




THE CITY OF SAN DIEGO  
MAYOR JERRY SANDERS

M E M O R A N D U M

DATE: February 5, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, Internal Auditor 

SUBJECT: Internal Audit Activities and Accomplishments from July 1, 2007 to January 31, 2008

---

As set forth in the Mayor's Statement of Operating Principles for the Auditor, I am informing the members of the Audit Committee of Internal Audit's activities and accomplishments for the seven month period between July 1, 2007 and January 31, 2008. On October 22, 2007, I assumed the duties of the Internal Auditor.

**Issued the Following Audit Reports and Products (Attached)**

- 2008 Annual Report on Internal Controls.
- Central Stores and General Services Inventory Audit.
- Close-out audits on seven individuals.
- Review of Water Department's and Metro Wastewater's Rate Increase Calculation.
- Review of Community Facility District No. 3 Liberty Station Cost Reimbursement.

**Other Accomplishments**

- Developed a comprehensive audit manual to provide guidance to staff on performing audits in accordance with government auditing standards.
- The office joined several professional audit organizations, including the Institute of Internal Auditors, Association of Local Government Auditors, Association of Government Accountants, and Association of Certified Fraud Examiners.

### **On-Going Audits and Activities**

- 2008 Citywide Risk Assessment and Internal Audit Work Plan (February 2008).
- San Diego Public Library Foundation Audit (February 2008).
- Performing on-going testing of the weaknesses identified in the Kroll Report, as well as the internal control letters from the independent auditors (KPMG LLP and Macias Gini & O'Connell LLP), and the prior Auditor and Comptroller's Internal Control Reports (On-going).
- Fiscal Year 2007 Cash Count and Cash Reconciliation Process Audit (February 2008).
- Overseeing a Macias Consulting agreement to conduct a performance audit of Southeastern Economic Development Corporation.
- Coordinating with Administration officials regarding the on-going U.S. Department of Housing and Urban Development's audit of the City's Community Development Block Grant program.
- Coordinating with Administration officials regarding testing of internal controls in the OneSD ERP system.
- Conducting follow-up work on other previously issued audit reports.

### **Other Activities**

- Attended Audit Committee meetings.
- Held introductory meetings with all eight City Council Members.
- Met on a bi-weekly basis with the Chief Operating Officer.
- Participated in the Hotline and Intake Review Committee meetings.
- Attended monthly director brown bag meetings.
- Provided assistance to Water and Metropolitan Wastewater officials regarding the Independent Rate Oversight Committee requirements for a performance audit.
- Attended training seminar sponsored by Director's Roundtable and CONNECT regarding U.S. Securities and Exchange Commission Disclosure and Enforcement practices.

Page 3

Honorable Members of the Audit Committee

February 5, 2008

- Asked to serve as a judge in the Association of Local Government Auditors Knighton Award competition for best performance audit.

Eduardo Luna

Internal Auditor

cc: Honorable Mayor Jerry Sanders  
Honorable City Council Members  
Jay M. Goldstone, Chief Operating Officer  
Andrea Tevlin, Independent Budget Analyst

**City of San Diego**

***ANNUAL REPORT ON  
INTERNAL CONTROLS***

***January 1, 2008***

**Internal Audit  
Eduardo Luna, CIA, GGFM, Internal Auditor**



## THE CITY OF SAN DIEGO


January 3, 2008

Honorable Council President Peters and Councilmembers  
City of San Diego  
202 C Street  
San Diego, CA 92101

Transmitted herewith is the 2008 Annual Report on Internal Controls. This report is in accordance with the San Diego Municipal Code Section 22.0708. The required certification signed by the Chief Operating Officer will be issued under separate cover.

This report will be presented to the Audit Committee at its January 28, 2008 meeting. The Internal Audit staff members that participated in the preparation of this report are Kyle Elser, Tricia Mendenhall, and Danielle Knighten.

Respectfully submitted,

  
Eduardo Luna  
Internal Auditor

cc: Honorable Mayor Sanders  
Jay M. Goldstone, Chief Operating Officer  
Michael Aguirre, City Attorney  
Andrea Tevlin, Independent Budget Analyst  
Stan Keller, SEC Consultant



# Table of Contents

<u>Section</u>	<u>Page</u>
Introduction	1
Internal Controls	2
Objective, Scope, and Methodology	3
Executive Summary	5
Recommendations	9
Conclusion	9
Exhibits:	
A- Comprehensive Annual Financial Report Preparation	
B- Information Technology	
C- Financial Disclosure	
D- San Diego City Employees' Retirement System	
E- Budget	
F- Assessments	
G- Control Environment	
H- Training	

# Introduction

In October 2004, the San Diego City Council adopted Ordinance 19320 in order to achieve “a high standard of quality in and efficacy of the City’s financial and disclosure practices.” To implement Ordinance 19320, San Diego Municipal Code Section 22.0708 requires the City Auditor and Comptroller to perform an annual evaluation of the City’s internal financial controls and their operation and meet with the City’s independent auditors to review the design and operation of the City’s internal financial controls.

San Diego City Charter Section 39 has established that the City Auditor and Comptroller “shall be the chief fiscal officer of the City.” Under the current strong mayor form of government, the chief fiscal officer of the City is the Chief Financial Officer. To ensure proper independence in the evaluation of the City’s internal financial controls, the Internal Auditor performed the required annual evaluation of the City’s internal financial controls and their operation. The Internal Auditor began work on October 22, 2007 and reports directly to the Chief Operating Officer. The Internal Auditor also communicates and consults with the City’s Audit Committee regarding Internal Audit activities and audit results.

This 2008 Annual Report provides a status update on management’s remediation efforts to correct the weaknesses that have been identified in the Kroll Report, as well as the internal control letters from the independent auditors (KPMG LLP and Macias Gini & O’Connell LLP), and the prior Auditor and Comptroller’s Internal Control Reports. Specifically, we focused on evaluating the internal controls identified in those reports that may have a direct impact on the timely and accurate preparation of the City’s annual financial statements. Internal Audit has begun performing assurance testing to determine if the weaknesses have been corrected as stated by management. Included in this report is the required internal control certification signed by the City’s Chief Operating Officer and Comptroller.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

## Internal Controls

Government Auditing Standards establish that internal control “comprises the plans, policies, methods, and procedures used to meet the organization’s mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management’s systems for measuring, reporting, and monitoring program performance.” Management is responsible for developing, implementing, and maintaining internal controls. Ultimately, internal controls provide reasonable, but not absolute assurance that the organization’s goals will be achieved.

The various external and internal reports have identified internal control weaknesses or errors that require corrective procedures or actions by management or those in charge of City Governance. To comply with Ordinance 19320, we evaluated the remediation status of the prior internal control weaknesses identified that have a direct impact on the timely and accurate preparation of the City’s Comprehensive Annual Financial Report (CAFR). To better evaluate these items, we used the following categories:

Category	Description	Exhibit
CAFR Preparation	Processes and procedures related to the recording of transactions and creation of the City’s CAFR.	A
Information Technology	Information technology systems and related controls used to process, store and record the City’s financial data.	B
Financial Disclosure	Policies and procedures related to the accuracy of information given as an attachment to the CAFR in footnotes or supplementary form.	C
San Diego City Employees’ Retirement System (SDCERS)	Policies, procedures and transactions related to the City’s retirement benefits and contributions.	D
Budget	Policies, procedures and goals related to providing accurate, timely and adequate budgetary information.	E
Assessments	Policies and methodologies used to determine the valuation of actuarial information and deferred maintenance.	F
Control Environment	Policies and procedures related to management’s role and responsibility for accurate financial reporting.	G
Training	Policies and procedures used to ensure staff are adequately trained in areas related to financial reporting.	H



## Objective, Scope, and Methodology

The objective of this review is to evaluate the remediation efforts of management to correct internal control weaknesses related to financial reporting that have been identified in the Kroll Report, as well as the internal control letters from the independent auditors (KPMG LLP and Macias Gini & O'Connell LLP), and the prior Auditor and Comptroller's Internal Control Reports. Specifically, we reviewed the internal control weaknesses identified in the following reports:

- Kroll Report of the Audit Committee of the City of San Diego, Investigation Into The San Diego City Employees' Retirement System and the City of San Diego Sewer Rate Structure, August 8, 2006.
- KPMG LLP's report dated March 12, 2007 related to fiscal year ended June 30, 2003, Independent Auditors' 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.
- Macias Gini & O'Connell's report dated April 18, 2007 related to fiscal year ended June 30, 2003, Independent Auditor's Report on Schedule of Expenditures of Federal Awards.
- Macias Gini & O'Connell's report dated May 11, 2007 related to fiscal year ended June 30, 2004, 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.
- Macias Consulting Group, Inc.'s Electronic Data Processing Review of General Controls of the Core Financial Management System at the City of San Diego dated April 29, 2005.
- Macias Consulting Group, Inc.'s Follow Up to 2005 Electronic Data Processing Review Findings for the City of San Diego and Review of Reporting Functions dated May 12, 2006.
- Auditor and Comptroller's 2006 Internal Control Report (note that the Auditor & Comptroller's 2007 Internal Control Report restricted its scope to the findings noted in the 2006 report, no additional findings were reported).
- Macias Gini & O'Connell's report dated October 26, 2007 related to fiscal year ended June 30, 2005, 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.

These reports identified a total of 244 internal control weaknesses or errors that require corrective procedures or actions by management or those in charge of City Governance. The scope of this report is limited to evaluating the internal control weaknesses that may have a direct impact on the accuracy and timeliness of financial reporting. Of the 244 items, we identified a total of 149 (61.1 percent) weaknesses or errors that are directly related to financial reporting that will be addressed by this report. We will test the remaining 95 items that are not directly related to financial reporting, and report on findings in subsequent remediation reports.

For each weakness, we identified a responsible official and requested information regarding the status of management's remediation efforts. For those weaknesses that management reports as remediated, we are performing assurance testing to verify that adequate corrective actions have been taken. We quantified the items that management has reported as remediated during calendar year 2007 compared to prior years, and identified items that need additional actions to be taken based on our testing to date.

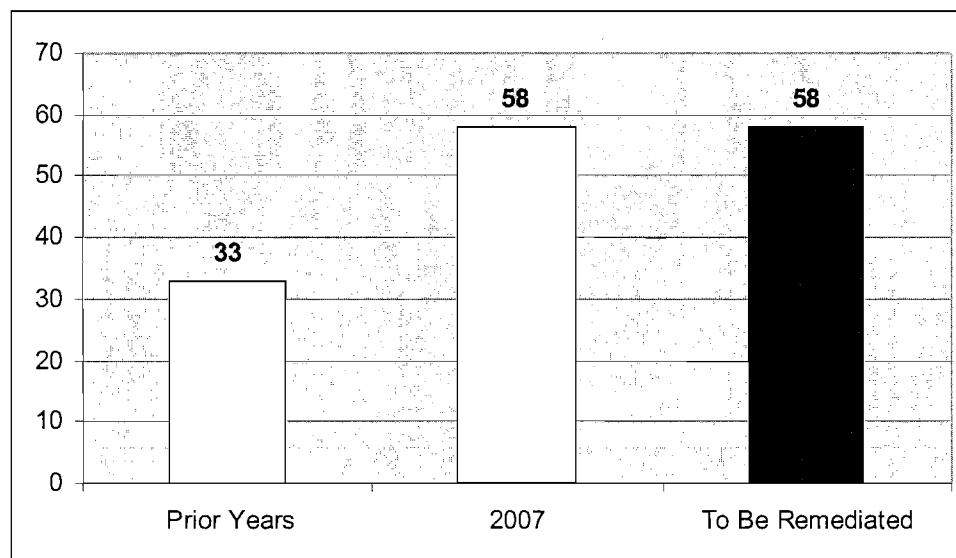
## Executive Summary

In 2007, the Administration has made significant progress in correcting prior internal control weaknesses directly related to financial reporting as identified in past reports. As of December 31, 2007, management reported that they have remediated 91 of the 149 (61.1 percent) internal control weaknesses directly related to financial reporting. Notwithstanding the progress made in 2007, the Administration needs to correct an additional 58 weaknesses to fully comply with the recommendations made by Kroll, independent auditors, and previous internal control reports. We have tested 54 (59.3 percent) of the 91 items to date, and found all have been fully remediated except for the 4 issues discussed on pages 7 and 8 of this report. We made 4 recommendations that should be considered for additional actions to be taken. See Exhibits A through H for the details of the control weaknesses and the status of remediation and testing.

## Findings

As shown in Graph 1, in prior years the Administration reported 33 weaknesses as remediated, and in 2007 they reported an additional 58. This represents a 76.0 percent increase from the prior years.

**Graph 1: Number of Internal Financial Control Weaknesses Remediated to Date**



Source: Auditor analysis of Administration information.

To verify that the reported weaknesses are being corrected, we have tested 54 (59.3 percent) of the 91 remediated items to date. Table 1 summarizes by category the volume and status of the prior internal control weaknesses identified.

**Table 1: Prior Internal Control Weaknesses Identified by Kroll, Independent Auditor's and City Auditor & Comptroller Directly Related to Financial Reporting**

Category	Control Weaknesses Identified	Control Weaknesses Reported by Management as Remediated	Percent Management Reported as Remediated	Internal Audit's Assurance Testing Complete	Percent Internal Audit's Assurance Testing Complete
CAFR Preparation	67	31	46.3	22	71.0
Information Technology	27	16	59.3	13	81.3
Financial Disclosure	12	8	66.7	4	50.0
SDCERS Reporting	6	6	100.0	1	16.7
Budget	12	11	91.7	1	9.1
Assessments	3	3	100.0	0	0.0
Control Environment	15	10	66.7	10	100.0
Training	7	6	85.7	3	50.0
<b>TOTAL</b>	<b>149</b>	<b>91</b>	<b>61.1</b>	<b>54</b>	<b>59.3</b>

Source: Auditor analysis of Administration information.

**Note:** There are 95 other control weaknesses that are not directly related to financial reporting which we will cover in subsequent reports. These 95 other weaknesses are related to Compliance, Monitoring, SDCERS, Audit Committee, Ordinances, Internal Audit, Information Technology, and Human Resources. Altogether, there are total of 244 identified internal control weaknesses.

We found that 3 categories comprised the majority of the internal control weaknesses that still need to be remediated. Table 2 shows that 58 of the 149 items (38.9 percent) still need to be remediated. Of the 58 items, 36 (62.1 percent) pertain to CAFR Preparation; 11 (19.0 percent) are related to Information Technology; and 5 (8.6 percent) deal with the Control Environment. Based on the reported information, these 3 categories represent 90 percent of the remaining control weaknesses that still need to be remediated.

**Table 2: Status of Non Remediated Internal Controls Weaknesses  
Directly Related To Financial Reporting, 2007**

<b>Category</b>	<b>Non Remediated Items</b>	<b>Percent of Non Remediated Items</b>
<b>CAFR Preparation</b>	<b>36</b>	<b>62.1</b>
<b>Information Technology</b>	<b>11</b>	<b>19.0</b>
Financial Disclosure	4	6.9
SDCERS Reporting	0	0.0
Budget	1	1.7
Assessments	0	0.0
<b>Control Environment</b>	<b>5</b>	<b>8.6</b>
Training	1	1.7
<b>TOTAL</b>	<b>58</b>	<b>100.0</b>

Source: Auditor analysis of Administration information.

**Based on our audit testing of 54 items reported as remediated, we have determined that all have been fully remediated except for the 4 issues listed below. We have made 4 recommendations that should be considered for additional actions to be taken.**

**CAFR Preparation Exhibit A – Items 2 through 22**

A specific recommendation was not made in the prior reports for all of the errors found in the CAFR. For many of these errors, no specific remediation was recommended except to correct the error in the CAFR. The Comptroller's staff reported that these errors have been corrected, but the underlying control weaknesses are still in the process of being fully remediated. The Comptroller reported that in most cases the action remaining to be completed is the formal documentation of policies and procedures. Internal Audit's testing of Exhibit A, items 2 through 22 verified that these errors were corrected in the CAFR, and we are considering these items as remediated. However, as the Comptroller's staff completes their formal documentation of policies and procedures for the CAFR preparation, all of these errors should be reviewed to ensure adequate procedures are in place to reduce the risk of the same errors occurring in the future. Internal Audit plans to review the Comptroller's documented procedures when they are finalized to determine if these errors were adequately addressed. The Comptroller advised that he has hired a Principal Accountant to help document procedures, and he has presented a project plan to the Chief Operating Officer that will be presented to the Audit Committee in January 2008.

#### **Financial Disclosure Exhibit C – Item 1:**

One Kroll report item stated “Continue the operations of the Disclosure Practices Working Group (DPWG) and add the CFO not only as an official member but also have this person serve as chair.” At the April 30, 2007 City Council meeting, Council accepted the Independent SEC Monitor's report to make changes to the San Diego Municipal Code (SDMC) §22.4101 - 22.4112 without exception. One of the changes includes adding the CFO to the DPWG; however, the CFO would not chair the group as suggested by Kroll, but rather the Deputy City Attorney of Finance and Disclosure will be the Coordinator. Council accepted the report with the recommended changes, and the City Attorney's office was asked to draft an ordinance to make the approved changes. To date, these changes have not been incorporated into the SDMC.

#### **Financial Disclosure Exhibit C – Item 2:**

A Kroll report item stated “The DPWG should report to the City’s new Audit Committee.” During our review of the current SDMC related to this item, we noted that the DPWG has not filed their report to the Audit Committee within the filing date requirements.

SDMC §22.4106(a)(3) states:

*...the Disclosure Practices Working Group shall:*

*(3) submit a written Annual Report on the Committee's work and findings to the City Council and to the Audit Committee on or before (November 1) of each year, beginning (November 1, 2005).*

Although the DPWG’s annual report was recently filed, it was not filed by November 1 2007. For timely reporting and to be in compliance with the SDMC, the DPWG should file their annual report to the Audit Committee by November 1 of each year.

#### **Financial Disclosure Exhibit C – Item 4:**

A prior internal control report item stated “Certain challenges face the DPWG in its compliance with Ordinance 19320, including time constraints, awareness of departmental initiatives, DPWG jurisdiction, and dissemination of information likely to reach financial markets. All communications from the Mayor, Council, and City Attorney cannot be completely monitored for potential impacts to financial markets. Therefore, further define the scope and responsibilities of the DPWG.” At the April 30, 2007 City Council meeting, Council accepted Independent SEC Monitor's report to make changes to SDMC §22.4101 - 22.4112 without exception. However, during this Council meeting, no changes were proposed to further define the DPWG's scope and responsibilities.

# **Recommendations**

## **Recommendation 1**

The Comptroller's staff should review the errors listed on Exhibit A, items 2 through 22 as they complete their formal documentation of policies and procedures for the CAFR preparation to ensure adequate procedures are in place to reduce the risk of the same errors occurring in the future.

## **Recommendation 2**

The DPWG should file their annual report to the City's Audit Committee by November 1 of each year, or this requirement should be removed from the DPWG ordinance if this filing requirement is overly restrictive.

## **Recommendation 3**

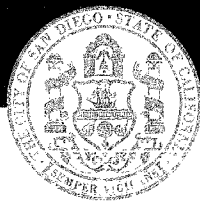
Request the DPWG draft and submit a Request for Council Action to further define the DPWG's scope and responsibilities.

## **Recommendation 4**

Take the steps necessary to finalize the changes to the DPWG ordinance so it is incorporated into the San Diego Municipal Code, including the change to add the Chief Financial Officer as a member of the DPWG, and to further define the DPWG's scope and responsibilities.

# **Conclusion**

In 2007, the Administration continued to make progress in resolving internal control weaknesses that have a direct impact on financial reporting; however, additional work remains to be done. In 2007, the Administration reported 58 weaknesses remediated, compared to 33 items in prior years. Our testing of 54 of the items revealed that all were corrected with the exception of 4 issues. The work remaining includes remediating 58 additional weaknesses directly related to financial reporting.



## THE CITY OF SAN DIEGO AUDIT REPORT

Monday, December 10, 2007

Tammy Rimes  
Acting Director Purchasing and Contracting

**SUBJECT: CENTRAL STORES INVENTORY AUDIT**

**PERIOD: FISCAL YEAR 2007**

### **AUDIT PURPOSE:**

- To confirm valuation of Central Stores inventory.
- To evaluate Storeroom internal controls.

### **METHODOLOGY:**

- Reviewed procedures for issues, receipts and transfers of stock, and evaluated governing internal controls.
- Stratified the inventory by total inventory value at all storerooms. Selected a random sample of inventory from seven (7) storerooms based on value: 1% of items with a value less than \$1,000, 10% of items valued between \$1,000 and \$5,000 and 100% of items with a value greater than \$5,000. Compared quantity per physical inventory count to the automated inventory system (FleetFocus).
- Analyzed year to date adjustments, suspense items and obsolete inventory for compliance with City of San Diego regulations (i.e. Municipal Code and Administrative Regulations).
- Determined if prior audit recommendations were implemented.

### **SUMMARY:**

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. We performed a physical count of **172** stock items from Central Stores inventory, with a total value of **\$800,465**, and found 51 of those items (29.7%) were over or (short). The net value of over/(short) items is **(\$10,418)** or **(1.3%)** of the total value of the inventory counted. It should be noted that a majority of this discrepancy was due to over/(short) items at departmental storerooms. Supervising staff of those departmental storerooms are receiving a copy of this report to notify them of the results of our audit.





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. Below is a table summarizing the results of the Fiscal Year 2007 inventory count, and a summary by storeroom (Exhibit A) is attached.

DESCRIPTION	FY 2007
Value of Central Stores Inventory (As of 6/13/07) [1]	\$2,047,383
Total Number of Items in Central Stores Inventory [1]	3,902
Number of Items Counted	172
Number of Items Over and Short (Gross)	51
Percentage of Items Over and Short (Gross)	29.7%
Value of Items Counted	\$800,465
Value of Items Over and Short (Gross)	\$16,979
Value of Items Over and (Short) – Net	(\$10,418)
Percentage of Value Over and (Short) – Net	(1.3%)

Footnote:

[1] Excludes 319 items valued at \$30,042 that was being transferred to Fleet Service Division.

**CENTRAL STORES RESPONSE:**

*Central Stores will continue to strengthen internal controls to increase inventory accuracy. It is important to note that Central Stores under Purchasing & Contracting Department (Store 1 Central Operations) and Store 2 (Chollas Operations) reported an inventory accuracy rate of 85% with the dollar accuracy rate of 99.7%. In comparison, the five (5) Departmental stores (Store 42 and 43 Fire, Store 75 Police, Store 77 Library and Store 88 Equipment Division), reported an accuracy rate of 52% with the dollar accuracy rate of 94.2%. Central Stores will work with management at the Departments of these Storerooms to review their internal processes/controls to assist with bringing up their inventory accuracy measures to within the set standards. Central Stores management will also open discussions with those Departments which have Departmental Storerooms to explore the possibility to further streamline storeroom functions by way of consolidating these operations into the Central Stores staffed and operated warehouses. Stores 43 and 88 are no longer part of the Central Stores system as of July of FY08, they have been merged into the General Services Fleet Management Division.*

**FINDINGS AND RECOMMENDATIONS:**

**Finding 1: The Storekeeper's procedures for processing stores requisitions should be improved to strengthen internal controls over the issuance of inventory items.**

We tested 71 Stores Requisition authorizations, and found 44 out of 71 (62%) were lacking in adequate segregation of duties regarding the issuance of inventory items. Of the 71 requisitions reviewed, 5 or 7% were missing an "Authorized By" signature, 19 or 27% were missing a "Received by" signature, 4 or 6% were missing both the "Authorized By" and "Received By" signatures, and 16 or 23% had the same signature for both "Authorized By" and "Received By". A memo will be sent to Department Director's (see memo attached) recommending they review their inventory procurement procedures to ensure adequate compensating controls over purchases are in place.

In addition, 42 of the requisitions had not yet been entered into FleetFocus. We reviewed these requisitions for timeliness of processing and found that 9 or 21% had a date that was older than 1 week. When stores requisitions are not processed in a timely manner, there is a risk of loss of the requisition resulting in inaccurate inventory and accounting.

**Recommendations:**

- A. Ensure each requisition form completed for all stock issuances has a "Received By" and "Authorized By" signature properly recorded on the form.**
- B. Ensure you maintain a file of authorization memos for those departments that permit the same individual to authorize the requisition and receive the goods.**
- C. Ensure all requisitions are processed daily.**

**CENTRAL STORES RESPONSE:**

- A. All Central Stores Requisitions require an "Authorized and Received" by Signature. This procedure will be reviewed with all Storeroom staff in both Central Stores as well as the Departmental Stores to ensure full compliance.*
- B. We will meet with our customer departments within the next sixty (60) days to discuss this recommendation.*

- C. *Requisitions are posted/processed every day as long as the provided accounting information is accurate. A time stamp will be placed at both Store 1 (Central Operations) and Store 2 (Chollas) to stamp the Order Requisitions when they are provided to Central Stores to measure same day processing. It is common for requisitions to sit in a City crew's possession for a few days after the requisition is approved making the date on the requisition old and non-measurable. City crews will be encouraged to submit requisitions in a more timely manner as well.*

**Finding 2: Internal control weaknesses were identified in the procedures for issuing stock to Non-City Agencies.**

Central Stores occasionally issues stock to Non-City Agencies. Agencies that purchase stock from Central Stores are invoiced bi-monthly. During our review, we noted that stock issues to 2 Non-City Agencies on 6/27/07 from the Police Department Storeroom, were not invoiced as of 8/16/07, indicating that Agencies are not invoiced in a timely manner. In addition, we noted the following internal control weaknesses:

- There is currently no written policy regarding stock issues to Non-City Agencies.
- There are currently no limitations on the type of stock that is issued to Non-City Agencies. Stock items issued ranged from forms to batteries.
- There are no procedures in place to verify that the employees from the Non-City Agencies are authorized by the outside Agencies to purchase stock from City storerooms (i.e. Authorized employee listings).

**Recommendations:**

- A. **Create a written policy for stock issued to Non-City Agencies. The policy should consider limitations on the type of stock issued and should include adequate controls to ensure purchases are authorized and all City costs are recouped. Ensure all departmental storerooms adopt this policy or submit a copy of their policy to Central Stores.**
- B. **Ensure the surcharge percentage billed to Non-City Agencies is sufficient to recoup all of overhead costs incurred by the City to invoice and collect funds from outside Agencies for stock purchases.**

**CENTRAL STORES RESPONSE:**

*Two Non-City Agencies were issued materials on June 27, 2007 from the Police Department Storeroom (Store 75) and were not invoiced as of August 16, 2007. These were found to be un-keyed requisitions that were keyed in after July, 2007. This meant that these transactions did not appear on the bi-monthly report for inventory sales to*

*Non-City Agencies for the period May 1, 2007 through June 30, 2007, as required. All other Non-City Agencies making purchases during this period were invoiced in a timely manner. This issue will be addressed with the Police Department's storeroom team as part of Finding No. 1, un-keyed requisitions.*

*Central Stores will create a written policy for stock issues to Non-City Agencies. This policy will outline any limitations on the type of stock that can be issued and will include the proper controls to ensure that all purchases are properly authorized by the agency. This policy will include any sales from departmental storerooms. Central Stores will also conduct a study of our current surcharge percentage billed to Non-City Agencies to determine if it sufficiently covers all overhead costs incurred to invoice and collect funds from outside agencies for stock purchases. Both the written policy and the surcharge study will be complete by December 31, 2007.*

**Finding 3: Pricing discrepancies were found for 3 items in the FleetFocus system, and significant differences were found in the price charged for the same stock items at various storerooms.**

The price shown in the FleetFocus system is calculated by the system and is based on a weighted average of the number of units purchased and the unit price paid by Central Stores at the time of purchase. We noted 3 items with significant pricing differences between the FleetFocus system and the price paid by Central Stores at the time of purchase (price shown on Purchase Order). Using a weighted average calculation, these differences ranged from 14% to 72% for these items. Per Central Stores staff, no explanation could be provided for the cause of the pricing discrepancies.

Additionally, price discrepancies were noted within the FleetFocus system for the same stock items at different storerooms. There were several items in inventory with a price difference between storerooms greater than \$10, and 18 of them had a percentage difference greater than 25%. Per Central Stores staff, these pricing discrepancies are due to: different units of measure sold at different storerooms for 4 of the items, different brand names carried at different storerooms for 13 of the items, and changes in market value for 1 item. A complete listing of these items is included in Exhibit B.

**Recommendations:**

- A. Require Central Stores staff to implement daily analytical procedures to identify and correct price discrepancies within the FleetFocus system and continue to work with the FleetFocus vendor to ensure pricing accuracy.**

- B. For items with pricing discrepancies due to unit of measure or differing brand name, require Central Stores staff to include descriptive notations in the FleetFocus system.**

**CENTRAL STORES RESPONSE:**

- A. Central Stores is scheduled to be in phase 1 of the City's implementation of SAP in the summer of FY09. Because of the delays in identifying the cause of the Unit Price Problem with the current FleetFocus vendor, Central Stores will create a daily procedure at each storeroom to ensure unit prices are accurate and document price variances of more than 10% after each purchase order receipt.*
- B. Unit of Measures in FleetFocus will be reviewed and updated at the location (warehouse) level to outline the selling unit of measure within the next sixty (60) days.*
- C. The introduction of the City's Procurement Card to procure inventory introduced a non-centralized procurement effort is resulting in different brand names of items being purchased other than the description in FleetFocus displays. This is causing like descriptions (same stores stock numbers) in FleetFocus to have a disparity in unit prices. System limits set forth in FleetFocus limit item descriptions at the location (warehouse) level. All item descriptions are captured at the item master level and if changed will change the description for all warehouses. A review of creating a centralized procurement effort for all Stores Stock will be done in the next 60 days which will ensure maximum efficiencies in the procurement process and similarity in stock items at all Storeroom locations.*

**Finding 4: Central Stores did not fully comply with Administrative Regulation (AR) 35.50 regarding obsolete inventory.**

AR 35.50 requires Central Stores to annually circulate to the principal using departments and divisions, a list of special stock items carried which are believed to be obsolete. The using department/division is to review the list and in writing, within 30 days, request the items they wish to continue to be stocked. Central Stores is to declare obsolete all the items not justified by the department/division within the 30 day time period.

Per the "Obsolete Items by Store Number – as of 6/30/07" report provided by Central Stores, 171 items are stocked with a last issue date prior to 6/30/06. The total value of these items is \$66,263.00. For FY2007, Central Stores circulated a list of 38 items believed to be obsolete to only one department.

