

## **OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

**Date Issued:** January 20, 2006

**IBA Report Number:** 06-1

**City Council Agenda Date:** January 23, 2006

**Item Number:** 200

**Item:** Annual Report on Internal Controls

### **OVERVIEW**

In compliance with Ordinance 19320, the City Auditor and Comptroller has issued the Annual Report on Internal Controls. The report provides background on and definitions of internal controls as well as detailed information regarding testing that was performed to evaluate the financial reporting controls currently in place within the City of San Diego. Remediations are proposed to enhance internal controls.

The Office of the Independent Budget Analyst has performed a review in order to evaluate the fiscal impact of the report and the recommendations therein.

### **FISCAL/POLICY DISCUSSION**

The report reveals significant deficiencies and proposes remediations to be implemented, focusing specifically on the evaluation of internal controls over financial reporting. Many items, such as revising and enhancing the budgeting process, are part of the work plan for this office and are supported by the IBA. In addition, assuring timely and accurate financial reporting is an objective of the City Council as expressed in the aforementioned ordinance. As such, this report is a valuable policy document and an important component in improving the overall financial position of the City of San Diego.

The recommended remediations are not accompanied by analyses or estimates of the fiscal impact of implementation. Some remediations would appear to require additional resources, while some may not. A detailed implementation plan, with estimates of the fiscal impact of each proposed remediation, should be requested and reviewed prior to approval of the remediations.

Once this plan is provided, the expenditure of funds on recommended remediations should be evaluated within the broader scope of competing expenditure priorities. Ideally, these policy decisions would be made as part of the budget process for the year in

which implementation is recommended. For purposes of prioritizing, it should be noted that the report states that “the lack of adequate professional training...has contributed directly to the significant and substantial errors...” and that “savings realized by the elimination of training...has been more than offset by the millions of dollars expended to date in an effort to correct those errors.” (p. 5). In other words, funding to improve internal controls is a worthwhile investment and is essential in exercising fiduciary responsibility. Only through allocation of appropriate funding can the benefits of reporting and testing financial controls be realized.

**QUESTIONS/COMMENTS**

Will an implementation plan be developed?

When will the plan be presented for City Council review?

Will the implementation costs be included in the Fiscal Year 2007 Proposed Budget?

Which remediations can/should be implemented now and/or without additional resources?

Has the Chief Financial Officer had the opportunity to review the report?

**CONCLUSION**

The analysis included in this report is critical in identifying steps needed to improve the City’s financial controls, and thus the overall financial position of the City of San Diego. The Office of the IBA anticipates working with the Chief Financial Officer in the appropriate and timely application of remediations proposed. Before individual remediations are approved, more detail on the fiscal impact and implementation timeline is necessary.

The Office of the Independent Budget Analyst recommends acceptance of this report with a request to the Mayor for a detailed implementation plan. Additionally, if the CFO has not reviewed the report, allow an opportunity for the CFO to review and provide comments at a later date.

**[SIGNED]**

\_\_\_\_\_  
Penni Takade  
Fiscal & Policy Analyst

**[SIGNED]**

\_\_\_\_\_  
APPROVED: Andrea Tevlin  
Independent Budget Analyst