



THE CITY OF SAN DIEGO

DATE: April 25, 2008  
TO: Honorable Members of the Audit Committee  
FROM: Eduardo Luna, Internal Auditor  
SUBJECT: **Jefferson Wells Report to the Audit Committee Dated April 21, 2008**

On April 21, 2008, Jefferson Wells provided a report to the San Diego Audit Committee, Best Practices, Analysis and Recommendations for: Audit Committee Process for Reviewing Annual Financial Statements (CAFR); and Outside Auditor Selection, Communications and Evaluation. I would like to clarify some of the information presented in this report, so that the Audit Committee can make an informed decision.

**AICPA Recommends Executive Session Meetings**

In their report, Jefferson Wells recommended that the City of San Diego's Audit Committee's CAFR formal questioning during the CAFR review process should also include questions to the City's Internal Auditor. As a basis for their recommendation, Jefferson Wells cited the AICPA Audit Committee Toolkit: Government Organizations. Their report says the AICPA suggests that these questions should be discussed in an open forum. However, upon my review of the AICPA document and discussion with an AICPA Government Audit Committee Toolkit Task Force member,<sup>1</sup> I found that the AICPA recommends that audit committees should hold "executive sessions" to question various members of the financial management team, executive management, the independent auditor, and internal auditor. The AICPA reports that an executive session is a best practice used by audit committees to meet with key officials on a **one-on-one** basis. Specifically, the AICPA states:

"During an executive session meeting, minutes are (usually) not recorded, and when meeting with members of the financial management team, anyone who is not a member of the audit committee is excluded from the meeting. The purpose is to ask questions of the various members of the financial management staff in a safe environment. It is important that, when meeting with the controller for example, the chief financial officer (CFO) not be in the room. Executive sessions should be a matter of routine at every audit committee meeting, and not on an exception basis."

<sup>1</sup> Mr. Randy Roberts, Director of Professional Practice, Office of the Auditor General, State of Arizona



### **Specific Questions May Be Inappropriate For The Internal Auditor To Answer**

The Audit Committee's Ad Hoc Citizens Advisory Committee has recommended that a series of questions be asked of the Internal Auditor. The questions include the following:

1. Was the independent audit performed in accordance with generally accepted accounting principles (GAAP) or generally accepted government accounting standards (GASA<sup>2</sup>)? If not, why?
2. Overall, is management cooperating with the internal audit team? Does management have a positive attitude in responding to findings and recommendations, or is it insecure and defensive of findings?
3. Are you aware of any disagreements between management and the internal auditors?
4. Has management set an appropriate "tone at the top" with respect to the importance of and compliance with the internal control system around financial reporting?
5. Are you aware of any current or past occurrence of any type of fraud in the organization? Do you know of any situations where fraud could occur?
6. Do you have the freedom to conduct audits as necessary throughout the organization?
7. Were you restricted or denied access to requested information?
8. Have you been pressured to change findings, or minimize the language in those findings so as to not reflect badly on another member of management? Are the findings and recommendations given the level of discussion needed to properly satisfy any issues raised, to your satisfaction?
9. Do you feel comfortable raising issues without fear of retribution?
10. Is there any activity at the executive level of management that you consider to be a violation of laws, regulations, GAAP, professional practice, or the mores of sound government?

In their report, Jefferson Wells agreed with the Ad Hoc Committee's recommended questions that should be asked of the Internal Auditor during the formal CAFR review process. My concern is that some of these questions may be inappropriate for the Internal Auditor to answer.

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<sup>2</sup> There are no standards named Generally Accepted Government Accounting Standards (GASA). This question may actually be referring to Generally Accepted Government Auditing Standards (GAGAS) or Generally Accepted Auditing Standards (GAAS).

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According to Mr. Roberts, AICPA Government Audit Committee Toolkit Task Force member, the first question – “Was the independent audit performed in accordance with generally accepted accounting principles (GAAP) ...?” – should not be asked of the Internal Auditor. Mr. Roberts said that this question is inappropriate for the Internal Auditor to answer because the Internal Auditor does not have responsibility for performing the independent audit.

According to Mr. Roberts, the above questions that were taken from the AICPA Government Audit Committee Toolkit were not specifically developed to deal with reviewing the CAFR, but rather broad based questions the Audit Committee should ask the Internal Auditor on an on-going basis about the work he is performing.

In my opinion, it may be of greater value for the Audit Committee to question the Internal Auditor on matters that directly relate to my audit work regarding internal controls over financial reporting, or my understanding of the issues raised by the independent auditors.

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