



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: November 2, 2010  
TO: Honorable Members of the City Council  
FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*  
SUBJECT: Financial Reports for Fiscal Years 2010 and 2011

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This memorandum is to provide you with an update on the status of financial reporting for both Fiscal Years 2010 and 2011 and to describe the causes for these delays, give you the status on the resolution of these problems and the timeframes on when the expected reports will be available.

Both the City Comptroller and I have stated numerous times at Council Committees that the Fiscal Year 2010 year-end close and the CAFR were delayed. Ken Whitfield has been keeping the Audit Committee apprised of the 2010 year end close and the CAFR schedule. As he has explained, these delays are due to staff working through a detailed and complex correction of labor distribution charges posted in the financial system. The same issues affecting the data for fiscal year 2010 are also affecting the current fiscal year, albeit to a lesser degree, but nonetheless are delaying the completion of the First Quarter Fiscal Year 2011 Budget Monitoring Report and Charter 39 Reports as well. Budget monitoring reports and fiscal year 2010 year end information will be delayed until there is assurance that all postings of labor charges are correct.

I want to point out that the problems are in the posting of labor charges in the financial system and that accuracy of payroll checks is not affected.

**Problem**

The data issues that are being corrected involve labor distribution charges that were either entered inaccurately by employees at the start of the new payroll system (which went live in January 2010) or are the result of unique configurations of labor charges posting in the financial system that need to be corrected. As issues were identified in fiscal year 2010, staff began implementing a series of fixes, and the posting errors decreased, but were not completely eliminated.

There were many timecard entry errors introduced by our employees (i.e., time being charged to one account when it should have been charged to another account) when the new payroll system went live, and these certainly contributed to the amount of errors that needed to be resolved. In response we identified the need for additional safeguards at the point of data entry to limit erroneous entries.

These safeguards subsequently have been designed and tested and are in place. Again, these entry errors did not affect the accuracy of individual paychecks, but did affect the posting of charges in the financial system, such the expense and revenue affecting grants, CIP projects and the General Fund.

**Resolution**

Since payroll go-live last January, we have been making individual fixes and staff have been resolving problems due to unique configurations of labor charges, benefits and overhead charges applied to grants and CIP programs. However, this fall we determined that a different approach was needed and a comprehensive reprogramming effort was developed and implemented.

At this point, the City Comptroller's Office has identified all of the issues to be resolved and has worked with OneSD Support to write the specifications to reprogram a critical component of how the payroll data is posted to the financial accounts. This is a program which takes the expense from home cost centers, distributes the expense, and captures the revenue. The Comptroller's department will be heavily involved in testing the new program.

It is important for you to understand that the fixes to the system that are being implemented are permanent and comprehensive. This is a onetime action that will resolve the identified issues in fiscal years 2010, the current year and going forward, and will not need to be repeated.

This is a labor intensive process that relies on Comptroller's staff who have (in addition their regular primary job assignments) the responsibility to test and validate results. The development work and technical program changes are being completed by OneSD support staff. The City Comptroller and OneSD maintain a detailed schedule that tracks development and testing of results. This schedule indicates that labor postings for both fiscal year 2010 and 2011 will be corrected by mid January. As a result, the City's financial reports will be released according to the attached schedule.

These issues have proven to be complex and labor intensive to resolve, but we have a detailed plan that is being worked by many dedicated staff. I want to make sure that it is understood that data integrity is the most important goal, and while the delays in reporting are difficult to accept, there is no alternative but to make the permanent corrections and report only with reliable information. The alternative runs counter to the reforms we have all worked so hard to put in place. We are committed to working through the validation and testing process to ensure that the City's financial information is accurate.

I will keep you updated as progress is being made and will be happy to meet at any time.

Mary Lewis  
Chief Financial Officer

Attachment: 1. Revised Financial Reporting Schedule

cc: Honorable Mayor Jerry Sanders  
Jay M. Goldstone, Chief Operating Officer  
Kevin Casey, Director of Council Affairs  
Andrea Tevlin, Independent Budget Analyst  
Mark Leonard, Financial Management Director  
Ken Whitfield, City Comptroller

## Revised Financial Reporting Schedule

First Quarter Budget Monitoring Report: We will not issue a First Quarter Budget Monitoring Report. Fiscal year -to -date information and analysis will be included in the Fiscal Year 2011 Mid-Year Budget Monitoring Report

<u>Fiscal Year 2011 Mid-Year Budget Monitoring Report</u>	February 23, 2011
<u>Charter 39 Report Issued for FY2011 Period 6</u>	February 23, 2011
<u>Fiscal Year 2010 Year End Report</u>	February 23, 2011
<u>Fiscal Year 2010 CAFR Opinion &amp; Issuance</u>	Fourth Quarter Fiscal Year 2011

Financial Management will issue an updated report on major revenues by November 19, 2010.