**Recommendation:**

**In compliance with AR 35.50, circulate to the principal using departments and divisions, a list of the remaining 133 items with a last issue date prior to 6/30/06 to determine if the departments wish for these items to remain as stock items. Require the departments to respond within the 30 day time period. Upon receipt of the response, declare obsolete all the items not justified by the department.**

**CENTRAL STORES RESPONSE:**

*Central Stores will complete processing the memorandums to departments for the remaining 133 (0.4% of the items carried in active inventory) possible obsolete items before January 1, 2008. Upon receipt of the response, appropriate action will be taken to declare the obsolescence or justification to remain in inventory.*

**Finding 5: The Central Stores' Policy and Procedures Manual has not been updated subsequent to the implementation of FleetFocus System.**

As we reported in prior audits, Central Stores should keep the department's manual current as it serves as a source of reference for staff as well as a tool to evaluate staff performance. The manual should be updated to reflect the changes resulting from the implementation of the FleetFocus System and recent separation of the Fleet Service Division from Central Stores.

**Recommendation:**

**Update the Central Stores' Policy and Procedure Manual.**

**CENTRAL STORES RESPONSE:**

*The Central Stores Procedure Manual will be reviewed and updated this Fiscal Year where applicable. With the implementation of SAP in the summer of FY09, several business processes are expected to change and the Policy Manual will be updated as the implementation proceeds.*

I would like to thank Tammy Rimes and her staff for the assistance we received during the course of this audit. If you have any questions, please contact me.



Kyle Elser  
Internal Audit Manager

Attachments: 1. Exhibit A  
2. Exhibit B  
3. Memorandum to Department Directors

cc Honorable Audit Committee Members  
Jay Goldstone, Chief Operating Officer / Acting Chief Financial Officer  
Eduardo Luna, Internal Auditor  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA  
Jeff Jungers, Stores Operations Supervisor  
Steve Fragoso, Supervising Storekeeper  
Ron Villa, Fiscal Operations Manager, San Diego Police Department  
Doug Murphy, Fleet Parts Buyer  
Jeff Frazier, Deputy Fire Chief  
Dave Beers, Fleet Parts Buyer  
John Alley, Deputy Director, General Services  
Anna Tatar, Library Director

**Exhibit A**

**Central Stores Inventory Audit FY 2007  
Summary of Physical Inventory Counts  
Conducted June 25-29, 2007**

Store Number	Store Location	No. of Items Counted	Value of Items Counted	No. of Items in Storeroom	Percentage of Items Counted	Value of Items in Storeroom	Percentage of Value Counted
1	Central Stores, Central Operations (20th & B)	36	\$ 214,484.60	980	3.67%	\$ 581,457.31	36.89%
2	Central Stores, Chollas Operations	61	\$ 438,170.56	1,208	5.05%	\$ 913,459.19	47.97%
42	Fire & Life Safety	15	\$ 41,193.30	330	4.55%	\$ 181,127.65	22.74%
43	Fire & Life Safety, Repair Facility	15	\$ 20,286.24	611	2.45%	\$ 83,484.51	24.30%
75	Police Headquarters	15	\$ 68,319.13	440	3.41%	\$ 234,828.13	29.09%
77	Library, Central	15	\$ 13,825.29	119	12.61%	\$ 37,559.01	36.81%
88	Equipment Division, Chollas	15	\$ 4,185.62	214	7.01%	\$ 15,467.51	27.06%
TOTAL		172	\$ 800,464.74	3,902	4.41%	\$ 2,047,383.31	39.10%

Store Number	No. of Items Over	Value of Items Over	No. of Items Short	Value of Items Short	Total Absolute No. of Items Over/Short	Percentage Of Items Over/Short	Net Value of Items Over/(Short)	Net % Value Over/(Short)
1	1	\$ 54.56	0	\$ -	1	2.78%	\$ 54.56	0.03%
2	5	\$ 234.58	9	\$ (2,071.68)	14	22.95%	\$ (1,837.10)	-0.42%
42	5	\$ 2,653.76	7	\$ (3,834.29)	12	80.00%	\$ (1,180.53)	-2.87%
43	4	\$ 175.47	7	\$ (7,467.34)	11	73.33%	\$ (7,291.87)	-35.94%
75	3	\$ 152.50	6	\$ (324.24)	9	60.00%	\$ (171.74)	-0.25%
77	2	\$ 0.26	1	\$ (1.08)	3	20.00%	\$ (0.82)	-0.01%
88	1	\$ 9.04	0	\$ -	1	6.67%	\$ 9.04	0.22%
TOTAL	21	\$ 3,280.17	30	\$ (13,698.63)	51	29.65%	\$ (10,418.46)	-1.30%



**Central Stores Inventory Audit FY 2007**  
**Items with a Price Difference Greater than \$10 and 25%**

Footnote	Stock No	DESCRIPTION	Storeroom	Unit Price	% Diff	\$ Diff
	018028	KIT - END MIDLAND 107798 *PA199	89	\$ 21.10		
A	018028	KIT - END MIDLAND 107798 *PA199	88	\$ 22.14	5%	1.04
	018028	KIT - END MIDLAND 107798 *PA199	43	\$ 31.43	42%	9.29
	037531	HOSE GREASE-GUN 12" LINCOLN #8 *PA223	2	\$ 5.33		
A	037531	HOSE GREASE-GUN 12" LINCOLN #8 *PA223	43	\$ 7.22	35%	1.89
	037531	HOSE GREASE-GUN 12" LINCOLN #8 *PA223	89	\$ 21.01	191%	13.79
	177140	STEPLADDER FIBERGLASS 6FT NON-CONDUCTIVE GORILLA A-124-000	42	\$ 56.71		
A	177140	STEPLADDER FIBERGLASS 6FT NON-CONDUCTIVE GORILLA A-124-000	2	\$ 99.13	75%	42.42
	410977	DRILL SET 21PC CRAFTSMAN 9-64085 WESCO 71-4994-64085	2	\$ 55.32		
A	410977	DRILL SET 21PC CRAFTSMAN 9-64085 WESCO 71-4994-64085	1	\$ 79.11	43%	23.79
	412884	HAMMER SLEDGE 8LB W/HANDLE	1	\$ 13.84		
A	412884	HAMMER SLEDGE 8LB W/HANDLE	2	\$ 26.14	89%	12.30
	414839	PITCHFORK 6-TINE	1	\$ 30.20		
A	414839	PITCHFORK 6-TINE	2	\$ 47.00	56%	16.80
	417259	SOCKET SET 1/2" DRIVE	2	\$ 104.05		
A	417259	SOCKET SET 1/2" DRIVE	1	\$ 256.21	146%	152.16
	417261	SOCKET SET 3/8" DRIVE	2	\$ 58.42		
A	417261	SOCKET SET 3/8" DRIVE	1	\$ 116.19	99%	57.77
	418528	WRENCH HEX-KEY 13-PIECE ARMSTR	2	\$ 3.18		
A	418528	WRENCH HEX-KEY 13-PIECE ARMSTR	1	\$ 21.81	586%	18.63
	418673	WRENCH PIPE 18	1	\$ 17.77		
A	418673	WRENCH PIPE 18	2	\$ 57.95	226%	40.18
	428166	HYD.WRENCH-ADJ.-NEW STYLE	42	\$ 23.12		
A	428166	HYD.WRENCH-ADJ.-NEW STYLE	2	\$ 38.13	65%	15.01
	442152	WIRE #12 THHN SOLID GREEN	1	\$ 67.06		
A	442152	WIRE #12 THHN SOLID GREEN	2	\$ 87.90	31%	20.84
	442154	WIRE #12 THHN STRANDED GREEN WESCO 78-0100-22940	2	\$ 52.84		
A	442154	WIRE #12 THHN STRANDED GREEN WESCO 78-0100-22940	1	\$ 68.86	30%	16.02
	552462	OIL MOTOR 40WT	2	\$ 234.69		
B	552462	OIL MOTOR 40WT	43	\$ 428.73	83%	194.04
	593525	FORM AC-468 DIRECT PAYMENT REQ	77	\$ 0.39		
C	593525	FORM AC-468 DIRECT PAYMENT REQ	75	\$ 2.93	651%	2.54
	593525	FORM AC-468 DIRECT PAYMENT REQ	1	\$ 20.80	610%	17.87
	593682	FORM PW-999B BLDG DIV WORK REQ	77	\$ 0.16		
C	593682	FORM PW-999B BLDG DIV WORK REQ	1	\$ 10.39	6394%	10.23
	594036	FORM RM-1531A OCCUPATIONAL INJ	75	\$ 1.28		
C	594036	FORM RM-1531A OCCUPATIONAL INJ	1	\$ 17.42	1261%	16.14
	652088	PAD - UNIVERSAL ABSORBENT 17" X 19	2	\$ 46.72		
C	652088	PAD - UNIVERSAL ABSORBENT 17" X 19	89	\$ 59.27	27%	12.55

**Footnotes:**

- A Per Central Stores staff, pricing discrepancy due to different storerooms carrying different brand names.  
 B Per Central Stores staff, pricing discrepancy due to changes in market value.  
 C Per Central Stores staff, pricing discrepancy due to different storerooms carrying different units of measure.



THE CITY OF SAN DIEGO  
MAYOR JERRY SANDERS

M E M O R A N D U M

DATE: December 10, 2007

TO: Department Directors

FROM: Kyle Elser, Internal Audit Manager

A handwritten signature in black ink that reads "Kyle Elser".

SUBJECT: Central Stores Inventory Audit

---

Internal Audit has completed a review of Central Stores Inventory, which included a test of 71 Store Requisition authorizations from various City Departments. We found 44 out of 71 (62%) were lacking adequate segregation of duties regarding the issuance of inventory items as follows:

- 5 out of 71 (7%) had a blank "Authorized By" box.
- 19 out of 71 (27%) had a blank "Received By" box.
- 4 out of 71 (6%) had blank "Received By" and "Authorized By" boxes.
- 16 out of 71 (23%) of the requisitions were "Authorized By" and "Received By" the same individual.

Although we did not review the entire requisition process in every City Department, these findings reveal a control weakness that increases the risk of misappropriation of City assets. We recommend Departments review their inventory procurement procedures for the following recommended compensating controls over purchases to reduce this risk:

**1. Prior authorization and approval**

- *The appropriate supervisors should approve all purchases.*

**2. Security of records**

- *Access to blank requisition forms should be strictly controlled.*

**3. Segregation of incompatible duties**

- *The receipt of goods should be confirmed in writing by an individual other than the one who authorized the requisition.*

**4. Supervisory verification**

- *Supervisors, or a designated independent employee, should receive the goldenrod copies of requisitions from the storerooms or the monthly purchase report, and review them for reasonableness and/or proper authorization.*
- *The review process should be documented with initials and dates, and proof of the verification process should be retained for at least three years.*

In addition, we conducted a cursory review of items purchased on Citywide Blanket Purchase Orders (Open POs). These purchase orders are governed by Administrative Regulation 35.15, which states that items carried by Central Stores are not to be purchased on Open POs. Although we did not find specific instances of non compliance with AR 35.15, we recommend all City Departments, who purchase items via an Open PO, work with Central Stores staff to ensure that AR 35.15 is complied with. In addition, for items continually purchased on Open POs that are not carried by Central Stores, departments should analyze these items to determine if it would be cost beneficial to request Central Stores to stock these items.

All departments should be proactive in ensuring appropriate controls over Central Stores purchases are in place, working as intended, and continually monitored. This is another reminder that it is management's responsibility to establish, maintain, and review a sound internal control structure within the City of San Diego. The Central Stores Inventory Audit will be performed annually, and various City Departments will be included in sampling each year.

If you have any questions, or would like additional information, please call me at 533-5281, or E-mail me at [KElser@sanidiego.gov](mailto:KElser@sanidiego.gov).



## THE CITY OF SAN DIEGO AUDIT REPORT

Thursday, December 06, 2007

Mario Sierra, Director  
General Services

**SUBJECT: INVENTORY AUDIT**

**PERIOD: FISCAL YEAR 2007**

Each fiscal year, Internal Audit performs an annual inventory count of all items in the storerooms and warehouses as required by the San Diego Municipal Code (SDMC) §22.0501. Due to various organizational changes, specifically, Equipment Division assuming management over the inventory processes for storerooms 3, 43, 88, and 89 beginning in FY 2008, a review of the processes followed by Equipment Division was conducted. We conducted our audit in accordance with Generally Accepted Government Auditing Standards. During this review, we noted the following internal control weakness:

**There are no documented policies and procedures for daily, monthly and yearly inventory management processes and transactions.**

Establishing and maintaining an up to date detailed policy and procedure manual helps to provide a directive for strong internal controls. It is management's responsibility to establish, maintain, and review a sound internal control structure that will help to reduce the risk of asset loss. Additionally, a policy and procedure manual will service as a source of reference for staff as well as a tool to assist in evaluating staff performance.

**Recommendation:**

**Establish written policies and procedures for daily, monthly and yearly inventory management processes and transactions.**



Inventory Audit FY 2007 – General Services  
December 6, 2007  
Page 2 of 2

Your response to this audit report is attached. I would like to thank you and Equipment Division staff for the assistance we received during our audit. If you have any questions, please contact me.

A handwritten signature in black ink, appearing to read "Kyle Elser". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kyle Elser  
Internal Audit Manager

cc: Honorable Audit Committee Members  
Jay Goldstone, Chief Operating Officer / Acting Chief Financial Officer  
Eduardo Luna, Internal Auditor  
Dave Jarrell, Interim Deputy Chief of Public Works  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA  
John Brown, Assistant Director, General Services Department  
John Alley, Deputy Director, Fleet Services



THE CITY OF SAN DIEGO  
MAYOR JERRY SANDERS

## MEMORANDUM

DATE: December 4, 2007

TO: Kyle Elser, Assistant Internal Auditor, Office of the Auditor and Comptroller

FROM: Mario X. Sierra, Director, General Services Department

SUBJECT: Inventory "Draft" Audit Report Dated October 15, 2007 – Fleet Service Division

---

This is in response to the subject Inventory Audit Report for Fiscal Year 2007 (Report). The Report concluded that due to the consolidation of City-wide Fleet Services, there are no documented policies and procedures for daily, monthly and yearly inventory management processes and transactions for storerooms 3, 43, 88 and 89. The recommendation in the report is to "Establish written policies and procedures for daily, monthly and yearly inventory management processes and transactions".

General Service Department is in agreement with the Report and the recommendation. The Fleet Services Division has initiated Division Instruction to establish policies and procedures for daily, monthly and annual inventory management processes and transactions to ensure compliance with all internal controls, checks & balances and audit standards.

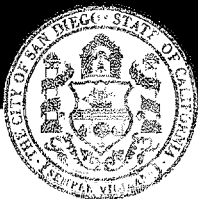
John Alley, Fleet Services Deputy Director and his staff is working with Purchasing & Contracts Department and your Internal Audit Office to develop the required policies and procedures. The target date to have the policies and procedures in place is January 2008.

If you have any questions, please call me at 525-8686 or John Alley at 527-6020.

A handwritten signature in black ink, appearing to read "Mario Sierra".

Mario Sierra

cc: Jay Goldstone, Chief Operating Officer  
Andrea Tevlin, Independent Budget Analyst  
Dave Jarrell, Interim Deputy Chief of Public Works  
John Brown, Assistant Director, General Services Department  
John Alley, Deputy Director, Fleet Services



## THE CITY OF SAN DIEGO

September 18, 2007

**Honorable Mayor and Members of the City Council  
City of San Diego, California**

### **AUDIT OF ACCOUNTS OF CATHY LEXIN FORMER DEPARTMENT DIRECTOR, HUMAN RESOURCES DEPARTMENT**

In accordance with the requirements of Article VII, Section 111 of the City Charter, the Auditor and Comptroller staff performed a close-out audit due to the May 16, 2005 resignation of Cathy Lexin, former Department Director of the Human Resources Department. During our examination we reviewed financial records to verify that Ms. Lexin had no outstanding debts to the City. Financial records reviewed included payroll, travel advances, and procurement card activity. Additionally, audit staff has verified that system access and payment approval authority was revoked.

