

# Annual Report on Internal Financial Control

**20th Edition**

**Calendar Year 2025**

**Department of Finance**

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## Executive Summary

This Annual Report on Internal Financial Control is issued pursuant to City of San Diego Municipal Code (SDMC) §22.0706, adopted by the City Council in October 2004 via Ordinance 19320, to achieve a high standard of quality in and efficacy of the City of San Diego's (City) financial reporting and disclosure practices. SDMC §22.0706 requires that management:

1. Perform an annual evaluation of the City's internal financial controls.
2. Submit a written Annual Report to the Audit Committee and the City Council on management's annual evaluation of the City's internal financial controls.
3. Submit a Certification by City management regarding the design, maintenance, and effectiveness of the City's internal financial controls.

The objective of a system of internal controls over financial reporting is to provide reasonable assurance that the financial information produced is reliable and that it reflects the City's transactions and events for the reporting period. It is not intended to eliminate all risk factors as collusion, human error, inconsistencies in judgement, impacts of external events outside management's control, and cost effectiveness can have an influence on an organization's control policies and procedures. Rather, the controls are intended to mitigate the risk of financial reporting errors to a level that is acceptable based on considerations of materiality. Materiality represents the magnitude of an omission or misstatement of an item in a financial report that considering surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

Internal control is influenced by the organization's governing body, management, and other personnel. The City must consider the efficacy of the organization's governance structure and culture to produce accurate and reliable reporting. Management must continuously assess risk, as financial reporting standards or requirements change, and new software or technology is implemented. Risk can also increase as accounting and reporting processes change and as there is turnover in management and staff. As new risks are identified, management responds by implementing or enhancing controls to mitigate such risks.

Within the last 120 days, management evaluated the City's internal financial controls over financial reporting. Based on this evaluation, management concludes that the internal financial controls are effective and has certified the result (Attachment 1).

The Department of Finance (DoF) includes an assessment template to illustrate the approach used for management's evaluation of internal financial controls. The template is intended to help the reader understand management's criteria in its evaluation and offer more visibility into the process. The template and its results are included as an attachment (Attachment 2) for reference and described in more detail later in the report.

This report summarizes management's approach to maintaining an internal control system that provides reasonable assurance that financial reporting objectives are met. It includes significant enhancements during calendar year 2025 and potential risks that were identified, either by management or through the audits performed by external auditors, the Office of the

City Treasurer, and the Office of the City Auditor (City Auditor). **For this reporting period, management did not identify any significant deficiencies in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.**

### **Financial Reporting Achievements and Internal Control Improvements**

The list below identifies the most significant financial reporting achievements and internal control improvements implemented during the assessment period.

- Received an unmodified (clean) audit opinion on the City's Fiscal Year 2025 Annual Comprehensive Financial Report (ACFR). No material adjustments, material weaknesses, or significant deficiencies in internal controls over financial reporting were identified through the independent audit.
- Received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the Fiscal Year 2024 ACFR. The certificate is awarded for publishing an ACFR that satisfies both generally accepted accounting principles (GAAP) and applicable GFOA program requirements, including transparency and full disclosure.
- Received a Distinguished Budget Presentation Award from GFOA for the Fiscal Year 2025 Adopted Budget. Recipients are awarded this honor for meeting guidelines set by the National Advisory Council on State and Local Budgeting (NACSLB) and GFOA's best practices on budgeting.
- Received Budget Excellence Awards from the California Society of Municipal Finance Officers for the Fiscal Year 2024-2025 Capital and Operating Budgets, which recognize agencies that have well-presented budget documents, best practices, processes, and procedures.
- Implemented several new systems and enhancements including the interface management tool called Integration Suite, SAPiMON backend upgrades, Bank of America's U.S. account validation service, implementation of the VMware Cloud Disaster Recovery (DR) solution across OpenText servers, and Purchasing & Contracting's system enhancements to support contract and PO processes.
- Upgraded several software applications to new versions or patched with service packs to add new features, fix known bugs, and improve data security. These include updates to Microsoft Office and the Windows 11 Operating System, Ariba including the contract request approval flow and contract setup validation, the prevention of goods receipt cancellations and reversals for better PO management, and complete migration to the new Bank of America Interface.
- Created and updated several financial reports including the Segregation of Duties Role Conflict Report, GRC Request with Role Report, GRC User Access Review (UAR) Ticket Detail Report, and the Ariba Contract Tracker BusinessObjects Dashboard Report. Approximately 53 additional financial reports were either created or modified for citywide, departmental, or program use.

## **Background**

The City of San Diego (City) is accountable to San Diego residents and outside stakeholders for the management of the City's financial and economic resources. This responsibility is met in

large part by the preparation of multiple financial reports made available to the public throughout each fiscal year.

### **External Financial Reports**

The Annual Comprehensive Financial Report (ACFR) is the most significant financial report produced by the City for external users. It is available on the City's website and can be accessed by anyone including residents, investors, rating agencies and other interested parties. The ACFR is a comprehensive financial document that includes the balances and activity of all funds and component units of the City and related disclosures. The report typically takes five months to prepare and involves the collaboration of Department of Finance (DoF) staff, as well as key staff citywide who provide necessary information for required disclosures. The ACFR is prepared in accordance with generally accepted accounting principles (GAAP), which are established by the Governmental Accounting Standards Board (GASB). The ACFR is audited annually by an external, independent auditing firm who expresses an opinion on whether the basic financial statements are fairly presented in all material respects in accordance with GAAP. The City received an unmodified (clean) audit opinion on the Fiscal Year 2025 ACFR.

The City produces other financial reports for external use such as the Schedule of Expenditures of Federal Awards, which summarizes all expenditures of federal awards for the fiscal year and is subject to a single audit by an external independent auditor (Single Audit). The City has received an unmodified (clean) opinion on all its major federal programs identified for Fiscal Year 2024. No material weaknesses in internal control over compliance were identified. However, a significant deficiency in internal control over compliance was identified, resulting in an audit finding. During the audit of the Community Development Block Grants/Entitlement Grants Program, the City did not submit the required key data elements in the Federal Subaward Reporting System (FSRS) in a timely manner. The City did not comply with the requirement to report the information no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award modification was made. The total amount of thirty-one subawards not reported timely was \$7,616,069. Crowe, LLP selected four subawards for compliance testing noting the wrong obligation date was reported for each subaward tested. The date recorded as the obligation date in FSRS was July 1, 2023, for all four subawards, while based on source documents the obligation dates are August 7, 2023, September 12, 2023, September 19, 2023, and October 3, 2023. Management accepts that going forward, dates should be entered based on the date the agreements are fully executed. Management agrees to include specific FFATA training and procedures in all Community Development Block Grants (CDBG) manuals and checklists including procedures for compliance, if and when federal agency communication is late or lacking. The Fiscal Year 2025 Single Audit is expected to be completed by March 31, 2026. The City's external auditor also conducts an audit of the schedule of costs for the fiscal year related to the Metropolitan Wastewater System and the City's allocation of such costs to the last audit period.

The Debt Management Division of DoF develops financing plans and conducts planning, structuring, and issuance activities for all bonds, notes, and loans to finance the City's capital projects, essential equipment, and vehicles. Bond financings are conducted for capital projects secured by the General Fund and the City enterprises, as well as projects supported by dedicated revenue sources such as the San Diego Redevelopment Successor Agency (Successor

Agency) and special districts. The Debt Management Division evaluates and applies for various state and federal loans to help finance infrastructure projects including those for water, wastewater, and storm water. Loan agreements are executed to fund approved infrastructure projects. The division also administers certain short and medium-term financing mechanisms, including capital leases and a commercial paper program.

The division coordinates and monitors citywide post-issuance administrative functions related to bond offerings, commercial paper programs, federal and state loans, and capital leases. The division regularly reviews outstanding obligations for refunding opportunities and timely refinances to lower interest costs. The division manages credit and investor outreach functions for the City, special districts, and the Successor Agency providing information to current bondholders, prospective investors, and rating agencies that monitor credit.

The issuance of bonds and notes, and the execution of loans require development of reports that communicate critical financial information to investors and federal and state agencies that provide loans to the City. The City has strong controls to ensure that all material financial information is properly disclosed, free of errors and omissions.

### **Internal Financial Reports**

Reports for internal use are published and presented to the City's legislative body, the City Council, and are available to the public. These reports are mandated as part of the City Charter and the City of San Diego's Municipal Code (SDMC), promoting transparency and oversight of the City's financial spending and plans. The City's annual budget is an important internal financial report because it informs readers of the Mayor's and Council's funding priorities and serves as a key tool for financial management and compliance. Proper planning through the budget facilitates compliance with rules and regulations and ensures restricted funding sources are allocated appropriately.

The City also publishes a long-range financial forecast report for the General Fund known as the Five-Year Financial Outlook (Outlook). The Outlook serves as a framework for the development of the annual General Fund budget and reflects anticipated funding needs over the next five years. In addition, the Public Utilities Department issues an annual Five-Year Financial Outlook for its enterprise funds annually that allows for financial planning and serves as the framework for the development of the proposed budget for the water and wastewater funds. Departments responsible for each of the remaining enterprise funds also produce annual five-year financial outlooks that are used internally to monitor the funds and provide a framework for the development of user fees and budgetary adjustments.

The City publishes Capital Improvements Program (CIP) reports to provide information and transparency on the CIP to stakeholders. The Five-Year Capital Infrastructure Planning Outlook is an overview of the City's capital infrastructure needs, revenue projections, and funding to assist in budget decisions and allocation of resources to meet the City's strategic goals. The State of the CIP and Construction Mid-Year and Year-End reports are semi-annual status updates on the City's CIP and highlight major programs, emergency projects, process improvements, and accomplishments. These reports are defined by Council Policy 000-31, which was amended by Resolution R-314352 in September 2022. The City also publishes the CIP Mid-Year and Year-End Budget Monitoring reports, which provide a semi-annual review

and overview of the City's CIP available allocations and key funding source activity. The CIP Mid-Year and Year-End Budget Monitoring reports also include requests for City Council to approve budget adjustments that supplement the City's capital budgeting.

The Office of the City Treasurer distributes Monthly Investment Reports (MIR) to the Mayor, City Council, and Chief Financial Officer which are made available to the public on City Treasurer's website. The MIRs summarize the City's pooled investments that are in conformance with the City Treasurer's Investment Policy.

Lastly, DoF publishes monthly expenditure and revenue reports known as Charter 39 Financial Performance Reports, and quarterly year-end projection reports known as Quarterly Budget Monitoring Reports that provides explanations for variances in spending and revenue collections, including the First Quarter Monitoring Report, Mid-Year Monitoring Report, Third Quarter Monitoring Report, and Year-End Financial Performance Report. These reports provide transparency to the City's budget and finances, delivering critical data for informed decision making by management and City Council.

### **Management's Approach Using an Internal Controls Framework**

Internal control over financial reporting is defined as a process established by an entity's governing body, management, and other personnel, which has been designed and implemented to provide reasonable assurance regarding the achievement of financial reporting objectives. The main internal control objective in preparing financial reports is that the information included in the report is reliable and that it reflects the City's transactions and events for the reporting period in accordance with GAAP or other reporting requirements.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Controls Framework (Framework) is an integrated framework commonly used by organizations. This Framework is the basis for the City's internal control program and provides guidance on internal controls over financial reporting. The Framework is comprised of five fundamental components which, when present and functioning together, work towards the goals of reducing risk to an acceptable level and achieving objectives for reliable financial reporting. The assessment of internal control over financial reporting focuses on an evaluation of each of the five components.

The five fundamental components include:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring Activities

The five internal control components support an organization's efforts in achieving its financial reporting objectives. A component describes what is required for the organization to meet its objectives and is relevant to an entire entity or at any entity level, division, operating unit, or function of the organization. In addition, there are seventeen principles in the

Framework, which are fundamental concepts associated with one of the five components of internal control (Attachment 3).

DoF has incorporated a management assessment template (Attachment 2) to help evaluate the effectiveness of the City's system of internal financial controls and ensure that it meets the following requirements:

- Each of the five components and relative principles are present and functioning.
- The five components are operating together in an integrated manner.

The management assessment template contains the following three sections:

1. **Overall Assessment:** Summarizes management's determination of whether each of the components and relevant principles is present and functioning and components are operating together in an integrated manner.
2. **Components and Principles:** Summarizes management's determination of whether components and principles are present and functioning. A template for each of the five components with its associated principles is included. The Framework also includes points of focus to describe important characteristics of each principle. However, the Framework does not require management to evaluate whether all points of focus are in place.
3. **Deficiencies:** Summarizes all identified internal control deficiencies that can be leveraged in the evaluation of components and principles and enables the internal control deficiencies to be aggregated.

The template provides a logical structure for management to analyze and document the organization's assessment of the effectiveness of internal controls and assists management in developing a process for identifying and evaluating internal control deficiencies. The template is not an integral part of the internal control Framework but serves as an illustrative aide.

**Based on the evaluation outlined in the template, management has concluded that the City has established a comprehensive internal controls program and believes the internal controls over financial reporting are effective.** All five components of the Framework are present and functioning.

## 1. Control Environment

The Control Environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The Control Environment sets the tone of the organization and represents what is commonly referred to in the private sector as an entity's "corporate culture." It encompasses the City of San Diego's (City) integrity and ethical values; the City Council and Mayor's oversight, responsibilities, and delegation of authority; the process for attracting, developing, and retaining employees; and the measures, incentives and rewards used to manage accountability and performance. The City has established policies and practices that provide for a strong control environment through the City Charter, City of San Diego's Municipal Code (SDMC), management policies and practices, and a comprehensive financial training program.

**City Charter**

The City is organized as a strong-mayor form of government where the Mayor acts as the executive branch of government carrying out the operating functions of the City, while the City Council acts as the legislative body. In addition, the City Attorney, who is elected to a four-year term, is independent from City management and Council and serves as the chief legal adviser and attorney for the City. This model of government provides checks and balances through separation of powers and is codified in the City Charter. The Mayor appoints the Chief Financial Officer of the City and the City Council confirms the appointment. City Charter Section 39 gives supervision and oversight responsibility over all financial accounts of the City to the Chief Financial Officer. It requires that all financial transactions of the City be performed based upon forms prescribed by the Chief Financial Officer.

Charter Section 39.1 establishes an independent audit committee to oversee the City's auditing function. The Audit Committee is composed of two members from the City Council facilitating independence from management and three members from the public who possess the appropriate technical expertise to carry out this responsibility.

Charter Sections 39.2 and 39.3 also establish independent positions to assist the City Council in maintaining checks and balances over the executive branch, including the Independent Budget Analyst and Office of the City Auditor (City Auditor). The Independent Budget Analyst provides budgetary and policy analysis for the City Council. The City Auditor is responsible for the internal audit function of the City, with authority to investigate any material claim of financial fraud, waste, or impropriety within any City department. The City Auditor reports to the Audit Committee to prevent any conflicts of interest from reporting to the executive branch.

The City, like most large governments and corporations, also retains an independent audit firm to independently audit its financial statements. The City's current external independent auditor, Crowe LLP, reviews the City's financial statements and accompanying notes and reports on any findings during their audit process. The contract for the City's external audit firm is administered by the City Auditor and is evaluated every five years. In calendar year 2024, through a competitive bidding process, the City secured a 5-year agreement with Crowe LLP for Annual Audit Services Related to the Annual Comprehensive Financial Report (ACFR), Single Audit and Other Audit Services for Fiscal Years 2024 through 2028.

**San Diego Municipal Code (SDMC)**

The SDMC incorporates all ordinances passed by the City Council and approved by the Mayor. On October 11, 2004, Ordinance 19320 incorporated Division 41: Securities Disclosure, which establishes the Disclosures Practices Working Group (DPWG). The DPWG is comprised of senior City officials and the disclosure counsel responsible for ensuring compliance by the City with federal and state securities laws, and for promoting the highest standards of accuracy in disclosures relating to securities issued by the City or its related entities. As required by the SDMC, the DPWG has developed the Disclosure Controls and Procedures to effectuate its responsibilities under the SDMC.

The Disclosure Controls and Procedures establishes process requirements over the development of documents that have disclosure obligations under applicable federal and state

securities laws, including bond documents and the City's ACFR. It establishes responsibilities for development and review of financial documents and requires certification by those department heads that contribute information for development of such documents.

In addition, the SDMC establishes the Ethics Commission, which contributes to a strong control environment for the City. As an independent department, the Ethics Commission monitors, administers, and enforces the City's governmental ethics laws, and proposes new governmental ethics law reforms, conducts investigations, refers violations to appropriate enforcement agencies, and audits disclosure statements, and advises and educates City officials, candidates, political committees, and lobbyists about governmental ethics laws. The City's elected officials as well as the City's unclassified employees, agency employees, board and commission members, and consultants who file a Statement of Economic Interest are required to participate in training provided by the Ethics Commission upon assuming office and once every two years.

### **Mayor as Chief Operating Officer**

In Fiscal Year 2025, the Office of the Chief Operating Officer merged into the Office of the Mayor as a part of an executive management reorganization. Previously, the City's Chief Operating Officer (COO) reported directly to the Mayor and was responsible for the management and oversight of the City's day-to-day operations, implementation of Citywide initiatives and the monitoring of the City's revenues and expenditures. The four Deputy Chief Operating Officers, the Chief Financial Officer, the Police Chief and the Fire Chief who previously reported to the Chief Operating Officer will now report directly to the Mayor. Due to the merger, the oversight over financial reporting by the COO and Mayor will be one and the same.

### **Compliance Department**

The position of Chief Compliance Officer was created in early 2020 to oversee the new Compliance Department, but when the position was vacated in fall of 2025, functions of the Compliance Department were distributed to other departments in the City to reduce administrative overhead. These functions include facilitating the City's response to internal and external audits; administrative hearing programs; and coordinating compliance with local, state, and federal regulations related to labor, wages, health and safety, and the environment. Another key responsibility is the coordination of citywide responses to audit findings and recommendations, especially when multiple departments are involved. The Department of Finance attends Audit Committee meetings and serve as a representative for City management.

### **Management Policies and Practices**

The Chief Operating Officer issues Administrative Regulations (A.R.) to establish policies, roles, and procedures of a continuing nature, and to direct operations within the City. Departments involved in complex or detailed operations are required to work with the Internal Controls Section in Department of Finance (DoF) to develop and issue process documentation to detail the performance of these operations. Also, citywide policy memoranda are sent out as necessary to clarify or establish policies and procedures for the City's mayoral departments. The City's policies and procedures are communicated to employees via citywide email or by posting on the City's intranet and internet.

