

*Office of the City Auditor
Update FY 08 Q4 & FY 09 Q1*

**Audit Committee Meeting
October 6, 2008**

9 Audit Reports Issued Between April 1, 2008 and September 30, 2008

- **Cash Count and Bank Reconciliation Audit Report
(April 28, 2008)**

- We audited the cash count and general ledger reconciliation processes. We performed a cash count on July 2, 2007 to verify that revenue is supported by proper documentation and is recorded in the correct fiscal year.
- Revenue documents totaling \$17 M were verified during the cash count. We found the cash count satisfactory and no audit recommendations are necessary.
- Based on the audit work performed, we found the interim reconciliation processes are operating effectively.
- In a three month period, over 36,800 transactions exceeding \$2 billion were processed through the City bank accounts, excluding daily City investment transactions.
- Based on our review we determined that internal controls could be further strengthened and the ease of review improved by updating and centralizing standards and policies, and improving documentation to enhance the clarity of the reconciliation process.

9 Audit Reports Issued Between April 1, 2008 and September 30, 2008

- **Audit of Permits Issued for the Blackwater Facility
(June 5, 2008)**

The audit objectives:

- Did Blackwater misrepresent its identity or intended use of the facility located at 7685 Siempre Viva Road, Otay Mesa Development District?
- Did Development Services' staff properly issue permits in compliance with codes and regulations for the Blackwater facility?
- Is the designation of Vocational / Trade School appropriate for the Otay Mesa site?

Audit of Permits Issued for the Blackwater Facility

- We determined that Blackwater did not misrepresent their identity.
- Regarding the use of the facility, it was inconclusive whether two of the applications submitted for the use of the facility were intentionally misrepresented or an oversight.

Audit of Permits Issued for the Blackwater Facility

- We determined that DSD staff had the authority under Municipal Code Section 111.0205 to classify Blackwater's use of the building as a vocational / trade school.
 - Although the Municipal Code states that the subject matter taught at the vocational / trade school must be related to a use permitted within the Industrial Sub-district, the Municipal Code does not address whether the subject matter should be directly or indirectly related to the use.

9 Audit Reports Issued Between April 1, 2008 and September 30, 2008

- **Agreed-Upon Procedures Review of the Increase in San Diego Water Rates Pursuant to the San Diego County Water Authority Water Rate Increases**
(July 11, 2008)
- We found that the Water Department accurately calculated the proposed water rate increase.

9 Audit Reports Issued Between April 1, 2008 and September 30, 2008

- **Agreed-Upon Procedures Review of the Water Department's Proposed Rate Increase for the Indirect Potable Reuse (IPR) Demonstration Project, and the Combined Proposed IPR Rate Increase in Conjunction with the Previously Reviewed SDCWA Pass Through Rate Increase Calculations.**
(August 15, 2008)
- We found that the Water Department accurately calculated the proposed water rate increase.

9 Audit Reports Issued Between April 1, 2008 and September 30, 2008

- **Audit of Internal Control Remediation Related to SDCERS** (August 29, 2008)
 - We tested the 29 remedial recommendations from the August 8, 2006 Kroll Report and the 1 recommendation made by KPMG in their March 12, 2007 Independent Auditor's Report that relate directly to SDCERS.

9 Audit Reports Issued Between April 1, 2008 and September 30, 2008

- **Southeastern Economic Development Corporation Performance Audit of Operations**
(September 10, 2008)
 - Macias Consulting identified major problems in the management of SEDC and activities that rose to the level of fraud.
- **3 Close-out Audits (Various dates)**
 - No outstanding debts were found due to the City.

Audit Recommendations

- The audit reports made 53 recommendations to improve internal controls.
- We plan on following-up on recommendations every six months and issuing a report on the status of the recommendations.

Additional Work Products Issued

- Fiscal Year 2009 Audit Work Plan.
- Protocols for Presenting Internal Audit Reports.
- Provided technical guidance to Financial Management regarding user fee policies, best practices, and methodologies.
- Monthly updates to Audit Committee.

Current Audits

- City Library Fee Collection Process Audit (October 2008)
- Annual Central Stores Inventory Audit (October 2008)
- Proposition 64 Funds Audit
- Purchasing and Contracting - Requisition, Purchase Order and Contract Management
- OneSD Implementation Review

Accomplishments and Activities

- Hired 5 Principal Auditors
 - Received resumes from 73 qualified applicants.
- Fraud, Waste, and Abuse Hotline
 - Assumed responsibility on July 21, 2008
 - Opened the Hotline to the public on August 25, 2008
 - Hotline Administration Plan will be presented to the Audit Committee

Current Audits and Activities

- Training
 - Auditors are required to achieve 80 hours of training every two years.
 - Staff have obtained 427 hours of training (84% complete)
- New Auditor's Website
 - Copies of all issued audit reports and memorandums.
 - Policies and procedures for conducting audits.
 - Fraud, Waste, and Abuse Hotline information.

Conclusion

Questions or comments?