



## THE CITY OF SAN DIEGO

DATE: April 7, 2008

TO: Honorable Members of the Audit Committee

FROM: *E. Luna*  
Eduardo Luna, Internal Auditor

SUBJECT: **Monthly Internal Audit Activity Report – March 2008**

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This report provides information on Internal Audit's activities and accomplishments for the month of March 2008. It includes audit reports and other products produced during this period, the status of current audit projects and activities, and a summary of planned audits.

### **Audit Reports and Products Completed:**

- 5 Close-out Audits for the following individuals:
  - James Waring
  - Rick Reynolds
  - Richard Haas
  - Lance Wade
  - Marcela Escobar-Eck
- Responded to Jefferson Wells Report to the San Diego Audit Committee – Best Practices, Analysis and Recommendations for: Risk Assessment Development, Annual Audit Work Plan Development, Internal Audit Function Staffing
- Reviewed and provided comments to the Comptroller's Office regarding the Exposure Draft of "Accounting Policy: Direct Payment and Purchase Order Processing"



**Current Audits and Activities:**

| <b>Audit Activity</b>                                                    | <b>Description / Status</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>Target Completion Date</b>         |
|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| <b>Close-out Audits</b>                                                  | 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. In addition to the 5 close-outs completed during March 2008, we conducted close-out audits for Richard Snapper and Timothy Bertch. These audits were finalized April 1, 2008. Close-out audits take approximately 24 audit hours each.                                                                                             | Audit Reports Issued<br>April 1, 2008 |
| <b>Fiscal Year 2007 Cash Count and Cash Reconciliation Process Audit</b> | The objectives of this audit are to determine if deposits collected at year end are properly accounted for and revenue is posted to the correct fiscal year, and to determine if the control weaknesses identified by prior reports regarding the City's cash reconciliation process have been corrected. Audit work is substantially complete and a draft audit report is being reviewed by management. An exit conference is scheduled for April 8, 2008. Management's response must be obtained before the final report is issued. Additional audit work may be necessary based on managements input. This audit has taken approximately 660 hours. | April 15, 2008                        |
| <b>City Library Fee Collection Process Audit</b>                         | 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. Audit planning began the week of March 24, and the entrance conference was held with Library staff on April 1, 2008. We anticipate completing this audit by the end of June 2008. We have used approximately 30 audit hours, and we estimate an additional 290 hours will be needed to complete the audit.                                                                                                                                                                                         | June 30, 2008                         |

**Current Audits and Activities (Continued):**

| <b>Audit Activity</b>                                                     | <b>Status</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>Target Completion Date</b>                                               |
|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>Performance Audit of Southeastern Economic Development Corporation</b> | Overseeing a Macias Consulting agreement to conduct a performance audit. Audit in progress. Some of the auditor's requests for information have taken additional time to complete due to the information not being readily available, or requiring time for compilation by SEDC staff. For this reason, the estimated completion date of June 30, 2008 has been extended to July 28, 2008. (The time extension does not affect original contract price.)                                                                                                                                                                                                                                                                                                      | July 28, 2008                                                               |
| <b>Internal Controls Over Financial Reporting</b>                         | We are testing management's remediation efforts to correct weaknesses identified in the Kroll Report, external auditors' reports and the Internal Auditor's report. We have completed testing of 106 of the 159 items reported as remediated as of December 31, 2007. An audit staff member will be taken off this project to begin testing of the ERP implementation. We expect to complete our testing of the remaining 53 items by the end of September 2008. We are waiting for additional information to complete our testing of SDCERS' items. We anticipate issuing a report on the SDCERS items by May 15, 2008. We have used approximately 1,350 audit hours, and we estimate an additional 970 hours will be needed to test the remaining 53 items. | September 30, 2008<br><br>(For Items Reported as Remediated as of 12/31/07) |
| <b>Disclosure Practices Working Group (DPWG)</b>                          | Internal Auditor participates in DPWG meetings as an Ex-Oficio member. Approximately 20 hours were spent reviewing the 2006 CAFR.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | On-going                                                                    |

**Current Audits and Activities (Continued):**

| <b>Audit Activity</b>                               | <b>Status</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Target Completion Date</b> |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| <b>Hotline and Intake Review Committee</b>          | 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 required investigation by Internal Audit during the month of March 2008. Met with representative from the Hotline Network to gain a better understanding of the system.                                                                                                                                                                                           | On-going                      |
| <b>Follow-up on Previously Issued Audit Reports</b> | <p>We previously reviewed all of the Internal Audit reports issued since fiscal year 2005 to determine which reports did not have a response from management on file indicating that the audit recommendations were implemented. We have received all of the responses needed with the exception of the following two reports:</p> <ol style="list-style-type: none"> <li>1. SDCERS - Audit of Account of George Loveland</li> <li>2. SDCERS - Audit of Corbett Payment 2004 and Related Allowances</li> </ol> <p>We will follow-up with SDCERS until a written response is received.</p> | On-going                      |
| <b>Training</b>                                     | The Internal Audit Manager is in the process of becoming a Certified Fraud Examiner (CFE). He has completed approximately 40 percent of the CFE pre-test training. Also, all audit staff were trained on the new Audit Manual and revised audit process.                                                                                                                                                                                                                                                                                                                                  | On-going                      |

**Planned Audits - Through June 30, 2008:**

| <b>Audit</b>                                                           | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>Target Start/Completion Date</b> |
|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| <b>Enterprise Resource Planning (ERP) System Implementation Review</b> | The implementation of the ERP System has been selected by Internal Audit for review because of its risk score and its importance in the City's quality of financial reporting and disclosure. The objective of our audit will be 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. An audit staff member has been selected to perform this review and specialized training will begin in April. Estimated audit hours: TBD | April 2008 – TBD                    |
| <b>Annual Central Stores Inventory Audit</b>                           | 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. Estimated audit hours: 240                                                                                                                                                                                                                                                                                                                                                            | June – August 2008                  |
| <b>Real Estate Assets- Qualcomm Stadium Administration Audit</b>       | The objectives 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                                 |

**Planned Audits - Through June 30, 2008 (Continued):**

| <b>Audit</b>                                                      | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>Target Start/Completion Date</b> |
|-------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| <b>Community Facilities District #3 Cost Reimbursement Audits</b> | The purchase and finance agreement stipulates that the City's Internal Auditor will review the contractor's reimbursement package. The objective of this review is to verify the accuracy of the reimbursement amount owed to the contractor before payments are made. The contractor submits reimbursement packages as projects are completed. We expect to receive two submittals for review through June 30, 2008. Estimated audit hours: 32 per reimbursement package submittal. | 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