Financial Management, the CFO and ultimately Council determine the amount budgeted.	NA	Ongoing	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.