

Annual Report on Internal Financial Control

Calendar Year 2017

Office of the City Comptroller

March 1, 2018



Executive Summary

This Annual Report on Internal Control is issued pursuant to City of San Diego Municipal Code (SDMC) §22.0706, adopted by the City Council in October 2004 via Ordinance 19320 to achieve a high standard of quality in and efficacy of the City of San Diego's (City's) financial reporting and disclosure practices. SDMC §22.0706 requires that management:

1. Perform an annual evaluation of the City's internal financial controls;
2. Submit a written Annual Report to the Audit Committee and the City Council on management's annual evaluation of the City's internal financial controls;
3. Submit a Certification by City Management regarding the design, maintenance, and effectiveness of the City's internal financial controls.

The objective of a system of internal controls over financial reporting is to provide reasonable assurance that the financial information produced is reliable and that it reflects the City's transactions and events for the reporting period. It is not intended to be perfect by eliminating all risk, as this would be cost prohibitive. Rather, the controls are intended to be effective in mitigating the risk of financial reporting errors to a level that is acceptable based on considerations of materiality. Materiality is the threshold above which missing or incorrect information in financial statements is considered to have an impact on the decision making of users.

Establishing effective internal controls is a continuous process. Management actively assesses risk, as financial reporting standards or requirements change and new software or technology is implemented. Risk can also increase as accounting and reporting processes change and as there is turnover in management and staff. As new risks are identified, management responds by implementing or enhancing controls to mitigate such risks.

Within the last 90 days, management evaluated the City's internal financial controls. Based on this evaluation, management concludes that the internal financial controls over financial reporting are effective.

This report summarizes management's approach to maintaining an internal control system that provides reasonable assurance that financial reporting objectives are met. The City's internal controls over financial reporting improved significantly with the implementation of its Enterprise Resource Planning System (SAP). SAP, combined with hundreds of processes and controls that have been developed through the years allow for the production of reliable financial information. This report includes some of the significant enhancements that have been achieved during the year and some of the potential risks that were identified, either by management or through the audits performed by independent auditors and the Office of the City Auditor (City Auditor). Other than what has been included in this report, management did not identify any significant deficiencies in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.

The list below identifies the most significant financial reporting achievements and internal control improvements implemented by the Office of the City Comptroller (Comptroller's Office) during the assessment period.

Financial Reporting Achievements and Internal Control Improvements

- Received an unmodified (clean) audit opinion on the City's Comprehensive Annual Financial Report (CAFR). No material adjustments and no material weaknesses or significant deficiencies in internal controls over financial reporting were identified through the fiscal year 2017 CAFR independent audit.
- Received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the fiscal year 2016 CAFR. This is the third consecutive year the City has received this award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable GFOA program requirements.
- Developed and implemented a new Financial Statement checklist utilized during the financial statement preparation to assist with the development and review of the fund level financial statements.
- Delivered assessments of currently documented significant processes to the process owners to evaluate continued relevance and effectiveness. Worked with process owners to revise processes and related controls identified for changes during the calendar year 2017 assessment.
- Trained all professionals in the Comptroller's Office on internal controls over financial reporting to ensure that staff understands and is aware of the importance of internal controls which are necessary to perform their job duties.
- Additional updates made to the SAP Governance Risk and Compliance module (GRC) that is utilized to identify and mitigate risk across system user access rights, segregation of duties and process performance.
- Replaced a manual process with a new automated process for submitting SAP access requests, approvals, and monitoring.
- The Citywide effort to update all Administrative Regulations (A.R.) continued with many revised A.R.'s being issued during calendar year 2017.
- The Comptroller's Office created A.R. 95.39 Management Responsibilities for Internal Financial Controls to document and clarify responsibilities over internal financial controls and to maintain a proper control environment.
- Worked with the Department of Information Technology (DoIT) to create a new Asset Transfer SAP Transaction Code to automate the asset transfer update process. The new Transaction Code increased user efficiency in processing asset transfer transactions by allowing a user to enter up to 200 lines at a time with increased accuracy.

Background

The City is accountable to San Diego residents and outside stakeholders for the management of the City's financial and economic resources. It meets this responsibility in large part by preparing a CAFR each year. The CAFR is the most significant financial report produced by the City for external users. It is available on the City's website and can be accessed by residents, investors, rating agencies and other interested parties. The CAFR is a comprehensive financial document that includes the balances and activity of all funds and component units of the City and related disclosures. The report typically takes five months to prepare and involves the work of 60 accountants in the Comptroller's Office, as well as key department staff who provide necessary information for required disclosures. The CAFR is prepared in accordance with Generally Accepted Accounting Principles (GAAP), which are established by the Governmental Accounting Standards Board (GASB). The CAFR is audited annually by an independent auditing firm who expresses an opinion on whether or not the basic financial statements are fairly presented in all material respects in accordance with GAAP.

Internal control over financial reporting is defined as a process established by an entity's governing body, management and other personnel, which has been designed and implemented to provide reasonable assurance regarding the achievement of financial reporting objectives. The main internal control objective in preparing external financial reports is that the information included in the report is reliable and that it reflects the City's transactions and events for the reporting period in accordance with GAAP or other reporting requirements.

The most authoritative guidance on internal control over financial reporting is the integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The City's internal control program is based on this framework. The framework put forth by COSO is comprised of five fundamental components which, when present and functioning together, work towards the goals of reducing risk to an acceptable level, and achieving objectives for reliable financial reporting. These five fundamental components include (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring Activities. Our assessment of internal control over financial reporting focused on an evaluation of each of these five components.

Control Environment

The Control Environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The Control Environment sets the tone of the organization and represents what is commonly referred to in the private sector as an entity's "corporate culture." It encompasses the City's integrity and ethical values; the City Council and Mayor's oversight, responsibilities, and delegation of authority; the process for attracting, developing and retaining employees; and the measures, incentives and rewards used to manage accountability and performance. The City has established policies and practices that provide for a strong control environment through the City Charter, San Diego Municipal Code and through management policies and practices.

City Charter

The San Diego Charter governs the daily governmental functions of the City. It identifies the rights and authority of the Mayor, City Council, and other City departments. City Charter Section 39 gives supervision and oversight responsibility over all financial accounts of the City to the Chief Financial Officer. It requires that all financial transactions of the City be performed based upon forms prescribed by the Chief Financial Officer. Charter Section 39 also establishes an independent audit committee to oversee the City's auditing function. The Audit Committee is composed of two members from the City Council and three members from the public who possess the appropriate technical expertise to carry out this responsibility.

Charter 39 also establishes independent departments to assist the City Council in establishing checks and balances over the executive branch, including the Independent Budget Analyst and the City Auditor. The Independent Budget Analyst provides budgetary and policy analysis for the City Council. The City Auditor is responsible for the internal audit function of the City, with authority to investigate any material claim of financial fraud, waste or impropriety within any City department. The City Auditor reports to the Audit Committee.

San Diego Municipal Code

The City of San Diego Municipal Code (SDMC) incorporates all ordinances passed by the City Council and approved by the Mayor. On October 11, 2004, Ordinance No. 19320 incorporated Division 41: *Securities Disclosure*, which establishes the Disclosures Practices Working Group (DPWG), a group of senior City officials and disclosure counsel responsible for ensuring compliance by the City with federal and state securities laws, and for promoting the highest standards of accuracy in disclosures relating to securities issued by the City or by its related entities. As required by the SDMC, the DPWG has developed the Disclosure Controls and Procedures to effectuate its responsibilities under the SDMC (See Attachment 5).

The Disclosure Controls and Procedures establishes process requirements over the development of documents that have disclosure obligations under applicable federal and state securities laws, including bond documents and the City's CAFR. It establishes responsibilities for development and review of the financial documents and requires certification by those department heads that contribute information for development of such documents.

In addition, the SDMC establishes the Ethics Commission, which contributes towards a strong control environment for the City. As an independent department, the Ethics Commission monitors, administers and enforces the City's governmental ethics laws, conducts investigations, refers violations to appropriate enforcement agencies, reviews disclosure statements and advises and educates City officials, candidates, political committees, and lobbyists about governmental ethics laws.

Management Policies and Practices

The Chief Operating Officer issues Administrative Regulations (A.R.'s) to establish policies and procedures of a continuing nature and to direct operations within the City. Additionally,

departments involved in complicated, lengthy, or detailed operations are required to work with the Internal Controls Section in the Comptroller's Office to develop and issue Process Narrative and Work Instructions to detail the performance of these operations. Also, citywide Policy Memorandums are sent out as necessary to clarify or establish policies and procedures for the City's Mayoral Departments. The City's policies and procedures are communicated to employees via Citywide email or by posting on the City's intranet and internet.

The newly established A.R. 95.39–*Management Responsibilities for Internal Financial Controls* is a strong enhancement over the City's control environment. The A.R. establishes responsibility for developing citywide financial policies and procedures within the Finance Branch, including citywide dissemination of such policies and training as appropriate. It also emphasizes the role of the Executive Management Team in creating an organizational culture that supports the internal control environment (See Attachment 4).

Financial Training Program

The City has implemented a comprehensive financial training program adopted on December 6, 2006 by Resolution R-302243. Financial Statement Overview training is one component of the program for elected officials providing them a general understanding of the City's financial statements. The City Council last received training on the role of governance over the audit and financial statements on February 7, 2017. In addition, the City has established mandatory securities law training for members of management, relevant City staff and elected officials.

Continuing education for professional staff who have financial responsibilities is critical for delivering comprehensive and accurate financial information to the City's stakeholders. The City's Chief Financial Officer requires financial professionals to grow and maintain their professional competencies in all areas of accounting, reporting, compliance, internal controls, grant analysis, debt management, ethics, and any other finance related field. This is accomplished through training policies that have been tailored to promote competencies in each department's respective area. A list of training courses provided by the City are accessible through the City's intranet and through SuccessFactors Learning. SuccessFactors is a system designed to manage all the City's learning needs allowing employees to register for courses and track progress.

The Comptroller's Office training policy requires that staff engaged in accounting, financial reporting, and payroll functions participate in a minimum of 40 hours of formal subject matter training per year. This ensures that accounting staff responsible for preparation of the CAFR and other required reporting, are knowledgeable of the accounting standards relevant to their area of responsibility. In April 2017, all the Supervising Accountants, Principals, Deputy Directors, and additional Accountants in the Internal Controls section (Internal Controls Section) in the Comptroller's Office earned their COSO Internal Control Certificate. In November 2017, the Accountants in the Internal Controls Section completed COSO refresher training. The refresher training consisted of understanding COSO's principle based approach, identifying and analyzing risk, and enhancing the internal control system.

Other

Other practices and policies contributing to a strong control environment for the City include the adoption of an Employee Code of Conduct, the Fraud, Waste and Abuse Hotline, and the Annual Report on Internal Financial Control.

Risk Assessment

A continuous and effective assessment of risk is a critical component of the internal control framework because it allows management to form a basis for determining how risk should be managed and mitigated. It allows management to identify the need for control and monitoring activities, improvements to the flow of information and communication or the need for changes to the control environment.

COSO defines “risk” as the possibility that an event will occur and adversely affect the achievement of objectives. As noted earlier, the main objective in preparing the CAFR is that the information included in the report is reliable and that it reflects the City’s transactions and events for the reporting period in accordance with GAAP or other reporting requirements. The policies and procedures established for financial reporting include controls that have resulted from management’s risk assessment and its efforts to mitigate such risks.

