THE CITY OF SAN DIEGO

DATE: July 9, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Monthly City Auditor Activity Report – June 2008**

This report provides information on the activities and accomplishments of the Office of the City Auditor for the month of June 2008. It includes audit reports and other accomplishments produced during this period, the status of current audit projects and activities, and a summary of planned audits through July 2008.

Audit Reports and Accomplishments:

- June 5, 2008 - Issued a report regarding our Audit of Permits Issued for the Blackwater Facility. This audit report included eight recommendations concerning Development Services Department's permitting process.

- June 12, 2008 - Issued a Close-Out Audit Report for Matthew McGarvey.

- June 27, 2008 - Issued a report to Financial Management staff regarding the Best Practices, Methodologies and Guidelines for User Fees in order to provide information and tools to help the Administration update user fees.

- The Office of the City Auditor hired Tiffany Chung as a Principal Auditor, and Sylvia Calderon as the Analyst that will be in charge of the Hotline records and other administrative duties. Tiffany Chung has a Bachelor of Arts degree from the University of California, Irvine, and a Masters degree in Public Policy from the University of California, Berkeley. Tiffany will be starting on July 14, 2008. Sylvia Calderon is currently working in an Out of Class Assignment as an Analyst for the Water Department, and she has over 14 years of experience in various positions with the City. Sylvia's start date is July 21, 2008.

- The Internal Audit staff member assigned to the Enterprise Resource Planning (ERP) System Implementation Review attended another 40 hours of specialized IT training "SAP ERP Technical Audit". This training included information on how to perform an audit of the SAP Basis Component and SAP ERP user security.

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Current Audits and Activities:

Audit Activity	Description / Status	Target Completion Date
City Auditor Website	The City Auditor Website was started on July 7. The website includes our mission statement, audit reports and memos issued, Hotline procedures, links to the Audit Committee agendas/actions, audit staff information, our audit manual, and other materials. The address for the website is: http://www.sandiego.gov/auditor/	July 7, 2008
Review of the Mathematical Accuracy of the Water Department's Proposed Water Rate Increase Calculations	We are performing an agreed-upon procedures review requested by the Water Department related to the proposed increase in water rates for San Diego rate payers, pursuant to San Diego County Water Authority rate increases effective January 1, 2009. We will be verifying the mathematical accuracy of the proposed rate increases calculated by the Water Department. We have used approximately 8 hours on this review, and we estimate an additional 32 hours will be needed to complete it.	July 11, 2008
City Auditor's Fiscal Year 2009 Annual Audit Work Plan	The City Auditor and Audit Manager are working to complete the Fiscal Year 2009 Audit Work Plan based on the Citywide Risk Assessment, required audits, and other factors.	July 16, 2007
Southeastern Economic Development Corporation (SEDC) Audit	Overseeing a performance audit of SEDC. Macias Consulting is performing this Audit. The audit is it in progress and it is expected to be completed by July 28.	July 28, 2008

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
City Library Fee Collection Process Audit	The objective of our audit is to determine if the fees collected by the libraries are being properly collected and accurately reported by the City. Planning began the week of March 24, and the entrance conference was held with Library staff on April 1, 2008. Fieldwork is in progress. We anticipate completing this audit by the end of July 2008. We have used approximately 154 audit hours, and we estimate an additional 156 hours will be needed to complete the audit.	August 15, 2008
Best Practices, Methodologies and Guidelines Regarding Local Government User Fees	Prior to the Mayor's planned review of the City's User Fees, Internal Audit will research the best practices, methodologies, and guidelines regarding local government user fees to provide information and tools to help the Administration update user fees. With the assistance of City Auditor Intern Farhat Popal, a user fee study report was provided to Financial Management staff on June 27, 2008. Additional research is being performed on the best practices for the calculation of indirect costs for user fees and another report will be provided. We have used 132 hours on this project, and we estimate another 108 hours will be needed to complete this project.	August 15, 2008
Annual Central Stores Inventory Audit	The San Diego Municipal Code Section §22.0501 requires an annual audit of inventory in the City storerooms and warehouses. The objectives of this audit are to confirm the valuation of Central Stores inventory and to evaluate the storerooms internal controls to safeguard inventory. We have used approximately 75 audit hours, and we estimate an additional 165 hours will be needed.	August 22, 2008

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Audit of Internal Control Remediations	An audit staff member is testing management's remediation efforts to correct weaknesses identified in the Kroll Report, external auditors' reports and the Internal Auditor's reports. We have completed testing of 115 of the 159 items reported as remediated as of December 31, 2007. When we identify items needing further remediation, we will issue an audit report. We expect to complete our testing of the remaining 44 items by the end of October 2008. We anticipate issuing a report on the SDCERS items by July 18. We have used approximately 1,603 audit hours, and we estimate an additional 845 hours will be needed to test the remaining 44 items.	October 31, 2008 (For Items Reported as Remediated as of 12/31/07)
Enterprise Resource Planning (ERP) System Implementation Review	The objectives of this audit are to: (a) determine if the City's key financial activities are being adequately reviewed and documented prior to the new system implementation to ensure key financial processes are properly addressed by the new system and (b) determine if the system was adequately tested prior to implementation. Approximately 174 audit hours has been used for this review. The estimated audit hours needed to complete this review is still to be determined.	TBD
Disclosure Practices Working Group (DPWG)	Internal Auditor participates in DPWG meetings as an Ex-Oficio member. Approximately 10 hours were spent participating in various DPWG meetings during the month.	On-going

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Follow-up on Previously Issued Audit Reports	We previously reviewed audit reports that did not have a response from management on file indicating that the audit recommendations were implemented. We have received all audit report responses needed with the exception of the following two reports: 1. SDCERS - Audit of Account of George Loveland 2. SDCERS - Audit of Corbett Payment 2004 and Related Allowances The SDCERS has a target date of August 15 to provide written responses to these reports.	On-going
Fraud, Waste and Abuse Hotline	Participate in biweekly meetings to review hotline complaints. Investigations will be performed by Internal Audit for accusations of material fraudulent activity or questionable financial reporting. No hotline calls were received in the month of June 2008 that required investigation by Internal Audit.	On-going

Planned Audits - Through July 31, 2008:

Audit	Description	Target Start/Completion Date
Close-out Audit	Close-out audits are required by City Charter, Article VII, Section 111 when a City Official leaves office. The primary audit objectives are to verify that there are no outstanding debts owed by the City Official to the City, and to ensure that access to critical information and processes has been revoked. We will be conducting a close-out audit for Anna Tatar, former Library Director. Estimated audit hours: 24	July 2008

Planned Audits - Through July 31, 2008 (Continued):

Audit	Description	Target Start/Completion Date
Proposition 64 Funds Audit	The objective of this requested audit is to determine if Proposition 64 funds are being properly budgeted and used solely for the enforcement of consumer protection laws. Estimated audit hours: TBD	July – August 2008
Real Estate Assets-Qualcomm Stadium Administration Audit	The objective of our audit will be to determine if the revenue generated by Qualcomm Stadium is being properly collected and accurately reported by the City. Estimated audit hours: TBD	TBD

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor