



## THE CITY OF SAN DIEGO

DATE: April 20, 2012

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor Activity Report – March 2012**

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This report provides information on the activities and accomplishments of the Office of the City Auditor for the month of March 2012. It includes the audit reports issued and other accomplishments during this period, the status of current audit projects and activities, and a summary of planned audits that we have not yet started.

### **Audit Reports and Accomplishments:**

- March 1, 2012 – Issued the Performance Audit of the Purchasing and Contracting Department. Purchasing laws and regulations exist to obtain services and goods of the best quality and price in an expeditious and fair manner. The City Council is the authority defining the purchasing process and has done so by establishing specific San Diego Municipal Code (SDMC) rules. These rules define when certain type of services must undergo a competitive selection process and/or require City Council review and approval. Ambiguity in some of the SDMC rules has led to situations in which the City Council has lost its oversight ability and resulted in the City awarding approximately \$7.4 million in services without the benefit of competition and/or City Council review and approval. We made four recommendations to address these issues and strengthen the procurement process. The report can be found on our website at:  
[http://www.sandiego.gov/auditor/reports/fy12\\_pdf/audit/120301pandcaudit.pdf](http://www.sandiego.gov/auditor/reports/fy12_pdf/audit/120301pandcaudit.pdf)
- March 5, 2012 – Presented to the Audit Committee our Performance Audit of the Fire-Rescue Department's Emergency Medical Dispatch Process. The presentation can be found online via the Audit Committee's electronic agenda at:  
[http://docs.sandiego.gov/councilcomm\\_agendas\\_attach/2012/Audit\\_120305\\_3ppt.pdf](http://docs.sandiego.gov/councilcomm_agendas_attach/2012/Audit_120305_3ppt.pdf)
- March 5, 2012 – Presented to the Audit Committee the City Auditor's Quarterly Fraud Hotline Report for the Second Quarter, Fiscal Year 2012. The presentation can be found online via the Audit Committee's electronic agenda at:  
[http://docs.sandiego.gov/councilcomm\\_agendas\\_attach/2012/Audit\\_120305\\_9ppt.pdf](http://docs.sandiego.gov/councilcomm_agendas_attach/2012/Audit_120305_9ppt.pdf)

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- March 16, 2012 – Issued the Performance Audit of the Mission Bay Improvement Fund. We found that the San Diego Regional Parks Fund only received a distribution of \$984,104 in fiscal year 2010, and the actual amount that should be available to the new Oversight Committee is \$1,623,777. The \$639,673 difference is from an overestimated prior year accrual that reduced the distribution amount. Both the San Diego Regional Parks Fund and the Mission Bay Improvement Fund has had overcommitted projects totaling over \$2 million as of June 30, 2010. We found that the amount of funds overcommitted for projects is primarily due to prior years' inaccurate revenue budgeting estimates. Finally, we found that the City lacks documented financial internal controls specific to the Mission Bay revenue funds. We made three recommendations to improve the accounting process related to the Mission Bay lease revenue. The report can be found on our website at:  
[http://www.sandiego.gov/auditor/reports/fy12\\_pdf/audit/120316missionbayaudit.pdf](http://www.sandiego.gov/auditor/reports/fy12_pdf/audit/120316missionbayaudit.pdf)
- March 19, 2012 – Issued a Hotline Investigation report regarding employee internet abuse. We reviewed the internet browsing history data for a two week period for the work unit computers identified in the complaint, and we found the level of non-work related websites visited appeared to be excessive for six individuals. The browsing history showed numerous visits to social media, sports, and shopping websites, all of which did not appear to relate to City business. We recommend the department conduct a Fact-Finding or other appropriate administrative inquiry to determine if the Internet usage on the work computers identified violated City Administrative Regulations and/or the City Code of Conduct, and to take appropriate action based on the outcome of the review. The report can be found on our website at:  
[http://www.sandiego.gov/auditor/reports/fy12\\_pdf/hotline/hotlinereport120319.pdf](http://www.sandiego.gov/auditor/reports/fy12_pdf/hotline/hotlinereport120319.pdf)
- March 20, 2012 – Issued the Performance Audit of Facilities' Purchases Under the Maintenance, Repair, and Operation (MRO) Cooperative Agreements. During our audit of General Services' Facilities Division, we found that the City is paying high price mark-ups for supply and equipment purchases under the newly established MRO Cooperative Agreements. These mark-ups may have a significant fiscal impact on the City's fiscal year 2012 budget and beyond. For example, due to unanticipated mark-ups, the Mid-Year Budget Monitoring Report projects that the General Services Department's expenses will be over budget by \$792,000 at the fiscal year-end. We recommended the Purchasing & Contracting Department work with the City Attorney's Office to immediately review the terms of the MRO Cooperative Agreements and identify a solution to ensure the City purchases its MRO supplies at the most economical price. The report can be found on our website at:  
[http://www.sandiego.gov/auditor/reports/fy12\\_pdf/audit/missionbayaudit120320.pdf](http://www.sandiego.gov/auditor/reports/fy12_pdf/audit/missionbayaudit120320.pdf)