In 2017, A.R. 95.39–*Management Responsibilities for Internal Financial Controls* was established to provide a strong enhancement over the City’s control environment. The A.R. establishes responsibility for developing citywide financial policies and procedures within the Finance Branch, including citywide dissemination of such policies and training as appropriate. It also emphasizes the role of the executive management team in creating an organizational culture that supports the internal control environment.

### **Financial Training**

The City has implemented a comprehensive financial training program. As part of citywide financial training, all levels of the organization, including City employees, City management, and elected officials, are provided training to aid employees in submitting or reviewing financial data and reports. Under SDMC §22.4110, the City has established biennial mandatory Federal Securities Law training for members of management, relevant City staff, and elected officials to ensure material information in financial documents is disclosed in accordance with state and federal security laws. Federal Securities Law training was provided in the fall of 2025.

Continuing education for professional staff who have financial responsibilities is critical for delivering comprehensive and accurate financial information to the City’s stakeholders. The City’s Chief Financial Officer requires financial professionals to maintain or enhance professional competencies in all areas of accounting, reporting, compliance, internal controls, grant analysis, debt management, ethics, and other finance related fields. This is accomplished through training policies tailored to promote competencies in each department’s respective area. DoF maintains a training policy that requires staff engaged in accounting, financial reporting, budget, debt, and payroll functions participate in a minimum of 40 hours of formal subject matter training per year.

DoF staff members are also encouraged to attain professional designations such as a Certified Public Accountant (CPA) to maintain professional expertise on the latest accounting standards and practices. As of the end of calendar year 2025, five DoF staff members held the CPA designation which requires passing a rigorous uniform exam, work and educational requirements, and continuing education courses to maintain an active status with the California Board of Accountancy.

### **Other Practices and Policies**

Other practices and policies contributing to a strong control environment for the City include the adoption of an Employee Code of Conduct; the Fraud, Waste, and Abuse Hotline; Annual Report of the City of San Diego DPWG; Ethics Commission Annual Report; Department Conflict of Interest Codes; and the Annual Report on Internal Financial Control.

## **2. Risk Assessment**

A continuous and effective assessment of risk is a critical component of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Controls Framework (Framework) because it allows management to form a basis for determining how risk should be managed and mitigated. It allows management to identify the need for control and monitoring activities, improvements to the flow of information and communication, or the need for changes to the control environment.

The Framework defines risk as the possibility that an event will occur and adversely affect the achievement of objectives. As noted earlier, the main objective in preparing the Annual Comprehensive Financial Report (ACFR) is that the information included in the report is reliable and that it reflects the City of San Diego's (City) transactions and events for the reporting period in accordance with generally accepted accounting principles (GAAP) or other reporting requirements. The policies and procedures established for financial reporting include controls that have resulted from management's risk assessment and its efforts to mitigate such risks.

#### **Management's Risk Assessment on the ACFR**

At the beginning of each ACFR preparation cycle, management communicates areas of potential risk to the City's external auditor based on management's risk assessment and ongoing monitoring activities, including management's response to such risks through the development and implementation of additional controls. For the Fiscal Year 2025 ACFR, management identified the following risks to the City's external auditor: Government Accounting Standards Board Statement No. 101, Compensated Absences (GASB 101) and Government Accounting Standards Board Statement No. 102, Certain Risk Disclosures (GASB 102) implementation, attaining authority to manage the required and necessary Advanced Life Support and Basic Life Support unit hours based on the dynamic demands of the City's Emergency Medical Services system, and the risks identified by the Office of the City Treasurer with the Economic Development Department's Real Estate Division's invoicing and payment processing as well as lease audit management.

#### **Changes in Accounting Standards**

Management has the responsibility to select and use appropriate accounting policies. To mitigate the risk associated with changes in accounting standards, Department of Finance (DoF) staff with primary ACFR preparation responsibilities are provided training throughout the year. This includes an annual Government Finance Officers Association (GFOA) training introducing new accounting pronouncements, and disseminating this information through cross-training within the department. Staff actively review all new standards to determine the applicability and requirements to properly implement in the effective reporting period. Staff also work closely with the City's external auditors to ensure full compliance with reporting standards.

Each fiscal year, DoF evaluates new accounting standards promulgated by the Governmental Accounting Standards Board (GASB) for potential financial impacts. Research is assigned to the appropriate section in the department for in-depth analysis and implementation. A listing of the significant accounting policies adopted by the City each fiscal year is included in Note 1 of the City's ACFR.

#### **Considering Entity Activities**

Financial reporting should capture an entity's transactions and events. Large entities such as the City can face non-routine events where management needs to make assertions regarding the recognition, measurement, presentation, and disclosure on financial statements.

Events should be represented in financial statements in accordance with applicable governmental accounting standards. Management does this by making implicit or explicit assertions that consider the following:

- **Occurrence:** Transactions and events that have been recorded in the City's financial records have occurred and pertain to the City.
- **Completeness:** Transactions and events that occurred during a specific period, and that should have been recognized in that period, have in fact been recorded.
- **Accuracy:** Amounts and other data related to the transactions and events have been recorded appropriately, and their valuation is disclosed fairly with appropriate amounts.
- **Presentation and Disclosure:** Items in the statements are properly described, sorted, and classified.
- **Rights and Obligations:** The City holds or controls the rights to assets, and liabilities are the obligations of the City.

Management also meets with external auditors and the City's Disclosures Practices Working Group (DPWG) to explain assertions during the preparation and before the release of the financial statements. This opportunity allows management to present any risk of material misstatements from their assertions, and to discuss the review of any supporting documentation.

From a financial reporting standpoint, management identified two events requiring additional risk assessment. They are summarized here and described in additional detail in the Fiscal Year 2025 ACFR:

- **Structural Budget Deficit:** The projections included in the Fiscal Year 2027-2031 Five-Year Financial Outlook for the General Fund show structural budget deficits, where ongoing baseline expenditures exceed ongoing baseline revenues, of \$88.8 million in Fiscal Year 2027, which decreases to a shortfall of \$57.0 million in Fiscal Year 2031. These projections are based on Fiscal Year 2026 service levels with some adjustments.
- **Storm Water Regulation Compliance:** The City is currently operating under a Municipal Permit issued in May 2013 by the state agency regulating stormwater runoff. The Municipal Permit imposes numerous obligations and requirements on the City, including requirements to ensure that the City's various water bodies, and the storm drains discharging into them, do not contain pollutants in excess of Federal and State-mandated numeric limits. A portion of the capital costs will be funded by a Water Infrastructure Finance and Innovation Act (WIFIA) loan awarded by the Federal Environmental Protection Agency (EPA). The loan and required match total \$733.0 million to fund a portion of the Stormwater CIP Program over the next five years. The EPA will finance 49.0 percent of this loan, with the City providing a 51.0 percent match. The City's match is expected to be funded with a combination of grants and other financing proceeds from lease revenue bonds or State Revolving Loan funds. However, absent any other dedicated funding source, debt service for repayment of the WIFIA loan and any City issued debt will likely need to be paid by the General Fund. To comply with the water requirements of the permit, additional funding is required to address all water quality needs under the permit.

## Changes in Technology

The City continues to modify the core Enterprise Resource Planning (ERP) system in order to maximize the efficiency and span of control over business operations and reporting. Each of these changes introduces the risk of system generated errors, which are mitigated through configuration and development testing. Business process owning departments such as DoF, the Department of Information Technology (DoIT), Purchasing and Contracting (P&C), Personnel, Human Resources (HR), Risk Management, and the Office of the City Treasurer all work closely to ensure that any changes or improvements to the system are fully tested for operational needs and for the impact to financial reporting. At the completion of testing, signoffs are required by the Business Process Coordinators (BPC) involved.

During calendar year 2025, many new systems and key enhancements were added and made to further tighten controls over financial systems data integrity including the following:

- The City's current interface management tool called Process Orchestration (PO) is reaching end of life. The successor product is a cloud-based tool called Integration Suite. In 2025, the City began transitioning its interfaces from PO to Integration Suite and the transition is expected to be completed in 2026. Integration Suite allows the City to automate processes and reduce redundant data entry in disparate systems.
- The SAPIMON upgrade focuses on backend improvements while maintaining the look for City staff that utilize the application. This front-end application enables end users to monitor SAP interfaces by providing visibility into processing outcomes including successful transactions and clear error messages when processing fails, ensuring financial and non-financial transactions are more accurate.
- DoIT's ERP Division began migrating the City banking interfaces from Bank of America's grandfathered EDTUP platform to their B2BI platform. This new platform allows for manual uploading and downloading of files should our network connection be down or compromised. The project was completed in calendar year 2025.
- The City is engaging with Bank of America to implement their U.S. Account Validation service. This service will help to validate whether a bank account is open and if it belongs to the person authorizing payment to the account, prior to initiating electronic payments, reducing the risk of making payments to fraudulent entities. This will replace the tedious manual validation process performed by DoF in most cases and allow resources to be utilized elsewhere.
- VMware Cloud DR is the disaster recovery solution implemented across all productive OpenText servers. This was successfully tested by performing a failover and failback disaster recovery process in September 2025.
- The Public Utilities Department optimized their Customer Service Public Facing portal to semi-automate Water Billing services such as move in, move out, and account updates through Salesforce integration. The solution integrates with SAP CCS ISU system to update respective Water Billing Customer accounts and offers Case Management functionality in the event Customer Services Representatives must address requests manually.
- P&C worked with the ERP Division to implement several key system enhancements which helped give the department better control over the City's purchasing process. The first system enhancement included revisions to the Ariba contract request approval flow and contract workspace template. This allowed P&C to streamline the process of

setting up and opening up the publication and opening of contracts in Ariba. The second system enhancement included Ariba contract setup validations which help P&C staff setup the contracts correctly to ensure proper spend accumulation is reported. The third system enhancement is the prevention of goods receipt cancellations and reversals after a specified date based on certain criteria. This essentially allows P&C to “lock” purchase orders from further use and have better control of PO management.

The rise in use of generative artificial intelligence (AI) programs has the potential to transform the way individuals and organizations solve problems, develop solutions, and create, process, and review information. As City employees contemplate the use of AI technologies to enhance productivity while conducting City business, the City is working to implement controls to mitigate potential security, business, legal, and privacy risks. DoIT issued initial guidance to City employees in calendar year 2023. In January 2025, DoIT finalized the City’s AI and Generative AI Policy and adoption framework. The policy and adoption framework were developed through an internal, multi-departmental AI steering committee as well as through the City’s participation in a nationwide coalition of governmental agencies focused on developing standards for responsible AI procurement, governance, and adoption by public agencies. As a supplement to the required policy acknowledgement, DoIT is providing a recommended Introduction to Artificial Intelligence training. This brief training course provides employees with an overview of how AI works, how it can be used for increased productivity, potential risks, and measures for responsible AI adoption in the City. AI policy and governance will continue to evolve along with the maturity of the technology. Procurement or use of AI technology is subject to Information Technology Governance review and approval as outlined in A.R. 90.68–*Procurement of Technology Solutions*.

Along with system enhancements, it is important for the City to stay current with the versions of the software that are used on a day-to-day basis. These updates add new features, improve security, fix known issues, help protect integrity and confidentiality of data, and ensure the systems continue to be supported by the manufacturers. Each year a review of the SAP landscape is conducted by DoIT’s ERP Division. The review includes databases, SAP applications, supporting solutions, and the Linux and Windows infrastructure. This is done to ensure end-of-support deadlines are not breached and that the latest vendor provided fixes/patches and security controls are reviewed. This provides continued stability and ensures security and vendor support.

In calendar year 2025, the City completed an update of MS Office 365 Version 2402 to MS Office 365 Version 2408. As part of the City’s security compliance guidelines, all City computers were updated to Windows 11 23H2 prior to Windows 10 end of life support.

In 2025, the City’s budgeting and financial projections system, SAP Budgeting and Planning, reached its end-of-life and was replaced by Euna Budget. EUNA Budget is a robust, comprehensive budgeting tool used by many public agencies and is SAP’s recommended budgeting solution, which includes budget formulation, monitoring, and forecasting along with reporting, publishing, and transparency. DoF has worked closely with EUNA Budget consultants to design and implement a budgeting solution to meet the City’s budget development and monitoring needs. Training materials and guides were developed and posted

on DoF's Citynet page. Additionally, DoF staff have provided system and process-specific training to all users.

The City's current ERP System, SAP ECC, is reaching its end-of-life, and SAP will formally end support in calendar year 2027, with the option to purchase extended support through calendar year 2030. To prepare for this transition, DoIT contracted with a consultant to analyze the City's usage of SAP and provide a cost estimate of at least three options to meet the City's needs. The consultant completed their report in November 2023, and in 2024, the City decided to migrate to SAP S/4 HANA Private Cloud, SAP's next-generation ERP system. Additionally, DoIT contracted with a consulting firm to complete a study of the City's SAP business requirements for SAP S/4 HANA Private Cloud. This study involved all BPCs and ERP staff over five months. Thoroughly capturing the business requirements will reduce project risks during the implementation, as the Statement of Work (SOW) for the System Integrator will be based on these detailed requirements. The migration from SAP ECC to SAP S/4 HANA Private Cloud will be a multi-year project that may significantly change the system and control environment. Due to this project's scope and risks inherent in system changes, the City plans to dedicate significant resources and staffing citywide for testing, implementation, and end-user training. The business requirements gathered during the 2024 study were used to form the basis for the SOW, which is currently routing for review and approval to all departments as of the publication of this report. In 2026, the expectation is the RFP will be released and various vendors will be selected to support the implementation project.

Risks associated with system changes and SAP enhancements are mitigated with training, feedback and question and answer workshops provided to end users before and after implementation. Additionally, users can access training videos which are readily available online via SuccessFactors, the City's learning management module. These training videos in SuccessFactors are also used in conjunction with the Governance Risk and Compliance (GRC) Access Request Provisioning tool to automatically verify users have completed the appropriate training prior to being provisioned the related roles. Process documentation is also developed or updated as needed.

DoF staff did not find any significant deficiencies over ERP system related internal financial controls that could impact the financial statements. However, due to the interrelationship between SAP modules and third-party systems, there is a potential risk that changes to a module could impact others. There is also a potential risk that system errors are not identified through testing. To address these risks, the production changes are reviewed by a change control board before deployment and by affected BPCs after deployment. Any newly identified system errors are communicated for correction and management identifies the significant financial risks that require additional monitoring.

### **Information Technology Disaster Recovery Plans**

The City has a robust Disaster Recovery Plan (DRP) and Business Impact Analysis (BIA) which are both reviewed and updated annually by the City and its vendors.

The annual review of the BIA and the DRP serve to identify new risks to the organization and identify the impact of the threats to business operations. The annual reviews also offer recommendations for remediation to continually improve organizational resilience with the

capability of an effective response that safeguards the interests of the City's key stakeholders, reputation, brand, and value-creating activities. Additionally, the objectives of the annual BIA are to review and identify any new business functions, including applications with a financial reporting relationship, assign/update a recovery time objective for each function, identify applications supporting those functions, assign application criticality based on the functions, present findings and recommendations for areas of risk, and identify upstream and downstream dependencies.

DoIT's ERP Division also has a DRP tailored specifically to the City's SAP systems. The main objective of the DRP is to develop, test, and document a well-structured and easily understood plan which will help the City recover as quickly and effectively as possible from an unforeseen disaster or emergency which interrupts information systems and business operations. The selected and implemented solution includes replicating critical tier one production databases, as well as the entire tier one application server architecture to a cloud solution. The implemented cloud solution(s) also includes built-in redundancy. This works to minimize recovery downtime in addition to capturing up to the minute transactional data. This also eliminates any requirement for physical infrastructure and/or wait time to build or restore required virtual servers. In May 2025, the ERP team successfully executed a disaster recovery (DR) drill for ERP systems, validating the availability of SAP Tier one applications within the Amazon Web Services (AWS) cloud under a simulated disaster scenario. The exercise enabled the ERP support team to further familiarize themselves with the SAP/AWS DR architecture while also confirming the procedures required to restore critical business processes in the event of an actual disruption. This year's effort also brought on broader participation from business stakeholders strengthening cross-functional readiness and alignment. Efforts continue to ensure external communication during an actual disaster situation is improved and access to the primary interface storage is in place to ensure full data transfer functionality.

The DRPs provide guidance for re-establishing information technology services within the established recovery time and recovery point objectives to ensure minimal downtime and data loss. The plans are reviewed annually and designed to address how the City will prepare for and subsequently recover from any unplanned interruption to the production operating environment at each of the City's data centers.

### **Cybersecurity and Incident Response Plans**

The City continues to have a very robust set of standards, guidelines, policies, and procedures for providing security, confidentiality, integrity, and accountability related to its information systems and/or assets. These include Administrative Regulations (A.R.), end user training, Data Loss Prevention Guidelines and Standards, and Information Security Standards and Guidelines that are updated annually at a minimum.

The City also has an Incident Response Plan to respond quickly and in accordance with an agreed set of standards focusing on minimizing business impacts, securing protected information, optimizing processes and procedures, building and retaining a detailed knowledge base, keeping responses to incidents inconspicuous, and ensuring best practices are followed. As part of this plan, the City has established a Cybersecurity Incident Response Team (CIRT) consisting of individuals with the requisite skills to address security incidents.

**Risks Identified through Internal Audit Function**

The Office of the City Auditor (City Auditor) conducts an annual citywide risk assessment to plan for audits based on the level of risk to the City. This is accomplished by identifying a scope of auditable units surveying management and analyzing management's response to formulate risk scores. From this risk assessment, an audit work plan is created outlining planned performance audits for a fiscal year.

Every three years, Generally Accepted Government Auditing Standards (GAGAS) require that audit organizations undergo an external audit called a "peer review." For the period of July 1, 2022 to June 30, 2025, the Association of Local Government Auditors (ALGA) completed the peer review for the City Auditor and recognized them for conducting exceptional and thorough citywide risk assessments during the review period, and for maintaining strong internal processes that ensure compliance with GAGAS. The City Auditor received the highest pass rating with their work in full compliance with GAGAS. The next peer review will be for the period of July 1, 2025 to June 30, 2028.

In each performance audit, a variety of actions are taken by the City Auditor such as gaining an understanding of the process by obtaining and reviewing relevant background documents, identifying major threats, and understanding the mitigating controls that are in place to mitigate the threats. At the conclusion of an audit, the City Auditor reports the audit results, which include findings and recommendations, and addresses this information to department management. While most audits focus on operations and performance, issues that may have an impact on accounting and financial reporting are sometimes identified. This may include risks to financial reporting, safeguarding of City assets, recommendations to enhance transparency, and issues impacting the internal control environment. DoF management participates in the City Auditor's audit entrance and exit meetings with City departments. DoF also participates in the remediation of performance and hotline audits when appropriate and works with departments to document processes or strengthen internal controls.

The Office of the City Auditor released the Performance Audit of the City's Contract Management Process to determine whether the City extended or increased the value of goods and services contracts in accordance with the SDMC and best practices. According to the audit, there were contract alterations that lacked the required Council approval or were requested retroactively diminishing transparency and effective oversight. In response, the Purchasing and Contracting Department (P&C) committed to developing policies and procedures to address the issues and enforce compliance to avoid overruns and contracting delays. P&C has advanced these commitments by developing a written contract alteration process, clarifying approval thresholds, and improving SAP-Ariba integration through the development of the Ariba Contract Tracker report. P&C is also working to expand procurement knowledge and procedures across departments through the ongoing Procurement Academy and Procurement Champions training programs to ensure consistent contract compliant Citywide.

During the presentation of the audit to Council, the Office of the City Auditor used the Herc Inc. contract as an example to demonstrate the budgetary impact of the approximately \$6.7 million in spending above the previously authorized contract that was retroactively authorized by Council in April 2024. In a memo response from Rolando Charvel, then DoF Director and City Comptroller, it was identified that most of these overages associated with Herc Inc.

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occurred during Fiscal Year 2024 driven by the Transportation, Stormwater, and Public Utilities Departments due to the need for rentals for the delayed delivery of replacement vehicles and emergency equipment needs that were identified in the FY2024 Third Quarter Budget Monitoring Report. Through the combined efforts to suspend non-essential spending, the encumbrance of non-discretionary budgets, executive review and approval of hiring requests, reductions in fringe benefit costs, deferral of planned General Fund reserve contributions, financing of certain capital improvement projects, and refuse disposal rate relief, the City realized approximately \$18 million in expenditure savings and closed FY2024 with a balanced budget.

In accordance with City Charter Section 55.2, the Office of the City Auditor performs an annual audit of the Mission Bay and San Diego Regional Parks Improvement Funds to assess revenues, expenditures, improvements, and compliance with City Charter requirements. In November 2025, the City Auditor released the findings for financial activity for fiscal year 2024. According to the audit, the City Treasurer was unable to formally issue potential audit findings from the required percentage lease revenue audits for fiscal year 2024 due to a City Management-directed moratorium on revenue audits, which increases the risk for loss of revenue and reduces transparency and oversight for the City. While a payment application issue impacted the City Auditor's review of Mission Bay revenue, the Economic Development Department took steps to subsequently resolve the issue, the City Auditor found that expenditures were deemed in compliance with the City Charter. Management agreed with all of the recommendations in the performance audit, but highlighted the need for additional resources to manage the volume and complexity of lease compliance, revenue reconciliation, reporting, and oversight requirements outlined in the audit.

In response to the audit findings and recommendations, the Economic Development Department developed and implemented documented procedures to reconcile REportfolio payment data to SAP in alignment with City policy. The reconciliations are performed daily and include a review of system interfaces, open FI-CA items, and depository transactions to ensure prompt resolution and accurate accounting. Additionally, the department will obtain City Council approval to ensure that lease agreements remain binding and fair market rental rates are achieved.

### **Update on Risks Identified by the Office of the City Treasurer in CY2024**

The Office of the City Treasurer serves as a control point for citywide Revenue. The City Treasurer's Office Accounting Program oversees Deposits and the Financials and Contract Accounts Receivable (FI-CA) module in SAP used for general citywide invoicing not related to grants or donations. The City Treasurer's Office Revenue Compliance Program audits revenue, including reviews of percentage and fixed lease agreements. The Revenue Compliance Program conducts audits to ensure compliance with City contracts and policies, as outlined in City Charter Section 45. Council Policy 700-10 mandates audits of percentage leases in the first year of operation and at least every five years thereafter, with additional audits as deemed necessary (Council Policy 700-10 was updated in January 2025).

While the Accounting and Revenue Compliance Programs previously identified risks with Economic Development Department Real Estate Division's invoicing and payment processing as well as lease audit management, these issues remain immaterial to the City's financial

statements. Nevertheless, the Economic Development Department has prioritized addressing these risks by implementing robust processes and enhancing internal controls to prevent risk escalation. Progress and current status include:

- **End of Moratorium:** The moratorium, mutually agreed upon by the Economic Development Department and the City Treasurer for lease audits, concluded in April 2025. The Revenue Compliance Program has since resumed active auditing of leases. The resumption of audits allows the Office of the City Treasurer to work in tandem with the Economic Development Department to maintain strong internal controls and ensure that any potential risks are identified and mitigated early.
- **Process Improvements:** The Economic Development Department has formalized internal processes to timely research and resolve the backlog of invoicing and payment/deposit discrepancies. Significant progress has been made to address the historical backlog. The Department has continued to make improvements to ensure revenue is accurately captured and reported in compliance with current City policy and documented internal processes to ensure ongoing compliance.
- **System Upgrade:** To prevent the recurrence of invoicing and payment errors, the Economic Development Department is upgrading its aging software system. The technology enhancements are intended to reduce human errors, automate workflows, and provide visibility into lease compliance.

### **Position Reduction in the Finance Branch**

The FY 2026 Adopted Budget included both strategic reductions across various departments and targeted investments in critical areas to address the City's structural budget deficit. The Finance Branch reduced 21 positions within several classifications. Each of the positions that were reduced could impact data quality, timeliness of financial reports, and oversight. For example, the Principal Accountant position overseeing Debt and Public Utilities accounting was eliminated in DoF. This position was responsible for the financial statements and transactions for those areas. The position reviews accounting transactions that are material to the ACFR. In a past year, the absence of a trained accountant in this position reviewing transactions resulted in a \$250 million restatement of net position in the ACFR. The risk of not having a Principal Accountant could result in findings in the City's future financial reports. As a temporary solution to mitigate the risk, the Principal Accountant over Internal Controls and Systems was reassigned to oversee the Debt and Public Utilities accounting function while the Internal Controls Section began reporting directly to the Chief Accountant and Systems' staff members were reassigned to their respective process teams. However, absent additional efficiencies realized through enhancements in technology or processes, a dedicated Principal Accountant to oversee these functions is needed for the long-term success of the City's control environment and risk assessment.

## **3. Control Activities**

Control activities are the next step in response to risks identified through management's risk assessment. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines control activities as the actions established through policies and procedures that help ensure that management's directives to mitigate risks are carried out. In the preparation of financial reports for external use, these are the policies and procedures, with embedded

controls, that management develops and implements to mitigate risks of errors and omissions that could affect the reliability of the information presented in the reports. It also includes controls embedded within the City's Enterprise Resource Planning (ERP) system.

### **Budgetary Control**

The City of San Diego (City) adopts an annual budget authorizing the expenditure of funds based on current financial resources. Budgetary control and monitoring are fundamental elements of a government's system of internal controls.

In accordance with budgeting best practices, the City maintains a Budget Policy, Council Policy 000-02, to guide the development and monitoring of the City's annual operating and capital budget, as recommended by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB).

Through the budget preparation process, the City estimates annual revenues, providing a basis for evaluating actual revenue recorded during the fiscal year. Similarly, expenditures are monitored against those expenditure levels authorized in the budget. For the City, budgetary control is exercised at the department level for the General Fund and at the fund level for all other budgeted funds. In line with the City Charter, the budget authorized for personnel expenditures for a fund or department may not be used for non-personnel expenditures. The City's financial system incorporates embedded controls in which non-personnel expenditures cannot be incurred if a budget appropriation is unavailable or insufficient. The City also uses an encumbrance system of accounting as a mechanism to accomplish effective budgetary control. The budget and accounting structure that SAP maintains for expenditure control has the added benefit of ensuring that expenditures are categorized correctly in the Annual Comprehensive Financial Report (ACFR) by function.

### **Transaction Control Activities**

The implementation of SAP provides the foundation for a well-designed internal control framework. SAP allows internal controls to be embedded in the system through restricted access, segregation of duties, and authorization workflows. These controls allow for review, validation, and approval of transactions, not only mitigating the risk of fraud but also preventing transaction errors or instances of non-compliance with laws and regulations.

Many user interactions within SAP occur in various departments as they perform their core responsibilities. Often transaction workflows are processed across multiple departments in order to properly segregate duties and mitigate the risk of fraud. For example, the Department of Finance (DoF) processes employee payroll, but only the Personnel Department can change an employee's hourly compensation rate in SAP. Other transactions include vendor payments, generation of City invoices, cash deposits, payroll transactions, and journal entries, most of which segregate the creator of the transaction from the approver. These interactions make their way into the financial system either through direct input or through some type of interface application. The City's financial activity is consolidated with similar types of activities and is eventually presented in the ACFR and other financial reports.

Over the years, the City has implemented a variety of control activities over financial transactions. Where automated controls are not available, manual controls are used. These

control activities ensure that the financial information is complete, accurate and valid. Below are some of the control activities embedded in the City's multiple accounting and financial reporting processes:

- **Authorizations and Approvals:** Affirming that a transaction is valid, such as the approval of a journal entry or an invoice payment.
- **Verifications:** Comparing two or more items with each other, such as comparing goods received against a purchase order.
- **Physical Controls:** Preventing or detecting unauthorized access to physical assets, such as storing cash or fixed assets in a secure environment.
- **Reconciliations:** Comparing two data elements and taking action when differences are identified to bring the data into agreement, such as reconciling bank accounts to the general ledger.
- **Supervisory Controls:** Assessing whether other transaction control activities are being performed completely, accurately and in accordance with policy.
- **Application Controls:** Controls related to procedures to check the accuracy of the output data, including follow-up on exceptions. The functional analysts in the Department of Information Technology (DoIT) and the Business Process Coordinators (BPC) in City departments validate and approve any functional changes in the SAP system. Security related changes are also reviewed by DoF's Internal Controls Section. DoIT's Control Change Board reviews documentation, testing, and approvals before implementing changes in production.

### Internal Controls Section

The Internal Controls Section of DoF provides dedicated staff focused on maintaining and enhancing the City's control environment. The Internal Controls Section is involved with the implementation or monitoring of new software and reviews the system implementation for process gaps, control weaknesses, segregation of duties, system access, data transfer to SAP, and the development of process narrative documentation. The Internal Controls Section also manages and oversees post-monitoring reviews that are designed to enhance a process's internal financial control and ensure that reviews are performed in a timely manner as described in the Monitoring Activities section. Some of these monitoring programs are results of audit findings and recommendations management agreed to perform to prevent occurrences of fraud, misuse, or abuse.

### Control Activities Deployed through Policies and Procedures

Management incorporates controls into financial reporting activities by establishing clear accounting policies and developing and implementing accounting procedures. Policies reflect management's statements of what should be done, guiding the actions of staff. Procedures consist of actions that implement a policy. Having policies, procedures, and controls is key to preventing and detecting material errors and fraud. It is essential that policies are current, formally documented, and easily accessible to all employees. The following list highlights core policies that drive prudent fiscal planning and actions.

- **Accounting Policies:** The City's ACFR Note 1, *Summary of Significant Accounting Policies*, summarizes the City's accounting policies that conform to generally accepted accounting principles (GAAP). Note 1 summarizes significant accounting policies in the

areas of financial reporting including Government-wide and Fund Financial Statements, Cash and Investments, Capital Assets, Long-Term Liabilities, Reserves, and more. Note 1 also lists the new governmental accounting standards implemented during year-end and upcoming governmental accounting standards. In fiscal year 2024, two new Governmental Accounting Standards Board (GASB) statements were implemented, but did not result in a material impact on the financial statements. GASB Statement 101, *Compensated Absences* enhances the information needs of financial statement users by updating the recognition and measurement guidance for compensated absence. That objective is achieved by aligning the recognition and measurement guidance under the unified model and by amending certain previously required disclosures. GASB Statement 102, *Certain Risk Disclosures* provides essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. It requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of substantial impact. It also requires an assessment of whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

- **Materiality Policy:** DoF maintains a formally documented materiality policy that establishes materiality guidelines for the preparation and review of financial transactions included in the City's ACFR. The policy establishes quantitative materiality thresholds and requires additional levels of review and approval for complex high-risk accounting transactions or other qualitative factors.
- **Investment Policy:** The investment activities for the City Treasurer's Pooled Investment fund are governed by the City Treasurer's Investment Policy, which is based on California Government Code §53601 with additional constraints added by staff. The Investment Policy is reviewed by the Investments team, the City Treasurer, the City Treasurer's Investment Advisory Committee, and then presented annually to the City Council for approval. The Investment Policy for calendar year 2025 was adopted by City Council in November 2024 and is posted on the City Treasurer's website.
- **Debt Policy:** The City adopted a Debt Policy in November 2007. The Policy documents the procedures and goals for the use of various debt instruments to finance City needs and the sound management of existing debt obligations. A biennial review of the Debt Policy is performed, and material changes, if any, are forwarded to City Council for consideration and approval. The last revised policy was adopted by City Council in June 2025 and is posted on the Debt Management tab of the City's DoF website.
- **Reserve Policy:** The City adopted a Reserve Policy, Council Policy 100-20, in October 2002, which was last amended by City Council in December 2022. The Policy documents the City's approach to establishing and maintaining strong reserves across the spectrum of City operations, including General Fund, risk management and enterprise operations. These reserves help provide for strong fiscal management and mitigate financial risk. The Reserve Policy is currently under review and is anticipated to be updated during fiscal year 2026.
- **User Fees Policy:** The City charges a range of fees for services provided to residents and businesses, such as fees for recreational services, inspections and permits, use of City property, and other services. These fees are charged to recover costs associated with

the services provided. As recommended by the GFOA and NACSLB, and Federal Government Office of Management and Budget (Circular A-87), the City's User Fee Policy, Council Policy 100-05, establishes the method for establishing fees and the extent to which they cover the cost of the service provided. In calendar year 2024, DoF conducted the Fiscal Year 2026 Comprehensive User Fee Study and the City Council approved the proposed updates to fees in March of 2025. The updated fees went into effect in two phases, April 1, 2025 and July 1, 2025 depending on the type of fee and rate of cost recovery.

These policies, in combination with the Budget Policy, Council Policy 000-02, lower the City's financial risks and help the City maintain compliance with laws and regulations which could materially impact reporting of liabilities.

Published Administrative Regulations (A.R.) are utilized as a guide and standard in ensuring that City processes comply with stated requirements, and it is important that policies as documented reflect current processes. In 2016, a citywide effort was initiated to update existing A.R.s and Department Instructions (D.I.) as an additional method to strengthen the control environment. The effort began with the revision of A.R. 1.00-*Administrative Regulation and Department Instruction Preparation Procedures*, which added the Internal Controls Section to the review process of A.R.s and D.I.s. In accordance with this A.R., the Internal Controls Section reviews and approves policies and procedures included in A.R.s to ensure internal finance controls exist to mitigate risks and improve efficiency. Through this ongoing effort, the Internal Controls Section ensures that if policies and procedures have been added or revised, control activities are also modified to enhance the current process and maintain continued compliance. At the end of calendar year 2025, the City had approximately 112 documented A.R.s, with the majority created or revised following the initiation of the citywide effort. During calendar year 2025, the City adopted A.R. 90.75-*Data Governance*, following a recommendation in the 2020 IT Performance Audit of the Citywide Data Classification and Sensitive Data Encryption to formally establish consistent data management practices and better define roles and responsibilities related to data management. The A.R. establishes a Data Governance Committee as the authority which defines and enforces Data Governance.

DoF continues to focus on formally documenting and updating policies and procedures, such as process narratives and work instructions, related to accounting and financial reporting. Most of these policies and procedures have been long-standing practices and are consistently applied each fiscal year. Formal documentation allows the City to have an inventory of procedures and related controls that can be systematically monitored for effectiveness and continued relevance. DoF has formally documented 827 processes and continuously assesses the need for further documentation. In calendar year 2025, DoF documented two new processes for initiating new capital improvement program projects, the fleet EV retail charging pilot program, and will continue efforts in the current year.

In addition, the Office of the City Treasurer annually reviews the Investment Division's Internal Controls Manual, which outlines the specific operational procedures the Investment Division staff use in implementing the City's Investment Policy. The Investment Division Internal Controls Manual highlights the key control points implemented in their processes.

## 4. Information and Communication

The Information and Communication component of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Controls Framework (Framework) supports the functioning of all components of internal control. COSO defines communication as the continual iterative process of providing, sharing and obtaining necessary information. In an organization as large as the City of San Diego (City), it is critical that management establishes effective communication procedures to meet accounting and disclosure requirements under governmental accounting standards and under state and federal securities laws.

### Formal Communication Processes

The City has formal communication processes to ensure relevant information is communicated effectively to those responsible for preparing the Annual Comprehensive Financial Report (ACFR). The Disclosure Practices Working Group (DPWG) includes individuals in key City positions within the City and external counsel that can review disclosures, communicate known facts and other relevant information, and ensure consistency throughout the City's financial disclosure documents. The DPWG has formal disclosure controls and procedures that define roles and responsibilities over the development and review of financial disclosures. These controls and procedures require that the City's Chief Financial Officer certify to the City Council that the City's financial statements included in the ACFR are fairly presented and that disclosures are true and complete. Similarly, department directors are required to also certify that contributions made by their staff are accurate and complete.

While the DPWG is responsible for ensuring that disclosures comply with federal and state securities laws, Department of Finance (DoF) is responsible for ensuring financial statements and related disclosures are prepared in accordance with generally accepted accounting principles (GAAP). DoF relies on a formal distribution of work document that clearly communicates specific responsibilities for development of the ACFR, including who is responsible for preparing and reviewing the relevant sections of the report. During the preparation of the Fiscal Year 2025 ACFR, the DPWG participated in the review of the report drafts. The DPWG reviewed and signed off on the disclosures included in the ACFR, including the Letter of Transmittal, Management's Discussion and Analysis, and Notes to the Basic Financial Statements.

