




THE CITY OF SAN DIEGO

DATE: September 4, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor 

SUBJECT: **Revised Annual Audit Work Plan - Fiscal Year 2009 and Proposal to Audit City Agencies**

In a memorandum dated, July 25, 2008, Mayor Sanders and Councilmember Faulconer called for performance audits of City agencies, including the Centre City Development Corporation, San Diego Convention Center Corporation, San Diego Data Processing Corporation, and San Diego Housing Commission.

At the July 31, 2008 Special Audit Committee meeting, the Audit Committee directed my office to go forward with an audit of the Centre City Development Corporation by issuing a Request for Proposal; and to propose a strategy for auditing the San Diego Convention Center Corporation, San Diego Data Processing Corporation, and San Diego Housing Commission. Each agency provides distinct services to the City and has unique issues that require an individualized audit approach. I met with the agency executives to discuss and develop a strategy to address potential audits of their agencies. All of the agency officials pledged cooperation and welcomed efforts to audit their agencies.

San Diego Convention Center Corporation (SDCCC)

The SDCCC is a non-profit public benefit corporation created by the City of San Diego to manage and market the San Diego Convention Center. A nine-member board of directors comprised of business and community leaders establishes policy for the SDCCC. In Fiscal Year 2007, the SDCCC had \$33.9 million in revenues and \$30.5 million in total expenditures, including \$27.5 million in operating expenses and 620 employees. In my opinion, a performance audit should be conducted of this organization given the size of its budget and the lack of a recent performance audit of the organization. The Audit Division conducted an audit of SDCCC's policies and procedures in 1992 and identified 19 findings. I estimate that outsourcing a performance audit of SDCCC would require at least 2,000 hours and would cost at least \$330,000 to \$400,000. SDCCC received a risk score of 322 (276 out of 458).



In the short term, the SDCCC President expressed interest in undergoing an ethics and accountability audit. This type of audit would entail reviewing program operations, governance, human resources, financial management and fundraising. An ethics and accountability audit could encompass reviewing standards and best practices associated with board oversight. This type of audit would also cost less than a performance audit and could be undertaken in a shorter time frame. After the completion of ethics and accountability review, my office could conduct a performance audit of the organization in fiscal year 2010.

San Diego Data Processing Corporation (SDDPC)

SDDPC is a not-for-profit provider of government information technology services. It was established in 1979 as the outsourced information technology arm of the City of San Diego. In 2004, the Audit Division of the Office of the City Auditor and Comptroller issued two audit reports that identified 16 findings pertaining to SDDPC meal and travel expenditures and procurement, billing, and credit card expenses. The SDDPC responded that the recommendations were addressed, but the Audit Division never performed follow-up work to determine if conditions were rectified. My recommendation is that we can conduct a follow-up audit to determine if the recommendations were implemented, and if the recommendations are working as intended. Based on the result of the follow-up work, we can determine if additional audit work is required. SDDPC received a risk score of 538, considered high risk (38 out of 458).

We should note that SDDPC President and CEO expressed concern with the cost of outsourcing a comprehensive performance audit on the organization. He informed us that if SDDPC were required to cover the audit cost, SDDPC could likely reduce service levels, increase the rates that SDDPC charges the City, or further reduce Net Assets. He indicated that the Fiscal Year 2009 budget that was approved reflects a loss from current operations of \$987,000, excluding the OneSD project cost of \$1,661,000. Both the current year budgeted loss and the OneSD project cost is to be funded from Net Assets/Equity.

San Diego Housing Commission (SDHC)

The SDHC is a government agency formed by the City of San Diego in 1978 in accordance with Housing Authority Law of the State of California. The SDHC primarily serves low income families by providing housing assistance payments, rental housing, loans and grants to individuals and not-for-profit agencies, and other services. The City of San Diego has not conducted a performance audit of the SDHC. SDHC officials expressed interest in an audit of their development and asset management program. They feel this is an area that could benefit from an outside review. We propose my office conduct a performance audit of the SDHC in lieu of our originally planned Center City Development Corporation audit which will be conducted by an outside firm. We estimate allocating 800 audit hours to this project. The SDHC received a risk score of 505, considered high risk (69 out of 458).

Projects Removed from the Original Audit Work Plan

Our planned review of the cost proposal submitted under the Management Competition Program was removed from our Audit Work in order to accommodate the follow-up audit of the San Diego Data Processing Corporation.

Revised Audit Work Plan (July 2008 through June 2009)

In order to accommodate the issues discussed above, attached is our Revised Audit Work Plan for Fiscal Year 2009. The Work Plan was developed by considering the required audits mandated by the City Charter and the San Diego Municipal Code as well as the results of the Citywide Risk Assessment. We designed our work plan to address what we considered to be the highest priority areas, while limiting the scope of work to what we can realistically accomplish with the staff resources available. The following Audit Work Plan includes our scheduled Performance Audits as well as our Other Audit Activities. Included is the proposed audit objective for each assignment and estimated audit hours. However, we will perform an in depth risk assessment on each activity group selected for audit to ensure our audit objective covers the areas of highest risk for that activity group and adjust the audit objective, procedures, and hours accordingly. Our estimated audit hours are based on our knowledge of the complexity of the activity groups selected for audit.

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

PERFORMANCE AUDITS

Work Plan Item No.	Risk Assess Ln #	Risk Score	Activity Group Audit	Proposed Audit Objectives	FY09 Audit Hours	Status
1	7	613	Enterprise Resource Planning System (One SD Project) Implementation Review	The objective 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. Approximately 170 audit hours has been used in FY08 and an estimated 1,760 hours will be needed to complete the audit in FY09.	1,760	In-Process
2	58	517	City Library Fee Collection Process Audit	The objective of this audit is to determine if the fees collected by the libraries are being properly collected and accurately reported by the City. We have used approximately 154 audit hours in FY08, and we estimate an additional 160 hours will be needed to complete the audit in FY09.	440	In-Process
3	19	574	Purchasing and Contracting – Requisition, Purchase Order, and Contract Management	The objective of this audit is to determine if Purchasing and Contracting has sound procurement procedures in place, and to evaluate the efficiency and effectiveness of the department's procedures.	800	In-Process
4	22	568	City Attorney's Office – Criminal Division Proposition 64 Funds Audit	The objective of this audit is to determine if Proposition 64 funds are being properly budgeted and used solely for the enforcement of consumer protection laws.	200	In-Process

PERFORMANCE AUDITS

Work Plan Item No.	Risk Assess Ln #	Risk Score	Activity Group Audit	Proposed Audit Objectives	FY09 Audit Hours	Status
5	72	502	Audit of Internal Control Weakness Remediation - Comptroller's CAFR Preparation and Kroll Remediation	The objective of this audit is to test and verify management's remediation efforts to correct internal control weaknesses identified in the Kroll Report, external auditors' reports and the Internal Auditor's reports. We have used approximately 1,600 audit hours in FY08, and we estimate an additional 840 hours will be needed in FY09 to complete the testing of weaknesses reported as remediated by management as of December 31, 2007.	840	In-Process
6	181	403	Annual Central Stores Inventory Audit FY08	The San Diego Municipal Code Section §22.0501 requires an annual audit of inventory in the City storerooms and warehouses. The objective of this audit is to confirm the valuation of Central Stores inventory and to evaluate the storerooms internal controls to safeguard inventory. We have used approximately 80 audit hours, and we estimate an additional 160 hours will be needed to complete it in FY09.	160	In-Process
7	N/A	N/A	Close-out Audits	Close-out audits are required by City Charter, Article VII, Section 111 when City Officials leaves office. The primary audit objective is 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. Each Close-out audit takes approximately 24 hours to complete and we anticipate approximately 10 audits will be necessary. Two are in progress.	240	In-Process
8	1	675	Real Estate Assets-Qualcomm Stadium Administration Audit	The objective of this audit is to determine if the revenue generated by Qualcomm Stadium is being properly collected and accurately reported by the City.	440	Not Started

PERFORMANCE AUDITS

Work Plan Item No.	Risk Assess Ln #	Risk Score	Activity Group Audit	Proposed Audit Objectives	FY09 Audit Hours	Status
9	2	644	City Treasurer - Investment Activities Audit	The objective of this audit is to determine if investments are being properly handled, accounted for and accurately reported in the City's financial statements.	600	Not Started
10	16	576	City Treasurer - Delinquent Account Collections Audit	The objective of this audit is to determine if overdue accounts payable to the City are being properly noticed, collected, accounted for, and accurately reported in the City's financial statements.	800	Not Started
11	23	564	Park and Recreation - Recreation Facilities Operations Audit	The objective of this audit is to determine if Park and Recreation's Recreation facilities are properly collecting and accounting for fees.	480	Not Started
12	25	564	Risk Management - Public Liability and Loss Recovery Audit	The objective of this audit is to determine if public liability and loss recovery is being properly handled, accounted for and accurately reported in the City's financial statements.	800	Not Started
13	69	505	San Diego Housing Commission Audit	The objective of this audit is to determine if the San Diego Housing Commission has sound procurement and executive compensation practices. We will also review their development and asset management program.	800	Not Started
14	93	468	City Treasurer - Parking Meter Operations Audit	The objective of this audit is to determine if the collections for parking meters is being properly accounted for and efficiently and effectively handled.	600	Not Started

PERFORMANCE AUDITS

Work Plan Item No.	Risk Assess Ln #	Risk Score	Activity Group Audit	Proposed Audit Objectives	FY09 Audit Hours	Status
15	123	443	General Services - Streets Division Roadways Audit	The objective of this audit is to determine if the City streets are being efficiently and effectively maintained by the City.	800	Not Started
16	130	441	Purchasing and Contracting - Equal Opportunity Contracting and Labor Compliance Audit	The objective of this audit is to determine the efficiency and effectiveness of the City's equal opportunity contracting and labor compliance.	400	Not Started
17	181	403	Annual Central Stores Inventory Audit FY09	The San Diego Municipal Code Section §22.0501 requires an annual audit of inventory in the City storerooms and warehouses. The objective of this audit is to confirm the valuation of Central Stores inventory and to evaluate the storerooms' internal controls to safeguard inventory. We will begin this audit in the last month of the fiscal year (June) and we estimate 80 audit hours will be used in FY09 and we will need approximately 160 hours in FY10 to complete it. (See the "Annual Central Stores Audit FY08" in this schedule above.)	80	Not Started

OTHER AUDIT ACTIVITIES						
Work Plan Item No.	Risk Assess Ln #	Risk Score	Activity	Proposed Audit Objectives	FY09 Audit Hours	Status
18	N/A	N/A	Review of the Mathematical Accuracy of the Water Department's Proposed Water Rate Increase Calculations	This is an agreed-upon procedures review for the Water Department and is related to the proposed increase in water rates for San Diego rate payers, pursuant to San Diego County Water Authority rate increases effective January 1, 2009. We verified the mathematical accuracy of the proposed rate increases calculated by the Water Department. We used approximately 8 hours in FY08, and approximately 40 hours was needed to complete it in FY09.	40	Completed 07/11/08
19	N/A	N/A	Fraud, Waste and Abuse Hotline	The Office of the City Auditor is now responsible for the City's Fraud, Waste and Abuse Hotline, effective July 2008. Investigations are performed for all accusations of material fraudulent activity or waste or abuse.	600	On-going
20	N/A	N/A	Disclosure Practices Working Group (DPWG)	The City Auditor's Office has been asked to participate in DPWG meetings as an Ex-Oficio member. This will require a staff member to prepare for and attend various DPWG meetings to provide input on disclosure issues.	240	On-going
21	N/A	N/A	Follow-up on Previously Issued Audit Reports	The Office of the City Auditor tracks and follows-up on all audit recommendations made to determine if they were properly implemented by City management. We will be conducting a follow-up audit on the recommendations made to the San Diego Data Processing Corporation in an audit report issued in 2004.	350	On-going
Total Planned Audit Hours for Fiscal Year 2009					11,470	