INTERNAL CONTROLS OVER FINANCIAL REPORTING ICOFR REMEDIATION SCHEDULE

Presented to the Audit Committee

September 14, 2009

Scope of Internal Controls for the City of San Diego

- San Diego has approximately 10,000 employees. All employees will have some access to our new SAP system.

- Our financial system handles $2 - $3 billion dollars worth of transactions on an annual basis. This is comprised of tens of thousands of individual transactions.

- The new SAP system will integrate financial operations. The key modules will be live in FY2010.
  - Financials (GL, AP, Purchasing, Work Orders) went live on 7/1/09
  - Payroll & Benefits (HCM – Payroll, Benefits, Org Charts) scheduled go live on 1/1/10
  - Account Receivables (FICA – Billing, Cash Collections & Management) scheduled implementation Jan – Mar 2010

GRC Internal Controls Module in SAP

- The GRC (Governance, Risk, Compliance) internal controls module in SAP went live on 7/1/09. It is fully integrated within SAP and is a major leap forward in establishing, monitoring and testing our internal control environment.

- GRC Access Controls focus on "Prevent" controls. Separation of duties (SOD) is achieved through access security roles assigned to each user.

- Roles within SAP are tied to transaction codes or T-Codes. Understanding the T-Codes involved within each separate process is the key to designing effective internal controls within SAP.

- GRC Process Controls focus on "Detect" controls. They can be automated or manual and identify an internal control weakness after the fact.

- Testing and monitoring is on-going within SAP. It can be set up to automatically run a set of tests or scheduled manually.

Process Narratives and Process Flow Diagrams

- Process Narratives are the documented procedures of process transactions. Each is an instruction set of how we conduct business, both within SAP and the policy rules set by management/council/law.

- A Process Flow Diagrams is the graphical process flow and decision tree. For a process all of the T-Codes are identified. This provides a map for internal controls within GRC.

- Management has identified 150 process narratives that need to be written. We estimate that we will need between 150 – 250 process narratives to provide adequate internal control coverage.

- Necessary Access and Process controls are identified through review of the process narratives and flow diagrams. Identified controls are designed and programmed into GRC.

- Process narratives are published on the internal City intranet page.

Internal Controls Group Staffing

- The Internal Controls group is budgeted for four positions in FY2010
- Two position are currently on board and we are recruiting for the remaining two positions. We should be fully staffed by October 30, 2009.

Coordination with Others

- The Internal Controls group will coordinate the follow-up and follow-through of all audits by outside auditors, the Office of the City Auditor, Hotline investigations and others.

- We will work with the SEC Monitor and McGladrey & Pullen to ensure that we are in agreement in terms of process and deliverables.

- We will report on a regularly scheduled basis to management and the Audit Committee regarding our progress on deliverables. This will include an on-going updated projection of project workload and completion.

Completion Timeline

- Internal Control design, monitoring and testing will forever be a part of our business model.

- In terms of ICOFR, we estimate the work hours to be 7,106. This amount of effort should get us to an adequate comfort level regarding the sufficiency of our internal control environment.

- With a staff of four, we estimate we can apply 4,378 working hours in FY2010 and 5,990 hours in FY2011.

- Given the estimated scope of the work and resources available, we project that adequate coverage will be achieved in 16 month or December 2010.

Questions