The DPWG ensures the City's financial disclosures related to the public offering and sale of securities is accurate. The City prepares a Preliminary Official Statement (POS) that contains all material information provided to investors to help determine whether to purchase securities offered by the City. It is later referred to as an Official Statement (OS) once the security is sold. The DPWG reviews the statements before City Council approval of a public debt issuance and its related disclosure document. The City also conducts presentations with ratings agencies prior to marketing new securities. The DPWG is required to review all materials that the City presents to credit rating agencies and investors.

Pursuant to §22.4107 of the City of San Diego Municipal Code (SDMC), the DPWG is required to provide an annual report of the activities of the DPWG in the past calendar year. The results of the DPWG's work and findings are communicated to the City Council by January 31 of each year, formally documenting any deficiencies. The DPWG operates under Disclosure Controls

and Procedures (Controls), which are adopted by the group and provide structure to its operations. The Controls are reviewed and revised periodically to ensure that the DPWG can effectively meet the legal and operational requirements of the City. The Controls were reviewed in calendar 2025 and no changes were needed.

During the audits of the ACFR and other financial reports, the external audit firm requests a broad range of supporting documents that are managed through a prepared by client list. This allows for effective communication with the external auditor, as items are clearly assigned to relevant staff and tracked by management throughout the audit process. DoF uses a financial statement checklist to assist in the preparation and review of the fund level financial statements. This helps to communicate expectations and ensures that statements are complete and accurate and allows supervisors to review the work of staff against a standard set of expectations. In addition, DoF relies on a comprehensive accounting and disclosure checklist developed by the Government Finance Officers Association (GFOA). Each question in the checklist is assigned to a staff member based on area of responsibility, allowing a clear and objective way to ensure compliance with existing governmental accounting standards.

### **Financial Reporting Tools**

DoF continues to work with the Department of Information Technology (DoIT) to develop and implement new financial reporting tools through business intelligence (BI) reporting software that allows users to perform ad-hoc queries and efficiently access financial data stored in SAP. Information is useful when it is timely, accurate, and appropriate to the user. The following reporting tools were developed and published or modified by DoIT in calendar year 2025:

- DoIT created several Governance Risk and Compliance (GRC) reports to assist staff when reviewing access requests for security concerns. The Business Role Reports allow users to identify the approver, users with the role, and capabilities of the role. The GRC Ruleset to Action and Permissions Report allows users to identify the specific actions related to the general business processes. Finally, the GRC Segregation of Duties (SoD) Risk to Function Report allows the user to identify the risks associated with each specific action that would require some level of mitigation or monitoring.
- DoIT and DoF developed two new GRC reports to assist Internal Controls in the daily duties of processing GRC access requests and the oversight of the annual User Access Review (UAR) tickets. The GRC Request with Role Report provides detailed information on roles requested in GRC access requests that enables efficient mass review and trend analysis in role provisioning. The GRC UAR Ticket Details Report provides detailed information on UAR tickets from an administrative view prior to release to the appropriate reviewers. The report enables Internal Controls to validate UAR tickets with the overall goal of ensuring the complete and accurate review of user's access distributed amongst City staff. The Public Utilities Department requested a new BusinessObjects report which includes all open meter replacement Enterprise Asset Management notifications supplemented with Customer Care Solution meter reads estimates in the past year, billed/unbilled status, meter status, and applied priority tier rank.
- The Purchasing and Contracting (P&C) Department developed the new Ariba Contract Tracker Business Objects dashboard to complement the Ariba Contract Tracker report. The BusinessObjects Dashboard visually displays summary information regarding open contracts, purchase order count and values, remaining contract capacity, and top vendors

based on purchase orders with the City. The Ariba Contract Tracker includes information on contracts by department, contract amount, contract encumbrance, and remaining contract capacity. The report also flags contracts nearing capacity (less than 40% left) and/or contracts nearing expiration date (within 9 months), allowing departments to take appropriate and timely action, as necessary.

- In response to the 25-02 Performance Audit of the City's Contract Management Process, P&C worked with DoIT to allow display access to staff Citywide to view all contracts and related information in Ariba. The access update will also allow staff to be added as Ad Hoc Approvers for purchase requisitions that could benefit from additional review.

With the City's existing BI reporting software soon reaching end-of-life, the City has adopted the use of Power BI, Snowflake, and SAP Datasphere for its next generation platform. In 2025, Performance and Analytics (Panda) and Do IT completed a proof of concept of a data pipeline to export SAP Budget vs Actuals data to Snowflake, with dashboards created in Power BI. The departments intend to implement this pipeline in early 2026.

Approximately 53 different reports were either created or modified during this time for various purposes including infrastructure asset management, supply chain management, human capital management, and finance.

Many SAP related initiatives were completed by DoIT in calendar year 2025, including 7 SAP training videos and approximately 4,704 SAP training instances including classroom and online classes.

### **Financial Training**

DoF coordinates two citywide financial training classes, a one-day class designed for newer City employees called Finance Orientation, and a multi-day class designed for experienced employees called Finance Academy. Subject matter experts representing various departments collaborated on these accelerated learning programs to strengthen core financial competencies of key individuals through a variety of lessons. Each topic focuses on the latest government practices and processes in place to strengthen internal controls and improve financial reporting for the City. The most recent Finance Academy was held over 4 days in November 2024 and the next Finance Academy is planned for the end of 2026. Additionally, DoF provides other annual financial training, on topics such as disbursements and budgeting, to other City departments to keep staff current on the latest procedures.

A Cash Handling Training Course covering best practices in cash handling and loss prevention was made available by the City Treasurer's Office in an on-demand eLearning format through SuccessFactors. The information was disseminated via email to City staff assigned Cash Handling roles in SAP (the role of GL Deposit Administrator in SAP). The cash handling training manual, as well as additional cash handling resources, can be found on CityNet.

P&C provides two options for training City employees to ensure procurement and contracting activities in the City align with applicable laws, policies, regulations and processes. The first is hosting two multi-day sessions of Procurement Academy which includes an extensive topics list. Some of the topics include wage requirements, insurance requirements, audit and fraud risks related to procurement and contracting, purchase requisition overview, and purchase

order management. Second, a certificate program was launched in July 2025 and available via SuccessFactors. Some of the topics include the invitation to bid process, request for proposal process, Ariba Purchase Requisition and Purchase Order creation, and procurement request form among others.

To supplement the trainings, P&C developed new documentation pertaining to contracts. The Post-Award Contract Administration Guide standardizes the processes related to contract administration from the departments' perspective. The Alteration Process for Goods, Services, Consultants, and Non-Profit Contracts document establishes a consistent, transparent, and compliant process for initiating, reviewing, and approving alterations to contracts, including amendments, extensions, and changes in scope, duration, or value. This process ensures compliance with SDMC regulations, mitigates risk, and maintains accountability in City contracting practices. The Contract Ratification Request Process document establishes a standardized process for City departments to request contract ratification when contractual actions have occurred without proper authority, such as exceeding contract term or value, or when services are rendered without a valid agreement.

## 5. Monitoring Activities

An effective internal control program requires continuous evaluation of each of the five Committee of Sponsoring Organizations of the Treadway Commission (COSO) components to ensure that they are functioning effectively. This includes assessing whether risks are identified timely, and control activities address identified risks. Management should evaluate whether controls are performed completely, accurately and in accordance with policy. It also includes assessing whether information is communicated effectively to ensure disclosures are accurate and complete and that accounting policies and procedures are clearly understood by relevant staff.

### Review of Independent Audits

As part of its monitoring activities, the Department of Finance (DoF) reviews the results of independent audits to identify potential areas of risk or areas for which controls need to be strengthened. External auditors are required by Governmental Auditing Standards to communicate to the appropriate governing body any material adjustments identified through the audit of the City of San Diego's (City) financial statements. For the audit of the Fiscal Year 2025 Annual Comprehensive Financial Report (ACFR), no material adjustments were identified by the external auditors. In addition, no material weaknesses, or significant deficiencies in internal control over financial reporting were identified in the *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* dated December 17, 2025 (see Attachment 4). The audit of the financial statements is not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, the audit process does require significant interaction between the audit team and management with a sustained communication effort throughout the process that allows for effective monitoring of controls over accounting and financial reporting.

DoF also conducts an internal review of the preparation and completion of the ACFR to identify entries that occurred after the draft was submitted to the external auditor. This allows DoF to

identify potential areas of risk and implement controls to continuously improve the ACFR preparation process.

DoF's Internal Controls Section reviews and monitors the results of audits performed by the Office of the City Auditor that directly or indirectly impact the financial reporting functionality and IT role access of the City. The Internal Controls Section monitors recommendations that impact internal controls and work closely with departments, as needed, to document or modify business processes, establish new controls, and strengthen existing controls. The audits are tracked to ensure that new or existing processes are documented and updated, respectively, and for timely remediation of internal control deficiencies.

### **Monitoring through Government Finance Officers Association (GFOA) and California Society of Municipal Finance Officer (CSMFO) Award Processes**

During calendar year 2025, the City received the Certificate of Achievement for Excellence in Financial Reporting awarded by the GFOA for the Fiscal Year 2024 ACFR. To receive this award, the City must comply with a comprehensive checklist that incorporates accounting and disclosure requirements in accordance with generally accepted accounting principles (GAAP). Comments received from GFOA on the submittal of the ACFR also serve as a monitoring tool to ensure controls are effective. Significant deficiencies identified in the report would disqualify it from the Certificate of Achievement for Excellence in Financial Reporting award. The review of the Fiscal Year 2024 ACFR resulted in ten comments and suggestions for improvements on presentation. The City responded to all comments and suggestions and incorporated changes in the Fiscal Year 2025 ACFR. The City anticipates receiving the award for the Fiscal Year 2025 ACFR.

The City was awarded certificates for its budget document: the Distinguished Budget Presentation Award (Budget Award) for exemplary budgeting practices by GFOA and the California Society of Municipal Finance Officer's Operating and Capital Budget Excellence Awards for the Fiscal Year 2025 Adopted Budget. The Distinguished Budget Presentation Award program was established in 1984 to assist state and local governments in preparing budget documents of the highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting (NACSLB) and GFOA's best practices on budgeting, and to individually recognize governmental entities that succeed in achieving that goal. Reviews are conducted by selected members of GFOA professional staff and by outside reviewers with experience in public-sector budgeting, and feedback and comments received by the City are used to improve future year budgets.

### **Segregation of Duties Monitoring**

DoF continues to monitor for segregation of duties to ensure that no one individual has control over an entire process or multiple components of a process, which if abused, could cause harm to the City or result in misstatements in the financial statements. Due to the importance of maintaining controls around segregation of duties, continuous monitoring is performed. To assist users in selecting the proper roles and avoiding possible segregation of duty violations, DoF and the Department of Information Technology (DoIT) have continued the annual review and update of a Role Definition Guide. The Role Definition Guide identifies and defines all available SAP roles and lists possible segregation of duty violations. The City also performs an annual user access review of all roles provisioned to City staff to ensure the roles are still

appropriate. The review is meant to remove roles that should no longer be assigned to users that transferred departments or changed positions.

Additionally, DoF maintains the Basic Roles Guide document to supplement the Role Definition Guide. The Basic Roles Guide lists the most requested and essential roles that departments need to perform standard financial functions. The guide categorizes the roles by business processes which include but are not limited to accounts receivable, budget development and monitoring, and payroll to assist departments in narrowing down the appropriate roles. This guide clearly illustrates the workflows associated with each role as well as clearly defines any segregation of duties violations to ensure proper usage of the roles. DoF works with the appropriate Business Process Coordinators (BPC) in departments to ensure the information is correct and updated for both the Role Definition and Basic Roles documents.

The Internal Controls Section reviews and assesses existing and new risks that are introduced to the City's processes, along with the mitigating controls that are in place, and updates the information in Governance, Risk, and Compliance (GRC) when deemed appropriate.

DoIT also continues to deploy the Business Role Management concept to a majority of the business processes within the GRC Access Request Provisioning tool. This approach allows users to request the necessary roles based on the specific business processes that they are responsible for and requires multiple approvals from the user's manager, Internal Controls Section, and the security team. One of the most used functions in the GRC Access Request Provisioning tool is the "Copy User" which allows a person to copy another person's role access. To ensure only business roles are copied over, Internal Controls developed a work instruction document that is easy to follow and reduces that likelihood of copying over non-business roles.

Though the preceding items are meant to prevent any Segregation of Duties (SOD) violations, eliminating them completely is not realistic. Therefore, DoF perform a quarterly manual review to detect individuals who were able to acquire any role violations mostly due to the limitation of the GRC system to prevent provisioning conflicting roles. In October 2025, DoF worked with DoIT to develop the Segregation of Duties Conflict Role Report, an automatically generated report provided to Internal Controls every month. This report was configured to efficiently identify all individuals with any SOD violations based on their current role assignments. This report will save time and resources while reducing the chances of manual error.

The Internal Controls Section also provides independent monitoring of privileged user activities to assess whether these accounts are sufficiently controlled and comply with DoIT's policies and procedures. In these cases, Internal Controls must first approve the request from the security team and then conduct a review of the privileged user activity log to confirm usage was limited to approved tasks.

The Internal Controls Section continues to utilize the digital Cross Departmental Access Smartsheet Form for use in conjunction with GRC access request provisioning tool when a department is requesting access to another department via an SAP role. The requesting department submits the form which is routed to the appropriate department approver to review and approve the use of the role for the requesting department. The form is then routed

to Internal Controls for final review. Internal Controls ensures the form was submitted correctly and has the proper approvals prior to assigning the SAP role to the requesting department through the accompanying GRC access request provisioning tool. The form helps Internal Controls to monitor and validate the use of cross department roles across City staff more efficiently.

### **Assessment of Documented Processes and Controls**

A key part of maintaining a strong internal control system is the periodic evaluation and monitoring of processes and their embedded controls. Control design assessments have been developed in the GRC module with the objective of testing the validity, accuracy, and performance of the process as documented in process narratives and to test the presence and performance of controls identified in the process.

The Internal Controls Section uses a risk-based approach to prioritize and select process narratives for periodic assessments. Under this approach, the risk of a material misstatement occurring in the financial statement within a documented process is assessed by measuring its inherent and control risk. Inherent risk refers to the susceptibility of an account balance or class of transactions to material misstatement before consideration of any related controls. Control risk refers to the risk that the system of internal controls will fail to prevent or detect material misstatements on a timely basis by the controls described in the process documentation.

In calendar year 2025, the Internal Controls Section delivered the selected control design assessments within GRC to respective process owners of significant processes with financial reporting impacts. The Internal Controls Section reviewed responses provided in the completed assessments to identify process documentation in need of updates and notified process owners of the responsibility to perform the necessary revisions in a timely manner. As processes may pertain to more than one department or personnel, it is critical that process documents are updated promptly and re-uploaded to the City's intranet, CityNet, for all City employees to access.

In addition to the assessments, notification is sent annually to all process owners and their supervisors, Appointing Authorities, and Directors reminding them of each department's responsibility for reviewing their process narrative(s) on a regular basis to ensure the validity and accuracy of the processes and controls documented. As a result of the assessments and process owner-initiated changes, 12 process narratives received major revisions to the documented process and related controls and 34 had minor updates, such as a change to the listed process owner or minor updates to the process, attachments, or formatting. The Internal Controls Section continues to work with departments to review and update all process narratives Citywide and ensuring the identified controls are functioning as intended.

DOF has prepared detailed documentation of processes and procedures related to Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87). The Internal Controls section has reviewed and evaluated those processes for completeness and control risk.

**Ongoing Monitoring**

DoF periodically evaluates the effectiveness of controls of transactional activities that are deemed significant by management. Monitoring of controls also includes considering whether the controls are operating as intended and that they are revised as appropriate for changes in the organization. Numerous transactional monitoring activities have been established over the years. The following summarizes each monitoring activity:

**Accounts Payable Vendor Invoice Management (VIM):** The Internal Controls Section developed a daily monitoring review of invoices passing through the VIM system to ensure accuracy and compliance with the City's Accounts Payable (AP) procedures. The Internal Controls Section is responsible for obtaining a list of purchase order invoices that were posted daily in VIM and selecting invoices for review using a risk-based sampling methodology. The selections are forwarded to the Disbursement Section to conduct the review prior to the daily payment run, and corrective actions are taken before payments are sent. As of 2023, the Internal Controls Section started including all wire transfers in the daily invoice sample for DoF Disbursement Section to review for accuracy and availability of funds.

**Aging Goods Receipts:** DoF developed and updated procedures for departments to review aging Goods Receipts (GR) without a corresponding invoice or Invoice Receipts quantities that do not match. If left unaddressed, this can result in expenses that are overstated or understated leading to inaccurate financial reporting in the City's financial statements. Beginning in June 2020, DoF started conducting monthly reviews of outstanding GRs and communications are sent to the departments to review and reverse any GRs that are no longer needed. A count of outstanding GRs is also sent to department managers monthly to provide better visibility and oversight.

**Automated Clearing House (ACH) Vendor Changes:** The Internal Controls Section performs a quarterly review of ACH vendor banking changes to provide reasonable assurance that the City's internal controls are operating effectively and that all changes comply with established City policies and procedures. As part of this process, the Internal Controls Section obtains a listing of vendor ACH changes processed during the quarter and selects transactions for review using a random sampling methodology. The selected items are reviewed to verify the accuracy and authorization of banking changes, and any exceptions or required corrective actions are addressed. This quarterly review is designed to mitigate the risk of unauthorized vendor banking changes and potential vendor banking fraud.

**Budget Adjustment (FMBB):** The Internal Controls Section developed a monitoring test to review for segregation of duties violations and ensure the FMBB budget posting process complies with the City's policies and procedures. Monthly, the Internal Controls Section is responsible for scheduling the test in the SAP GRC module for tracking and record retention. The budget BPC generates and reviews a monthly report to identify segregation of duties violations, and unposted or backdated FMBBs. The budget BPC remediates any findings identified.

