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July 2010

# Annual Audit Work Plan

## Fiscal Year 2011

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THE CITY OF SAN DIEGO

DATE: July 7, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Annual Audit Work Plan - Fiscal Year 2011**

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Attached is the Annual Audit Work Plan proposed by the Office of the City Auditor for Fiscal Year 2011. This report will be presented on July 12<sup>th</sup> to the Audit Committee for review and approval. The list of 23 proposed audit assignments for Fiscal Year 2011 includes performance audits regarding various City departmental activity groups and other audit projects and activities. The plan also includes other audits that will be conducted if there is time available.

The Audit Work Plan was developed by considering the required audits mandated by the City Charter and the San Diego Municipal Code, results of the FY 2010 Citywide Risk Assessment, and perspective from City management, City Council, and IBA staff. We designed our work plan to address what we considered to be the highest priority areas, while limiting the scope of work to what we can realistically accomplish with the staff resources available.

Respectfully Submitted,

Eduardo Luna  
City Auditor

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



## **MISSION STATEMENT**

The mission of the Office of the City Auditor is to advance open and accountable government through accurate, independent, and objective audits and investigations that seek to improve the economy, efficiency, and effectiveness of City government.

## **INTRODUCTION**

Generally Accepted Government Auditing Standards and the Institute of Internal Auditors' Standards require the chief audit executive to establish a risk-based approach to determine the priorities for internal audit activities. The Auditor's Office completed the first Citywide Risk Assessment in January 2008 as a means to help identify, measure, and prioritize the City's potential audits based on the level of risk to the City. Another Citywide Risk Assessment was completed in Fiscal Year 2010 and was used as the basis for the City Auditor's Fiscal Year 2011 Audit Work Plan.

## **AUDIT RESOURCES**

The Fiscal Year 2011 approved budget for the Office of the City Auditor includes nineteen staff members at a budgeted cost of approximately \$2.7 million for salaries, fringe benefits, and non-personnel expenses such as office equipment, training and supplies. The City Auditor's Fiscal Year 2011 budget also includes costs for the City's Comprehensive Annual Financial Report (CAFR) audit that will be conducted by an outside independent audit firm. The City Auditor administers and oversees the CAFR audit contract. During Fiscal Year 2011, the Office of the City Auditor will have 15 Principal Auditors to conduct audits and investigations with an estimated 20,750 audit hours available to perform audits. The estimated audit hours available were calculated as follows:

<b>Calculation of Estimated Audit Hours Available for Fiscal Year 2011</b>		
<u>One full time equivalent (FTE) Principal Auditor:</u>		<u>Hours</u>
40 hours a week x 52 weeks a year = total annual hours available		2,080
Less: 10 days x 8 hours a day for vacation		-80
Less: 5 days x 8 hours for sick leave		-40
Less: 10 days x 8 hours for holidays		-80
Less: Estimated hours for training		-60
Less: Estimated hours spent on staff meetings and other administrative tasks		-260
Total annual audit hours available per Principal Auditor		<u>1,560</u>
<u>Principal Auditors</u>		<u>Audit Hours</u>
1	Employed and auditing at the beginning of the fiscal year	1,560
2	Employed and auditing at the beginning of the fiscal year	1,560
3	Employed and auditing at the beginning of the fiscal year	1,560
4	Employed and auditing at the beginning of the fiscal year	1,560
5	Employed and auditing at the beginning of the fiscal year	1,560
6	Employed and auditing at the beginning of the fiscal year	1,560
7	Employed and auditing at the beginning of the fiscal year	1,560
8	Employed and auditing at the beginning of the fiscal year	1,560
9	Employed and auditing at the beginning of the fiscal year	1,560
10	Employed and auditing at the beginning of the fiscal year <sup>1</sup>	1,400
11	Employed and auditing at the beginning of the fiscal year <sup>1</sup>	1,240
12	Employed and auditing at the beginning of the fiscal year <sup>2</sup>	780
13	Vacancy filled and auditing by August 2010	1,400
14	Vacancy filled and auditing by September 2010	1,240
15	Vacancy filled and auditing by February 2011 <sup>3</sup>	650
<b>Total Estimated Audit Hours Available for Fiscal Year 2011</b>		<b><u>20,750</u></b>
<u>Note:</u> Audit supervision and administrative hours for the City Auditor, Two Audit Managers (Principal Auditors) and one Audit Analyst are not included.		
<sup>1</sup> Audit hours were reduced by the estimated number of hours absent for Family Medical Leave.		
<sup>2</sup> Audit hours were reduced for one Principal Auditor to perform administrative duties half-time.		
<sup>3</sup> The City Auditor's FY 2011 budget included adding one position half way through the fiscal year as a cost saving measure.		