During our review, we found the salary data transmitted to the San Diego City Employees' Retirement System for Ms. Lexin's final pay period was inaccurate as a result of termination paperwork not being processed in a timely manner. The salary data is in the process of being manually corrected, and no overpayments were made. Additional procedures have been implemented to mitigate the control weakness that caused the data to be misstated.

**Based on our examination, Ms. Lexin had no outstanding debt to the City.**

The International Standards for the Professional Practice of Internal Auditing, section 1130 - Impairment to Independence or Objectivity, states that if independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The accuracy of Ms. Lexin's final payroll payment was reviewed as part of this close-out audit. As the former Payroll Manager, the Interim Internal Auditor was responsible for payroll transactions and is not independent for this portion of the close-out audit. However, an independent auditor did review the payroll transaction for accuracy.



Audit of the Accounts of Cathy Lexin  
September 18, 2007  
Page 2 of 2

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kyle Elser", with a long horizontal flourish extending to the right.

Kyle Elser  
Interim Internal Auditor

cc: Michael Aguirre, City Attorney  
Jay Goldstone, Interim Chief Operating Officer/Chief Financial Officer  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA





THE CITY OF SAN DIEGO

September 18, 2007

Honorable Mayor and Members of the City Council  
City of San Diego, California

**AUDIT OF ACCOUNTS OF CHARLES ABDELNOUR  
FORMER CITY CLERK**

In accordance with the requirements of Article VII, Section 111 of the City Charter, the Auditor and Comptroller staff performed a close-out audit due to the June 30, 2005 resignation of Charles Abdelnour, former City Clerk. During our examination we reviewed financial records to verify that Mr. Abdelnour had no outstanding debts to the City. Financial records reviewed included payroll, travel advances, and procurement card activity. Additionally, audit staff has verified that system access and payment approval authority was revoked.

**Based on our examination, Mr. Abdelnour had no outstanding debt to the City and nothing came to our attention requiring further review.**

The International Standards for the Professional Practice of Internal Auditing, section 1130 - Impairment to Independence or Objectivity, states that if independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The accuracy of Mr. Abdelnour's final payroll payment was reviewed as part of this close-out audit. As the former Payroll Manager, the Interim Internal Auditor was responsible for payroll transactions and is not independent for this portion of the close-out audit. However, an independent auditor did review the payroll transaction for accuracy.

Respectfully submitted,

Kyle Elser  
Interim Internal Auditor

cc: Michael Aguirre, City Attorney  
Jay Goldstone, Interim Chief Operating Officer/Chief Financial Officer  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA





## THE CITY OF SAN DIEGO

September 18, 2007

**Honorable Mayor and Members of the City Council  
City of San Diego, California**

### **AUDIT OF ACCOUNTS OF BRUCE HERRING FORMER DEPUTY CITY MANAGER**

In accordance with the requirements of Article VII, Section 111 of the City Charter, the Auditor and Comptroller staff performed a close-out audit due to the September 2, 2005 resignation of Bruce Herring, former Deputy City Manager. During our examination we reviewed financial records to verify that Mr. Herring had no outstanding debts to the City. Financial records reviewed included payroll, travel advances, and procurement card activity. Additionally, audit staff has verified that system access and payment approval authority was revoked.

**Based on our examination, Mr. Herring had no outstanding debt to the City and nothing came to our attention requiring further review.**

The International Standards for the Professional Practice of Internal Auditing, section 1130 - Impairment to Independence or Objectivity, states that if independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The accuracy of Mr. Herring's final payroll payment was reviewed as part of this close-out audit. As the former Payroll Manager, the Interim Internal Auditor was responsible for payroll transactions and is not independent for this portion of the close-out audit. However, an independent auditor did review the payroll transaction for accuracy.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kyle Elser", is written over a horizontal line.

Kyle Elser  
Interim Internal Auditor

cc: Michael Aguirre, City Attorney  
Jay Goldstone, Interim Chief Operating Officer/Chief Financial Officer  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA





THE CITY OF SAN DIEGO

September 18, 2007

Honorable Mayor and Members of the City Council  
City of San Diego, California

**AUDIT OF ACCOUNTS OF GAEL STRACK  
FORMER DEPARTMENT DIRECTOR, FAMILY JUSTICE CENTER**

In accordance with the requirements of Article VII, Section 111 of the City Charter, the Auditor and Comptroller staff performed a close-out audit due to the May 18, 2007 resignation of Gael Strack, former Department Director of the Family Justice Center. During our examination we reviewed financial records to verify that Ms. Strack had no outstanding debts to the City. Financial records reviewed included payroll, travel advances, and procurement card activity. Additionally, audit staff has verified that system access and payment approval authority was revoked.

**Based on our examination, Ms. Strack had no outstanding debt to the City and nothing came to our attention requiring further review.**

The International Standards for the Professional Practice of Internal Auditing, section 1130 - Impairment to Independence or Objectivity, states that if independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The accuracy of Ms. Strack's final payroll payment was reviewed as part of this close-out audit. As the former Payroll Manager, the Interim Internal Auditor was responsible for payroll transactions and is not independent for this portion of the close-out audit. However, an independent auditor did review the payroll transaction for accuracy.

Respectfully submitted,

Kyle Elser  
Interim Internal Auditor

cc: Michael Aguirre, City Attorney  
Jay Goldstone, Interim Chief Operating Officer/Chief Financial Officer  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA





## THE CITY OF SAN DIEGO

September 18, 2007

**Honorable Mayor and Members of the City Council  
City of San Diego, California**

### **AUDIT OF ACCOUNTS OF THEODORE MEDINA FORMER DEPARTMENT DIRECTOR, PARK AND RECREATION DEPARTMENT**

In accordance with the requirements of Article VII, Section 111 of the City Charter, the Auditor and Comptroller staff performed a close-out audit due to the June 21, 2007 resignation of Theodore Medina, former Department Director of the Park and Recreation Department. During our examination we reviewed financial records to verify that Mr. Medina had no outstanding debts to the City. Financial records reviewed included payroll, travel advances, and procurement card activity. Additionally, audit staff has verified that system access and payment approval authority was revoked.

**Based on our examination, Mr. Medina had no outstanding debt to the City and nothing came to our attention requiring further review.**

The International Standards for the Professional Practice of Internal Auditing, section 1130 - Impairment to Independence or Objectivity, states that if independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The accuracy of Mr. Medina's final payroll payment was reviewed as part of this close-out audit. As the former Payroll Manager, the Interim Internal Auditor was responsible for payroll transactions and is not independent for this portion of the close-out audit. However, an independent auditor did review the payroll transaction for accuracy.

Respectfully submitted,

Kyle Elser  
Interim Internal Auditor

cc: Michael Aguirre, City Attorney  
Jay Goldstone, Interim Chief Operating Officer/Chief Financial Officer  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA





THE CITY OF SAN DIEGO

September 18, 2007

Honorable Mayor and Members of the City Council  
City of San Diego, California

**AUDIT OF ACCOUNTS OF RONNE FROMAN  
FORMER CHIEF OPERATING OFFICER**

In accordance with the requirements of Article VII, Section 111 of the City Charter, the Auditor and Comptroller staff performed a close-out audit due to the June 29, 2007 resignation of Ronne Froman, former Chief Operating Officer. During our examination we reviewed financial records to verify that Ms. Froman had no outstanding debts to the City. Financial records reviewed included payroll, travel advances, and procurement card activity. Additionally, audit staff has verified that system access and payment approval authority was revoked.

**Based on our examination, Ms. Froman had no outstanding debt to the City and nothing came to our attention requiring further review.**

The International Standards for the Professional Practice of Internal Auditing, section 1130 - Impairment to Independence or Objectivity, states that if independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The accuracy of Ms. Froman's final payroll payment was reviewed as part of this close-out audit. As the former Payroll Manager, the Interim Internal Auditor was responsible for payroll transactions and is not independent for this portion of the close-out audit. However, an independent auditor did review the payroll transaction for accuracy.

Respectfully submitted,

Kyle Elser  
Interim Internal Auditor

cc: Michael Aguirre, City Attorney  
Jay Goldstone, Interim Chief Operating Officer/Chief Financial Officer  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA





## THE CITY OF SAN DIEGO

September 18, 2007

Honorable Mayor and Members of the City Council  
City of San Diego, California

### AUDIT OF ACCOUNTS OF HOWARD KUMMERMAN FORMER DEPARTMENT DIRECTOR, NEIGHBORHOOD AND CUSTOMER SERVICE DEPARTMENT

In accordance with the requirements of Article VII, Section 111 of the City Charter, the Auditor and Comptroller staff performed a close-out audit due to the June 29, 2007 resignation of Howard Kummerman, former Department Director of the Neighborhood and Customer Service Department. During our examination we reviewed financial records to verify that Mr. Kummerman had no outstanding debts to the City. Financial records reviewed included payroll, travel advances, and procurement card activity. Additionally, audit staff has verified that system access and payment approval authority was revoked.

**Based on our examination, Mr. Kummerman had no outstanding debt to the City and nothing came to our attention requiring further review.**

The International Standards for the Professional Practice of Internal Auditing, section 1130 - Impairment to Independence or Objectivity, states that if independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The accuracy of Mr. Kummerman's final payroll payment was reviewed as part of this close-out audit. As the former Payroll Manager, the Interim Internal Auditor was responsible for payroll transactions and is not independent for this portion of the close-out audit. However, an independent auditor did review the payroll transaction for accuracy.

Respectfully submitted,

Kyle Elser  
Interim Internal Auditor


cc: Michael Aguirre, City Attorney  
Jay Goldstone, Interim Chief Operating Officer/Chief Financial Officer  
Stanley Keller, Independent Oversight Monitor  
Andrea Tevlin, IBA



CITY OF SAN DIEGO  
M E M O R A N D U M

DATE: July 11, 2007

TO: Rod Greek, Deputy Director, Water Department

FROM: Kyle Elser, Interim Internal Auditor, Office of the Auditor & Comptroller 

SUBJECT: **San Diego County Water Authority Pass Through Calculations Review**

---

Mr. Greek,

At your request, we have reviewed the proposed San Diego County Water Authority (SDCWA) pass through calculations, and the resulting rate increases as stated in the Proposition 218 notice.

Our procedures were limited to reviewing documentation of the SDCWA rates effective January 1, 2008 and tracing these rates to the Water Department's calculations of the projected rate increases necessary to offset the City's increased purchase costs. The calculations were reviewed for mathematical accuracy. Also, calculations in the draft Proposition 218 Noticing of Proposed Water Rate Adjustments were reviewed, and Water Department staff was notified of a minor calculation change that is needed. We did not audit the underlying assumptions such as average water usage.

Based on the information provided, the estimated increased cost to the City of purchased water, from January 1, 2008 through June 30, 2008 is \$4,455,300. The estimated revenue generated by the proposed rates is \$4,455,341. The increased revenue calculated appears reasonable to cover the increased cost of purchased water. These estimates are based on projected water demand, which could vary from the actual amounts.

During our review, we found no material errors in the mathematical accuracy of the calculations used.


Please contact me if you have any questions.

cc: Honorable Mayor Jerry Sanders  
Honorable Audit Committee Members  
Jay M. Goldstone, COO, City of San Diego  
David Jarrell, Assistant Deputy Chief of Public Works  
James Barrett, Water Department Director  
Sam Gray, Program Manager, Water Department  
Chris Ojeda, Supervising Management Analyst, Water Department

CITY OF SAN DIEGO  
M E M O R A N D U M

DATE: July 11, 2007

TO: Darlene Morrow-Truver, Deputy Director, MWWD Administrative Services Division

FROM: Kyle Elser, Interim Internal Auditor, Office of the Auditor & Comptroller 

SUBJECT: ***Shames v. City of San Diego Wastewater Rate Increase Review***

---

Ms. Morrow-Truver,

At your request, we have reviewed the calculations for the wastewater rate increases related to the *Shames v. City of San Diego* Settlement Agreement, and the resulting rates as stated in the Proposition 218 notice.

Our procedures were limited to verifying MWWD's calculations of projected revenue and rebates over a 4 year period, based on the proposed Shames settlement rate increases; confirming that the proposed monthly rebate to Single Family Residents, net of other settlement costs, is cost neutral; and reviewing the rate summary tables. Calculations were reviewed for mathematical accuracy. Also, calculations in the Proposition 218 Noticing of Wastewater and Service Rates and Charges were reviewed. We did not audit the underlying assumptions used such as the projected sewer service revenue for July 2007.

Based on the information provided, the estimated projected revenue generated by rate increases due to the Shames settlement is \$40,148,000. This exceeds estimated distributions by \$148,000 or 0.37%. The rebate for eligible Single Family Residences is \$3.25 monthly. MWWD has advised the revenues generated and the rebates, and other settlement expenses, will be monitored and, if necessary, adjustments can be made to ensure the changes are cost neutral.

As a result of our review, MWWD revised the calculations, and the Department has now determined the wastewater rate increases due to the Shames settlement should be implemented as of May 1, 2008 rather than August 1, 2008, in order to generate sufficient amounts for rebates and other settlement costs. Also, some minor adjustments to the rate summary tables were necessary.

Based on our review, we found no material errors in the mathematical accuracy of the revised calculations used.

Please contact me if you have any questions.

cc Honorable Mayor Jerry Sanders  
Honorable Audit Committee Members  
Jay Goldstone, COO, City of San Diego  
David Jarrell, Assistant Deputy Chief of Public Works  
Timothy C. Bertch, Ph.D., Metropolitan Wastewater Department Director  
Martin Kane, Supervising Management Analyst, MWWD  
Orrie Irwin, Senior Management Analyst, MWWD



City of San Diego  
*Office of the Auditor and Comptroller*

**AUDIT REPORT**

Thursday, August 09, 2007

**To:** Lakshmi Kommi, Director of Debt Management

**From:** Kyle Elser, Interim Internal Auditor

**Subject:** COMMUNITY FACILITY DISTRICT NO. 3, LIBERTY STATION  
PHASE 1 PARK FACILITIES

**Copy:** Honorable City Audit Committee Members  
Jay Goldstone, Interim Chief Operating Officer/Chief Financial Officer  
Gail Granewich, City Treasurer  
Mary Lewis, Director Financial Management  
Elena Perez, Accounting Operations Manager  
Elizabeth Kelly, Debt Management Program Manager  
Charles Wilcox, Special Districts Supervisor

---

We have completed a review of the cost documentation submitted by David Taussig & Associates, Inc., Professional Engineering Firm, for Park Phase 1 Facilities within Community Facilities District (CFD) No. 3, Liberty Station. The Professional Engineering Firm is responsible for determining the improvements are in place, reasonable in amount, and properly chargeable to the CFD. We reviewed vendor invoices, canceled checks, and other supporting documentation. The requested reimbursement amount from the developer McMillin-NTC, LLC is \$7,239,724.41. Our review determined the amount requested is sufficiently supported and accurate.

**RECOMMENDATION:** Reimburse the developer \$7,239,724.41 for Park Phase 1 Facilities based on the availability of special taxes and or special tax bond proceeds.

If you have any questions, please contact me.



Kyle Elser  
Interim Internal Auditor

KE:TM