



THE CITY OF SAN DIEGO

DATE: August 11, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

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

This report provides information on the activities and accomplishments of the Office of the City Auditor for the month of July 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 through August 2008.

Audit Reports and Accomplishments:

- July 2, 2008 – At the request of the Audit Committee, the City Auditor provided comments regarding the City Comptroller's Internal Control Update Report. The memo can be found on our website at:
<http://www.sandiego.gov/auditor/pdf/commentscomptrollericr.pdf>
- July 7, 2008 – The City Auditor Website was initiated. The website includes our mission statement, audit reports and memos issued, Hotline procedures, links to the Audit Committee agendas/actions, audit staff information, our audit manual, and other materials. The address for the website is:
<http://www.sandiego.gov/auditor/>
- July 9, 2008 – The Office of the City Auditor hired Paul Alberga as a Principal Auditor. Paul Alberga has a Bachelor of Arts degree in Business Economics and Masters of Business Administration degree from the University of California at Riverside. His experience includes serving as a Senior Auditor Evaluator with the Bureau of State Audits (California State Auditor) for three years; a staff auditor with Armijo & Associates in Palm Desert, CA; and a Project Analyst with the Palm Desert Development Company. His start date is August 11, 2008.



Audit Reports and Accomplishments (Continued):

- July 11, 2008 – Issued a report on our agreed an agreed-upon procedures review of the Water Department’s 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 increase calculation. The report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/agreedprocedwaterrateincrease.pdf>
- July 18, 2008 – Issued our Fiscal Year 2009 Proposed Audit Work Plan based on the Citywide Risk Assessment, required audits, and other factors. The proposed audit plan will be discussed at the next Audit Committee meeting. The Audit Work Plan can be found on our website at: <http://www.sandiego.gov/auditor/pdf/fy09raawplan.pdf>
- July 21, 2008 – The Office of the City Auditor hired Sylvia Calderon as an Audit Analyst, and took over the administration of the City’s Hotline. Sylvia Calderon has over 14 years of experience in various positions with the City.
- July 21, 2008 – Issued a memo regarding the sole source procurement for additional consulting services with Macias Consulting Group regarding the audit of the Southeastern Economic Development Corporation. The memo can be found on our website at: <http://www.sandiego.gov/auditor/pdf/auditcommitteememo.pdf>
- July 30, 2008 – Issued a memo summarizing the City’s prior internal audits of Outside City Agencies in response to the July 25, 2008 memorandum issued by Mayor Jerry Sanders and Councilmember Kevin Faulconer related to the initiation of performance audits of Outside City Agencies. The memo can be found on our website at: <http://www.sandiego.gov/auditor/pdf/auditsofoutsideagencies.pdf>
- July 31, 2008 – Presented to the Audit Committee an update on the audit of the Southeastern Economic Development Corporation. The presentation can be found on our website at: <http://www.sandiego.gov/auditor/pdf/sedcauditupdate.pdf>

Current Audits and Activities:

Audit Activity	Description / Status	Target Completion Date
<p>Best Practices, Methodologies and Guidelines Regarding Local Government User Fees</p>	<p>Prior to the Mayor’s planned review of the City’s User Fees, Internal Audit will research the best practices, methodologies, and guidelines regarding local government user fees to provide information and tools to help the Administration update user fees. A user fee study report was provided to Financial Management staff on June 27, 2008. Additional research is being performed on the best practices for the calculation of indirect costs for user fees and another report will be provided. We have used approximately 231 hours on this project, and we estimate another 40 hours will be needed to complete it.</p>	<p>August 15, 2008</p>
<p>Close-out Audit</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 9 audit hours, and we estimate an additional 15 hours will be needed to complete the audit.</p>	<p>August 31, 2008</p>

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Southeastern Economic Development Corporation (SEDC) Audit	Overseeing a performance audit of SEDC. Macias Consulting is performing this Audit. The audit is in progress and it is expected to be completed by September 1, 2008.	September 1, 2008
City Library Fee Collection Process Audit	The objective of our audit is to determine if the fees collected by the libraries are being properly collected and accurately reported by the City. Fieldwork is in progress. We have used approximately 298 audit hours, and we estimate an additional 120 hours will be needed to complete the audit.	September 17, 2008
Annual Central Stores Inventory Audit	The San Diego Municipal Code Section §22.0501 requires an annual audit of inventory in the City storerooms and warehouses. The objectives of this audit are to confirm the valuation of Central Stores inventory and to evaluate the storerooms' internal controls to safeguard inventory. We have used approximately 88 audit hours, and we estimate an additional 152 hours will be needed.	September 17, 2008

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Proposition 64 Funds Audit	The objective of this requested audit is to determine if Proposition 64 funds are being properly budgeted and used solely for the enforcement of consumer protection laws. We held the entrance conference on July 31, 2008. We have used approximately 16 audit hours, and we estimate an additional 184 hours will be needed.	September 30, 2008
Audit of Internal Control Remediations	An audit staff member is testing management's remediation efforts to correct weaknesses identified in the Kroll Report, external auditors' reports and the Internal Auditor's reports. A draft audit report on the SDCERS items is being reviewed by management and we anticipate issuing the report by August 22, 2008. We have used approximately 1,688 audit hours, and we estimate an additional 760 hours will be needed to test the remaining 44 items.	October 31, 2008 (For Items Reported as Remediated as of 12/31/07)
Enterprise Resource Planning (ERP) System Implementation Review	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 227 audit hours have been used for this review. The estimated audit hours needed to complete this review are still to be determined.	TBD

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Disclosure Practices Working Group (DPWG)	Internal Auditor participates in DPWG meetings as an Ex-Oficio member. Approximately 10 hours were spent participating in various DPWG meetings during the month.	On-going
Follow-up on Previously Issued Audit Reports	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: 1. SDCERS - Audit of Account of George Loveland. 2. SDCERS - Audit of Corbett Payment 2004 and Related Allowances. The SDCERS has a target date of August 15, 2008 to provide written responses to these reports.	On-going
Fraud, Waste and Abuse Hotline	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 July 2008, 15 hotline calls were received and 2 calls require investigation by the Office of the City Auditor.	On-going

Planned Audits - Through August 31, 2008:

Audit	Description	Target Start/Completion Date
<p>Review of the Mathematical Accuracy of the Water Department's Proposed Water Rate Increase Calculations for the Indirect Potable Reuse (IPR) Project</p>	<p>We are performing an agreed-upon procedures review requested by the Water Department related to the proposed increase in water rates for the IPR project. We will be verifying the mathematical accuracy of the proposed rate increases calculated by the Water Department. Estimated audit hours: 40</p>	<p>August 4, 2008 - August 15, 2008</p>
<p>Purchasing and Contracting – Requisition, Purchase Order and Contract Management</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. At the Mayor's request, we are including an audit of the contracts associated with the debris removal program to clear homes destroyed in the October 2007 wildfires within the scope of this audit. We anticipate issuing an interim report on our review of debris removal contracts by the end of September 2008, and finishing the audit of Citywide purchasing and contracting procedures by the end of November 2008. Estimated audit hours: 800</p>	<p>August 2008 – November 2008</p>

Planned Audits - Through August 31, 2008 (Continued):

Audit	Description	Target Start/Completion Date
Real Estate Assets-Qualcomm Stadium Administration Audit	The objective of our audit will be to determine if the revenue generated by Qualcomm Stadium is being properly collected and accurately reported by the City. Estimated audit hours: 440	September 2008 – December 2008

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