Management’s Risk Assessment on CAFR

At the beginning of each CAFR preparation cycle, management communicates areas of potential risk to the City’s independent auditor based on management’s risk assessment and ongoing monitoring activities, including management’s response to such risks through development and implementation of additional controls. For the fiscal year 2017 reporting cycle, the Comptroller’s Office identified the following risks and applied related controls during the reporting cycle:

- Risk of potential financial misstatements related to reimbursement agreements reported outside of the system of record. Facilities Financing department tracks the details regarding the City’s cumulative obligations in a database or spreadsheets outside of SAP. The Comptroller’s Office developed plans with Facilities Financing department for a bi-annual reconciliation of data and Department Director certification at the end of each fiscal year to address the risk.
- Risk associated with Working Capital Advances (WCA) including (1) risk that a City department does not notify or submit a journal to record a WCA on the balance sheet; (2) risk that the agency or component unit will spend the advance on the disallowed activities based on the WCA agreement; (3) risk that the WCA will have a remaining balance at the end of the fiscal year; and (4) the potential risk of unspent money not returned. Responsible Accountants in the Comptroller’s Office address this risk with a quarterly review and reconciliation of funds with WCA and Department Director certification of the WCA balances at the end of each fiscal year.

Changes in Accounting Standards

To mitigate the risk associated with changes in accounting standards, the Comptroller's Office Accountants are provided training throughout the year, including an annual GFOA training introducing new accounting pronouncements, and further disseminating this information through cross-training within the department. Additionally, the Comptroller's Office provides year-end training to other City departments on disbursements, cost allocation processes, and business object financial reports. Training helps ensure that transactions are accurately posted and it conveys to City departments how their decisions impact financial reporting.

Changes in Technology

The City continues to modify and add modules to the core ERP system in order to maximize the efficiency and span of control over business operations and reporting. Each of these changes introduces the risk of system generated errors, which are mitigated through configuration testing. The impacted departments such as, the Comptroller's Office, DoIT, Financial Management, Purchasing and Contracting, Risk Management, and City Treasurers all work closely to ensure that any changes or improvements to the system are all fully tested for operational needs and for the impact to financial reporting. At the completion of testing, sign-offs are required by the individuals involved.

We have not identified material errors that could impact the financial statements. However, due to the interrelationship between the SAP modules, there is a risk that changes to a module could impact others. There is also a risk that system errors are not identified through testing. To address these risks, the production changes are reviewed after implementation and newly identified system errors are communicated for correction. Management identifies the significant financial risks that require additional monitoring.

Risks associated with system changes and SAP enhancements are also mitigated with training, feedback and question & answer workshops which are provided to end users before and after implementation. Additionally, users can access training videos which are readily available online via SuccessFactors. Work Instructions or Process Narratives are also developed or updated as needed.

Risks identified through Internal Audit Function

The City Comptroller participates in the City Auditor audit entrance and exit meetings with City departments. This allows the Comptroller's Office to be aware of and to efficiently and effectively address concerns that have an impact on accounting and financial reporting, safeguarding of City assets, and issues affecting the internal control environment. The Comptroller's Office also participates in performance and hotline audits if the City Auditor directs departments to work with the Internal Controls Section to document processes and or to strengthen internal controls. Currently the City Comptroller is the mayoral designee that sits on the Audit Committee as a non-voting member to advise and assist the committee as needed or requested.

In 2017, the City Auditor recommended that the Environmental Services Department in collaboration with the Comptroller's Office implement an internal control framework for utility rate analysis and utility billing review of City gas and electric utility accounts. Process Narratives were developed to document the distribution process of the Energy Utility Report for City departments to review and to identify the role of City departments in reviewing utility bills. Implementation of the Process Narratives enhanced internal controls over utility billing.

Control Activities

Control activities are the next logical step in response to risks identified through management's risk assessment. COSO defines *control activities* as the actions established through policies and procedures that help ensure that management's directives to mitigate risks are carried out. In the preparation of financial reports for external use, these are the policies and procedures, with embedded controls, that management develops and implements to mitigate risks of errors and omissions that could affect the reliability of the information presented in the reports. It also includes controls embedded within the City's ERP system.

Budgetary Control

The City adopts an annual budget authorizing the expenditure of funds based on financial resources available, or anticipated to be available during the fiscal year. Budgetary control and monitoring is a fundamental element of a government's system of internal controls. Through the budget preparation process, management estimates annual revenues providing a basis for evaluating actual revenue as it is recorded during the year. Similarly, expenditures are monitored against those expenditure levels authorized in the budget. For the City, budgetary control is exercised at the department level for the General Fund and at the fund level for all other funds. In addition, the budget authorized for personnel expenditures (salaries and wages) for a fund or department may not be used for non-personnel expenditures. The City's financial system incorporates embedded controls in which non-personnel expenditures cannot be incurred if a budget appropriation is not available. The City also uses an encumbrance system of accounting as a mechanism to accomplish effective budgetary control. The budget and accounting structure that SAP maintains for expenditure control has the added benefit of ensuring that expenditures are properly categorized in the CAFR by function. For example, expenditures charged against the Police Department's budget will be reported as "Public Safety Expense" in the CAFR, with very low risk of misclassification.

Transaction Control Activities

The implementation of SAP was a defining event in the City's progress towards a well-designed internal control framework. SAP allows internal controls to be embedded in the system through restricted access, segregation of duties and authorization workflows. These controls allow for review, validation and approval of transactions, not only mitigating the risk of fraud but also preventing transaction errors or instances of non-compliance with laws and regulations.

The majority of user interactions within SAP occur in various departments as they perform their core responsibilities. Often transaction workflows cross departments in order to properly segregate duties and mitigate the risk of fraud. For example, the Comptroller's Office processes employee payroll, but only the Personnel Department can change an employee's hourly rate in SAP. Other transactions include vendor payments, generation of City invoices, cash deposits, payroll transactions, journal entries, most of which segregate the creator of the transaction from the approver. These interactions make their way into the financial system either through direct input or through some type of interface application. The City's financial activity is consolidated with similar types of activities and is eventually presented in the CAFR and other financial reports.

In an effort to strengthen controls over citywide payroll and time entry, preventive and detective controls were implemented during 2017. New guidelines were communicated and numerous system enhancements were made to the payroll time entry system in SAP which provide automation and an improved user interface for the time entry process. Citywide compliance with the City's time entry and approval policy improved significantly with the implementation of time card entry notifications.

Over the years, the City has implemented a variety of control activities over financial transactions. Where automated controls are not available, manual controls are used. These control activities ensure that the financial information is complete, accurate and valid. Below are some of the control activities embedded in the City's multiple accounting and financial reporting processes:

- Authorizations and approvals that affirm that a transaction is valid, such as the approval of a journal entry or an invoice payment;
- Verifications- comparing two or more items with each other, such as comparing goods received against a purchase order;
- Physical controls, such as comparing fixed asset inventories against control records;
- Reconciliations – comparing two data elements and taking action when differences are identified to bring the data into agreement, such as reconciling bank accounts to the general ledger;
- Supervisory controls that assess whether other transaction control activities are being performed completely, accurately and in accordance with policy; and
- Application Controls are those related to procedures to check the accuracy of the output data, including follow-up on exceptions, the Business System Analysts in DoIT and the Business Process Coordinators in City departments (including the Comptroller's Office) validate and approve any functional changes in the SAP system. Security related changes are also reviewed by the Internal Controls Section. The Control Change Board reviews documentation, testing, and approvals before implementing the change in production.

Internal Controls Section

The Internal Controls Section provides dedicated staff focused on maintaining and enhancing the City's control environment. The Internal Controls Section is involved with the implementation or monitoring of new software modules, including the recent launches of IAM San Diego and ARIBA. The Internal Controls Section reviews the projects for process gaps, control weaknesses, segregation of duties, system access, how data transfers to SAP, and assists in the development of Process Narratives and Work Instructions.

In 2017, during the review and reconciliation of revenue received from a City contracted management company, the Comptroller's Office determined that there was a need to review and determine the effectiveness of the management company's financial controls. Comptroller's Office staff conducted a review of the management company's internal controls for Fiscal Years 2014, 2015, and 2016. As a result of the internal control review, the management company implemented new procedures to reflect the control improvements requested by the City.

Control Activities deployed through Policies and Procedures

Management incorporates controls into financial reporting activities by establishing clear accounting policies and developing and implementing accounting procedures. Policies reflect management's statements of what should be done, guiding the actions of staff. Procedures consist of actions that implement a policy. Having policies, procedures and controls is key to preventing and detecting material errors and fraud. It is essential that policies are current, formally documented, and easily accessible to all employees.

In 2016, the Human Resources department initiated the Citywide efforts of updating existing A.R.'s and Department Instructions (D.I.)'s as an additional method to strengthen the control environment. The A.R.'s and D.I.'s direct administrative policies and procedures of a continuing nature. It is important that our policies as documented reflect the actual processes. The City's effort to update all A.R.s began with the revision of A.R. 1.00 Administrative Regulation and Department Instruction Preparation Procedures which added the involvement of the Internal Controls Section with all future revisions of A.R.s or D.I.'s. A significant number of A.R.'s were updated and released during calendar year 2017.

The Comptroller's Office continues to focus on formally documenting policies and procedures related to accounting and financial reporting. Most of these policies and procedures have been long-standing practice and consistently applied each fiscal year. This allows the City to have a formal inventory of procedures and related controls that can be systematically monitored for effectiveness and continued relevance. The Comptroller's Office has identified approximately 895 processes that require documentation of which 488 have been formally documented. The total number of processes to document changes annually as new processes are identified, new accounting standards are issued, and new software or technology is implemented, as accounting and reporting processes change (i.e. automation) and as new risks are identified by management. In fiscal year 2017, the Comptroller's Office documented 102 processes.

The Comptroller's Office documented significant processes that related to external reporting including the preparation of the CAFR, the Single Audit of federal awards, and the MWWD Allocation of Billing Schedule utilizing a new approach that expedited documentation and also easily identified additional significant processes and controls. The Internal Controls Section revised the Process Narrative templates to include a risk matrix based on COSO. The matrix identifies the objectives, risks to achieving objectives, and the key controls contained in the documented process (See Attachment 6).

Information and Communication

The Information and Communication component of the COSO framework supports the functioning of all components of internal control. COSO defines communication as the continual iterative process of providing, sharing and obtaining necessary information. In an organization as large as the City, it is critical that management establishes effective communication procedures to meet accounting and disclosure requirements under governmental accounting standards and under state and federal securities laws.

Formal Communication Processes

The City has formal communication processes to ensure relevant information is communicated effectively to those responsible for preparing the CAFR. The DPWG includes individuals in key City positions within the City and external counsel that can review disclosures, communicate known facts and other relevant information and ensure consistency throughout the City's financial disclosure documents. The DPWG has formal disclosure controls and procedures that define roles and responsibilities over the development and review of financial disclosures. These controls and procedures require that the City's Chief Financial Officer certify to the City Council that the City's financial statements included in the CAFR are fairly presented and that disclosures are true and complete. Similarly, department directors are required to also certify that contributions made by their staff have been reviewed by the director and that the information is accurate and complete.

While the DPWG is responsible for ensuring that disclosures comply with federal and state securities laws, the Comptroller's Office is responsible for ensuring financial statements and related disclosures are prepared in accordance with GAAP. The Comptroller's Office relies on a formal distribution of work document that clearly communicates specific responsibilities for development of the CAFR, including who is responsible for preparing and reviewing the relevant sections of the CAFR. During the preparation of the 2017 CAFR, the DPWG participated in the review of the CAFR drafts. The DPWG reviewed and signed off on the Letter of Transmittal, Management's Discussion and Analysis, Notes to the Basic Financial Statements and the Fund Descriptions.

During the audits of the CAFR and other reports, the independent auditor requests a broad range of supporting documents. The multiple items requested are managed through a master pending list. This allows for effective communication with the independent auditor, as items are clearly assigned to relevant staff and tracked by management throughout the audit process.

The Accountants in the Comptroller's Office utilize an internally generated Financial Statement checklist when preparing the fund level financial statements. This helps to communicate expectations and ensures that statements are complete and accurate. The Supervisor can then review staff work against a standard set of expectations. In addition, the Comptroller's Office relies on a comprehensive accounting and disclosure checklist developed by GFOA. Each question in the checklist is assigned to a staff member within the Comptroller's Office based on area of responsibility. This allows for a clear and objective way to ensure compliance with existing governmental accounting standards.

Financial Reporting Tools

The Comptroller's Office continues to work with DoIT to develop and implement new financial reporting tools for citywide use through business objects software that allow users to perform ad hoc queries and efficiently access financial data stored in SAP. Information is useful when it is timely, accurate, and appropriate to the user. The following reporting tools were developed and published by DoIT and finance branch departments in calendar year 2017:

- The Budget Adjustment and IT Discretionary Summary Report tracks budget adjustments Citywide for the executive team.
- The Accounts Receivable Credit Memos Report details the accounts receivable and interdepartmental credit memos by date range.
- The Labor Detail Summary Reports allows users to add, remove, move, and filter labor detail variables easily and efficiently.
- The Overtime Dashboard Report provides an overview of overtime budget, labor costs, and hours in the organization by fiscal year.

Many SAP related initiatives were completed by DoIT in fiscal year 2017 which includes 26 SAP training videos and over 20,000 SAP training instances including classroom and online courses.

Monitoring Activities

An effective internal control program requires continuous evaluation of each of the five COSO components to ensure that they are functioning effectively. This includes assessing whether risks are being identified timely and if control activities address identified risks. Management should evaluate whether controls are being performed completely, accurately and in accordance with policy. It also includes assessing whether information is being communicated effectively to ensure disclosures are accurate and complete and that accounting policies and procedures are clearly understood by relevant staff.

Budget Monitoring

The City's Financial Management Department and Comptroller's Office monitor fund balances, as well as revenue and expenditure projections, throughout the Fiscal Year. The Comptroller's Office prepares monthly and periodic reports to the City Council that serve as a summary of the year-to-date financial activity of the General Fund and certain other budgeted

funds. The Financial Management Department prepares an analysis of actual and projected financial activity for the entire fiscal year on a quarterly basis by issuing four budget monitoring reports during the year (First Quarter, Mid-Year, Year-End Budget Monitoring Reports and the Year-End Performance Report). The First Quarter Budget Monitoring Report includes three months of actual budgetary data and provides the City Council an initial analysis and projection of revenues and expenses. The Mid-Year Budget Monitoring Report includes five months of actual budgetary data. In accordance with Municipal Code Section 22.0229, the Mayor recommends to the City Council mid-year budget appropriation adjustments for any projected deficit or surplus. The Year-End Budget Monitoring Report is prepared incorporating nine months of actual results and includes projections through fiscal year-end. The Year-End Budget Monitoring Report is typically released at the same time as the City Council's first public hearing on final budget decisions for the upcoming fiscal year. This allows the City Council to have the most current budget information available for the current fiscal year prior to making decisions on the budget for the upcoming fiscal year. The Year-End Performance Report provides a detailed comparison and variance analysis of the year-end projections for General Fund revenues and expenditures found in the Year-End Budget Monitoring Report to the un-audited actual results to date. The Year-End Performance Report also includes financial schedules prepared by the Comptroller's Office in accordance with Charter Section 39.

Review of Independent Audits

As part of its monitoring activities, the Comptroller's Office reviews the results of independent audits to identify potential areas of risk or areas for which controls need to be strengthened. Independent auditors are required by auditing standards to communicate to the appropriate governing body any material adjustments identified through the audit of the City's financial statements. For the audit of the fiscal year 2017 CAFR, there were no material adjustments identified by the independent auditors. In addition, no material weaknesses or significant deficiencies in internal control over financial reporting were identified in the *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated December 14, 2017 (See Attachment 2). The audit of the financial statements is not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, the audit process does require significant interaction between the audit team and management and a sustained communication effort throughout the process that allows for effective monitoring of controls over accounting and financial reporting.

The Comptroller's Office also conducts an internal review of the preparation and completion of the CAFR to identify entries that occurred after the draft was submitted to the independent auditors. This allows the Comptroller's Office to identify potential areas of risk and implement controls to continuously improve the CAFR preparation process.

The Internal Controls Section reviews and monitors the results of audits performed by City Auditors that directly or indirectly impact the department. The Internal Controls Section

monitors recommendations that impact internal controls and works closely with departments to modify processes, establish new controls or strengthen existing controls. The audits are tracked to ensure controls remain effective or are reevaluated and that existing processes are updated.

Monitoring through GFOA Certificate Process

The City received the Certificate of Achievement for Excellence in Financial Reporting awarded to the City by GFOA for the fiscal year 2016 CAFR. To receive this award, the City must comply with a comprehensive checklist that incorporates accounting and disclosure requirements in accordance with GAAP. Comments received from GFOA on the submittal of the CAFR also serve as a monitoring tool to ensure controls are effective. If GFOA identifies significant deficiencies in the CAFR, they disqualify a CAFR from being awarded the Certificate of Achievement for Excellence in Financial Reporting. The review of the fiscal year 2016 CAFR resulted in five suggestions for improvements, all of which were incorporated into the fiscal year 2017 CAFR. We anticipate receiving the award for the fiscal year 2017 CAFR.

Segregation of Duties Monitoring

The Comptroller's Office continues to monitor for segregation of duties violations to ensure that no one individual has control over an entire process or multiple components of a process, which if abused, could cause harm to the City or to the financial statements. Due to the importance of maintaining controls around segregation of duties violations, continuous monitoring is performed. The Internal Controls Section also facilitates monitoring activities performed at the transactional level. Automated testing is developed within the SAP GRC Module and the results are sent to the process owner for review and remediation where necessary.

As mentioned earlier, GRC upgraded and migrated to HANA, which provides additional enhancements to the monitoring and management of system-wide access including performance gains. DoIT implemented an additional capability within SAP GRC Access Control. SAP GRC Access Control is a tool to monitor and prevent unauthorized access to SAP, to review and mitigate cross-departmental authorization requests and to prevent conflicts within roles and identify segregation of duties risks. The enhancement automated and expedited access requests. The next enhancement will be automated review of roles on a periodic basis.

Assessment of Documented Processes and Controls

A key part of maintaining a strong internal control system is the periodic evaluation and monitoring of processes and their embedded controls. Process design assessments have been developed in the SAP GRC Module with the objective of testing the validity, accuracy and performance of the process as documented. Control design assessments have also been developed to test the presence and performance of controls that have been identified in the process.

The Comptroller's Office evaluates the effectiveness of controls of transactional activities that are deemed significant by management monthly or periodically. For example, a monthly sampling of vendor invoices is performed to review compliance with policies and procedures. Monitoring of controls also includes considering whether the controls are operating as intended and that they are revised as appropriate for changes in the organization.

For calendar year 2017, process design assessments and control design assessments were delivered to the respective process owners of significant processes. The assessments identified processes that required changes to the process and to the related controls. During fiscal year 2018, the Comptroller's Office worked with the respective process owners to resolve the issues identified during the assessment resulting in revisions to the processes.

Procurement Card Program

The Comptroller's Office oversees the procurement card program (PCard). In 2017 an internal review of the effectiveness of internal controls was conducted and it was determined that the controls in place are effective and operating as intended. For example, the Comptroller's Office performs a monthly post review of PCard activity to monitor for fraud and compliance. Any deficiencies are addressed in a timely manner with the appropriate personnel. PCard holders, billing officials, and approvers are required to take training prior to receiving a card and or obtaining access to the system and are provided the PCard Manual. To further strengthen the control environment, in April 2017, a refresher PCard training was given during the quarterly Unclassified Employees Meeting to remind management of the risks of noncompliance, fraud, and error relevant to the PCard program.

Conclusion

The City has established a high bar for the development of a comprehensive internal control program for a municipal government. Based on management's evaluation we believe that internal controls over financial reporting are effective. The City's internal controls over financial reporting improved significantly with the implementation of SAP which, combined with hundreds of processes and controls that are currently in place, allow for the production of reliable financial information.

Establishing effective internal controls is a continuous process. The implementation of effective internal controls reduces the exposure to error, fraud, and theft. It is Management's responsibility to design, implement, and maintain internal controls and consider the areas of risk. Implementation of effective policies and procedures can prevent, detect, and correct errors and fraud before they affect the financial statements. The Comptroller's Office continues to develop written policies to document and confirm existing internal financial controls and continues to work with City departments in documenting processes and new system implementations. The Comptroller's Office also identifies opportunities for improvement and develops new policies and processes. Management actively assesses risk as the organization changes and as new reporting requirements are issued. As with any effective system of internal controls over financial reporting, management responds to new risks

identified by implementing or enhancing controls to mitigate such risks, including those that have been identified in this report.

Sources

1. Gauthier, Stephen J. *Evaluating Internal Controls*. Chicago IL: Government Finance Officers Association of the United States and Canada, 2013. Print
2. Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework, Framework and Appendices, 2013*
3. Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework, Internal Control over External Financial Reporting: A compendium of Approaches and Examples, 2013*

RECOMMENDATIONS: N/A

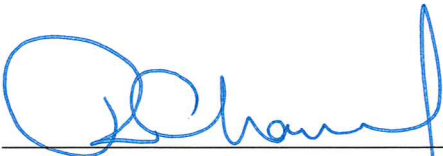
FISCAL CONSIDERATIONS: N/A

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS: N/A

Attachments:

1. Certification by the Chief Operating Officer, Chief Financial Officer and Interim City Comptroller
2. Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
3. Report from Macias Gini & O'Connell LLP to those charged with Governance – Fiscal Year 2017 CAFR
4. Administrative Regulation 95.39 Management Responsibilities for Internal Financial Controls
5. Disclosure Practices Working Group – Disclosure Controls and Procedures
6. Prepare a Process Narrative PN-0001



Rolando Charvel, Chief Financial Officer

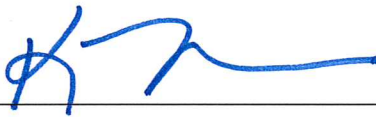


Scott Clark, Interim City Comptroller

CERTIFICATION BY MAYOR AND CHIEF FINANCIAL OFFICER


In accordance with the requirements of §22.0706 of the San Diego Municipal Code, the Mayor's designee, the Chief Operating Officer and the Chief Financial Officer hereby certify that they:

1. are responsible for establishing and maintaining the City's internal financial controls;
2. have identified the need to design such internal financial controls to ensure that material information relating to the City and its departments, offices, agencies, and affiliated "related entities" as defined in San Diego Municipal Code section 22.4102, is made known to the Mayor and/or the Chief Financial Officer by others within the City and its departments, offices, agencies, and affiliated "related entities," particularly during the period in which the Annual Report required by this section is being prepared;
3. have evaluated the effectiveness of the City's internal financial controls as of a date within 90 days prior to the Annual Report;
4. have presented in the Annual Report their conclusions about the effectiveness of their internal controls based on such evaluation as of that date;
5. have disclosed to the City's independent auditors and the Audit Committee all significant deficiencies in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize, and report financial data;
6. have identified for the City's independent auditors any material weaknesses in internal controls and any fraud, whether or not material, that involves management or other employees who have a significant role in the City's internal controls; and
7. have indicated in the Annual Report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Signed: 

Date: 2/28/18

Kris Michell, Chief Operating Officer

Signed: 

Date: 2/27/18

Rolando Charvel, Chief Financial Officer

Signed: 

Date: 2/27/18

Scott Clark, Interim City Comptroller



**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Honorable Mayor and Members of the
City Council of the City of San Diego, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 14, 2017. Our report includes an emphasis of a matter related to the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No 14*. Our report also includes a reference to other auditors who audited the financial statements of the San Diego Housing Commission, a discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP
San Diego, California
December 14, 2017

January 8, 2018

To the Audit Committee and City Council
of the City of San Diego

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of San Diego (City) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1.v to the financial statements, effective July 1, 2016, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Nos. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. Accordingly, the cumulative effects of the accounting changes as of the beginning of the year are reported in Note 23. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- Management's estimate of the useful lives for depreciable assets is based on the nature of related capital assets.
- Management's estimate of the allowance for doubtful accounts is based on the historical experience of collections, historical loss levels, and analysis of the collectability of individual accounts.
- Management's estimate of the workers' compensation, general, and long-term disability liabilities are based on actuarial valuations using historical loss, employee and other data, and advice from legal counsel about the ultimate outcome of the claims.
- The net pension liability (NPL), deferred outflows of resources, deferred inflows of resources, and pension expense is based upon the actuarial valuation of total pension liability and fiduciary net position of the City's defined benefit pension plan.
- The total pension liability (TPL), deferred outflows of resources, and pension expense is based upon the actuarial valuation of total pension liability and net position of the City's Preservation of Benefit (POB) plan.

- Management's estimate of the City's Annual Required Contribution (ARC) for the Other Postretirement Benefit (OPEB) plan is based on an annual actuarial valuation using an accepted actuarial method and various actuarial assumptions. The Net OPEB Obligation (NEOPEBO) is a function of the respective ARC and is estimated by comparing the ARC with the actual funding during the current year and applying an interest rate factor and amortization adjustment factor to the prior year's NOPEBO.
- Management's estimate of the landfill closure and postclosure care liability was based on the percentage of the landfill capacity used to date, which is applied to the estimated total closure costs, monitoring, and postclosure maintenance costs, less the actual costs incurred. Future costs are subject to change as a result of such factors including, but not limited to, inflation, advancements in technology, and amendments to laws and regulations.
- Management's estimates of the fair values of investments, except real estate, private equity, infrastructure, equity and fixed income commingled funds, money market mutual funds, and the Local Agency Investment Fund (LAIF), are based on quoted market prices, bid evaluation, or matrix pricing techniques. Directly held real estate investments fair values are reported at appraised value as determined by the San Diego City Employees' Retirement System's (SDCERS) real estate managers and third-party appraisal firms. Private equity and infrastructure assets are measured at fair value using the net asset value (NAV) per share or its equivalent by their respective investment managers, giving consideration to the financial condition and operating results of the portfolio companies, and other factors deemed relevant. Equity and fixed income commingled funds are reported using the NAV per share. Money market mutual funds are valued at NAV based on amortized cost. The City's investment in LAIF is reported based upon the application of a fair value factor to each one dollar share invested.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The City's NPL and sensitivity of the NPL to changes in the discount rate disclosed in Note 12 to the financial statements.
- The funded status of the City's OPEB plan and the City's NOPEBO disclosed in Note 13 to the financial statements.
- The commitment disclosures related to the City's future estimated operating and capital costs to comply with the California Regional Water Quality Board's Administrative Proceeding, California Department of Public Health Compliance Order, and the City's modified permit for the Point Loma Wastewater Treatment Plant as disclosed in Note 17 to the financial statements.
- The disclosure of contingencies affecting the City as disclosed in Note 18 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, the preservation of benefits plan total pension liability, the schedule of employer contributions, OPEB trust fund schedule of funding progress, OPEB trust fund schedule of employer contributions, and the General Fund schedule of revenues, expenditures and changes in fund balance – budget and actual (budgetary basis) and related notes, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Restriction on Use

This information is intended solely for the information and use of the Audit Committee and City Council, and management of the City of San Diego and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Macias Gini & O'Connell LLP

CITY OF SAN DIEGO
ADMINISTRATIVE REGULATION

SUBJECT	Number 95.39	Issue 1	Page 1 of 6
MANAGEMENT RESPONSIBILITIES FOR INTERNAL FINANCIAL CONTROLS	Effective Date December 8, 2017		

1. PURPOSE

- 1.1. Define management responsibilities related to establishing, maintaining, monitoring and complying with a system of *Internal Financial Controls* to minimize risk of asset loss and ensure reliability of financial information and compliance with financial laws, rules and regulations.

2. SCOPE

- 2.1. This Administrative Regulation applies to all City Departments.

3. DEFINITIONS

- 3.1. Approval - A process that encompasses reviewing and/or testing up to a level of effort that allows the approver to become confident that the data and/or information presented is in proper form, appropriate and compliant with City policies and procedures.
- 3.2. Authorization - Power granted by the City Charter, San Diego Municipal Code, or through delegation of authority from Mayor, Council or other City Official.
- 3.3. City Management - Unclassified staff charged with planning, organizing, staffing, leading and directing the City in order to meet the organization's objectives.
- 3.4. Executive Management Team - Senior leadership team for City operations, including the Chief Operating Officer, Assistant Chief Operating Officer, Chief Financial Officer, Deputy Chief Operating Officers, Chief of Police, Chief of Fire and Life Safety, Communications Director and Human Resources Director.
- 3.5. Fraud - Act or omission designed to deceive others, intended to result in financial or personal gain.

(New Administrative Regulation 95.39, Issue 1, effective December 8, 2017)

Authorized

(Signature on File)

CHIEF OPERATING OFFICER

CITY OF SAN DIEGO
ADMINISTRATIVE REGULATION

SUBJECT	Number 95.39	Issue 1	Page 2 of 6
MANAGEMENT RESPONSIBILITIES FOR INTERNAL FINANCIAL CONTROLS	Effective Date December 8, 2017		

- 3.6. Internal Financial Controls - Systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to (1) conduct its business in an orderly and efficient manner, (2) safeguard its assets and resources, (3) deter and detect financial errors, *Fraud*, and theft, (4) ensure accuracy and completeness of its accounting data, (5) produce reliable and timely financial and management information, (6) ensure adherence to its policies, plans, and (7) comply with financial laws, provisions of contracts, grant agreements, rules and regulations.
- 3.7. Materiality - *Materiality* is the threshold above which missing or incorrect financial information is considered to have an impact on the decision making of users of such information.
- 3.8. Production Environment - A term used to describe the setting where software and other products are actually put into operation for their intended uses by end users.
- 3.9. SAP - An Enterprise Resource Planning platform for the City's core Financial, Procurement, Human Resources and Payroll processes in a single integrated environment.

4. POLICY

4.1. GENERAL

- 4.1.1. *City Management* shall demonstrate through their directives, actions and behavior the importance of integrity and ethical values to support an effective system of internal controls.
- 4.1.2. The development and implementation of internal controls shall be prioritized based on management's assessment of those areas or processes that pose the highest risk of asset loss, misstatement of financial information and non-compliance with financial laws, rules and regulations.
- 4.1.3. Costs associated with internal controls shall not exceed their benefit. All levels of management must assess the costs, benefits, and risks when designing controls.
- 4.1.4. All transactions, activities and *Approvals* shall be carried out by employees acting within their range of knowledge and authority.
- 4.1.5. Policies and procedures within the City should clearly identify which individuals have authority to initiate, submit, reconcile, view or approve different types of transactions.

CITY OF SAN DIEGO
ADMINISTRATIVE REGULATION

SUBJECT	Number 95.39	Issue 1	Page 3 of 6
MANAGEMENT RESPONSIBILITIES FOR INTERNAL FINANCIAL CONTROLS	Effective Date December 8, 2017		

5. RESPONSIBILITY

5.1. *Executive Management Team*

Under the direction and supervision of the Chief Operating Officer, the *Executive Management Team* is responsible for setting the institutional expectation for internal controls, ensuring management is aware of those expectations and establishing an environment that supports the functioning of the system of internal controls including:

- 5.1.1. Establishing structures, reporting lines and appropriate authorities and responsibilities to accomplish City objectives.
- 5.1.2. Establishing effective communication channels through all levels of management.
- 5.1.3. Attracting, developing and retaining competent employees in alignment with City objectives.
- 5.1.4. Establishing an environment in which individuals are held accountable for their internal control responsibilities.
- 5.1.5. Continuously evaluating the overall effectiveness of the system of internal controls and taking timely and appropriate action to remediate any deficiency identified.

5.2. Chief Financial Officer

- 5.2.1. Subject to the direction and supervision of the Chief Operating Officer, the Chief Financial Officer shall have oversight over financial transactions of the City.
- 5.2.2. The Chief Financial Officer shall establish *Internal Financial Controls* through citywide policies and procedures regarding accounting, financial reporting, treasury, debt management, budget development, budget monitoring, and compliance with financial laws, rules and regulations.
- 5.2.3. The Chief Financial Officer shall continuously evaluate the risks of material financial misstatement and material non-compliance with financial laws and regulations and shall prioritize the development, documentation and monitoring of controls based on those areas that pose the highest risk to reliable financial reporting and compliance.
- 5.2.4. The Chief Financial Officer may delegate development and monitoring of financial

CITY OF SAN DIEGO
ADMINISTRATIVE REGULATION

SUBJECT	Number 95.39	Issue 1	Page 4 of 6
MANAGEMENT RESPONSIBILITIES FOR INTERNAL FINANCIAL CONTROLS	Effective Date December 8, 2017		

policies and procedures pertaining to functions and responsibilities of each department.

5.2.5. The Chief Financial Officer or designee shall ensure that financial policies and procedures are appropriately documented and disseminated and shall provide training to relevant staff as appropriate.

5.3. Department Directors

5.3.1. Department Directors shall be responsible for establishing an environment that supports the functioning of the system of *Internal Financial Controls* within the department they oversee.

5.3.2. Responsibility over internal controls within each department will reside at the Department Director level. Department Directors may delegate specific duties to staff in order to effectively manage risk and monitor adherence to policies and procedures. However, delegation of these duties does not relieve the Department Director of ultimate responsibility over internal controls for their respective department.

5.3.3. Department Directors shall have oversight responsibility for their department's compliance with citywide financial policies and procedures.

5.3.4. Department Directors shall be responsible for establishing and maintaining effective financial controls that are specific to the business transactions carried out within the department's area of responsibility.

5.3.5. Department level financial controls shall be subject to review by the Chief Financial Officer or designee. Department Directors shall timely remediate any *Internal Financial Control* weakness identified by the review of the Chief Financial Officer, or designee.

5.3.6. Internal Control responsibilities for Department Directors shall include the following:

- a. Appropriately approve financial transactions as delegated by the Mayor and in accordance with City Charter, San Diego Municipal Code and City policies.
- b. Safeguard City assets from risks such as waste, abuse, loss, *Fraud* and mismanagement.
- c. Comply with restrictions on funding sources used to implement programs

CITY OF SAN DIEGO
ADMINISTRATIVE REGULATION

SUBJECT	Number 95.39	Issue 1	Page 5 of 6
MANAGEMENT RESPONSIBILITIES FOR INTERNAL FINANCIAL CONTROLS	Effective Date December 8, 2017		

- and projects of the department.
- d. Establish, maintain and monitor effective internal control over compliance with requirements of federal awards managed by the department.
 - e. Maintain financial records in accordance with record retention policies.
 - f. Comply with cash handling policies and procedures.
 - g. Comply with procurement policies, rules and regulations.
 - h. Oversee vendor compliance with contract terms and conditions.
 - i. Monitor revenues and expenditures against department budget.
 - j. Timely communicate material financial matters to Chief Financial Officer as appropriate.
 - k. Comply with Disclosure Controls and Procedures as established by the Disclosure Practices Working Group.
 - l. Comply with employee time entry and *Approval* policies.
 - m. Invoice timely and accurately for goods and services provided by the department to residents, businesses, agencies and other outside parties.
 - n. Invoice timely and accurately for goods and services provided to other City departments. If applicable, allocate costs to other departments using a reasonable and consistent basis.
 - o. Take timely corrective action on internal and external auditor findings for which management agrees.
 - p. Ensure employees within the department are properly trained and informed of relevant financial policies and procedures.
 - q. Take timely and appropriate personnel action when financial policies and procedures are not followed.

5.4. Chief Information Officer

- 5.4.1. The Chief Information Officer shall have oversight over the software development process related to enhancements and additions to the City's *Enterprise Resource Planning system (SAP)*.
- 5.4.2. The Chief Information Officer shall collaborate with the Chief Financial Officer or designee to timely address any significant financial system control weaknesses that could result in *Material* financial misstatements or *Fraud*.
- 5.4.3. The Chief Information Officer, in collaboration with the Chief Financial Officer or designee, shall establish processes that allow for proper review and testing of enhancements or additions to *SAP*. No enhancement or addition shall go into production until such review and testing indicates financial transactions are recorded accurately.
- 5.4.4. The Chief Financial Officer or designee shall approve all system additions or

CITY OF SAN DIEGO
ADMINISTRATIVE REGULATION

SUBJECT MANAGEMENT RESPONSIBILITIES FOR INTERNAL FINANCIAL CONTROLS	Number 95.39	Issue 1	Page 6 of 6
	Effective Date December 8, 2017		

enhancements to *SAP*, or other application, that generate financial transactions through an interface with *SAP* prior to such addition or enhancement going into *SAP's Production Environment*.

APPENDIX

Legal References

City Charter, Section 39 – (Chief Financial Officer)
San Diego Municipal Code, Section 22.0706 – (Annual Report on Internal Controls)
San Diego Municipal Code, Section 22.4101 – (Disclosure Practices Working Group Purpose and Intent)

Forms

N/A

Subject Index

Management Responsibilities
Internal Controls

Administering Department

Office of the City Comptroller

City of San Diego
Disclosure Practices Working Group

Disclosure Controls and Procedures

Article I
General

Section 1.1. Purpose. These Disclosure Controls and Procedures are designed to (i) ensure the accuracy of the City of San Diego’s disclosures and the City’s compliance (including the City Council, City officers, and staff) with all applicable federal and state securities laws, and (ii) promote best practices regarding disclosures relating to securities issued by the City and its Related Entities.

Section 1.2. Disclosure Practices Working Group. Pursuant to Sections 22.4101 and 22.4103 of the Municipal Code, a Disclosure Practices Working Group (“DPWG”) has been established. Membership of the Disclosure Group shall be as set forth in Section 22.4103 of the Municipal Code.

Section 1.3. Responsibilities of DPWG. The DPWG shall have the responsibilities set forth in (i) subsection (b) of Section 22.4101 of the Municipal Code, (ii) Section 22.4107 of the Municipal Code, (iii) subsection (a) of Section 22.4108 of the Municipal Code, and (iv) such additional responsibilities as are set forth in the Municipal Code and these Procedures.

Section 1.4. Meetings of the Disclosure Group. In accordance with Section 22.4105 of the Municipal Code, DPWG shall meet as often as necessary to fulfill its obligations. Any member of the Disclosure Group may convene a meeting. Meetings may be attended in person or via telephone, however at least one in-person meeting is required for approval of Official Statements, CAFRs and other Disclosure Documents if so requested by any Member. The Disclosure Coordinator shall distribute an agenda for each meeting. The agenda shall be prepared in consultation with members of the DPWG or at the request of City staff. Any member or ex officio participant of the DPWG may place an item on the agenda.

Section 1.5. Quorum; Delegation. A quorum will consist of at least three of the five individuals identified in Section 22.4103(a) of the Municipal Code or the designees of those individuals. Members may designate appropriate individuals to attend DPWG meetings in the event that the Member is not able to attend. Disclosure Documents may only be approved by Members or designees specifically permitted under the Municipal Code.

Article II *Definitions*

Section 2.1. Definitions. Capitalized terms used in these Disclosure Controls and Procedures shall have the meanings set forth below:

“*CAFR*” means the City’s Comprehensive Annual Financial Report.

“*City*” means the City of San Diego, California.

“*Contributors*” means those persons contacted by the Financing Group or the Disclosure Group, or assigned by a department director, to assist with the review or preparation of a Disclosure Document as described in Section 4.3.

“*Deputy City Attorney for Finance and Disclosure*” means the attorney designated as such pursuant to Section 22.0302 of the Municipal Code.

“*Disclosure Coordinator*” means the Deputy City Attorney for Finance and Disclosure.

“*Disclosure Documents*” means those documents defined as such in Article III.

“*EMMA*” means the Electronic Municipal Market Access reporting system of the Municipal Securities Rulemaking Board

“*Financing Group*” means, collectively, those persons identified as such pursuant to subsection A. of Section 4.3.

“*Member*” means the individuals identified in Section 22.4103(a) of the Municipal Code.

“*Municipal Code*” means the San Diego Municipal Code, as amended from time to time.

“*Preparer*” means those persons defined as such in subsection A. of Section 4.5.

“*Procedures*” means these Disclosure Controls and Procedures.

“*Related Entities*” means those entities as defined in Section 22.4102 of the Municipal Code. Related Entities include, but are not limited to, those Related Entities as set forth in Exhibit A.

Article III *Disclosure Documents*

Section 3.1. Disclosure Documents. “Disclosure Documents” means (i) the City’s documents and materials prepared, issued, or distributed in connection with the City’s

disclosure obligations under applicable federal and state securities laws relating to its securities and (ii) any other disclosure which, pursuant to the Municipal Code, the Disclosure Group has the responsibility to review and approve. Disclosure Documents shall include, but not be limited to, the following:

- A. Preliminary and final official statements, and preliminary and final private placement memoranda, relating to the City's securities, together with any supplements;
- B. the City's Financial Statements;
- C. any filing made by the City with EMMA, whether made pursuant to a continuing disclosure agreement to which the City is a party or made voluntarily;
- D. rating agency presentations, investor presentations and any postings on the City investor webpage, not including explanatory or informational items such as the forward calendar;
- E. any disclosure materials requiring, pursuant to the Municipal Code, approval and certification by the Mayor, City Attorney, or Chief Financial Officer;
- F. disclosures provided by the City in connection with securities issued by Related Entities, together with all of such documents and materials prepared, issued, or distributed in connection with such securities of such related entity, to the extent that the City, the City Council, or City officers, or staff have prepared or are responsible for the preparation of the form or content of such documents or materials;
- G. offering documents prepared by Related Entities if such documents are subject to the approval of the City Council (e.g. when the City Council is acting in its capacity as the governing board of the Housing Authority or the Successor Agency of the Redevelopment Agency or the legislative body of the Community Facilities Districts); and
- H. such portions of the City's adopted annual budget as the Disclosure Group determines to be appropriate, which shall at a minimum include the executive summary.

Section 3.2 Where a City Related Entity is a conduit issuer and no City or Related Entity financial information is being disclosed (e.g., Housing Authority multifamily housing revenue bonds), documents otherwise meeting the definition of Disclosure Document herein need not be reviewed by DPWG.

Article IV *Review Process*

Section 4.1. Determination of “Disclosure Document” status. Whether a particular document or other communication is a Disclosure Document shall be determined by DPWG, including but not limited to, the determination whether a document should be filed voluntarily with EMMA (Section 3.1.C. above). Any Member may seek the advice of DPWG to determine whether any document should be treated as a Disclosure Document. To assist DPWG in its determination whether a particular document is a Disclosure Document as described in subsection F. of Section 3.1, information shall be solicited from the appropriate Related Entity, if necessary.

Section 4.2. Review of Form and Content of Disclosure Documents. DPWG shall review the form and content of each Disclosure Document. DPWG may require the attendance of all persons responsible for the preparation or review of the Disclosure Document.

Section 4.3. Review of Official Statements. The following procedures shall apply to those Disclosure Documents described in subsections A. or G. of Section 3.1 (Official Statements):

A. Financing Group. The Debt Management Director shall identify a Financing Group for each financing (the composition of which may differ for each financing), which shall include the Deputy City Attorney for Finance and Disclosure (or such other Deputy City Attorney designated to work on the matter by the Deputy City Attorney for Finance and Disclosure), such manager of Debt Management and other City finance and operations management staff as the Director of Debt Management determines is appropriate to interface with the bond financing team (i.e., bond counsel and/or disclosure counsel, underwriter(s), underwriter’s counsel, financial advisors, and appropriate City staff).

B. Responsibilities of Financing Group. The Financing Group shall (i) assist the bond financing team in the preparation of the Disclosure Document and (ii) the Director of Debt Management working with the Financing Group shall certify to DPWG that, to the best of his or her knowledge, these Procedures were followed in such preparation.

1. The Financing Group shall be responsible for soliciting material information from City departments. The Financing Group shall identify Contributors who may have information necessary to prepare, or who should review portions of, the Disclosure Document. These Contributors should be timely contacted and informed that their assistance will be needed for the preparation of the Disclosure Document, which notification will contain the information set forth in Exhibit C. Contributors shall be provided with adequate time to fulfill their responsibilities under these Procedures.

2. The manager of Debt Management assigned to the financing, together with the Deputy City Attorney for Finance and Disclosure, shall maintain or cause to be maintained by the transaction disclosure counsel an accurate log of all individuals or departments that contributed to the Disclosure Document, including what sections such individuals or department prepared or reviewed. The Deputy City Attorney for Finance and Disclosure shall also be responsible for maintaining all certifications on behalf of DPWG.

3. The Financing Group shall confirm to and advise DPWG that each section of and all financial and operating information contained in the Disclosure Document has been reviewed by an appropriate person, as evidenced by the written material described in 2. above (which shall constitute the “audit trail” referenced in Section 22.4106(a)(4) of the Municipal Code). Of particular import is that the “Appendix A” and other information concerning the City be compared for accuracy against the City’s CAFR.

4. The Financing Group shall report any significant disclosure issues and concerns to DPWG as they are discovered.

5. Where appropriate, the Financing Group may exercise the authority granted to DPWG under Municipal Code section 22.4111 to require information, assurances or certifications from officers and employees of the City or the City’s component units or related entities. Any issues related to obtaining such information, assurances or certifications shall be referred to DPWG. Any issues related to obtaining information from parties outside the City, including consultants, shall also be referred to DPWG.

C. Responsibilities of Contributors. A Contributor shall assist in reviewing and preparing the Disclosure Document using his or her knowledge of the City and by discussing the Disclosure Document with other members of the department in an attempt to ensure the accuracy of the information and to determine whether any other information should be discussed or disclosed. Once a Contributor is notified of his or her need to participate in preparing a Disclosure Document, the Contributor and the Contributor’s department director shall cooperate with Financing Group and DPWG requests. Contributors who provide information incorporated into a Disclosure Document shall provide assurances to his or her department director as to the accuracy of such information and the Contributor’s participation shall be noted in the director’s certification to DPWG.

D. Review and Certification by Department Directors. With respect to those Disclosure Documents described in subsection A. of Section 3.1, the directors of the departments identified below, or appropriate designees, shall participate in the activities of the Financing Group to ensure that information provided by or concerning the operational responsibilities of the department are accurate and complete. The departments and component units are as follows:

1. Office of the City Comptroller (Exhibit D)

2. Department of Financial Management (Exhibit D)
3. Department of Risk Management (Exhibit D)
4. Transportation and Stormwater Department (Exhibit D)
5. San Diego City Employees' Retirement System (Exhibit D)
6. Office of the City Attorney (Exhibit E)
7. Public Utilities Department (if a water or wastewater financing) (Exhibit D)

The Financing Group or DPWG may request certifications from any other department, component unit or related entity as needed. Certifications must be provided by department directors and not designees unless there are extenuating circumstances such as illness or absence. Certifications shall be addressed to DPWG.

E. Review by Chief Financial Officer. The Chief Financial Officer shall review the Disclosure Document in full to identify any material difference in presentation of financial material from the CAFR, any misstatement or omission in any sections that contain descriptions of information prepared by or of interest to the Chief Financial Officer. Any comments on the Disclosure Document shall timely be sent to the Financing Group. The Chief Financial Officer shall certify to DPWG that information presented in the Disclosure Document is consistent with the CAFR.(Exhibit F)

Section 4.4. Review of the City's Comprehensive Annual Financial Report. The City's CAFR is prepared at the direction of the City Comptroller. The City Comptroller shall require certifications from the director of any department or component unit providing information for inclusion in the CAFR where the City Comptroller considers such information material. Departments providing such certifications shall include:

1. Department of Risk Management.
2. Environmental Services Department.
3. Public Utilities Department.
4. Transportation and Stormwater Department.
5. Real Estate Assets Department.
6. San Diego City Employees' Retirement System.
7. Office of the City Attorney.

In the event that the City Comptroller determines that any department not specifically identified above is providing material information for inclusion in the CAFR, the City

Comptroller shall require certification from such department. Certifications shall be address to the Chief Financial Officer and shall generally follow the form of Exhibit L.

Section 4.5. Review of Disclosure Documents other than Official Statements. The following procedures shall apply to those Disclosure Documents that are not addressed in Section 4.3 or Section 4.4:

A. Determination of Disclosure Document. Any person (each, a “Preparer”) preparing any information for release to the public that could be considered a Disclosure Document and that is not otherwise identified as a Disclosure Document in the forward calendar referenced in Section 6.3, shall notify the Deputy City Attorney for Finance and Disclosure of such information. The Deputy City Attorney for Finance and Disclosure shall, in consultation with the City’s outside disclosure counsel, timely make a determination whether such information is a Disclosure Document pursuant to Section 4.1.

B. Notify DPWG. If it is determined that a document is a Disclosure Document, the Preparer shall inform DPWG of the (i) expected completion date of the Disclosure Document and (ii) the expected or required dissemination date of the Disclosure Document.

C. Involvement of Deputy City Attorney. The Deputy City Attorney for Finance and Disclosure, in consultation with the City’s outside disclosure counsel as necessary, shall assist the Preparer to:

1. identify material information that should be disclosed;
2. identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document; and
3. determine when the Disclosure Document is final and ready for review by DPWG.

D. Prepare Source List. The Preparer shall keep a list of individuals or groups that have contributed to the preparation of the Disclosure Document and a list of sources from which the information summarized or updated in the Disclosure Document was derived.

Article V *Approval Process*

Section 5.1. General. DPWG shall review and approve the form and content of each Disclosure Document. To the extent feasible, DPWG should act through consensus decision-making. If DPWG is unable to reach consensus, any dissenting opinion shall be reflected in the certificate of DPWG. Those Disclosure Documents that (i) the City is contractually obligated to file with EMMA if determined to be a material event or as a result of the failure to file the required annual financial information and (ii) contain no

discretionary content (e.g., rating changes), may be filed with the EMMA upon the approval of the City's outside disclosure counsel and the Deputy City Attorney for Finance and Disclosure. DPWG may so designate other approvals, as appropriate. DPWG may also approve Disclosure Documents via email after initial reviews are conducted via telephone or in person.

Section 5.2. Review of the Official Statements by Disclosure Group for Approval. The Financing Group shall submit any Disclosure Document described in Section 4.3 (Official Statements) to DPWG when (i) it has completed all the updates, and source documentation finalized as described in Section 4.3, and (ii) in its best judgment, the Disclosure Document is in substantially final form. The Financing Group, including the transaction disclosure counsel, shall present the Official Statement to DPWG to ensure the disclosures are accurate and complete. If necessary, documents may be submitted in parts.

DPWG shall evaluate the Disclosure Document for accuracy, and have the opportunity to ask questions of the Financing Group and of any Contributor or other person who reviewed or drafted any section of the Disclosure Document. DPWG may send the Disclosure Document back to the Financing Group for revisions. DPWG shall timely provide the Financing Group with any comments or questions on the Disclosure Document or the associated financing.

Section 5.3. Submission of Official Statements to Mayor and City Attorney. DPWG shall submit any Disclosure Document described in Section 4.3 to the Mayor and City Attorney when, in its best judgment, (i) the Disclosure Document is in substantially final form and (ii) DPWG has complied with these Procedures. Such submission shall be by means of the transmittal letter attached as Exhibit H.

The Mayor and City Attorney shall evaluate, or cause to be evaluated, the Disclosure Document for completeness and accuracy. The Mayor and the City Attorney shall meet with the Financing Group and DPWG at a mutually convenient time, and may ask questions of the Financing Group, DPWG, any Contributor, and any other person who reviewed or prepared any section of the Disclosure Document. The Mayor or City Attorney may send the Disclosure Document back to the Financing Group for revisions. Upon satisfaction with the Disclosure Document, the Mayor and City Attorney shall execute the certifications required by Section 22.4112(a) of the Municipal Code, in the form attached as Exhibit I, and provide a copy to DPWG.

Section 5.4. Chief Financial Officer Certification. Upon satisfaction with a Disclosure Document described in Section 4.3 or in subsection F. of Section 3.1, the Chief Financial Officer shall execute the certification required by 22.0707(b) of the Municipal Code, in the form attached as Exhibit J, and provide a copy to DPWG. With respect to each CAFR, the Chief Financial Officer shall execute the certification required by 22.0707(a) of the Municipal Code, in the form attached as Exhibit K, and provide a copy to DPWG.

Section 5.5. Submission of Official Statements to City Council for Approval. As part of the docketing process, DPWG shall submit any Disclosure Document described in

Section 4.3 to the City Council for approval together with the certifications from the Mayor, the City Attorney, and the Chief Financial Officer promptly after the receipt of such certifications. The approval of such a Disclosure Document by the City Council shall be docketed on the adoption agenda and shall not be approved as a consent item. The City Council shall undertake such review as deemed necessary by the Deputy City Attorney for Finance and Disclosure and the City's outside disclosure counsel to fulfill the City Council's responsibilities under applicable federal and state securities laws.

Section 5.6. Approval of Disclosure Documents other than Official Statements. Any Disclosure Document shall be submitted to DPWG for approval when the Preparer, the Deputy City Attorney for Finance and Disclosure, and the City's outside disclosure counsel believe such Disclosure Document is ready for dissemination.

DPWG shall evaluate the Disclosure Document for accuracy and completeness, and have the opportunity to ask questions of the Preparer or any other person who reviewed or drafted any section of the Disclosure Document. DPWG may send the Disclosure Document back to the Preparer for revisions. DPWG shall communicate to the Preparer any comments or questions on the Disclosure Document or the associated financing in a timely manner.

Section 5.7. Review and Approval of Private Placements or Direct Loan instruments. DPWG shall review all borrowings proposed to be done on a private placement or direct loan basis of the City or its related entities to (i) ensure that adequate processes have been implemented to enable the purchaser to conduct due diligence on the project; (ii) determine if there is a disclosure document or annual reporting requirements; and (iii) ensure, if appropriate, that there are adequate controls in place restricting the transfers of such securities. If DPWG finds that there are disclosure requirements, they shall undertake the review required by Section 4.2. For any privately placed transaction, DPWG shall be provided with the final staff report describing the issue and such other documents as DPWG shall request.

Article VI *Timelines for Review*

Section 6.1. Timeline for Review of Official Statements. The timeline for any particular bond financing for which a Disclosure Document as described in subsections A. or G. of Section 3.1 will vary depending on the financing timeline for the bond issuance, funding needs, and market conditions as determined by Debt Management in consultation with the Chief Financial Officer, provided that sufficient time is allowed to fully comply with these Procedures.

Section 6.2. Timeline for Review of Disclosure Documents other than Official Statements. The timeline for preparing any particular Disclosure Document will vary depending on the type of Disclosure Document and whether or not the Disclosure Document was on the forward calendar referenced in Section 6.3. Accordingly, the following timeline has been developed to assist DPWG and the Preparer in developing a

schedule, but is intended only to provide general guidance in light of the unique characteristics of each Disclosure Document.

Action	Scheduled (measured by days before Disclosure Document dissemination scheduled)	Unscheduled (measured from days after unexpected Disclosure Document revealed)
Disclosure Group notified of the potential Disclosure Document	30 days	ASAP
Preparer, Deputy City Attorney for Finance and Disclosure, or the City’s outside disclosure counsel identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document	15-30 days	4 business days
Disclosure Document finalized and transmitted to Disclosure Group	7-15 days	4-5 business days
Disclosure Group reviews Disclosure Document and all related materials, and approves Disclosure Document for dissemination	5 days	ASAP

Section 6.3. Forward Calendar. Debt Management shall maintain a forward calendar that sets forth, to the best judgment of the Department and in consultation with the Deputy City Attorney for Finance and Disclosure, the Chief Financial Officer, and other City finance departments as appropriate, a comprehensive list of Disclosure Documents including the audited financial statements and relevant sections of the City budget that are subject to the review and approval of DPWG in the upcoming month. The Director of Debt Management shall advise DPWG of all Disclosure Documents originating in Debt Management (particularly, those Disclosure Documents described in subsection A. of Section 3.1, and those Disclosure Documents filed by the City with EMMA pursuant to continuing disclosure agreements described in subsection C. of Section 3.1) that are expected to be submitted to DPWG for review and approval. In addition, the Deputy City Attorney for Finance and Disclosure shall advise DPWG of those Disclosure Documents described in subsections F. or G. of Section 3.1 that are expected to be submitted to DPWG for review and approval.

Article VII
Training Policy

Section 7.1. Training Sessions.

A. Employees with responsibility for collecting or analyzing information that may be material to the preparation of a Disclosure Document shall attend disclosure training sessions conducted by the City's outside disclosure counsel, with the assistance of the Deputy City Attorney for Finance and Disclosure, and the Director of Debt Management. New employees shall review the video of such a session within three months of their first day of employment. Such training sessions shall include education on the City's disclosure obligations under applicable federal and state securities laws and their responsibilities and potential liabilities regarding such obligations. Such training sessions may be conducted in person or by video.

B. The determination as to whether a class of employee or specific individual employees or groups of employees shall receive such training shall be made by the Chief Financial Officer or the Deputy City Attorney for Finance and Disclosure, as appropriate. DPWG may also require training for a particular employee or employees not otherwise specified.

C. Separate training sessions shall be conducted by the City's outside disclosure counsel, with the assistance of the Deputy City Attorney for Finance and Disclosure, for the Mayor and City Council members.

Article VIII
Document Retention Policies

Section 8.1. Official Statements.

A. Materials retained. In addition to closing transcripts, which shall be maintained by Debt Management, DPWG shall retain in a central depository, for a period of five years from the date of delivery of the securities referenced in a Disclosure Document described in subsections A. or G. of Section 3.1, executed copies of any certifications or logs prepared according to these Procedures and the following materials:

1. the executed copies of the letters, requests, and certifications required pursuant to these procedures;
2. the information and related sources referenced in the materials described in 1. above;
3. any written certification or opinions executed by a City official relating to disclosure matters if such certifications are not contained in the closing transcript.

B. Materials not retained. DPWG shall not retain after the date of delivery of the related securities drafts of any materials.

Section 8.2. Disclosure Documents other than Official Statements. DPWG shall retain in a central depository, for a period of five years from the date the respective Disclosure Document is published, posted, or otherwise made publicly available:

1. the final version of the Disclosure Document,
2. all transmittal letters, requests, and certifications relating to information in the Disclosure Document,
3. the information and related sources referenced in the materials described in 2. above.

DPWG shall not retain the drafts of any such materials.

Article IX *Confidential Submissions*

Section 9.1. Deputy City Attorney for Finance and Disclosure. The City shall encourage City employees to contact the Deputy City Attorney for Finance and Disclosure with any disclosure questions or concerns. To the extent permitted by law, upon the employee's request, the Deputy City Attorney for Finance and Disclosure shall keep the employee's identity confidential.

Section 9.2. Fraud Hotline. Anonymous submissions related to disclosure matters may also be made through the fraud hotline maintained by the City Auditor, if appropriate.

Article X *Annual Review*

Section 10.1. Annual Review. DPWG shall conduct an annual evaluation of these Disclosure Controls and Procedures and also prepare an annual report of the activities undertaken by DPWG during the year, in accordance with the procedures and the dates established by Section 22.4107 of the Municipal Code.

Exhibits

- A. List of Related Entities
- B. Related Entity Letter
- C. Request for Information from Contributors
- D. Certification by Department Director to DPWG
- E. Certification by City Attorney's Office Regarding Litigation
- F. Certification by Chief Financial Officer to DPWG
- G. Transmittal of Official Statement by Financing Group to DPWG
- H. Transmittal of Official Statement by Disclosure Group to Mayor and City Attorney
- I. Certifications by City Attorney and Mayor
- J. Certification by Chief Financial Officer Regarding Official Statements
- K. Certification by Chief Financial Officer Regarding CAFR
- L. Certification by Department Director to the CFO Regarding CAFR

Related Entities

Assessment District 4096 (Piper Ranch Business Park)

Community Facilities District No. 1 (Miramar Ranch North)

Community Facilities District No. 2 (Santaluz)

Community Facilities District No. 3 (Liberty Station)

Community Facilities District No. 4 (Black Mountain Ranch Villages)

Convention Center Expansion Financing Authority

Public Facilities Financing Authority of the City of San Diego

Reassessment District No. 1999-1

Reassessment District No. 2003-1

City as Successor Agency to Redevelopment Agency of the City of San Diego

San Diego Facilities and Equipment Leasing Corporation

San Diego Housing Authority

San Diego Housing Commission

San Diego Tobacco Revenue Funding Corporation

Related Entity Letter

Pursuant to Municipal Code §22.4101 *et seq.* (Code), the Disclosure Practices Working Group (Group) has the responsibility to review the form and content of information disclosed by the City in connection with securities issued by Related Entities (as defined in the Code). Accordingly, in order to fulfill such responsibility, you must submit this letter for approval by the Group, and you understand and agree that you will not docket the Preliminary Official Statement or other offering document for consideration by the City Council prior to submitting this letter to the Group.

You have received this letter because [name of issuer] is a Related Entity of the City. Please advise, by checking the appropriate box below, whether you are in receipt of any information of the type referenced in the preceding paragraph.

We did not request, and did not receive, any information from a City employee that we intend to include in the Preliminary Official Statement or other offering document that is being prepared in connection with the securities being offered by [name of Related Entity].

We received information from [name of City employee], a copy of which is attached, which we intend to include in the Preliminary Official Statement that is being prepared in connection with the securities being offered by [name of Related Entity]. We understand and acknowledge that we are not authorized to include this information in such Preliminary Official Statement or any other disclosure document until we receive written authorization from a representative of the Group to include such information.

Related Entity: _____

Authorized Officer: _____

Request for Information from Contributors

The Debt Management department of the City is requesting information from [department or division name] to be included in a detailed disclosure of the City's financial and operating data for an [official statement] [annual report] to be issued by the City in connection with [the sale of bonds or other securities] [federal annual reporting requirements for municipal securities]. This information will be disseminated publicly to the investing public, including bondholders, rating agencies, financial advisors and other members of the investment community.

Federal securities laws require that the information be complete, accurate, and in no way misleading. Please review carefully and critically the information you are providing to be certain, to the best of your knowledge after reasonable inquiry of the appropriate persons, that it is accurate, complete and not misleading. Please be certain that the source documentation is reliable and auditable, should any future inquiry arise. Please provide a copy of all source documentation. Please describe any exceptions or other caveats to the information you are providing.

Please review the information in its entirety, rather than simply updating that which has already been provided, to determine whether any material changes have occurred or if any new or additional information should be included to make the information you are providing not misleading and as complete and accurate as possible.

Please provide the information by no later than [X date], and please advise of any subsequent changes to such information through [Y date].

If you require additional information regarding this request for information, please contact _____, at x_____. Thank you for your assistance.

Certification from Department Director to DPWG

DPWG:

I am the [Department Director/Other Title] of the [Name of Department]. [Department Name] has provided information for the [type of Disclosure Document] for the [Name of Transaction] (“Disclosure Document”) and I, along with other individuals in [Department Name] are Contributors as that term is used in Disclosure Controls and Procedures. I, with the assistance of Contributors on my staff, have reviewed the information we have provided or which concerns my area of operational responsibility. Such assistance includes obtaining assurances from the Contributors as to their review and the information contributed. I understand that I am responsible for the information provided by my department. By this certification, I am representing to DPWG that the information provided by or concerning the [Name of Department] is, to the best of my knowledge, accurate and complete. I hereby certify that the [Name of Department] has complied with the requirements of the Disclosure Controls and Procedures and that I have attended the federal securities law training seminar conducted by the City’s outside disclosure counsel or viewed a recorded version thereof. This certification is provided as of the date below. In the event of any material change to the information provided between the date of this certification and the scheduled delivery date for the bonds (X date), I shall promptly advise DPWG.

[Department Director/Title]

Contributors:

Certification from City Attorney's Office Regarding Litigation

DPWG:

The litigation section of the Disclosure Document has been reviewed by the appropriate attorneys, and the attached disclosure reflects all material current, pending or threatened litigation, and describes any material settlements or court orders. For purposes of this letter, the term "material" means (i) any litigation threatened, pending or commenced against the City seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, or contesting or affecting the validity or enforceability of, the pledge of revenue for, or the power of the City to issue, the Bonds, (ii) any litigation or pending regulatory action the potential exposure for which is greater than \$10,000,000. In the event of any material change to such information between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the DPWG.

Deputy City Attorney for Finance and
Disclosure

Certification of Chief Financial Officer to DPWG

DPWG:

I have reviewed the information in the [Official Statement/Offering Memorandum], including particularly the financial disclosures, and I have compared the financial disclosures in the Disclosure Document to the City's Comprehensive Annual Financial Report. I have also read and understand the directions that were provided to me in the letter from the Financing Group. To the best of my knowledge, there are no misstatements or omissions in any sections of the Disclosure Document that contain descriptions of information prepared by or of interest to the Chief Financial Officer. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group. [I have no comments./My comments are attached.]

Chief Financial Officer

Transmittal of Official Statement by Financing Group to DPWG

DPWG:

The Financing Group has, with respect to the [Official Statement/Offering Memorandum], (i) performed the responsibilities set forth in subsection B. of Section 4.3 of the Disclosure Controls and Procedures, (ii) obtained all the approvals and source documentation described in said Section 4.3, copies of which are attached, and (iii) in our best judgment, the Disclosure Document is in substantially final form and ready for review by DPWG.

Representative of Financing Group

[Financing Group Members]

Transmittal of Official Statement by DPWG to Mayor and City Attorney

Mayor and City Attorney:

DPWG has reviewed and approved the [Official Statement/Offering Memorandum] in accordance with the procedures set forth in Section 5.2 of the Disclosure Controls and Procedures. In the best judgment of DPWG, the Disclosure Document is in substantially final form and DPWG has complied with the Disclosure Controls and Procedures.

Representative of DPWG

[DPWG Members]

Certifications by City Attorney and Mayor

City Council:

I have reviewed the [description of Official Statement or Offering Memorandum], and I have met with and asked questions of the Financing Group, DPWG, any Contributor, any other person who reviewed or drafted any section of the [Official Statement/Offering Memorandum], and any other person that I thought necessary or appropriate. I hereby certify that, to the best of my knowledge, the [Official Statement/Offering Memorandum] does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

City Attorney/Mayor

Certification of Chief Financial Officer Regarding Official Statements

City Council:

I have reviewed the [description of Official Statement or Offering Memorandum] and compared the City CAFR with the Disclosure Document. In addition, I have reviewed the Disclosure Document in full to identify any misstatement or omission in any sections that contain or omit descriptions of information prepared by or of interest to the Chief Financial Officer. I hereby certify that, to the best of my knowledge:

1. the Disclosure Document fairly presents, in all material respects, the financial condition and results of operations of the City;
2. the Disclosure Document does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and
3. that the financial statements and other financial information from the City CAFR included in such Disclosure Document, if any, fairly present in all material respects the financial condition and results of operations of the City as of, and for, the periods presented in the City CAFR.