**Current Audits and Activities:**

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>	<b>Audit Hours Used</b>	<b>Budgeted Hours</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. We are currently conducting a close-out for Hildred Pepper Jr., former Director of Purchasing and Contracting.	April 2012	73	200
<b>Purchasing and Contracting Department Audit</b>	We plan to conduct two audits. The objectives of these audits are: 1) to determine the efficiency and effectiveness of the City's contract process; and 2) to determine the efficiency and effectiveness of the use and controls for procurement cards. A report was issued on March 1, 2012 for objective 1, and audit report writing is in progress for objective 2.	May 2012	2,939	3,400
<b>Development Services Department Audit</b>	The objective of this audit is to conduct a performance audit of DSD systems. A draft audit report was provided to management for review on March 2, 2012 and an exit conference was held on March 22, 2012.	May 2012	3,369	1,600

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>	<b>Audit Hours Used</b>	<b>Budgeted Hours</b>
<b>Real Estate Assets Department Audit</b>	The objective of this audit is to determine the efficiency and effectiveness of the Real Estate Assets Department's administration of City leases. Audit report writing is in progress.	May 2012	718	1,600
<b>City Planning and Community Investments – Economic Development</b>	The objective of this audit is to determine the efficiency and effectiveness of the City's economic development process. Audit report writing is in progress.	May 2012	1,017	1,400
<b>General Services – Facilities Audit</b>	The objective of this audit is to determine the efficiency and effectiveness of the General Services' Facilities Division. Audit fieldwork is in progress. We have already issued a report for one component of this audit on March 20, 2012.	June 2012	967	1,400
<b>City Comptroller / Personnel Department Audits</b>	We plan to conduct two audits. The objectives of these audits are: 1) to review the City's payroll process in order to determine if payroll payments are being properly made and if adequate controls are in place, and 2) to determine if there are adequate controls over the City's use of overtime. Audit fieldwork is in progress for the audit of overtime.	June 2012	706	2,300

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>	<b>Audit Hours Used</b>	<b>Budgeted Hours</b>
<b>Public Utilities Department</b>	We plan to conduct two Public Utilities audits. The objectives of these audits are: 1) to review the adequacy of the Department's valve maintenance process 2) to review chemical purchases/processes to determine if they can be performed in a more cost effective or efficient manner. Audit fieldwork is in progress for both audits.	June 2012	463	2,200
<b>Fraud, Waste and Abuse Hotline</b>	City Auditor staff reviews all City Hotline calls received and performs investigations for accusations of material fraud, waste or abuse. Hotline reports are issued for fraud-related allegations that are substantiated.	On-going	1,007  (Fiscal Year 2012 Hours)	1,535  (Fiscal Year 2012 Hours)
<b>Follow-up on Audit Report Recommendations</b>	The City Auditor tracks all audit recommendations made since fiscal year 2008. Comptroller staff contacts those responsible for implementing our recommendations and provides regular status data to the City Auditor on all implemented recommendations. We verify if recommendations have actually been implemented and report the implementation status on a semi-annual follow-up report. The last follow-up report was issued on April 5, 2012. We plan to issue our next report in September 2012.	On-going	444  (Fiscal Year 2012 Hours)	775  (Fiscal Year 2012 Hours)

**Planned FY12 Audits Not Yet Started:**

<b>Planned Audit</b>	<b>Estimated Audit Hours</b>
<b>Transportation and Storm Water – Pollution Prevention Audit</b>	1,400
<b>Annual Mission Bay Fund Audit FY11</b>	240
<b>Annual Central Stores Inventory Audit FY12</b>	120

Respectfully Submitted,



Eduardo Luna  
City Auditor

cc: Honorable Mayor Jerry Sanders  
Honorable City Council Members  
Jay M. Goldstone, Chief Operating Officer  
Wally Hill, Assistant Chief Operating Officer  
Ken Whitfield, City Comptroller  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst