



## THE CITY OF SAN DIEGO

DATE: September 4, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor 

SUBJECT: **Monthly City Auditor Activity Report – August 2008**

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This report provides information on the activities and accomplishments of the Office of the City Auditor for the month of August 2008. It includes the audit reports issued and other accomplishments produced during this period, the status of current audit projects and activities, and a summary of planned audits that we have not yet started.

### **Audit Reports and Accomplishments:**

- August 11, 2008 – The Office of the City Auditor hired John Teevan as a Principal Auditor. John has an M.B.A. from Rutgers University, and he is a Certified Public Accountant and Certified Internal Auditor. His past experience includes working for Ernst & Young, and his most recent experience includes working in the Finance department with The Burnham Institute in La Jolla and the Internal Audit departments of Sharp HealthCare and Palomar Pomerado Health. His start date was August 18, 2008.
- August 15, 2008 – Issued a report on our agreed-upon procedures review of the Water Department's proposed rate increase for the Indirect Potable Reuse (IPR) Demonstration Project, and the combined proposed IPR rate increase in conjunction with the previously reviewed San Diego County Water Authority pass through rate increase calculation. We verified the mathematical accuracy of the proposed rate increase calculations. The report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/iprrates.pdf>
- August 20, 2008 – The Office of the City Auditor hired DeeDee Alari as a Principal Auditor. DeeDee has an M.B.A. from the University of San Diego, a B.A. degree in Business Administration and Accounting from Point Loma Nazarene College, and she is a Certified Public Accountant, Certified Fraud Examiner and a Certified Internal Auditor. Her most recent experience includes working for LECG performing investigatory and contract compliance audits, and performing investigations and audits for the City of San Diego Ethics Commission. Her start date was August 25, 2008.



**Audit Reports and Accomplishments (Continued):**

- August 27, 2008 – Issued a memo announcing that the Office of the City Auditor’s Fraud Hotline was opened to the public on August 25, 2008. The memo can be found on our website at:  
<http://www.sandiego.gov/auditor/pdf/hotline.pdf>
- August 28, 2008 – Provided Financial Management staff with a User Fee Study with information regarding the best practices, methodologies, and guidelines for indirect cost calculation. The purpose of the study was to provide Financial Management with a general overview of indirect cost guidelines pursuant to Federal procedures and the City’s Cost Allocation Policy, as well as information regarding other jurisdictions’ methodologies, in an effort to assist in the City’s comprehensive user fee review. A memo summarizing our study can be found on our website at: <http://www.sandiego.gov/auditor/pdf/indirectcostcalcmemo.pdf>
- August 29, 2008 – Issued an audit report with the results of our testing of internal control remediation efforts to correct control weaknesses pertaining to the San Diego City Employees’ Retirement System. The report included six recommendations to further strengthen internal controls. The audit report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/sdcersreport.pdf>
- August 29, 2008 – The Office of the City Auditor hired Stephen Gomez as an Information Technology Principal Auditor. Stephen has a B.S. degree in Computer Applications and Networking and his most recent experience is with Johnson Controls as an IT Auditor performing Sarbanes-Oxley testing for Data Center Security, Proprietary Internal Software, and ERP Systems including SAP. His start date is September 15, 2008.
- We have successfully completed our recruitment process to hire five principal auditors. We received résumés from 72 qualified applicants. Four of the principal auditors have begun work in the office, with the fifth auditor scheduled to start work on September 15, 2008.
- Met with officials from the Centre City Development Corporation, San Diego Convention Center Corporation, San Diego Data Processing Corporation, and San Diego Housing Commission to discuss performance audits of their agencies.

**Current Audits and Activities:**

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<p><b>Southeastern Economic Development Corporation (SEDC) Audit</b></p>	<p>Overseeing a performance audit of SEDC. Macias Consulting Group provided a draft audit report to SEDC and City Management for review on August 28, 2008. The audit report with SEDC's and City's written responses will be issued the week of September 8, 2008.</p>	<p>The week of September 8, 2008</p>
<p><b>Close-out Audits</b></p>	<p>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 Anna Tatar, former Library Director. We have used approximately 16 hours, and we estimate an additional 16 hours will be needed to complete the audit.</p> <p>We are conducting a close-out audit for Mark Foreman, former Department Director for the San Diego Family Justice Center. We have used approximately 1 audit hour, and we estimate an additional 23 hours will be needed to complete the audit.</p>	<p>September 12, 2008</p> <p>September 19, 2008</p>

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

<b>Audit Activity</b>	<b>Description / Status</b>	<b>Target Completion Date</b>
<b>City Library Fee Collection Process Audit</b>	The objective of our audit is to determine if the fees collected by the libraries are being properly collected and accurately reported by the City. Fieldwork is nearly completed. We have used approximately 516 audit hours, and we estimate an additional 84 hours will be needed to complete the audit.	September 30, 2008
<b>Annual Central Stores Inventory Audit</b>	The San Diego Municipal Code Section §22.0501 requires an annual audit of inventory in the City storerooms and warehouses. The objectives of this audit are to confirm the valuation of Central Stores inventory and to evaluate the storerooms' internal controls to safeguard inventory. We have used approximately 88 audit hours, and we estimate an additional 152 hours will be needed.	October 24, 2008
<b>Proposition 64 Funds Audit</b>	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. We have used approximately 56 audit hours, and we estimate an additional 144 hours will be needed.	October 31, 2008

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

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<p><b>Purchasing and Contracting – Requisition, Purchase Order and Contract Management</b></p>	<p>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. We are including an audit of the contracts associated with the debris removal program to clear homes destroyed in the wildfires within the scope of this audit. Our target date to issue an interim report on the debris removal contracts is September 30, 2008, and our target date to finish the audit of Citywide purchasing and contracting procedures is November 30, 2008. We have used approximately 288 audit hours to date and we estimate an additional 512 audit hours will be needed.</p>	<p>November 30, 2008</p>
<p><b>Audit of Internal Control Remediations</b></p>	<p>The objective of this audit is to test and verify management’s remediation efforts to correct weaknesses identified in the Kroll Report, external auditors’ reports and the Internal Auditor’s reports. We have used approximately 1,728 audit hours, and we estimate an additional 712 hours will be needed to test the remaining 44 items.</p>	<p>November 30, 2008   (For Items Reported as Remediated as of 12/31/07)</p>
<p><b>Centre City Economic Development Corporation (CCDC) Audit</b></p>	<p>Prepared the audit scope for the Request for Proposal (RFP) to hire an audit firm to conduct a performance audit of CCDC. The RFP was issued on August 14, 2008 and the responses were due on September 3, 2008.</p>	<p>TBD</p>

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

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<p><b>Enterprise Resource Planning (ERP) System Implementation Review</b></p>	<p>The objectives of this audit are 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 292 audit hours have been used for this review, and we estimate an additional 1,638 hours will be needed.</p>	<p>TBD</p>
<p><b>Disclosure Practices Working Group (DPWG)</b></p>	<p>Internal Auditor participates in DPWG meetings as an Ex-Oficio member. Approximately 5 hours were spent participating in various DPWG meetings during the month.</p>	<p>On-going</p>
<p><b>Follow-up on Previously Issued Audit Reports</b></p>	<p>We previously reviewed audit reports that did not have a response from management on file indicating that the audit recommendations were implemented. We have received all audit report responses needed with the exception of the following two reports:</p> <ol style="list-style-type: none"> <li>1. SDCERS - Audit of Account of George Loveland.</li> <li>2. SDCERS - Audit of Corbett Payment 2004 and Related Allowances.</li> </ol> <p>The SDCERS has a revised target date of October 15, 2008 to provide written responses to these reports.</p>	<p>On-going</p>

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

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<b>Fraud, Waste and Abuse Hotline</b>	We review and administer the City’s Hotline calls that are received. We prepare hotline reports for the calls that are personnel related and they are reviewed at biweekly hotline intake committee meetings by Labor Relations, Personnel and the Office of Ethics and Integrity. Investigations are performed by the Office of the City Auditor for accusations of material fraudulent activity or questionable financial reporting. During the month of August 2008, there were 23 new hotline calls received and none of the calls required investigation by the Office of the City Auditor.	On-going

**Planned Audits Not Yet Started:**

<b>Planned Audit</b>	<b>Description</b>	<b>Estimated Audit Hours</b>
<b>Real Estate Assets-Qualcomm Stadium Administration Audit</b>	The objective of this audit will be to determine if the revenue generated by Qualcomm Stadium is being properly collected and accurately reported by the City.	440
<b>City Treasurer - Investment Activities Audit</b>	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

**Planned Audits Not Yet Started (Continued):**

<b>Planned Audit</b>	<b>Description</b>	<b>Estimated Audit Hours</b>
<b>City Treasurer - Delinquent Account Collections Audit</b>	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
<b>Park and Recreation - Recreation Facilities Operations Audit</b>	The objective of this audit is to determine if Park and Recreation's Recreation facilities are properly collecting and accounting for fees.	480
<b>Risk Management - Public Liability and Loss Recovery Audit</b>	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
<b>San Diego Housing Commission Audit</b>	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
<b>City Treasurer - Parking Meter Operations Audit</b>	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
<b>General Services - Streets Division Roadways Audit</b>	The objective of this audit is to determine if the City streets are being efficiently and effectively maintained by the City.	800

**Planned Audits Not Yet Started (Continued):**

<b>Planned Audit</b>	<b>Description</b>	<b>Estimated Audit Hours</b>
<b>Purchasing and Contracting - Equal Opportunity Contracting and Labor Compliance Audit</b>	The objective of this audit is to determine the efficiency and effectiveness of the City's equal opportunity contracting and labor compliance.	400
<b>Annual Central Stores Inventory Audit FY09</b>	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.	80

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