



THE CITY OF SAN DIEGO

DATE: June 4, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, Internal Auditor

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

This report provides information on Internal Audit's activities and accomplishments for the month of May 2008, the status of current audit projects, activities, and a summary of planned audits.

Accomplishments:

- Internal Audit hired Farhat Popal as a student intern while she is on summer break from her Masters program at the University of California, Berkeley, Goldman School of Public Policy. She currently has a Political Science / Internal Relations Bachelor of Arts degree from the University of California, San Diego. Farhat began work on June 2, 2008, and she will be assisting with our research project for the best practices, methodologies and protocols regarding local government user fees.
- The Internal Audit staff member assigned to the Enterprise Resource Planning (ERP) System Implementation Review attended 40 hours of specialized IT training "Introduction to Auditing SAP ERP". This training identified ways to perform an effective and efficient audit in an SAP environment, explained the internal control features and functions of the core SAP ERP business processes, and provided knowledge of SAP ERP technical features and functions including an introduction to SAP ERP security and SAP Governance, Risk, and Compliance suite of tools.
- Four Audit staff members attended the Association of Local Government Auditors Annual Conference and one staff member attended the Intergovernmental Audit Forum to receive specialized training related to government auditing.



Current Audits and Activities:

Audit Activity	Description / Status	Target Completion Date
Audit of Permits Issued for the Blackwater Facility	The objectives of this requested audit is to determine if 1) Blackwater misrepresented its identity or intended use of the facility located in Otay Mesa Development District; 2) Development Services was in compliance with codes and regulations in issuing the permits for the Blackwater facility; and 3) the designation of vocational / trade school for the Otay Mesa site was appropriate. We have used approximately 240 audit hours, and we estimate an additional 40 hours will be needed in June to complete the audit. The target completion dates for other audits were extended due to this unscheduled audit.	June 5, 2008
Close-out Audits	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 8 audit hours, and we estimate an additional 16 hours will be needed to complete the audit.	June 20, 2008
City Auditor Website	Working on creating 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

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Southeastern Economic Development Corporation (SEDC) Audit	Overseeing a performance audit of SEDC. Macias Consulting is performing this Audit. Audit in progress.	July 28, 2008
City Library Fee Collection Process Audit	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 July 2008. We have used approximately 130 audit hours, and we estimate an additional 180 hours will be needed to complete the audit.	July 31, 2008
Audit of Internal Control Remediations	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 October 2008. We anticipate issuing a report on the SDCERS items by July 18. We have used approximately 1,568 audit hours, and we estimate an additional 880 hours will be needed to test the remaining 49 items.	October 31, 2008 (For Items Reported as Remediated as of 12/31/07)

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Enterprise Resource Planning (ERP) System Implementation Review	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 th , and approximately 158 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. The estimated audit hours needed to complete this review is still to be determined.	April 2008 – TBD
Disclosure Practices Working Group (DPWG)	Internal Auditor participates in DPWG meetings as an Ex-Oficio member. Approximately 6 hours were spent participating in various DPWG meetings during the month.	On-going
Fraud, Waste and Abuse Hotline	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. Two hotline calls received in the month of May 2008 require investigation by Internal Audit.	On-going

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Follow-up on Previously Issued Audit Reports	<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"> 1. SDCERS - Audit of Account of George Loveland 2. SDCERS - Audit of Corbett Payment 2004 and Related Allowances <p>We will continue to follow-up with SDCERS until written responses are received.</p>	On-going
Training	<p>The Internal Audit Manager is in the process of becoming a Certified Fraud Examiner (CFE). He has completed the CFE pre-test training requirements, and will take the CFE exam in June.</p>	On-going

Planned Audits - Through June 30, 2008:

Audit	Description	Target Start/Completion Date
Best Practices, Methodologies and Protocols Regarding Local Government User Fees	<p>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</p>	June – July 2008

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

Audit	Description	Target Start/Completion Date
Annual Central Stores Inventory Audit	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
Proposition 64 Funds Audit	The objective of this requested audit is to determine if Proposition 64 funds are being properly budgeted and used solely for the enforcement of consumer protection laws. Estimated audit hours: TBD	June – July 2008
Real Estate Assets- Qualcomm Stadium Administration Audit	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

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