



THE CITY OF SAN DIEGO

DATE: April 14, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor Activity Report – March 2010**

This report provides information on the activities and accomplishments of the Office of the City Auditor for the month of March 2010. It includes the audit reports issued and other accomplishments 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:

- March 5, 2010 – Issued the Citywide Revenue Performance Audit report. This audit found that the City administration performs basic actions to verify revenue payments received are accurate, such as auditing the TOT payees or using consultants to monitor sales tax payments. However, the City administration needs to take actions to maximize major revenue collected by developing appropriate partnerships with other government entities, take pro-active and preventative steps to ensure full sales tax and business license payments, and improve revenue audit methodology. We made 23 recommendations that focus on improving City department processes to ensure the City receives the revenue it is entitled to. This audit report can be found on our website at: http://www.sandiego.gov/auditor/reports/audit_pdf/citywide_revenue_audit.pdf
- March 5, 2010 – Issued a memo regarding our cursory review of Southeastern Economic Development Corporation's (SEDC) material submitted to Councilmember Tony Young. The purpose centered on assessing the deficit operating position of SEDC. We noted that the external auditor did not report any irregular accounting practices, difficulty with management, significant uncorrected misstatement, or disagreements with management which would indicate a material financial misstatement. We also noted that a separate outside audit of SEDC's Section 403(b) Plan identified issues related to violations of the Internal Revenue Code. We compiled this technical information from current available sources, and did not audit the information or conduct a performance audit of SEDC. This memo can be found on our website at: http://www.sandiego.gov/auditor/reports/memo_pdf/sedc_memo_3-5-2010.pdf

Audit Reports and Accomplishments (Continued):

- March 25, 2010 – Issued the Performance Audit of the City Treasurer’s Investments Division. We found that the City Treasurer has internal controls in place to mitigate risks associated with its pooled investment activities. We also found that the City Treasurer can strengthen controls associated with the City’s Investments Advisory Committee and the process of updating changes to the investment Policy for Pooled Investment Funds. We made three recommendations to improve operations related to governance and updating the investment policy. This audit report can be found on our website at:
http://www.sandiego.gov/auditor/reports/audit_pdf/report_10-017.pdf
- March 30, 2010 – Issued the Performance Audit of the Purchasing and Contracting Department. We found that the current citywide open purchase order (PO) program has weaknesses that contribute to the program’s inefficient use of City resources for the purpose of procuring goods and services. These weaknesses result in departments potentially making purchases of goods or services without having the required funds, a risk of misappropriation of City assets, monetary losses from discounts not being taken, non-compliance with contract terms, and a surplus of funds exceeding \$525,000 that are not being utilized. We made six recommendations related to modifying the current departmental open PO program and utilizing it in place of citywide open POs or some other procurement method that more efficiently uses City resources when procuring goods and services. This audit report can be found on our website at:
http://www.sandiego.gov/auditor/reports/audit_pdf/10-018.pdf
- March 30, 2010 – Issued our Accomplishments Report for the period July 2008 through December 2009. During this period the City Auditor’s Office completed 23 performance audits, five agreed-upon procedures reviews, eight hotline investigative reports, and administered four outside audit contracts, which produced 40 audit reports. These reports contained 274 recommendations to improve economy, efficiency, and effectiveness within City government. In total, the City Auditor’s Office identified \$7,425,271 in potential monetary recoveries and cost savings for the City, which equates to \$3 in potential savings for every \$1 of audit costs. This report can be found on our website at:
http://www.sandiego.gov/auditor/reports/memo_pdf/accomplishmentreport330.pdf

Current Audits and Activities:

Audit Activity	Status	Target Completion Date	Audit Hours Used	Budgeted Hours
Purchasing and Contracting - Equal Opportunity Contracting and Labor Compliance Audit	<p>The objective of this audit is to determine the efficiency and effectiveness of the City's equal opportunity contracting and labor compliance. A draft audit report was provided to management for review on March 5 and the exit conference was held on March 29. This report will be issued when management's response to the report is provided. The timing of key audit activities from several audits has also resulted in delaying the target completion date.</p>	<p>April 2010</p>	<p>1,065</p>	<p>841</p>
Audit of Development Services' Process for the Collection of Public Utilities Fees	<p>The objective of this audit is to determine if Development Services has adequate procedures in place to ensure the proper collection of Public Utilities fees. A draft report was provided to management for review on March 18 and the exit conference was held on April 9. As a result of documentation provided at the exit meeting, additional fieldwork is required, which will prolong issuance of this report.</p>	<p>May 2010</p>	<p>969</p>	<p>880</p>

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date	Audit Hours Used	Budgeted Hours
Enterprise Resource Planning (ERP) System Implementation Review	<p>The objectives of this audit are: (a) determine if the City’s key financial activities were adequately reviewed and documented prior to the new system implementation to ensure key financial processes are properly addressed by the new system (b) determine if the system was adequately tested prior to implementation and (c) review high risk interfaced and impacted systems post SAP go-live. Audit fieldwork is in progress. One report has already been issued during this audit. Due to time required on the follow-up of the San Diego Data Processing Corporation audit report recommendations, the expected completion of this audit has been extended.</p>	<p>May 2010</p>	<p>2,654</p>	<p>3,207</p>
General Services - Streets Division Roadways Audit (Part I, II, & III)	<p>The objective of this audit is to determine if City streets are being efficiently and effectively maintained by the City. Audit fieldwork is in progress. We issued a report on Part I, and we plan to issue two additional reports. Our preliminary testing uncovered risks which required additional audit testing. As a result, this audit will exceed the budgeted hours allocated to this project.</p>	<p>Part II May 2010 Part III TBD</p>	<p>2,123</p>	<p>1,374</p>

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date	Audit Hours Used	Budgeted Hours
Close-out Audits	Close-out audits are required by City Charter, Article VII, Section 111 when a City Official leaves office. The primary audit objectives are to verify that there are no outstanding debts owed by the City Official to the City, and to ensure that access to critical information and processes has been revoked. We are currently conducting close-out audits for Nader Tirandazi, former Financial Management Director, and Jim Barrett, former Public Utilities Director. We have used 1 hour on these audits, and 117 hours on three previous close-out audits, for a total of 118 hours used this fiscal year.	May 2010	118	240
City Treasurer - Delinquent Account Collections Audit	The objective of this audit is to determine if overdue accounts due to the City are being properly noticed, collected, accounted for, and accurately reported in the City's financial statements. We issued a report on December 2, 2009 regarding Development Services Department's lack of referrals to City Treasurer for collection efforts. Audit fieldwork for a second and final report is in progress.	June 2010	621	621

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date	Audit Hours Used	Budgeted Hours
Fire Rescue – Fire Prevention Audit	The objective of this audit is to assess the efficiency and effectiveness of the City’s fire prevention program. Audit fieldwork is in progress.	June 2010	391	920
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. Audit fieldwork is in progress.	June 2010	541	880
Engineering and Capital Projects – CIP Audit	The objective of this audit is to evaluate the efficiency and effectiveness of Engineering and Capital Projects’ administration of CIP projects. We are currently finishing audit survey with fieldwork progressing in April.	TBD	689	1,880
Fraud, Waste and Abuse Hotline	We review and administer the City’s Hotline calls that are received. Investigations are performed by the Office of the City Auditor for accusations of material fraud, waste or abuse, and we issue Hotline reports on fraud related allegations that are substantiated. During the month of March, there were 7 new Hotline calls received.	On-going	1,041 (Fiscal Year 2010 Hours)	1,660 (Fiscal Year 2010 Hours)

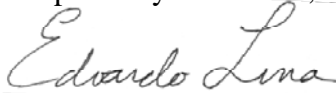
Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date	Audit Hours Used	Budgeted Hours
Follow-up on Audit Report Recommendations	We have created a database to track all of our audit recommendations made since FY08. We provided our database to City Comptroller staff for follow-up. Comptroller staff contacts those responsible for implementing our recommendations and provides status data to the City Auditor on all recommendations. We began receiving status information on February 25, 2010. Since then, City Auditor staff has been conducting follow-up testing to verify that the recommendations marked as completed have actually been implemented. Our first semi-annual follow-up report will be issued in April 2010.	On-going	183	600

Planned FY10 Audits Not Yet Started:

Planned Audit	Estimated Audit Hours
City Treasurer – Parking Administration Audit	640
Police Department – Fiscal Services (Animal Services Contract) Audit	600
City Comptroller / Personnel Department – Payroll Audit	1,280
Risk Management – Workers’ Compensation Audit	1,200
Annual Central Stores Inventory Audit FY10	45

Respectfully Submitted,



Eduardo Luna
City Auditor

- cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Ken Whitfield, City Comptroller
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst