



## THE CITY OF SAN DIEGO

DATE: May 6, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, Internal Auditor

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

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

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

- 4/1/08 - Issued 2 Close-out Audit Reports for the following individuals:  
Richard Snapper  
Timothy Bertch
- 4/10/08 - Responded to the Committee on Budget and Finance to Provide Analysis on Resources Needed to Perform an Audit of Existing User Fees
- 4/14/08 - Presented our Fiscal Year 2008 Internal Auditor Update to the Audit Committee for the period July 1, 2007 through March 31, 2008 (Presentation Attached)
- 4/18/08 - Issued memo on Protocols for Presenting Internal Audit Reports
- 4/25/08 - Issued memo in Response to Jefferson Wells Report entitled Best Practices, Analysis and Recommendations for: Audit Committee Process for Reviewing Annual Financial Statements (CAFR); and Outside Auditor Selection, Communications and Evaluation
- 4/28/08 – Presented to the Audit Committee “Reporting Strategies”
- 4/28/08 - Issued Cash Count and Bank Reconciliation Audit Report  
Kroll Remediation of the City's Bank Reconciliation Process



**Current Audits and Activities:**

<b>Ongoing Audits</b>	<b>Description / Status</b>	<b>Target Completion Date</b>
<b>Close-out Audits</b>	Close-out audits are required by City Charter, Article VII, Section 111 when a City Official leaves office. The primary audit objectives are to verify that there are no outstanding debts owed by the City Official to the City, and to ensure that access to critical information and processes has been revoked. We are conducting a close-out audit for Matt McGarvey, former Chief Information Officer. We have used approximately 3 audit hours, and we estimate an additional 21 hours will be needed to complete the audit.	May 31, 2008
<b>City Library Fee Collection Process Audit</b>	The objective of our audit is to determine if the fees collected by the libraries are being properly collected and accurately reported by the City. Planning began the week of March 24, and the entrance conference was held with Library staff on April 1, 2008. Fieldwork is in progress. We anticipate completing this audit by the end of June 2008. We have used approximately 100 audit hours, and we estimate an additional 220 hours will be needed to complete the audit.	June 30, 2008
<b>Southeastern Economic Development Corporation (SEDC) Audit</b>	Overseeing a performance audit of SEDC. Macias Consulting is performing this Audit. Audit in progress.	July 28, 2008

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

<b>Ongoing Audits</b>	<b>Status</b>	<b>Target Completion Date</b>
<b>Audit of Internal Control Remediations</b>	<p>An audit staff member is testing management’s remediation efforts to correct weaknesses identified in the Kroll Report, external auditors’ reports and the Internal Auditor’s reports. We have completed testing of 110 of the 159 items reported as remediated as of December 31, 2007. When we identify items needing further remediation, we will issue an audit report. We expect to complete our testing of the remaining 49 items by the end of September 2008. We anticipate issuing a report on the SDCERS items by May 31, 2008. The expected completion date of this report was extended due to a delay in receiving information needed. We have used approximately 1,548 audit hours, and we estimate an additional 900 hours will be needed to test the remaining 49 items.</p>	<p>September 30, 2008</p> <p>(For Items Reported as Remediated as of 12/31/07)</p>
<b>Enterprise Resource Planning (ERP) System Implementation Review</b>	<p>The objectives of this audit is to: (a) determine if the City’s key financial activities are being adequately reviewed and documented prior to the new system implementation to ensure key financial processes are properly addressed by the new system and (b) determine if the system was adequately tested prior to implementation. The entrance conference was held on April 15<sup>th</sup>, and approximately 113 audit hours has been used for this review. An audit staff member has been attending ERP Blueprint Workshops to gain an understanding of how the system will be designed for various user needs; Communications Network Meetings to obtain the feedback from Departments on implementation issues; and Training and Change Champion Meetings to gain an understanding of employee training issues. She will be attending 40 hours of specialized training starting May 12<sup>th</sup> - “Introduction to Auditing SAP ERP”. The estimated audit hours needed to complete this review is still to be determined.</p>	<p>April 2008 – TBD</p>

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

<b>Ongoing Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<b>City Auditor Website</b>	Met with the Chief Information Officer's staff to determine what is needed to create a City Auditor Website. The website will include our mission statement, audit reports and memos issued, Hotline procedures, links to the Audit Committee agendas/actions, audit staff information, our audit manual, and other materials. The City Auditor webpage will be in place by the beginning of the new fiscal year.	July 3, 2008
<b>Disclosure Practices Working Group (DPWG)</b>	Internal Auditor participates in DPWG meetings as an Ex-Oficio member. Approximately 15 hours were spent participating in various DPWG meetings during the month.	On-going
<b>Fraud, Waste and Abuse Hotline</b>	Participate in biweekly meetings to review hotline complaints. Investigations will be performed by Internal Audit for accusations of material fraudulent activity or questionable financial reporting. No hotline calls required investigation by Internal Audit during the month of April 2008.	On-going
<b>Follow-up on Previously Issued Audit Reports</b>	<p>We previously reviewed audit reports that did not have a response from management on file indicating that the audit recommendations were implemented. We have received all audit report responses needed with the exception of the following two reports:</p> <ol style="list-style-type: none"> <li>1. SDCERS - Audit of Account of George Loveland</li> <li>2. SDCERS - Audit of Corbett Payment 2004 and Related Allowances</li> </ol> <p>We will continue to follow-up with SDCERS until written responses are received.</p>	On-going

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

<b>Ongoing Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<b>Training</b>	4 audit staff members attended an Institute of Internal Auditors meeting and received 1 hour of continuing professional education on Payment Card Industry Compliance. The Internal Audit Manager is in the process of becoming a Certified Fraud Examiner (CFE). He has completed approximately 80 percent of the CFE pre-test training.	On-going
<b>Audit Committee's Ad Hoc Advisory Committee</b>	The Internal Auditor met with members of the Audit Committee's Ad Hoc Advisory Committee to discuss their recommendations.	N/A

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

<b>Audit</b>	<b>Description</b>	<b>Target Start/Completion Date</b>
<b>Best Practices, Methodologies and Protocols Regarding Local Government User Fees</b>	Prior to the Mayor's planned review of the City's User Fees, Internal Audit will research the best practices, methodologies, and protocols regarding local government user fees. The goal of this report will provide information and tools to help the Administration update user fees. Estimated audit hours: 210	June – July 2008
<b>Annual Central Stores Inventory Audit</b>	The San Diego Municipal Code Section §22.0501 requires an annual audit of inventory in the City storerooms and warehouses. The objectives of this audit are to confirm the valuation of Central Stores inventory and to evaluate the storerooms internal controls to safeguard inventory. Estimated audit hours: 240	June – August 2008

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

<b>Audit</b>	<b>Description</b>	<b>Target Start/Completion Date</b>
<b>Real Estate Assets- Qualcomm Stadium Administration Audit</b>	The objective of our audit will be to determine if the revenue generated by Qualcomm Stadium is being properly collected and accurately reported by the City. Estimated audit hours: TBD	TBD

**Note:** The Community Facilities District #3 Cost Reimbursement Audit was removed from the audit plan because Debt Management staff advised that the contractor will not be submitting any reimbursement packages for review this fiscal year.

cc: Honorable Mayor Jerry Sanders  
Honorable City Council Members  
Jay M. Goldstone, Chief Operating Officer  
Mary Lewis, Chief Financial Officer  
Andrea Tevlin, Independent Budget Analyst  
Stanley Keller, Independent Oversight Monitor

*Fiscal Year 2008  
Internal Auditor Update*

**Audit Committee Meeting  
April 14, 2008**

## 19 Audit Reports Issued Between July 1, 2007 and March 31, 2008

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- Review of Water Department's and Metro Wastewater's Rate Increase Calculation (July 11, 2007)
  - We found no material errors in the mathematical accuracy of the final calculations used.



## 19 Audit Reports Issued Between July 1, 2007 and March 31, 2008

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- Review of Community Facility District No. 3  
Liberty Station Cost Reimbursement  
(August 9, 2007)
  - Our review determined the amount requested for reimbursement was sufficiently supported and accurate.

## 19 Audit Reports Issued Between July 1, 2007 and March 31, 2008

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- **General Services Inventory Audit**  
(December 6, 2007)
  - Equipment Division assumed management of 4 inventory storerooms, and there are no documented policies and procedures for their inventory management processes.
  - 1 recommendation made and agreed to by management.

## 19 Audit Reports Issued Between July 1, 2007 and March 31, 2008

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- Central Stores Inventory Audit  
(December 10, 2007)
  - Although improvements could be made to increase the accuracy of the inventory maintained by some storerooms, the overall net value of items found to be over/(short) is immaterial compared to the value of the items counted.
  - 9 recommendations made. 8 were agreed to by management and 1 is under review.

## 19 Audit Reports Issued Between July 1, 2007 and March 31, 2008

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- **2008 Annual Report on Internal Controls**  
(January 3, 2008)
  - The Administration made progress in resolving internal control weaknesses that have a direct impact on financial reporting; however additional work needs to be done.
  - As of January 1, 2008, the work remaining included remediating 58 additional weaknesses directly related to financial reporting.
  - Of 54 items tested, all were fully remediated except for 4 issues found. 4 recommendations were made to address these issues.

## 19 Audit Reports Issued Between July 1, 2007 and March 31, 2008

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- San Diego Public Library Foundation Audit  
(February 19, 2008)
  - The City could improve its oversight of the MOU with the San Diego Public Library Foundation by improving internal controls related to contract compliance, contract reporting, and contract monitoring.
  - 18 recommendations made and agreed to by management
- 12 Close-out Audits (Various dates)
  - No outstanding debts were found due to the City.

# Audit Recommendations

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- We made 32 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

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- 2008 Citywide Risk Assessment and Internal Audit Work Plan.
- Response to Jefferson Wells Report to the San Diego Audit Committee.
- Monthly Updates To Audit Committee.

# Current Audits and Activities

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- Testing Kroll, KPMG, MGO, and A&C report items the Administration reported as remediated.
- Overseeing a performance audit of Southeastern Economic Development Corporation.
- Participate on the Hotline Intake Review Committee.
- Participate in the Disclosure Practices Working Group (ex-officio member).



# Current Audits and Activities

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- Cash Count and Reconciliation Audit
  - Expected issue date April 2008.
- City Library Fee Collection Process Audit
  - Entrance Conference held on April 1, 2008.
  - The objective is to determine if library fees are properly collected and reported.

# Current Audits and Activities

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- Audit of the Enterprise Resource Planning System Implementation
  - Preliminary objectives are to (a) determine if key financial activities are being adequately reviewed and documented prior to implementation (b) determine if management is adequately testing the system and data input prior to implementation.

# Current Audits and Activities

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- Training
  - Auditors are required to achieve 80 hours of training every two years.
  - Staff have obtained 133 hours of training (33% complete).
- New Audit Manual
  - Documents policies and procedures for conducting audits.
  - Revised audit process to comply with Government Auditing Standards.

# Conclusion

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Questions or comments?