**Grant Accounts Receivable Invoices:** The Internal Controls Section developed a monitoring test to review grant related accounts receivable (AR) invoices for segregation of duties violations. DoF identified a segregation of duties issue that allows certain users to both create

and post grant AR invoices. As grant administrators are in multiple departments, removing the roles would negatively impact these administrators and prevent them from continuing their job responsibilities. This monitoring test is performed monthly to determine if users who posted AR grant customer invoices and customer credit memos have committed a segregation of duties violation. The monitoring review provides reasonable assurance that invoices posted in SAP follow the City's policies and procedures. In 2024, Internal Controls began scheduling the test in the SAP GRC module to improve tracking and remediation.

**Human Resources (HR) Contracting Out Form:** The Internal Controls Section reviews HR Contracting Out Forms with the objective of identifying any segregation of duties violations due to users having both the preparer and approver roles. A user may have both roles because the current structure of Ariba roles could not allow for proper segregation of duties. On a monthly basis, automated generated reports are sent to Internal Controls that list the preparer and approvers of each form processed in the last month. This monitoring review provides assurance that multiple people are involved in the HR Contracting Out Forms process, decreasing the probability of errors and fraud. Any forms with the same preparer and approver are documented and presented to P&C to remediate and determine an appropriate course of action.

**Journal Entries:** The Internal Controls Section developed a monitoring test to review journal entries for segregation of duties violations. DoF identified a segregation of duties issue that allows finance analysts to both submit and post journal entries which creates a potential for financial misstatements and/or fraud. As finance analysts may need to submit journal entries, but review and post journal entries delegated to another department finance analyst, removing the roles would negatively impact these analysts and prevent them from continuing their job responsibilities. On a monthly basis, the Internal Controls Finance Analyst reviews all journal entries posted for segregation of duties violations. Concurrently, a separate monitoring test is designed to review any journal entries posted by the Internal Controls Finance Analyst to avoid conflicts of interest in the review.

**Jury Duty Leave:** The Internal Controls Section developed a monitoring test with the objective of strengthening monitoring over paid time off for jury duty and ensuring compliance with the City's policies and procedures. The Internal Controls Section is responsible for preparing the testing spreadsheet by randomly selecting City employees from different departments over a calendar year and scheduling the test in the SAP GRC module. The DoF Payroll Section completes the review for accuracy, completeness, proper authorization, validity, and compliance with the Personnel Manual. The DoF Payroll Section takes corrective action when findings are identified.

**Procurement Card (P-Card) Program:** The Internal Controls Section developed a formal methodology for selecting P-Card transactions to review based on department divisions, the time duration of a P-Card holder's previous review, and dollar amounts. On a monthly basis, the Internal Controls Section selects the transactions based on the above criteria and provides the selected transactions to the P-Card Administrator and the Assistant P-Card Administrator to review for proper authorization, completeness, accuracy, validity, and compliance to ensure that the P-Card holders adhere to the City's policies and procedures. The Internal Controls Section monitors for timely completion of the review. Findings are recorded in a summary log and provided to the P-Card Administrator monthly. Corrective actions are taken by the DoF P-

Card Administrator when findings are identified. All the data from selected P-Card transactions were used by the Internal Controls Section to develop an Analytics document and provided to the P-Card Administrators as a tool to easily identify key statistics by division or P-Cardholder and utilize quarter comparisons.

**Travel and Tuition Reimbursements:** The Internal Controls Section developed a monitoring test for travel and tuition reimbursements to ensure reimbursements comply with the City's policies and procedures. The test reviews reimbursements for accuracy, completeness, proper authorization, validity, and cutoff (verifying reimbursements were made within the reviewed pay periods). The Internal Controls Section is responsible for preparing the testing spreadsheet by randomly selecting travel and tuition reimbursements from different departments over a calendar year and scheduling the test in the SAP GRC module. The DoF Payroll Section completes the review of the selected reimbursements and takes corrective actions when findings are identified.

**Accounts Receivable Customer Credits:** The Accounts Receivable Section of the City Treasurer's Office performs a post process review for the open credits on customer contract accounts which was formally documented in a process narrative in calendar year 2024. These credits represent liabilities to the City until they are associated with an invoice/receivable and recorded as revenue. These amounts may also be refunded to the customer if they cannot be associated with a given invoice/receivable or are the result of an overpayment. Monthly, the supervising accountant creates the report in SAP, reviews the outstanding credit list items, and works with the appropriate departments to identify the applicable invoice/receivable and revenue account. The report is distributed to the Accounting Program Manager, Deputy Director, City Treasurer, Director of Finance, and the CFO to provide management with a monthly status of open credit items. This monitoring helps ensure credit amounts are recorded as revenue against invoices/receivables or are refunded to the customer on a timely basis.

**Purchasing & Contracting (P&C):** The Internal Controls Section developed monitoring tests in GRC with the objective of improving monitoring, compliance, and contract surveillance of citywide contracts. The Internal Controls Section schedules monitoring for P&C to conduct the review, based on a formal methodology and control focus. These monitoring reviews ensure threshold limits are not bypassed by the splitting of purchase orders and that engaged vendors are licensed to perform business within the City. SAP is utilized to pull data, and if applicable, deficiencies are flagged for review and P&C remediation.

## Conclusion

The City of San Diego (City) has established a high bar for the development of a comprehensive internal control program for a municipal government. Based on management's evaluation, the internal controls over financial reporting are effective. The City's internal controls over financial reporting are adequate with the system-embedded preventative and detective controls, combined with the numerous documented processes and controls currently in place, which ensure the production of reliable financial information.

Establishing effective internal controls is an ongoing process. Effective internal controls reduce exposure to error, fraud, and theft. It is management's responsibility to design, implement, and maintain internal controls and consider the areas of risk. The Department of

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Finance continues to develop written policies to document and confirm existing internal financial controls and works with City departments to document processes and new system implementations. As with any effective system of internal controls over financial reporting, management actively assesses risk as the organization changes and as new reporting requirements are issued, including those that have been identified in this report.

**Sources**

1. Gauthier, Stephen J. *Evaluating Internal Controls*. Chicago IL: Government Finance Officers Association of the United States and Canada, 2013.
2. Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework, Framework and Appendices, 2013*
3. Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework, Internal Control over External Financial Reporting: A compendium of Approaches and Examples, 2013*
4. Committee of Sponsoring Organizations of the Treadway Commission, *Participant Manual, 2015*

## **Attachments:**

1. Certification by the Mayor and Chief Financial Officer
2. Management Evaluation Assessment Template
3. COSO Internal Control- Integrated Frameworks Principles

**CERTIFICATION BY MAYOR AND CHIEF FINANCIAL OFFICER**

In accordance with the requirements of San Diego Municipal Code §22.0706, the Mayor and the Chief Financial Officer hereby certify that they:

1. are responsible for establishing and maintaining the City's internal financial controls;
2. have identified the need to design such internal financial controls to ensure that material information relating to the City and its departments, offices, agencies, and affiliated "related entities" as defined in San Diego Municipal Code §22.4102, is made known to the Mayor and/or the Chief Financial Officer by others within the City and its departments, offices, agencies, and affiliated "related entities," particularly during the period in which the Annual Report required by this section is being prepared;
3. have evaluated the effectiveness of the City's internal financial controls as of a date within 120 days prior to the Annual Report;
4. have presented in the Annual Report their conclusions about the effectiveness of their internal controls based on such evaluation as of that date;
5. have disclosed to the City's independent auditors and the Audit Committee all significant deficiencies in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize, and report financial data;
6. have identified for the City's independent auditors any material weaknesses in internal controls and any fraud, whether or not material, that involves management or other employees who have a significant role in the City's internal controls; and
7. have indicated in the Annual Report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Signed:   
Rolando Charvel, Chief Financial Officer

Date: 2/26/2026

Signed: Benjamin Battaglia  
Benjamin Battaglia, Department of Finance Director  
and City Comptroller

Date: 2/24/2026

Signed:   
Todd Gloria, Mayor

Date: 2/26/26

## Introduction

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Controls Framework (Framework) is an integrated framework commonly used by organizations. This Framework is a basis for the City's internal control program and provides guidance on internal controls over financial reporting. The Framework put forth by COSO is comprised of five fundamental components which, when present and functioning together, work towards the goals of reducing risk to an acceptable level and achieving objectives for reliable financial reporting. The assessment of internal control over financial reporting focused on an evaluation of each of the five components. The five components include Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities.

A component of internal control supports an organization's efforts in achieving its financial reporting objectives. A component describes what is required for the organization to meet its objectives and is relevant to an entire entity or at any entity level, division, operating unit, or function of the organization. All five components must be present and functioning together to have an effective system of internal control. A principle is a fundamental concept associated with one of the five components of internal control. There are a total of seventeen principles in the Framework.

The Department of Finance incorporated a management assessment template to help assess the effectiveness of the City's system of internal financial controls and ensure that it meets the following requirements: 1) Each of the five components and relative principles are present and functioning; 2) The five components are operating together in an integrated manner. The template provides a logical structure for management to analyze and document the organization's assessment of effectiveness of internal controls and assist management in developing a process for identifying and evaluating internal control deficiencies. The template is not an integral part of the internal control framework, but serves as an illustrative aide.

Three sections are included:

- **Overall Assessment**—This section summarizes management's determination of whether each of the components and relevant principles present and functioning and components are operating together in an integrated manner.
- **Components and Principles**— This section summarizes management's determination of whether each component and relevant principles present and functioning. The IC framework also includes points of focus to describe important characteristics of each principle. However, the framework does not require management to evaluate whether all points of focus are in place.
- **Deficiencies**—This section summarizes all identified internal control deficiencies that can be leveraged in the evaluation of components and principles, and can enable the internal control deficiencies to be aggregated.

### 1. Overall Assessment of a System of Internal Control

Entity or part of organization structure subject to the assessment (entity, division, operating unit, function)		<b>City of San Diego</b>		
Objective(s) being considered for the scope of internal control being assessed		Considerations regarding management’s acceptable level of risk		
Operations				
Reporting	The City's main objective of internal controls over financial reporting is to provide reasonable assurance that financial information produced for internal and external reports is reliable and transparent, reflects the City's transactions and events for the reporting period, and is in accordance with GAAP and other reporting requirements.	The acceptable level of risk is based on a general materiality threshold along with qualitative factors and professional judgement. Materiality also depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.		
Compliance				
		Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
	<b>Control Environment</b>	Y	Y	The City has established a set of standards, processes, structures, policies, and practices that encompass the City's integrity and ethical values and provide the basis for the City to carry out internal controls across the organization. All principles are present and functioning, despite two internal control deficiencies identified under this component.
	<b>Risk Assessment</b>	Y	Y	The City conducts a continuous and effective assessment of risk that allows management to determine the need for controls and monitoring activities, improvements that can be made to information and communication, and to mitigate such risks that can affect the control environment.
	<b>Control Activities</b>	Y	Y	The City has selected and developed budgetary controls, transaction controls, general controls over technology, and control activities deployed through policies and procedures to help mitigate the risk to the achievement of the City's financial reporting objectives.
	<b>Information and Communication</b>	Y	Y	The City has established effective communication procedures through formal communication processes, financial reporting tools, and financial trainings in order to meet accounting and disclosure requirements and to share necessary financial information internally and externally.
	<b>Monitoring Activities</b>	Y	Y	The City has established ongoing and separate monitoring activities and communicates internal control deficiencies identified during monitoring to ensure each of the five COSO components are present and functioning.
<b>Are all components operating together in an integrated manner?</b> Evaluate if a combination of internal control deficiencies, when aggregated across components, represent a major deficiency*		Yes - Although there are two internal control deficiencies from prior years, they do not represent major deficiencies. Deficiencies will be removed from template once the Office of the City Auditor deems them completed.		
<b>Is the overall system of internal control effective? &lt;Y/N&gt;*</b>		Yes		
<b>Basis for conclusion</b>		The City has established a comprehensive internal controls program and believes the internal controls over financial reporting are effective. All 5 COSO components are present and functioning.		

\* If it is determined that there is a major deficiency, management must conclude that the system of internal control is not effective.

## 2. Components & Principles

<b>Control Environment Component Evaluation</b>			
<b>Principle 1: Demonstrates Commitment to Integrity and Ethical Values</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>The organization demonstrates a commitment to integrity and ethical values.</b></p>	Y	Y	<p><b>City has employee code of conduct, Equal Employment Opportunity policy, and the fraud, waste, and abuse hotline. San Diego Municipal Code (SDMC) establishes the Ethics Commission. The City's Strategic Plan has "trust" as one of the four operating principles. Performance Evaluations of work standards are conducted for classified and unclassified employees. The City Charter provides checks and balances through separation of powers.</b></p>
<p><u>Points of Focus:</u> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Sets the Tone at the Top</b> – The board of directors and management at all levels of the entity demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.</li> <li>- <b>Establishes Standards of Conduct</b> – The expectations of the board of directors and senior management concerning integrity and ethical values are defined in the entity's standards of conduct and understood at all levels of the organization and by outsourced service providers and business partners.</li> <li>- <b>Evaluates Adherence to Standards of Conduct</b> – Processes are in place to evaluate the performance of individuals and teams against the entity's expected standards of conduct.</li> <li>- <b>Addresses Deviations in a Timely Manner</b> – Deviations of the entity's expected standards of conduct are identified and remedied in a timely and consistent manner.</li> </ul>		<p><b>City of San Diego Summary of Controls to Effect Principle 1:</b></p> <ul style="list-style-type: none"> <li>- <b>Employee Code of Conduct:</b> Emphasizes that each employee occupies a position of public trust which demands the highest moral and ethical standard of conduct. The City has the Employee Code of Conduct Handbook to summarize the City's ethics rules, regulations, policies, and procedures and to increase awareness of ethical conduct.</li> <li>- <b>Equal Employment Opportunity Policy:</b> The City is committed to fair and equal treatment in the workplace, equal opportunities to succeed, and a work environment free of discrimination, harassment, and retaliation that enhances the City's integrity.</li> <li>- <b>Fraud, Waste, and Abuse Hotline:</b> Designed for reporting suspected cases of fraud, waste, or abuse. The City Auditor investigates all complaints in a timely manner.</li> <li>- <b>Ethics Commission:</b> Established through SDMC. Monitors, administers, and enforces the City's governmental ethics laws, proposes new governmental ethic law reforms, conducts investigations, audits disclosure statements, advises and educates City officials, candidates, political committees, and lobbyists about governmental ethics laws, etc. Provides required ethics training to City's elected officials as well as numerous employees and agencies associated with the City who file Statement of Economic Interests.</li> <li>- <b>City Strategic Plan:</b> One of the four operating principles in the City's Strategic Plan is trust. Committing to integrity and ethical values builds trust with the public.</li> <li>- <b>Performance Evaluations:</b> Classified employees receive a performance plan and periodic performance evaluations of work standards and City uses progressive discipline philosophy to correct deviations. Unclassified employees complete performance evaluations that require an explanation in how they meet key managerial behavior standards and goals.</li> <li>- <b>City Charter:</b> Serves as the constitution for the City which follows the model of Mayor as Executive Branch, and City Council as Legislative Branch. City Attorney is independent from City Management and City Council serving as the chief legal adviser and attorney for the City and most departments. This model of government provides checks and balances through separation of powers.</li> </ul>	

<b>Control Environment Component Evaluation</b>			
<b>Principle 2: Exercises Oversight Responsibility</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.</b></p>	Y	Y	<p><b>Strong-mayor form of government with City Council as legislative body. City Charter establishes independent auditor reporting to an audit committee. Independent Budget Analyst advises City Council and Audit Committee. The City maintains an independent auditor to review Financial Statements. Budget and Government Efficiency Committee reviews a wide range of important financial topics and reports before presentation to City Council.</b></p>
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Establishes Oversight Responsibilities</b>—The board of directors identifies and accepts its oversight responsibilities in relation to established requirements and expectations.</li> <li>- <b>Applies Relevant Expertise</b>—The board of directors defines, maintains, and periodically evaluates the skills and expertise needed among its members to enable them to ask probing questions of senior management and take commensurate actions.</li> <li>- <b>Operates Independently</b>—The board of directors has sufficient members who are independent from management and objective in evaluations and decision making.</li> <li>- <b>Provides Oversight for the System of Internal Control</b>—The board of directors retains oversight responsibility for management’s design, implementation, and conduct of internal control:                             <ul style="list-style-type: none"> <li>• <i>Control Environment</i>—Establishing integrity and ethical values, oversight structures, authority and responsibility, expectations of competence, and accountability to the board.</li> <li>• <i>Risk Assessment</i>—Overseeing management’s assessment of risks to the achievement of objectives, including the potential impact of significant changes, fraud, and management override of internal control.</li> <li>• <i>Control Activities</i>—Providing oversight to senior management in the development and performance of control activities.</li> <li>• <i>Information and Communication</i>—Analyzing and discussing information relating to the entity’s achievement of objectives.</li> <li>• <i>Monitoring Activities</i>—Assessing and overseeing the nature and scope of monitoring activities and management’s evaluation and remediation of deficiencies.</li> </ul> </li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 2:</b></p> <ul style="list-style-type: none"> <li>- <b>Audit Committee Independence:</b> City Charter Section 39 identifies the rights and authorities of the Chief Financial Officer, City Council, and Audit Committee. City Council and Audit Committee provide oversight over auditing and internal controls. Audit Committee’s independence is maintained by filling positions from City Council and public members with sufficient financial reporting, accounting, and audit expertise who do not report to management.</li> <li>- <b>Independent Budget Analyst and City Auditor:</b> Release reports and advise City Council and Audit Committee members of relevant questions for management and courses of actions.</li> <li>- <b>Budget and Government Efficiency Committee:</b> A City Council Committee that reviews a wide range of important financial topics including the Annual Budget, financial reports, fees, treasury functions, performance measures and analytics, information technology, purchasing and contracting, risk management, and pension matters. The committee ensures passage of balanced and responsible budgets that protects core City services.</li> <li>- <b>Independent Audit Firm:</b> The City secured a new 5-year agreement with Crowe LLP for Annual Audit Services related to the Annual Comprehensive Financial Report (ACFR), Single Audit and Other Audit Services for Fiscal Years 2024 through 2028</li> </ul>

<b>Control Environment Component Evaluation</b>			
<b>Principle 3: Establishes Structure, Authority, and Responsibility</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</b></p>	Y	Y	<p><b>Authority and relationships codified in City Charter, SDMC, and A.R.s: Charter Sections 39.1, 39.2, and 39.3; SDMC §22.4101; A.R. 95.39. The Mayor assumed the role and responsibilities of the City Manager and eliminated the Chief Operating Officer (COO) position.</b></p>
<p><u><b>Points of Focus:</b></u> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Considers All Structures of the Entity</b>—Management and the board of directors consider the multiple structures used (including operating units, legal entities, geographic distribution, and outsourced service providers) to support the achievement of objectives.</li> <li>- <b>Establishes Reporting Lines</b>—Management designs and evaluates lines of reporting for each entity structure to enable execution of authorities and responsibilities and flow of information to manage the activities of the entity.</li> <li>- <b>Defines, Assigns, and Limits Authorities and Responsibilities</b> —Management and the board of directors delegate authority, define responsibilities, and use appropriate processes and technology to assign responsibility and segregate duties as necessary at the various levels of the organization:                             <ul style="list-style-type: none"> <li>• <i>Board of Directors</i> — Retains authority over significant decisions and reviews management’s assignments and limitations of authorities and responsibilities</li> <li>• <i>Senior Management</i>—Establishes directives, guidance, and control to enable management and other personnel to understand and carry out their internal control responsibilities</li> <li>• <i>Management</i>—Guides and facilitates the execution of senior management directives within the entity and its subunits</li> <li>• <i>Personnel</i>—Understands the entity’s standard of conduct, assessed risks to objectives, and the related control activities at their respective levels of the entity, the expected information and communication flow, and monitoring activities relevant to their achievement of the objectives</li> <li>• <i>Outsourced Service Providers</i>—Adheres to management’s definition of the scope of authority and responsibility for all non-employees engaged.</li> </ul> </li> </ul>		<p><u><b>City of San Diego Summary of Controls to Effect Principle 3:</b></u></p> <ul style="list-style-type: none"> <li>- <b>Independent Audit Committee:</b> Charter Section 39.1 establishes an independent audit committee to oversee the City’s auditing function and SDMC §26.1701 outlines duties including hiring an external auditor.</li> <li>- <b>Independent Positions from City Council:</b> Charter Section 39.2 and 39.3 establishes independent positions to assist City Council in check and balances over the executive branch.</li> <li>- <b>Disclosures Practices Working Group:</b> SDMC §22.4101 establishes Disclosures Practices Working Group (DPWG) is comprised of senior City Officials and disclosure council responsible for ensuring compliance with federal and state securities laws.</li> <li>- <b>Management Responsibilities over Internal Financial Controls:</b> A.R. 95.39 establishes management responsibilities related to establishing, maintaining, monitoring and complying with a system of Internal Financial Controls.</li> <li>- <b>Compliance Department:</b> The Chief Compliance Officer position was created in 2020 but eliminated in the Fiscal Year 2026 Adopted Budget. The Compliance Department facilitated the City’s response to findings and recommendations related to internal and external audits. It also coordinated compliance with local, state, and federal regulations related to labor, wages, environment, and health and safety. The functions of the department have since been dispersed to other departments of the City to reduce administrative overhead.</li> <li>- <b>Mayor as Chief Operating Officer:</b> In 2025, the Office of the Chief Operating Officer merged into the Office of the Mayor as a part of an executive management reorganization. Previously, the City’s Chief Operating was responsible for the management and oversight of the City’s day-to-day operations, implementation of Citywide initiatives and the monitoring of the City’s revenues and expenditures. The four Deputy Chief Operating Officers now report directly to the Mayor. Oversight of financial reporting that was shared by COO and Mayor is assumed by the Mayor.</li> </ul>	

<b>Control Environment Component Evaluation</b>			
<b>Principle 4: Demonstrates Commitment to Competence</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.</b></p>	Y	Y	<p><b>Financial Training Program available, staff encouraged to attain professional designations (e.g. CPA), finance departments maintain training policies, Rewards and Recognition Program, goal setting, performance plans and evaluations, remote work option, and mentorship and internship programs. City Compensation Philosophy created to support attracting and retaining employees.</b></p>
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Establishes Policies and Practices</b>—Policies and practices reflect expectations of competence necessary to support the achievement of objectives.</li> <li>- <b>Evaluates Competence and Addresses Shortcomings</b>—The board of directors and management evaluate competence across the organization and in outsourced service providers in relation to established policies and practices, and act as necessary to address shortcomings.</li> <li>- <b>Attracts, Develops, and Retains Individuals</b>—The organization provides the mentoring and training needed to attract, develop, and retain sufficient and competent personnel and outsourced service providers to support the achievement of objectives.</li> <li>- <b>Plans and Prepares for Succession</b>—Senior management and the board of directors develop contingency plans for assignments of responsibility important for internal control.</li> </ul>		<p><b>City of San Diego Summary of Controls to Effect Principle 4:</b></p> <ul style="list-style-type: none"> <li>- <b>Financial Training Program:</b> City employees, City management, and elected officials are provided training to aid employees in submitting or reviewing financial-data and reports. SDMC §22.4110 established a biennial mandatory securities law training.</li> <li>- <b>Training Policies:</b> Centralized finance staff must meet minimum number of annual training hours and encouraged to pursue training and designations (e.g. CPA) relevant to their job per their department's training policy. As of the calendar year 2025, there are 5 DOF staff members that achieved the CPA designation. Continuing education courses are needed to maintain an active status.</li> <li>- <b>Rewards and Recognition program and Tuition Reimbursement program:</b> The program encourages retention amongst high-quality employees and pursuit of professional expertise.</li> <li>- <b>Goal setting, performance plans and evaluations:</b> Unclassified employees maintain goals and classified employees receive performance plan outlining objectives, responsibilities, and goals. Performance evaluations are conducted periodically by management to assess against work standards and deviations are corrected as necessary.</li> <li>- <b>Remote Work Option:</b> Management must maintain adequate controls to recruit and retain competent employees that will be responsible for financial reporting.</li> <li>- <b>Expanding Recruitment Pathways:</b> Management maintains the City's internship and mentorship programs providing more opportunities to employees for training, development, and recognition. Furthermore, management expanded the City's internship program through State funding. Interns not only provide additional resources for departments with vacancies, but also creates a pipeline for a future workforce.</li> <li>- <b>City Compensation Philosophy:</b> The Compensation Philosophy aims to provide competitive, equitable and sustainable employee compensation in order to attract and retain highly qualified and high-performing employees. It serves as guidance on how the City intends to approach compensation for City employees and is intended to be updated periodically, as needed, to remain consistent with the City's strategic objectives.</li> </ul>	

<b>Control Environment Component Evaluation</b>			
<b>Principle 5: Enforces Accountability</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.</b></p>	Y	Y	<p><b>A.R. 95.39 outlines management responsibilities for internal financial controls. Rewards and Recognition Program, goal setting, performance plans and evaluations. Management develops performance measures for departments that are posted on the City's Performance dashboard and annual budget documents.</b></p>
<p><u><b>Points of Focus:</b></u> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <p><b>-Enforces Accountability through Structures, Authorities, and Responsibilities</b>—Management and the board of directors establish the mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities across the organization and implement corrective action as necessary.</p> <p><b>- Establishes Performance Measures, Incentives, and Rewards</b>—Management and the board of directors establish performance measures, incentives, and other rewards appropriate for responsibilities at all levels of the entity, reflecting appropriate dimensions of performance and expected standards of conduct, and considering the achievement of both short-term and longer-term objectives.</p> <p><b>- Evaluates Performance Measures, Incentives, and Rewards for Ongoing Relevance</b>—Management and the board of directors align incentives and rewards with the fulfillment of internal control responsibilities in the achievement of objectives.</p> <p><b>- Considers Excessive Pressures</b>—Management and the board of directors evaluate and adjust pressures associated with the achievement of objectives as they assign responsibilities, develop performance measures, and evaluate performance.</p> <p><b>- Evaluates Performance and Rewards or Disciplines Individuals</b>—Management and the board of directors evaluate performance of internal control responsibilities, including adherence to standards of conduct and expected levels of competence and provide rewards or exercise disciplinary action as appropriate.</p>		<p><u><b>City of San Diego Summary of Controls to Effect Principle 5:</b></u></p> <p><b>- A.R. 95.39 - Management Responsibilities for Internal Financial Controls:</b> Provides a strong enhancement over the City's control environment. Holds management accountable for developing citywide financial policies and procedures within the Finance Branch, including citywide dissemination. Emphasizes the role of the Executive Management Team in creating an organizational culture that supports the internal control environment.</p> <p><b>- Rewards and Recognition program and Tuition Reimbursement program:</b> Encourages retention amongst high-quality employees and pursuit of professional expertise.</p> <p><b>- Goal setting, performance plans and evaluations:</b> Unclassified employees maintain goals and classified employees receive performance plan outlining objectives, responsibilities, and goals. Performance evaluations are conducted periodically by management to assess against work standards and deviations are corrected as necessary.</p> <p><b>- Performance Measures:</b> Management develops performance measures for departments that are posted on the City's Performance Dashboard and annual budget documents. Departments self-report key performance indicators (KPIs) to measure progress toward implementing their tactical plans and highlight performance results against service delivery expectations.</p>	

<b>Risk Assessment Component Evaluation</b>			
<b>Principle 6: Specifies Suitable Objectives</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives</b></p>	Y	Y	<p><b>Reporting Objectives: City ensures financial statements are in compliance with accounting standards. The Annual Comprehensive Financial Report is prepared in accordance with GAAP and the City's Materiality Policy.</b></p> <p><b>The City's internal reports informs of the Mayor's priorities in terms of financial characteristics and provides visibility on the City's progress in managing the City's finances.</b></p>
<p><u><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</u></p> <p><b>External Financial Reporting Objectives</b></p> <ul style="list-style-type: none"> <li>- <b>Complies with Applicable Accounting Standards</b>—Financial reporting objectives are consistent with accounting principles suitable and available for that entity. The accounting principles selected are appropriate in the circumstances.</li> <li>- <b>Considers Materiality</b>—Management considers materiality in financial statement presentation.</li> <li>- <b>Reflects Entity Activities</b>—External reporting reflects the underlying transactions and events to show qualitative characteristics and assertions.</li> </ul> <p><b>Internal Reporting Objectives</b></p> <ul style="list-style-type: none"> <li>- <b>Reflects Management's Choices</b>—Internal reporting provides management with accurate and complete information regarding management's choices and information needed in managing the entity.</li> <li>- <b>Considers the Required Level of Precision</b>—Management reflects the required level of precision and accuracy suitable for user needs in non-financial reporting objectives and materiality within financial reporting objectives.</li> <li>- <b>Reflects Entity Activities</b>—Internal reporting reflects the underlying transactions and events within a range of acceptable limits.</li> </ul>			<p><u><b>City of San Diego Summary of Controls to Effect Principle 6:</b></u></p> <ul style="list-style-type: none"> <li>- <b>External Financial Reporting:</b> Management creates the Annual Comprehensive Financial Report. The Annual Comprehensive Financial Report is the most significant external financial report and is prepared in accordance with GAAP. It includes the balances and activity of all funds and component units of the City and related disclosures. Materiality policy is followed and management risk assessment on the Annual Comprehensive Financial Report is conducted prior to the start of the report.</li> <li>- <b>Internal Financial Reporting:</b> Management creates the annual budget, and other informational reports for decision-making. The City's annual budget informs readers of the Mayor's and Council's priorities in terms of financial characteristics and serves as a key tool for financial management and compliance. Department budget pages include goals and objectives. Five-Year Financial Outlook, Public Utilities Department Five-Year Financial Outlook, Other Enterprise Fund Five-Year Outlooks, monthly Charter 39 Financial Performance Reports, Five-Year Capital Infrastructure Planning Outlook, State of CIP Mid-Year and Year-End reports, CIP Mid-Year and Year-End Budget Monitoring reports, City Treasurer's Monthly Investment Reports, and budget monitoring quarterly reports provide the City visibility on progress in managing the City's finances.</li> </ul>

<b>Risk Assessment Component Evaluation</b>			
<b>Principle 7: Identifies and Analyzes Risk</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p>The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.</p>	Y	Y	<p>At the beginning of each Annual Comprehensive Financial Report preparation cycle, management communicates areas of potential risk to City's external auditor based on management's risk assessment and ongoing monitoring activities. City Auditor completes a citywide risk assessment to identify, measure, and prioritize the City's potential audits based on the level of risk to the City. Management performs additional risk assessment for entity transactions and events that should be represented in financial statements. Information Technology Disaster Recovery Plans identify risks and threats to the organization and the impact to the City's business operations. The City implemented Incident Response Plans and a Cybersecurity Incident Response Team (CIRT) to ensure best practices are being followed for security incidents.</p>
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principal is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Includes Entity, Subsidiary, Division, Operating Unit, and Functional Levels</b>—The organization identifies and assesses risks at the entity, subsidiary, division, operating unit, and functional levels relevant to the achievement of objectives.</li> <li>- <b>Analyzes Internal and External Factors</b>—Risk identification considers both internal and external factors and their impact on the achievement of objectives.</li> <li>- <b>Involves Appropriate Levels of Management</b>—The organization puts into place effective risk assessment mechanisms that involve appropriate levels of management.</li> <li>- <b>Estimates Significance of Risks Identified</b>—Identified risks are analyzed through a process that includes estimating the potential significance of the risk.</li> <li>- <b>Determines How to Respond to Risks</b>—Risk assessment includes considering how the risk should be managed and whether to accept, avoid, reduce, or share the risk.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 7:</b></p> <ul style="list-style-type: none"> <li>- <b>Annual Comprehensive Financial Report Risk Assessment:</b> Management performs an annual risk assessment at the beginning of each Annual Comprehensive Financial Report preparation cycle and communicates risks to the City's external auditor based on management's risk assessment and ongoing monitoring activities, including management's response to such risks through development and implementation of additional controls. For the Fiscal Year 2025 ACFR, management identified GASB 101 and GASB 102, attaining authority to manage the required and necessary Advanced Life Support and Basic Life Support unit hours based on the dynamic demands of the City's Emergency Medical Services system, and the risks identified by the Office of the City Treasurer with the Economic Development Department's Real Estate Division invoicing and payment processing as well as lease audit management.</li> <li>- <b>Auditor's Citywide Risk Assessment:</b> City Auditor completes a citywide risk assessment to help identify, measure, and prioritize the City's potential audits based on the level of risk to the City. The audit of the Mission Bay and San Diego Regional Parks Improvement Funds outlined several recommendations for how the City can strengthen transparency and maximize project delivery, and the need for additional resources to manage the volume and complexity of lease compliance, revenue reconciliation, reporting, and oversight requirements. In response to the audit findings and recommendations, the Economic Development Department developed and implemented documented procedures to reconcile REportfolio payment data to SAP in alignment with City policy. Additionally, the department will obtain City Council approval to ensure that lease agreements remain binding and fair market rental rates are achieved. Additionally, the audit of the City's Contract Management Process to determine whether the City extended or increased the value of goods and services contracts in accordance with the SDMC and best practices found there were contract alterations that lacked the required Council approval or were requested retroactively diminishing transparency and effective oversight. In response, the Purchasing and Contracting Department committed to developing policies and procedures to address the issues and enforce compliance to avoid overruns and contracting delays.</li> <li>- <b>Entity Activities:</b> The City can face non-routine events on an annual basis where management needs to make assertions regarding the recognition, measurement, presentation, and disclosure on financial statements. Management constantly evaluates events from a financial reporting objective and discloses material changes through internal and external reports. Two major events that were identified and disclosed in the latest Annual Comprehensive Financial Report are: structural budget deficit and storm water regulation compliance.</li> <li>- <b>Information Technology Disaster Recovery Plans:</b> The City has a robust Disaster Recovery Plan (DRP) and Business Impact Analysis (BIA) which are both reviewed and updated annually by the City and our vendors. The annual reviews of the BIA and the creation of a DRP serve to identify new risks to the organization, identify the impact of the threats to business operations, as well as to offer recommendations for remediation to continually improve organizational resilience with the capability of an effective response that safeguards the interests of the City's key stakeholders, reputation, brand, and value-creating activities. The ERP division also has a DRP tailored specifically to the City's SAP systems. The main objective of the DRP is to develop, test, and document a well-structured and easily understood plan which will help the City recover as quickly and effectively as possible. In May 2025, the ERP team successfully executed a disaster recovery (DR) drill for ERP systems, validating the availability of SAP Tier one applications within the Amazon Web Services (AWS) cloud under a simulated disaster scenario. The exercise enabled the ERP support team to further familiarize themselves with the digital landscape while also confirming the procedures required to restore critical business processes in the event of an actual disruption. This year's effort also brought on broader participation from business stakeholders strengthening cross-functional readiness and alignment.</li> <li>- <b>Cybersecurity and Incident Response Plans:</b> The City has a set of standards, guidelines, policies, and procedures for providing security, confidentiality, integrity, and accountability related to their information systems and/or assets. The City implemented Incident Response Plans and a Cybersecurity Incident Response Team (CIRT) to ensure best practices are being followed for security incidents.</li> </ul>

Risk Assessment Component Evaluation			
Principle 8: Assesses Fraud Risk	Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
The organization considers the potential for fraud in assessing risks to the achievement of objectives.	Y	Y	Management participates in audit entrance and exit meetings with City departments, so departments can address concerns that have an impact on accounting and financial reporting, safeguarding of City assets, and issues affecting the internal control environment. Management participates in the remediation of City Auditor's fraud hotline audits and assess further opportunities for fraud risk. The Internal Control section assesses and identifies potential risk of fraud in financial reporting during process narrative reviews.
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Considers Various Types of Fraud</b>—The assessment of fraud considers fraudulent reporting, possible loss of assets, and corruption resulting from the various ways that fraud and misconduct can occur.</li> <li>- <b>Assesses Incentive and Pressures</b>—The assessment of fraud risk considers incentives and pressures.</li> <li>- <b>Assesses Opportunities</b>—The assessment of fraud risk considers opportunities for unauthorized acquisition, use, or disposal of assets, altering of the entity's reporting records, or committing other inappropriate acts.</li> <li>- <b>Assesses Attitudes and Rationalizations</b>—The assessment of fraud risk considers how management and other personnel might engage in or justify inappropriate actions.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 8:</b></p> <ul style="list-style-type: none"> <li>- <b>Performance audit remediation:</b> Management participates in audit entrance and exit meetings with City departments, so departments can address concerns that have an impact on accounting and financial reporting, safeguarding of City assets, and issues affecting the internal control environment.</li> <li>- <b>Fraud hotline remediation:</b> Management participates in the remediation of City Auditor's fraud hotline audits and assess further opportunities for fraud risk.</li> <li>- <b>Process narrative review:</b> The Internal Controls section assesses and identifies the potential risk of fraud in financial reporting during the creation and revision of process narratives.</li> </ul>

<b>Risk Assessment Component Evaluation</b>			
<b>Principle 9: Identifies and Analyzes Significant Change</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>The organization identifies and assesses changes that could significantly impact the system of internal control.</b></p>	Y	Y	<p><b>DoF staff evaluates new accounting standards promulgated by Governmental Accounting Standards Board (GASB) and new changes in technology. The City ensures and changes or improvements to the ERP system are evaluated and tested so that implementation is seamless. The City identify and assess risk in the City's economic and physical environment due to external variables. The City considers the potential impacts on the reduction of positions in the Finance Branch.</b></p>
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Assesses Changes in the External Environment</b>—The risk identification process considers changes to the regulatory, economic, and physical environment in which the entity operates.</li> <li>- <b>Assesses Changes in the Business Model</b>—The organization considers the potential impacts of new business lines, dramatically altered compositions of existing business lines, acquired or divested business operations on the system of internal control, rapid growth, changing reliance on foreign geographies, and new technologies.</li> <li>- <b>Assesses Changes in Leadership</b>—The organization considers changes in management and respective attitudes and philosophies on the system of internal control.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 9:</b></p> <ul style="list-style-type: none"> <li>- <b>Changes in Accounting Standards:</b> DoF participates in an annual Government Finance Officers Association training introducing new accounting pronouncements and actively reviews new standards. DoF evaluates new accounting standards promulgated by GASB for potential financial impact. These trainings helped the City implement GASB 101 and GASB 102 for Fiscal Year 2025.</li> <li>- <b>Changes in Technology:</b> The City ensures any changes or improvements to the ERP system are fully tested for operational needs and for the impact to financial reporting. Advances in technology allow the City to improve current business processes, create efficiencies, and reduce and/or risks. These changes or improvements include the interface management tool called Integration Suite, the SAPIMON backend upgrades, Bank of America's U.S. account validation service, implementation of the VMware Cloud Disaster Recovery (DR) solution across OpenText servers, and Purchasing &amp; Contracting's system enhancements to support contract and PO processes. The City upgraded several software applications to new versions or patched with service packs to add new features, fix known bugs, and improve data security. These include updates to Ariba such as the contract request approval flow and the contract setup validation, then the prevention of goods receipt cancellations and reversals for better PO management, complete migration to the new Bank of America Interface, Microsoft Office and the Windows Operating System.</li> <li>- <b>New ERP System:</b> SAP ECC is reaching end-of-life in 2027 and could have potential impacts to the City. GRC, which is the main application that DOF utilizes to maintain internal controls works in conjunction with the SAP ECC system. To prepare for this transition, the Department of IT met with a consultant to analyze the City's SAP usage and provide a cost estimate of several viable options based on needs. Based on report provided by the consultant, the City decided to migrate to SAP S/4 HANA Private Cloud, SAP's next-generation ERP system. The City subsequently contracted a consulting firm to study the City's SAP business requirements for SAP S/4 HANA Private Cloud to reduce project risks during implementation. The business requirements gathered during the study were used to form the basis for the SOW, which is currently routing for review and approval to all departments. See Principle #10 "Control Activities related to SAP Enhancements" and Principle #11 "Business Process Coordinator for Revitalization Effort" for the controls implemented to mitigate the risks.</li> <li>- <b>New Budget Development Tool:</b> SAP Budgeting and Planning is reaching its end-of-life and will no longer be supported in 2026. The system maintains internal controls and is critical to the City's annual budget development and quarterly budget projection processes. In 2025, the City implemented Euna Budget. This was SAP's recommended budgeting solution. DoF has worked closely with EUNA Budget consultants to design and implement a budgeting solution to meet the City's budget development and monitoring needs.</li> <li>- <b>Changes in the External Environment:</b> The City assessed and identified the increased risk in the City's economic and physical environment due to outside variables the city has no control over. In January 2025, DoIT finalized the City's AI and Generative AI Policy and adoption framework. An internal AI committee and the City's participation in a group of government agencies focused on developing standards for AI procurement were the foundation for the policy and framework. See Principle #11 "IT Governance" for controls over technology. As a supplement to the required policy acknowledgement, DoIT is providing a recommended Introduction to Artificial Intelligence training. This training course provides employees an overview of how AI works, how it can be used for increased productivity, potential risks, and measures for responsible AI adoption in the City.</li> <li>- <b>Reduction in Force for Finance Branch:</b> The FY26 Adopted Budget included both strategic reductions across various departments and targeted investments in critical areas to address the City's structural budget deficit. The Finance Branch reduced 21 positions within several classifications. Each of the positions that were reduced could result in varying degrees of quality in data, timeliness of financial reports, and oversight. For example, the Principal Accountant position overseeing Debt and Public Utilities accounting was eliminated in DoF. In a past year, the absence of a trained accountant in this position reviewing transactions resulted in a \$250M restatement of net position in the ACFR. The risk of not having a Principal Accountant could result in findings in the City's future financial reports. As a temporary solution to mitigate the risk, the Principal Accountant over Internal Controls and Systems was reassigned to oversee the Debt and Public Utilities accounting function. Internal Controls Section and the Systems Team were reassigned accordingly. However, absent additional efficiencies realized through enhancements in technology or processes, a dedicated Principal Accountant to oversee these functions is needed for the long-term success of the City's control environment and risk assessment.</li> </ul>

Control Activities Component Evaluation			
Principle 10: Selects and Develops Control Activities	Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.	Y	Y	Controls related to this include: segregation of duties, variety of transaction control activities (authorization & approvals, verifications, physical controls, reconciliations, supervisory controls, application controls). Process narrative annual assessment conducted to test the validity, accuracy, presence, and performance of processes and controls defined in process narratives.
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Integrates with Risk Assessment</b>—Control activities help ensure that risk responses that address and mitigate risks are carried out.</li> <li>- <b>Considers Entity-Specific Factors</b>—Management considers how the environment, complexity, nature, and scope of its operations, as well as the specific characteristics of its organization, affect the selection and development of control activities.</li> <li>- <b>Determines Relevant Business Processes</b>—Management determines which relevant business processes require control activities.</li> <li>- <b>Evaluates a Mix of Control Activity Types</b>—Control activities include a range and variety of controls and may include a balance of approaches to mitigate risks, considering both manual and automated controls, and preventive and detective controls.</li> <li>- <b>Considers at What Level Activities Are Applied</b>—Management considers control activities at various levels in the entity.</li> <li>- <b>Addresses Segregation of Duties</b>—Management segregates incompatible duties, and where such segregation is not practical management selects and develops alternative control activities.</li> </ul>		<p><b>City of San Diego Summary of Controls to Effect Principle 10:</b></p> <ul style="list-style-type: none"> <li>- <b>Various Transaction Control Activities:</b> Embedded within multiple accounting and financial reporting processes including, authorization and approvals, verifications, physical controls, reconciliations, preventative system controls, and application controls.</li> <li>- <b>Segregation of Duties Monitoring:</b> The City ensures that no one individual has control over an entire process through SAP GRC module and Business Role Management (BRM). An increase in system role assignments was observed due to shift in telecommuting, but segregation of duties was still maintained through the system. DoF and Department of IT continue to perform the annual reviews of the Role Definition Guide and User Access Review to monitor for segregation of duties violations.</li> <li>- <b>Process Narrative Annual Assessment:</b> Annual process design and control design assessments are conducted to test the validity, accuracy, presence, and performance of processes and controls that have been identified in the process.</li> <li>- <b>Control Activities related to SAP Enhancements:</b> Risks associated with SAP enhancements are mitigated with training, feedback, and questions &amp; answer workshops that are provided to end users before and after implementation. Additionally, training videos are readily available online in SuccessFactors, the City's learning management module. SuccessFactors works in conjunction with the GRC Access Request Provisioning Tool to automatically verify training completion before provisioning the related SAP roles.</li> </ul>	

Control Activities Component Evaluation			
Principle 11: Selects and Develops General Controls over Technology	Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
The organization selects and develops general control activities over technology to support the achievement of objectives.	Y	Y	DoIT follows IT Frameworks to ensure the City follows IT standards and guidelines. The Chief Information Officer provides oversight of the City's ERP system. IT General Controls: maintained through cyber security tools, patching and change management, user authentication, documentation, authorizing access to applications, managing access through roles and separation of duties, and physical security of IT infrastructure. Management reviews IT changes to the ERP system for adequate preventative or detective controls. Department of IT has dedicated IT governance, portfolio management, contracts management teams, and cybersecurity incident response plans and team, to ensure the City meets its technology objectives. IT's ERP group works closely with DoF's Internal Controls group and BPC's to review any ERP system changes in the Change Control Board process.
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Determines Dependency between the Use of Technology in Business Processes and Technology General Controls</b>—Management understands and determines the dependency and linkage between business processes, automated control activities, and technology general controls.</li> <li>- <b>Establishes Relevant Technology Infrastructure Control Activities</b>—Management selects and develops control activities over the technology infrastructure, which are designed and implemented to help ensure the completeness, accuracy, and availability of technology processing.</li> <li>- <b>Establishes Relevant Security Management Process Control Activities</b>—Management selects and develops control activities that are designed and implemented to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect the entity's assets from external threats.</li> <li>- <b>Establishes Relevant Technology Acquisition, Development, and Maintenance Process Control Activities</b>—Management selects and develops control activities over the acquisition, development, and maintenance of technology and its infrastructure to achieve management's objectives.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 11:</b></p> <ul style="list-style-type: none"> <li>- <b>IT Framework:</b> Department of IT follows standards and guidelines from the following frameworks: Information Technology Information Library (ITIL), National Institute of Standards Technology (NIST), CIS Controls and guidelines, and Payment Card Industry Data Security Standards (PCI DSS).</li> <li>- <b>Chief Information Officer:</b> Per A.R. 95.39 <i>Management Responsibilities for Internal Financial Controls</i>, the Chief Information Officer is responsible for oversight of the software development process related to the City's ERP system and collaborates with the Chief Financial Officer to timely address significant financial system control weaknesses that could result in material financial misstatements and fraud.</li> <li>- <b>IT General Controls:</b> Between Department of IT, City's IT services contract vendors (Atos, Zensar, etc.), departments, and vendors, IT general controls are maintained through cyber security tools, patching and change management, user authentication, documentation, authorizing access to applications, managing access through roles and separation of duties, and physical security of IT infrastructure.</li> <li>- <b>Role Definition Guide:</b> Management performs an annual review to identify new ERP roles and changes, and continuously assesses possible segregation of duties violations with each user role request.</li> <li>- <b>Business Role Management:</b> Grouping of roles based off tasks, which helps streamline and better manage changes to roles' access.</li> <li>- <b>IT Governance:</b> Department of IT has a dedicated governance and portfolio management team to help departments set technology and performance standards when acquiring IT applications, in order to promote efficiency &amp; strategic alignment with the City's technology plan. They also work with departments to enforce compliance through a governance process. Per A.R. 90.68 Procurement of Technology Solutions, the procurement or use of AI technology is subject to IT governance review and approval.</li> <li>- <b>Department of IT Contract Services:</b> Department of IT has a dedicated contracts management team to select third-party vendors for citywide IT contracted services, such as network services and develops control activities, such as contract terms and conditions to meet minimum network availability uptimes.</li> <li>- <b>Cybersecurity Incident Response Plans and Team:</b> The City implemented Incident Response Plans and a Cybersecurity Incident Response Team (CIRT) to ensure best practices are being followed for security incidents.</li> <li>- <b>Change Control Board:</b> A process that involves DoIT's ERP group, DoF's Internal Controls group, and BPC's whom review any system production changes that might affect the ERP system. This review helps mitigate any risks, including financial related, that come along with the changes.</li> </ul>

<b>Control Activities Component Evaluation</b>			
<b>Principle 12: Deploys through Policies and Procedures</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.</b></p>	Y	Y	<p><b>Policies such as City's Investment Policy, Debt Policy, Reserve Policy, Budget Policy and Materiality Policy. Administrative regulations, department instructions, process narratives, and work instructions are updated and reviewed by responsible departments and stakeholders. City Treasurer annually review their own Internal Controls Manual.</b></p>
<p><u><b>Points of Focus:</b></u> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Establishes Policies and Procedures to Support Deployment of Management's Directives</b>—Management establishes control activities that are built into business processes and employees' day-to-day activities through policies establishing what is expected and relevant procedures specifying actions.</li> <li>- <b>Establishes Responsibility and Accountability for Executing Policies and Procedures</b>—Management establishes responsibility and accountability for control activities with management (or other designated personnel) of the business unit or function in which the relevant risks reside.</li> <li>- <b>Performs in a Timely Manner</b>—Responsible personnel perform control activities in a timely manner as defined by the policies and procedures.</li> <li>- <b>Takes Corrective Action</b>—Responsible personnel investigate and act on matters identified as a result of executing control activities.</li> <li>- <b>Performs Using Competent Personnel</b>—Competent personnel with sufficient authority perform control activities with diligence and continuing focus.</li> <li>- <b>Reassesses Policies and Procedures</b>—Management periodically reviews control activities to determine their continued relevance and refreshes them when necessary.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 12:</b></p> <ul style="list-style-type: none"> <li>- <b>Process Documentation:</b> DoF has formally documented 827 processes and continuously assesses the need for further documentation. In 2025, 2 new process were documented.</li> <li>- <b>Petty Cash Policies and Procedures:</b> The Citywide still maintains Petty Cash policies and procedures manual and an accompanying video on the City's intranet site, CityNet.</li> <li>- <b>Administrative Regulations:</b> The IC section reviews and approves policies and procedures included in the administrative regulations to ensure internal controls exist to mitigate risks and improve efficiency. At the end of calendar year 2025, The City has totaled 112 documented A.R.'s. In 2024, the City adopted <i>A.R. 90.75-Data Governance</i>, following the recommendation that's included in the 2020 IT Performance Audit of the Citywide Data Classification and Sensitive Data Encryption to formally establish consistent data management practices and better define the roles and responsibilities related to data management. The A.R. establishes a Data Governance Committee as the authority which defines and enforces Data Governance.</li> <li>- <b>Policies:</b> Reflect management's goals and guide decisions and actions of staff. Some financial policies include Investment Policy, Debt Policy, Reserve Policy, Budget Policy, User Fee Policy, and Materiality Policy. The City's ACFR Note 1 <i>Summary of Significant Accounting Policies</i> summarizes the City's accounting policies to conform to GAAP. Note 1 also lists the new governmental accounting standards implemented during year-end and upcoming governmental accounting standards. In fiscal year 2024, two new Governmental Accounting Standards Board (GASB) statements were implemented, but did not result in a material impact on the financial statements. GASB 101, <i>Compensated Absences</i>, enhances the information needs of financial statement users by updating the recognition and measurement guidance for compensated absence. GASB 102, <i>Certain Risk Disclosures</i>, provides essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.</li> <li>- <b>Office of the City Treasurer's Internal Controls Manual:</b> The Office of the City Treasurer annually reviews the Investment Division's Internal Controls Manual, which outlines the specific operational procedures the Investment Division staff use in implementing the City's Investment Policy. The Investment Division Internal Controls Manual highlights the key control points implemented in their processes.</li> </ul>

Information and Communication Component Evaluation			
Principle 13: Uses Relevant Information	Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.	Y	Y	City uses financial reporting tools to perform ad-hoc queries or run reports to efficiently access financial data stored in SAP in a timely, accurate, and appropriate manner. Formal Communication Process in place ensures relevant information is communicated to those responsible for preparing the Annual Comprehensive Financial Report. The DPWG communicates known facts, and other relevant information to ensure consistency throughout the City's financial disclosure documents. City Auditor communicates implementation statuses of audit and investigative recommendations through the Recommendation Follow-Up Dashboard.
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Identifies Information Requirements</b>—A process is in place to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the entity's objectives.</li> <li>- <b>Captures Internal and External Sources of Data</b>—Information systems capture internal and external sources of data.</li> <li>- <b>Processes Relevant Data into Information</b>—Information systems process and transform relevant data into information.</li> <li>- <b>Maintains Quality throughout Processing</b>—Information systems produce information that is timely, current, accurate, complete, accessible, protected, and verifiable and retained. Information is reviewed to assess its relevance in supporting the internal control components.</li> <li>- <b>Considers Costs and Benefits</b>—The nature, quantity, and precision of information communicated are commensurate with and support the achievement of objectives.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 13:</b></p> <ul style="list-style-type: none"> <li>- <b>Financial Reporting Tools:</b> Business intelligence reporting software allows users to perform ad-hoc queries or run reports to efficiently access financial data stored in SAP in a timely, accurate, and appropriate manner. In 2025, the following financial reports were created or modified: Segregation of Duties Role Conflict Report, GRC Request with Role Report, GRC UAR Ticket Detail Report, and the Ariba Contract Tracker BusinessObjects Dashboard Report. Overall, there were approximately 53 different reports that were either created or modified during this time for various purposes including infrastructure asset management, supply chain management, human capital management, and finance.</li> <li>- <b>SAP Initiatives:</b> In 2025, the following initiatives were completed by Department of IT: 7 SAP training videos and 4,704 SAP training instances including classroom and online classes.</li> <li>- <b>Formal Communication Process:</b> Ensures relevant information is communicated to those responsible for preparing the Annual Comprehensive Financial Report. The Disclosures Practices Working Group (DPWG) reviews disclosures, communicates known facts, and other relevant information to ensure consistency throughout the City's financial disclosure documents. While the DPWG is responsible for ensuring disclosures comply with federal and state security laws, DoF is responsible for ensuring financial statements and related disclosures are prepared in accordance with the generally accepted accounting principles (GAAP). The group participated in the review of the Fiscal Year 2025 ACFR report drafts. It also reviewed and signed off on the disclosures in the ACFR, including the Letter of Transmittal, Management's Discussion and Analysis, and Notes to the Basic Financial Statements. In addition, the group ensures the City's Financial disclosures related to the public offering and sale of securities is accurate.</li> <li>- <b>City Auditor's Audit Recommendation Follow-Up Dashboard:</b> Communicates about the implementation status of audit and investigative recommendations. City Auditor reports on the status of open recommendations semi-annually.</li> </ul>