## **PERFORMANCE AUDITS AND OTHER AUDIT ACTIVITIES**

As required by the June 3, 2008 voter approved Proposition C, the Office of the City Auditor follows Generally Accepted Government Auditing Standards (GAGAS) for all audits performed. There are three main types of GAGAS audits and attestation engagements. They are financial audits, performance audits and attestation engagements. The City of San Diego hires an outside independent audit firm to perform the City's financial statement audit of the City's CAFR, and the City Auditor will focus primarily

on performance audits of the City's departments, agencies and their activities. Per GAGAS, performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability. A performance audit is a dynamic process that includes consideration of applicable standards throughout the course of the audit. Performance audit objectives may vary widely and include assessments of program effectiveness, economy and efficiency, internal controls, compliance with laws and regulations, and prospective analysis. Examples of Performance Audit objectives may include but are not limited to:

- Assessing the extent to which legislative, regulatory or organizational goals and objectives are being achieved;
- Analyzing the relative cost-effectiveness of a program or activity;
- Evaluating whether the audited entity is following sound procurement practices;
- Assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;
- Assessing the reliability, validity, or relevance of financial information related to the performance of a program;
- Assessing internal controls designed to provide reasonable assurance of achieving effective and efficient operations, and reliable financial and performance reporting;
- Determining if program activities are in compliance with laws, regulations, contract provisions, grant agreements and other requirements.

The Office of the City Auditor will also perform some attestation engagements based on agreed-upon procedures, which consists of specific testing procedures performed on a subject matter.

Additionally, we will perform other non-audit services such as investigating complaints received from the City's Fraud Hotline regarding allegations of fraud, waste and abuse. We will perform investigations following the procedures recommended by the Association of Certified Fraud Examiners for allegations of improper financial activity, fraud, waste and/or abuse that appear to be material in nature. For any material internal control weaknesses that are identified during the investigation of hotline complaints, we may conduct an audit or review in compliance with GAGAS to determine the extent of the internal control weaknesses identified to provide appropriate recommendations to correct the deficiencies found.

## **AUDIT WORK PLAN (July 2010 through June 2011)**

The Audit Work Plan for Fiscal Year 2011 was developed by considering the required audits mandated by the City Charter and the San Diego Municipal Code, results of the FY10 Citywide Risk Assessment, and perspective from City management, City Council, and IBA staff. We designed our work plan to address what we considered to be the highest priority areas, while limiting the scope of work to what we can realistically accomplish with the staff resources available.

In Fiscal Year 2011, we are continuing audits that were initiated in the previous fiscal year, and we are planning to undertake more complex audits that will require additional audit resources. The following Audit Work Plan includes our scheduled performance audits as well as additional audit activities. Included is the proposed audit objective for each assignment and estimated audit hours. We will perform an in depth risk assessment on each activity group selected for audit to ensure our audit objective covers the areas of highest risk for that activity group and adjust the audit objective, procedures, and hours accordingly. Our estimated audit hours are based on our knowledge of the complexity of the activity groups selected for audit. The actual hours may vary based on the audit scope determined by the detailed risk assessment for each engagement, as well as the extent and complexity of findings revealed during audit testing.

## **ADDITIONS TO AUDIT WORK PLAN**

Requests to add audits to the Audit Work Plan during the fiscal year will be presented to the Audit Committee with a City Auditor analysis of the impact the proposed audit will have on the other audits on the Work Plan. Audit priority will be given to those requests that pertain to the health and safety of citizens, potential for significant financial savings or increased revenues, and issues of integrity.

In the event we complete all planned audits, we have identified additional potential audits that can be initiated. Further, we have included a category of on-going expense and revenue audits.

**PERFORMANCE AUDITS FY 2011 – CARRY OVER FROM FY 2010 AUDIT WORK PLAN**

<b>Work Plan Item No.</b>	<b>Activity Group Audit</b>	<b>Audit Objectives</b>	<b>FY 2011 Audit Hours</b>	<b>Status</b>
1	Risk Management – Public Liability and Loss Recovery Audit	The objective of this audit is to determine if public liability and loss recovery is being properly handled, accounted for and accurately reported. We have completed fieldwork and report writing is in progress. We have used approximately 1,354 audit hours in FY 2010, and we estimate 100 hours will be needed in FY 2011.	100	Report Writing
2	Fire Rescue – Fire Prevention Audit	The objective of this audit is to assess the efficiency and effectiveness of the City’s fire prevention program. We have completed fieldwork and report writing is in progress. We have used approximately 934 audit hours in FY 2010, and we estimate 160 hours will be needed in FY 2011.	160	Report Writing
3	General Services - Streets Division Roadways Audit	The objective of this audit is to determine if the City is efficiently and effectively maintaining City streets. We have completed fieldwork and final report writing is in progress. We have used approximately 2,760 audit hours in FY 2009-10, and we estimate 200 hours will be needed in FY 2011. One report has already been issued during this audit.	200	Report Writing
4	Enterprise Resource Planning System (One SD Project) Implementation Review	The objectives of this audit are to: (a) determine if the City’s key financial activities were adequately reviewed and documented prior to the new system implementation to ensure key financial processes are properly addressed by the new system, (b) determine if the system was adequately tested prior to implementation, and (c) review high risk interfaced and impacted systems post SAP go-live. Fieldwork is nearly complete. We have used approximately 2,840 audit hours in FY 2008-10, and we estimate 200 hours will be needed in FY 2011. We have notified management of issues identified during this audit, and we have issued one audit report.	200	Report Writing



**PERFORMANCE AUDITS FY 2011 – CARRY OVER FROM FY 2010 AUDIT WORK PLAN**

<b>Work Plan Item No.</b>	<b>Activity Group Audit</b>	<b>Audit Objectives</b>	<b>FY 2011 Audit Hours</b>	<b>Status</b>
5	City Treasurer - Delinquent Account Collections Audit	The objective of this audit is to determine if the City is properly noticing, collecting, and accounting for overdue accounts receivable. Fieldwork is nearly complete. We used approximately 712 audit hours in FY 2010, and we estimate 300 hours will be needed in FY 2011. One report has already been issued during this audit.	300	Fieldwork In-Process
6	Capital Improvement Projects Audit	The objective of this audit is to determine the extent to which the City effectively initiates, prioritizes, and implements CIP projects. Audit fieldwork is in progress. We have used approximately 1,372 audit hours in FY 2010, and we estimate 1,000 hours will be needed in FY 2011.	1,000	Fieldwork In-Process
7	Police Department – Fiscal Services (Animal Services Contract) Audit	The objective of this audit is to review the City’s contract for Animal Services and determine if the service provider is in compliance with the terms of the contract. Audit planning is in progress. We have used approximately 20 audit hours in FY10, and we estimate 580 hours will be needed in FY 2011.	580	Audit Planning In-Process

**PERFORMANCE AUDITS FY 2011 –PROPOSED AUDITS**

<b>Work Plan Item No.</b>	<b>Activity Group Audit</b>	<b>Audit Objectives</b>	<b>FY 2011 Audit Hours</b>	<b>Status</b>
8	City Comptroller / Personnel Department - Payroll Audit	The objective of this audit is to review the City’s new payroll process to determine if payroll payments are being properly made and adequate controls are in place.	1,500	Not Started
9	City Treasurer - Parking Administration Audit	The objective of this audit is to determine if the collections for parking citations is being properly accounted for and efficiently and effectively handled.	1,280	Not Started
10	Public Utilities – Water Department and Metropolitan Wastewater Audits	The Office of the City Auditor has a Service Level Agreement with the Public Utilities Department to conduct three audits during FY11 (one of the audits is at the direction of IROC). City auditor staff will conduct a detailed risk assessment of Water and Wastewater activities and consult with IROC members and Public Utilities Department management to identify the scope and objectives of these audits.	2,600	Not Started
11	Fire Rescue – Emergency Medical Services Audit	The objective of this audit is to determine the efficiency and effectiveness of the City's Emergency Medical Services and related partnership with Rural/Metro of San Diego.	1,800	Not Started
12	City Retirement System Audit	The 2009/10 San Diego County Grand Jury and Council Members Tony Young and Carl DeMaio requested this audit. The objective of this audit is to determine the efficiency and effectiveness of the San Diego City Employee Retirement System’s administration.	1,700	Not Started
13	Development Services Department Audit	The objective of this audit is to determine the efficiency and effectiveness of the Development Services Department.	1,600	Not Started

**PERFORMANCE AUDITS FY 2011 –PROPOSED AUDITS**

<b>Work Plan Item No.</b>	<b>Activity Group Audit</b>	<b>Audit Objectives</b>	<b>FY 2011 Audit Hours</b>	<b>Status</b>
14	General Services – Fleet Services Audit	The objective of this audit is to evaluate efficiency and effectiveness of the City’s fleet vehicle utilization.	1,400	Not Started
15	Police Department – Fiscal Services (License and Permit Fees)	The objective of this audit is to determine if the Police Department is efficiently and effectively collecting license and permit fees owed to the City with adequate internal controls in place.	1,300	Not Started
16	Real Estate Assets Department Audit	The objective of this audit is to determine the efficiency and effectiveness of the Real Estate Assets Department.	1,800	Not Started

<b>ADDITIONAL AUDIT ACTIVITIES FY 2011</b>				
<b>Work Plan Item No.</b>	<b>Activity Group Audit</b>	<b>Audit Objectives</b>	<b>FY 2011 Audit Hours</b>	<b>Status</b>
17	On-going Expense and Revenue Audits	On-going audits of City expenditures and revenues (i.e. contract payments, accounts payable, accounts receivable, billings and budgeting practices, etc.) to ensure compliance with the appropriate terms and regulations. Requested by Council members Marti Emerald and Carl DeMaio.	600	On-going
18	Fraud, Waste and Abuse Hotline	As per the City Charter, the City Auditor may investigate any material claim of financial fraud, waste or impropriety within any City Department. The City Auditor operates the Fraud Hotline to provide individuals a way to confidentially report evidence of fraud, waste or abuse involving City of San Diego employees or operations. Investigations are performed for all accusations of material fraudulent activity or waste or abuse.	1,560	On-going
19	Follow-up on Previously Issued Audit Reports	The Office of the City Auditor tracks and follows-up on all audit recommendations to determine if they were properly implemented by City management.	600	On-going
20	Close-out Audits	Close-out audits are required by the City Charter, Article VII, Section 111 when City Officials leaves office. The primary audit objective is 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. Each Close-out audit takes approximately 40 hours to complete and we estimate approximately 6 audits may be necessary in FY 2011.	240	As Necessary

<b>ADDITIONAL AUDIT ACTIVITIES FY 2011</b>				
<b>Work Plan Item No.</b>	<b>Activity Group Audit</b>	<b>Audit Objectives</b>	<b>FY 2011 Audit Hours</b>	<b>Status</b>
21	Annual Central Stores Inventory Audit FY10	The San Diego Municipal Code Section §22.0501 requires an annual count of inventory in City storerooms and warehouses. The objective of this audit was to confirm the valuation of Central Stores inventory. We have completed audit fieldwork, and report writing is nearly completed. We have used approximately 47 audit hours in FY10, and we estimate 30 hours will be needed in FY11.	30	Report Writing
22	Annual Mission Bay Fund Audit	The Annual Mission Bay Funds Audit is required by the City, Article V, Section 55.2 (e). The objective of this audit is to verify the prior fiscal year collection, allocation, and use of Mission Bay Funds are in compliance with City Charter requirements.	120	Not Started
23	Annual Central Stores Inventory Audit FY11	The San Diego Municipal Code Section §22.0501 requires an annual count of inventory in City storerooms and warehouses. The objective of this audit was to confirm the valuation of Central Stores inventory.	80	Not Started
<b>Total Planned Audit Hours for Fiscal Year 2011</b>			<b>20,750</b>	

### **Additional Potential Audits**

Due to limited staff resources, we will not be able to accommodate all requests for audit services or risk areas identified by the FY2010 Citywide Risk Assessment. In the event we complete all planned audits, we propose initiating audits from the below list.

- Audit of Solar Permit Fee Assessments Review and Inspection Streamlining
- Audit of Small Local Business Enterprise Program
- Audit of Energy Conservation Block Grant Projects and Home Energy Retrofit Program
- Audit of Police Department Crime Laboratory
- Audit of all Facility Benefit Assessments and Development Impact Fee funds
- Audit of all Business Improvement Districts, including Property Business Improvement Districts, and Maintenance Assessment Districts
- Audit of Homeland Security/Emergency Response
- Audit of all City-owned parking facilities and management contracts
- Audit of the Purchasing and Contracting Department, including contractors' performance on contracts with respect to amendments and change requests
- Audit of funds spent on outside agencies
- Audit of Enterprise Funds
  - Airports
  - Environmental Services—Refuse Disposal
  - Environmental Services—Recycling
  - Golf Courses

### **Audit Work Plan Deferrals**

Risk Management – Workers’ Compensation Audit: The State of California is in the process of conducting an audit of the City’s Workers Compensation Program. Depending on the results of this, there may not be an immediate need to conduct a separate audit.

### **NEXT STEPS**

I will provide the Audit Committee with monthly activity reports describing the status and progress towards completing the audit assignments listed, as well as quarterly fraud hotline statistics reports. The Audit Committee will receive the results of all completed audits in the form of an audit report, and I will present audit results at scheduled Audit Committee meetings upon request.

Respectfully Submitted,



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Eduardo Luna

City Auditor