<b>Information and Communication Component Evaluation</b>			
<b>Principle 14: Communicates Internally</b>	<b>Present? (Y/N)</b>	<b>Functioning? (Y/N)</b>	<b>Explanation/Conclusion</b>
<p><b>The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.</b></p>	Y	Y	<p><b>DoF's Finance Orientation &amp; Finance Academy annual trainings in addition to P&amp;C's Procurement Academy and City Treasurer's Cash Handling trainings to update on current processes; process documentation (A.R.s, P.N.s, and W.I.s); Internal financial statement checklist; Fraud, Waste, and Abuse Hotline</b></p> <p><b>Formal distribution of work document to clearly communicate specific responsibilities for development of the Annual Comprehensive Financial Report.</b></p> <p><b>Financial reports to committees and city council, and internal meetings with Disclosures Practices Working Group (DPWG).</b></p>
<p><u><b>Points of Focus:</b></u> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Communicates Internal Control Information</b>—A process is in place to communicate required information to enable all personnel to understand and carry out their internal control responsibilities.</li> <li>- <b>Communicates with the Board of Directors</b>—Communication exists between management and the board of directors so that both have information needed to fulfill their roles with respect to the entity's objectives.</li> <li>- <b>Provides Separate Communication Lines</b>—Separate communication channels, such as whistle-blower hotlines, are in place and serve as fail-safe mechanisms to enable anonymous or confidential communication when normal channels are inoperative or ineffective.</li> <li>- <b>Selects Relevant Method of Communication</b>—The method of communication considers the timing, audience, and nature of the information.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 14:</b></p> <ul style="list-style-type: none"> <li>- <b>Financial Training:</b> Finance Orientation, Finance Academy, and annual trainings are held to update staff on the latest government practices, processes, and procedures. Training has continued while majority of DoF telecommutes through the use of virtual trainings offered from professional organizations like the Government Finance Officers Association, California Society of Municipal Finance Officers, and Institute of Internal Auditors. The most recent Finance Academy was held in November 2024 and the next one is planned for the end of 2026. The Cash Handling Training Course covering best practices in cash handling and loss prevention was made available by the City Treasurer's Office in an on-demand eLearning format through SuccessFactors. P&amp;C hosts the Procurement Academy which includes extensive list of contract and PO related topics and developed new training documents to guide and ensure compliance with regulations and establish a standardized process. In July 2025, P&amp;C also launched an online course available via SuccessFactors. SuccessFactors module is a necessary channel to communicate objectives and responsibilities of internal controls.</li> <li>- <b>Internal Financial Statement Checklist:</b> Helps communicate expectations and ensures that statements are complete and accurate. Comprehensive accounting and disclosure checklists developed by the Government Finance Officers Association are used to ensure compliance with governmental standards.</li> <li>- <b>Formal Distribution of Work Documents:</b> Are used to communicate specific responsibilities for development of the Annual Comprehensive Financial Report.</li> <li>- <b>Fraud, Waste, and Abuse Hotline:</b> Serves as a safe mechanism to enable anonymous or confidential communication.</li> <li>- <b>Internal Financial Reports:</b> City Auditor reports, Independent Budget Analyst reports, management policies and administrative regulations, annual budget, Five-Year Financial Outlook, Public Utilities Department Five-Year Financial Outlook, Other Enterprise Fund Five-Year Outlooks, monthly Charter 39 Financial Performance Reports, Five-Year Capital Infrastructure Planning Outlook, State of CIP Mid-Year and Year-End reports, CIP Mid-Year and Year-End Budget Monitoring Reports, City Treasurer's Monthly Investment Reports, and budget monitoring quarterly reports that provide management, City Council and Audit Committee financial information.</li> </ul>

Information and Communication Component Evaluation			
Principle 15: Communicates Externally	Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
<p>The organization communicates with external parties regarding matters affecting the functioning of internal control.</p>	Y	Y	<p>Annual report on financial internal controls; Financial policies and A.R.s posted on city website; Preliminary Official Statements issued per bond issuance; bond rating agency interviews. At the beginning of each Annual Comprehensive Financial Report preparation cycle, management communicates areas of potential financial reporting risk to City's external auditor based on management's risk assessment and ongoing monitoring activities. Citywide risk assessment to help identify, measure, and prioritize the City's potential audits based on the level of risk to the City. The DPWG includes individuals in key city positions within the city and external counsel that can communicate known facts and relevant information.</p>
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Communicates to External Parties</b>—Processes are in place to communicate relevant and timely information to external parties including shareholders, partners, owners, regulators, customers, and financial analysts and other external parties.</li> <li>- <b>Enables Inbound Communications</b>—Open communication channels allow input from customers, consumers, suppliers, external auditors, regulators, financial analysts, and others, providing management and the board of directors with relevant information.</li> <li>- <b>Communicates with the Board of Directors</b>—Relevant information resulting from assessments conducted by external parties is communicated to the board of directors.</li> <li>- <b>Provides Separate Communication Lines</b>—Separate communication channels, such as whistle-blower hotlines, are in place and serve as fail-safe mechanisms to enable anonymous or confidential communication when normal channels are inoperative or ineffective.</li> <li>- <b>Selects Relevant Method of Communication</b>—The method of communication considers the timing, audience, and nature of the communication and legal, regulatory, and fiduciary requirements and expectations.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 15:</b></p> <ul style="list-style-type: none"> <li>- <b>Annual Report on Financial Internal Controls:</b> The Internal Controls Section releases an annual report to summarize management's approach in maintaining the City's internal controls system provides reasonable assurance that financial reporting objectives are met.</li> <li>- <b>Policies and Procedures:</b> Financial policies and A.R.s posted on the City's website to communicate information to external parties.</li> <li>- <b>City Auditor Risk Assessment and Audit Reports:</b> City Auditor completes a citywide risk assessment to help identify, measure, and prioritize the City's potential audits based on the level of risk to the City.</li> <li>- <b>Annual Comprehensive Financial Report Risk Assessment:</b> At the beginning of each Comprehensive Annual Financial Report preparation cycle, management communicates areas of potential risk to City's external auditor based on management's risk assessment and ongoing monitoring activities.</li> <li>- <b>External Reports:</b> Such as the Annual Comprehensive Financial Report, financial policies, and administrative regulations are shared on the City's website to be accessed by residents, investors, rating agencies, and other interested parties.</li> <li>- <b>The Disclosures Practices Working Group (DPWG):</b> Reviews disclosures, communicate known facts, and relevant information and ensure consistency throughout the City's financial disclosure documents. The group is required to provide an annual report of it's activities in the past calendar year.</li> <li>- <b>Bond rating agency interviews and Offering Statements:</b> The City prepares a Preliminary Official Statement (POS) that contains all material information to help investors determine whether to purchase securities offered by the City. The DPWG reviews the statement before City Council approval of a public debt issuance and its related disclosure document. The City also conducts presentations with ratings agencies prior to marketing new securities. The DPWG is required to review all materials that the City presents to bond rating agencies and investors.</li> <li>- <b>Fraud, Waste, and Abuse Hotline:</b> Serves as a safe mechanism to enable anonymous or confidential communication.</li> <li>- <b>Communication with external parties regarding assessments:</b> The City's new external auditor, Crowe LLP, will perform Annual Audit Services Related to the Annual Comprehensive Financial Report (ACFR), Single Audit and Other Audit Services for Fiscal Years 2024 through 2028.</li> </ul>

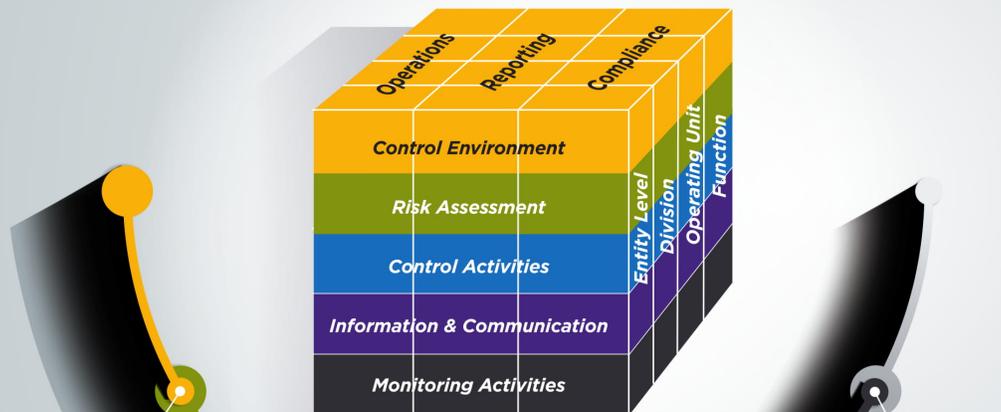
Monitoring Activities Component Evaluation			
Principle 16: Conducts Ongoing and Separate Evaluations	Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning	Y	Y	Internal Controls group works with other departments and divisions to facilitate the Ongoing Monitoring for transactions related to: P-Card, Aging Goods Receipts, Grant Accounts Receivable Invoices, Journal Entries, Travel and Tuition Reimbursements, Jury Duty Leave, VIM, ACH, P&C, FMBB, and Accounts Receivable Customer Credits. The group also provides analytics reports to relevant staff as a tool to easily identify key statistics. They also perform the Annual review of process narratives and IT security roles. Additionally, the Internal Controls group developed a report to easily identify City staff who have segregation of duties violations which are risks to the City.
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Considers a Mix of Ongoing and Separate Evaluations</b>—Management includes a balance of ongoing and separate evaluations.</li> <li>- <b>Considers Rate of Change</b>—Management considers the rate of change in business and business processes when selecting and developing ongoing and separate evaluations.</li> <li>- <b>Establishes Baseline Understanding</b>—The design and current state of an internal control system are used to establish a baseline for ongoing and separate evaluations.</li> <li>- <b>Uses Knowledgeable Personnel</b>—Evaluators performing ongoing and separate evaluations have sufficient knowledge to understand what is being evaluated.</li> <li>- <b>Integrates with Business Processes</b>—Ongoing evaluations are built into the business processes and adjust to changing conditions.</li> <li>- <b>Adjusts Scope and Frequency</b>—Management varies the scope and frequency of separate evaluations depending on risk.</li> <li>- <b>Objectively Evaluates</b>—Separate evaluations are performed periodically to provide objective feedback.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 16:</b></p> <ul style="list-style-type: none"> <li>- <b>Segregation of Duties Monitoring:</b> The City ensures that no one individual has control over an entire process through SAP GRC module and Business Role Management (BRM). One of the most used functions in the GRC Module is the “Copy User” which allows a person to copy another person’s role access. To ensure only business roles are copied over, Internal Controls developed a work instruction document that is easy to follow and reduces that likelihood of copying over non-business roles. An increase in system role assignments was observed due to shift in telecommuting, but segregation of duties was still maintained through the system. DoF and Department of IT continue to perform the annual reviews of the Role Definition Guide and User Access Review to monitor for segregation of duties violations. The Basic Roles guide was introduced to list the essential roles a department needs to perform standard financial functions. The guide clearly defines the segregation of duties violations pertaining to the listed roles. This increases the likelihood of roles being used properly and reducing likelihood of risks through improper segregation of duties. In October 2025, DoF worked with the DoIT to develop the Segregation of Duties Conflict Role Report, an automatically generated report. This report was configured to efficiently identify all individuals with any segregation of duties violations based on their current role assignments. This report will save time and resources while reducing the chances of manual error.</li> <li>- <b>Cross Departmental Access:</b> The Internal Controls section continues to utilize the digital Cross Departmental Access Smartsheet Form. This process ensures the necessary approvals for access can be received more efficiently and timely. Essentially, this assists the Internal Controls section in monitoring and validating proper access provisioning.</li> <li>- <b>Assessment of Documented Processes and Controls:</b> Periodic evaluation for process design to test for validity, accuracy, and performance of the process as documented and control design assessments to test presence and performance of controls that have been identified within the process. The Internal Controls Section uses a designed risk-based approach to prioritize and select process documentations for the periodic assessments. The Internal Control Section also sends notifications to process owners to update documentation on a regular basis. As a result of the assessments and process owner-initiated changes, 12 process narratives received major revisions and 34 had minor updates in 2025.</li> <li>- <b>Ongoing Monitoring:</b> Management conducts monitoring of the following transactions to ensure compliance with objectives: procurement card, travel and tuition, jury duty leave requests, invoices, journal entries, purchase order splitting, vendor business licenses, electronic banking changes, aging goods receipts, budget adjustments, accounts receivable customer credits and HR contracting out Eforms. Internal Controls use the data from the procurement card and invoices monitoring tests to develop an analytics report to provide to necessary staff as a tool to easily identify key statistics by person, division or department.</li> </ul>

Monitoring Activities Component Evaluation			
Principle 17: Evaluates and Communicates Deficiencies	Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.	Y	Y	City management reviews and monitors audits performed by City Auditor and works with departments to strengthen controls. DoF reviews the independent audit conducted by external auditors to identify areas where internal controls can be strengthened. DoF conducts an internal review of the preparation and completion of the Annual Comprehensive Financial Report to identify entries that occurred after the draft was submitted to external auditor.
<p><b>Points of Focus:</b> The following points of focus may assist management in determining whether this principle is present and functioning:</p> <ul style="list-style-type: none"> <li>- <b>Assesses Results</b>—Management and the board of directors, as appropriate, assess results of ongoing and separate evaluations.</li> <li>- <b>Communicates Deficiencies</b>—Deficiencies are communicated to parties responsible for taking corrective action and to senior management and the board of directors, as appropriate.</li> <li>- <b>Monitors Corrective Actions</b>—Management tracks whether deficiencies are remediated on a timely basis.</li> </ul>			<p><b>City of San Diego Summary of Controls to Effect Principle 17:</b></p> <ul style="list-style-type: none"> <li>- <b>City Auditor Performance Audit Reports:</b> City management reviews and monitors audits performed by City Auditor and works with departments to strengthen controls.</li> <li>- <b>Independent Audit Review:</b> Management reviews the results of independent audit from Crowe LLP to identify potential areas of risks or areas for which controls need to be strengthened. City Auditor monitors corrective actions have been completed through follow-up reports and status meetings. DoF also works closely with departments to modify processes, establish new controls, or strengthen existing controls as it relates to financial reporting. The City received an unmodified (clean) audit opinion on the Fiscal Year 2024 Single Audit. No material weaknesses in internal control over compliance were identified. However, a significant deficiency in internal control over compliance was identified, resulting in an audit finding. During the audit of the Community Development Block Grants/Entitlement Grants Program, the City did not submit the required key data elements in the Federal Subaward Reporting System (FSRS) in a timely manner. Management accepts that going forward, dates should be entered based on the date the agreements are fully executed. Management agrees to include specific FFATA training and procedures in all CDBG manuals and checklists including procedures for compliance, if and when federal agency communication is late or lacking.</li> <li>- <b>Annual Comprehensive Financial Report Review:</b> DoF conducts an internal review of the preparation and completion of the Annual Comprehensive Financial Report to identify entries that occurred after the draft was submitted to external auditor. In calendar year 2025, the City received the Certificate of Achievement for Excellence in Financial Reporting awarded by the GFOA for the Fiscal Year 2024 ACFR. To receive this award, the City must comply with a comprehensive checklist that incorporates accounting and disclosure requirements in accordance with generally accepted accounting principles (GAAP).</li> <li>- <b>Annual Report on Financial Internal Controls:</b> The Internal Controls Section releases an annual report that identifies deficiencies throughout the year and is presented to Council. The deficiencies may be initially identified in the reports or reviews listed above.</li> </ul>

### 3. Summary of Deficiencies

Summary of Deficiencies						
ID #	Source of the internal control		Internal Control Deficiency Description	Is internal control deficiency a major deficiency? (Y/N)	Owner	Remediation Plan
	Component	Principle				
Performance Audit of the City's Strategic Human Capital Management	Control Environment	#4	Widespread uncompetitive compensation poses a growing shorthand long term risk to the City's ability to maintain and attract a high-quality workforce for providing public services, and has likely contributed to several negative effects on the City workforce and public services.	N	Several Departments	<p>City agreed to auditor recommendations in their HCM report including creating a Total Compensation Strategy--which the City has developed; City uses special salary adjustments process to maintain competitive hiring; financial training program offered to entry level and experienced finance staff citywide; increase in documentation to preserve institutional knowledge.</p> <p>As of the last published follow up audit report, there is one recommendation in process. Deficiency will be removed from template once the Office of the City Auditor deems it completed.</p>
Performance Audit of the City's Strategic Human Capital Management II: Employee Performance Management	Control Environment	#4, 5	Employee performance can have an impact on an organization's environment and capability in providing high-quality public services. The City could improve its ability to effectively identify or address poor performance or misconduct issues and show employee appreciation and recognition to help engage employees and drive them to continue commendable performance. Otherwise, it could affect the City from providing high-quality public services for its customers and have an impact on other employee's performance and the city environment.	N	Human Resources & Personnel Departments	<p>To mitigate some of these effects and help the City strengthen its capability to have an engaged workforce, management agreed to these key recommendations: report Employee Performance Review completion rates in the City's annual workforce report, review and monitor the Rewards and Recognition Program, strategically monitor aggregate discipline trends, and expand disciplinary processes and discipline-related training for supervising employees.</p> <p>As of the last published follow up audit report, there are two recommendations in process. Deficiencies will be removed from template once the Office of the City Auditor deems them completed.</p>

# COSO Internal Control — Integrated Framework Principles



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## Control Environment

- 1 The organization demonstrates a commitment to integrity and ethical values.
- 2 The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
- 3 Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- 4 The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- 5 The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

## Risk Assessment

- 6 The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- 7 The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- 8 The organization considers the potential for fraud in assessing risks to the achievement of objectives.
- 9 The organization identifies and assesses changes that could significantly affect the system of internal control.

## Control Activities

- 10 The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- 11 The organization selects and develops general control activities over technology to support the achievement of objectives.
- 12 The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

## Information & Communication

- 13 The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
- 14 The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- 15 The organization communicates with external parties regarding matters affecting the functioning of internal control.

## Monitoring Activities

- 16 The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- 17 The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

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about COSO,  
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