Chief Financial Officer

Certification of Chief Financial Officer Regarding CAFR

City Council:

I hereby certify that, to the best of my knowledge, as of the date of the CAFR:

1. the information contained in the [Fiscal Year] CAFR fairly presents, in all material respects, the financial condition and results of operations of the City as of, and for, the periods presented in the CAFR; and

2. the CAFR does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

Chief Financial Officer

Certification of Department Director to the CFO Regarding CAFR


Chief Financial Officer:

I am the [Department Director/Other Title] of the [Name of Department]. [Department Name] has provided information that is intended to be incorporated into the City's Comprehensive Annual Financial Report ("CAFR"). I, with the assistance of individuals on my staff, have reviewed the information in the CAFR that we have provided or which concerns my area of operational responsibility. Such assistance includes obtaining assurances from individuals under my supervision as to their review and the accuracy of the information provided. I have also implemented procedures within my department to ensure the accuracy and completeness of such information. I understand that I am responsible for the information provided by my department. By this certification, I am representing to you that the information provided by or concerning the [Name of Department] is, to the best of my knowledge, accurate and complete. I hereby certify that the [Name of Department] has complied with the requirements of the Disclosure Controls and Procedures and that I have attended the federal securities law training seminar conducted by the City's outside disclosure counsel or viewed a recorded version thereof.

I acknowledge that you will rely on this certification in connection with representations you will make to the City Council and to the City's independent auditors with respect to all information in the CAFR, including the information provided by my department. This certification is provided as of the date below. In the event of any material change to the information provided between the date of this certification and the expected completion date of the CAFR, I shall promptly advise you.

Dated: _____

[Director/Title]

 Process Narrative		Issue #	Doc #	Effective Date
		5	PN-0001	02/15/18
Document Name	Prepare a Process Narrative		Page	1 of 7
Owner Name	Sally Rubi	Internal Controls	Justin Byko	

PURPOSE

The purpose of this process is to explain the creation of a Process Narrative to document processes and develop a control framework for processes within the City of San Diego.

SCOPE AND END RESULT

This process is applicable to City departments that wish to document process(es) as well as the Internal Controls section in the Office of the City Comptroller.

The end result of this process is a complete and finalized Process Narrative with identifiable controls.

RESPONSIBILITIES

Internal Controls Accountant (Reviewer): Is responsible for reviewing and editing a Process Narrative.


Internal Controls Supervising Accountant (Approver): Is responsible for overseeing the Process Narrative process as well as performing the final review and approval of a Process Narrative.

Process Owner (PO): Is responsible for being an expert in documenting a specific process and creating a Process Narrative.

DEFINITION(S)


Governance, Risk, and Compliance (GRC): Identification and progress monitoring of an organization's business objectives, the risks associated with achieving those objectives, and the practice of adhering to legal and ethical standards in pursuit of those objectives.

Process Narrative (PN): A text document which details an accurate representation of how work is actually performed in a step-by-step manner for a given output and which includes relevant internal controls, which serve to prevent or detect instances of misstatement of financial information.

 Process Narrative		Issue #	Doc #	Effective Date
		5	PN-0001	02/15/18
Document Name	Prepare a Process Narrative		Page	2 of 7
Owner Name	Sally Rubi	Internal Controls	Justin Byko	

PROCESS

- 1.1. The Preparer identifies a Process Owner through careful deliberation internally in combination with representatives of the department where the process resides.
- 1.2. The Preparer communicates to the identified Process Owner the need for a Process Narrative. The Preparer provides the following information to the Process Owner:
 - 1.2.1. Process Narrative template;
 - 1.2.2. Process Narrative checklist; and
 - 1.2.3. This document (PN-0001).
- 1.3. The Preparer works with the Process Owner to schedule an agreed upon timeline to finalize and approve the Process Narrative.
 - 1.3.1. The Preparer records any Office of the City Auditor audit report(s) and subsequent recommendation(s) to ensure proper completion of the Process Narrative within the timeframe referenced in the audit report(s).
- 1.4. The Process Owner documents the current process in the Process Narrative template, using the guidance provided in the Process Narrative checklist and Process Narrative template.
 - 1.4.1. The Process Owner completes all sections within the Process Narrative template, except for the *Control Point(s) and Measurement(s)* section, which will be completed by the Internal Controls section in the Office of the City Comptroller.
 - 1.4.2. For complex processes, the Preparer schedules a meeting with the Process Owner to discuss the process and gather additional details of the process. Subsequently, the Preparer documents the current process in the Process Narrative template and submits the draft Process Narrative to the Process Owner to provide additional detail(s) and update(s).
- 1.5. The Process Owner completes and submits a draft Process Narrative to the Preparer.
- 1.6. The Preparer reviews the Process Narrative and completes all relevant information in the *Control Point(s) and Measurement(s)* section. **C1**

 Process Narrative		Issue #	Doc #	Effective Date
		5	PN-0001	02/15/18
Document Name	Prepare a Process Narrative		Page	3 of 7
Owner Name	Sally Rubi	Internal Controls	Justin Byko	

1.6.1. The Preparer ensures to track all changes in the draft Process Narrative through the *Track Changes* tool built into Microsoft Word.

- a. The Preparer creates version control through issue numbering and version numbering to keep a historical index of all issue and version drafts of the Process Narrative [i.e., PN-0001 I5 (v1)].

1.6.2. The Preparer reviews the draft Process Narrative by creating comment(s) within the draft Process Narrative to elicit response(s) to question(s) and/or editing suggestion(s) from the Process Owner.

- a. The Preparer identifies any process gap(s) and/or control weakness(es).
- b. The Preparer collaborates with the Process Owner to develop additional process step(s) and/or mitigating control(s) to rectify any control weakness(es).

1.7. The Preparer submits the updated draft Process Narrative to the Process Owner for review.

1.8. The Process Owner reviews the updated draft Process Narrative and responds to any and all outstanding question(s) and/or editing suggestion(s). **C1**


1.8.1. For audit recommendation(s) and/or important process(es), the Process Owner should communicate with their management team. The management team ensures compliance with City policy by consulting the following Administrative Regulation:

- a. Management Responsibilities for Internal Financial Controls, A.R. 95.39

1.8.2. The management team reviews and approves the draft Process Narrative.

1.9. The Process Owner submits the updated draft Process Narrative to the Preparer for further review.

1.10. The Preparer performs a final review of the draft Process Narrative and makes any necessary edit(s) and/or update(s). **C1, C2**

 Process Narrative		Issue #	Doc #	Effective Date
		5	PN-0001	02/15/18
Document Name	Prepare a Process Narrative		Page	4 of 7
Owner Name	Sally Rubi	Internal Controls	Justin Byko	

1.10.1. The Preparer ensures that all relevant information is captured in the process. Furthermore, the Preparer consults the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework to certify that the proper control framework is in place within the process.

1.10.2. The Preparer confirms that the process and control framework are in compliance with the Office of the City Auditor’s audit report(s) and subsequent recommendation(s), if applicable.

1.11. The Preparer submits the draft Process Narrative to the Approver for final review.

1.12. The Approver reviews the draft Process Narrative to ensure that the Process Narrative is comprehensive; the identified controls sufficient; and compliance with City policies and guidelines.**C1**


1.12.1. If the Approver does not approve, the Approver returns the draft Process Narrative to the Preparer with question(s) and/or comment(s).

1.12.2. The Preparer contacts the Process Owner to rectify the issue(s) addressed by the Approver.

- a. The Preparer returns the draft Process Narrative to the Process Owner with instructions to make the necessary edit(s) and/or update(s).
- b. The Process Owner updates the draft Process Narrative and resubmits the draft Process Narrative to the Preparer.
- c. The Preparer reviews the draft Process Narrative to ensure that the Approver’s question(s) and/or comment(s) have been addressed. If not, the Preparer follows up with the Process Owner.
- d. The Preparer submits the draft Process Narrative to the Approver.

1.13. The Approver approves the draft Process Narrative through written communication to the Preparer.

1.14. The Preparer notifies the Process Owner of approval and requests approval to finalize the Process Narrative and post to the City’s intranet (CityNet).

 Process Narrative		Issue #	Doc #	Effective Date
		5	PN-0001	02/15/18
Document Name	Prepare a Process Narrative		Page	5 of 7
Owner Name	Sally Rubi	Internal Controls	Justin Byko	

1.14.1. The Preparer receives written confirmation from the Process Owner to post the approved and finalized Process Narrative to CityNet.

1.15. The Preparer finalizes the approved Process Narrative and submits the finalized Process Narrative to the Department of Information Technology to post to CityNet.

1.16. Once the Process Narrative has been posted to CityNet, the Preparer communicates to the Process Owner that the Process Narrative has been posted and available for download for their records and retention.

1.17. The Preparer saves and stores all Process Narrative tracked documents and supporting documentation [*Reference(s)*], if applicable, to the Office of the City Comptroller's network and shared drives.**C3**


1.18. The Approver updates the Master Pending List spreadsheet on the Office of the City Comptroller's network and shared drive to document the Process Narrative issue number and posting date.**C3**

1.19. In the event future revision(s) are required, the Process Owner makes the necessary revision(s) to the Process Narrative and submits the revised Process Narrative to the Preparer for further action in compliance with the process steps outlined in this document.

POST PROCESS REVIEW

In compliance with Governance, Risk, and Compliance (GRC) best practices, the Internal Controls section stores the approved and finalized Process Narrative in the GRC Process Control module of SAP.

The Internal Controls section schedules periodic assessments to selected Process Owners to evaluate the objective of testing the validity, accuracy, and performance of the process as documented. The periodic assessments consists of surveys, which address the applicability of the process to current business practices and the effectiveness of controls associated with the process. The Internal Controls section performs additional testing, where possible, to ensure that transactional activity is being conducted in compliance with the Process Narrative. The GRC

 Process Narrative		Issue #	Doc #	Effective Date
		5	PN-0001	02/15/18
Document Name	Prepare a Process Narrative		Page	6 of 7
Owner Name	Sally Rubi	Internal Controls	Justin Byko	

module maintains the assessments as a central repository for verification of continuous monitoring and assessment by both internal and external auditors.

REFERENCE(S)

Access to the Office of the City Comptroller’s network and shared drives


Full list of the current [Administrative Regulations](#) can be accessed on the City’s website

Glossary of listed terms in this process can be accessed on CityNet ([PN Glossary](#))

Management Responsibilities for Internal Financial Controls, [A.R. 95.39](#)

Process Narrative Checklist ([PDF](#))

Process Narrative template ([Word](#))

	Document Name	Owner Name	Internal Controls	Issue #	Doc #	Effective Date	Page
	Prepare a Process Narrative	Sally Rubi	Justin Byko	5	PN-0001	02/15/18	7 of 7

CONTROL POINT(S) AND MEASUREMENT(S)

Control Objective	Risk	Control Activity	Ref	CT	CM	CC	F	FS
To provide reasonable assurance that a detailed analysis and review process is performed to ensure the authentication of information.	Inaccurate or incomplete information.	Review of work performed to ensure accuracy and completeness.	C1	M,V	M	D	T	
		Independent documentation is reviewed to confirm the validity of information.	C2	V	M	D	T	
To provide reasonable assurance that access is restricted to authorized personnel.	Unauthorized access to view or alter classified or proprietary information.	Shared drive – Access to the Office of the City Comptroller's network and shared drives are restricted to authorized users through network folder rights provisioning.	C3	S	A	P	SY	

Legend

Control Type (CT):

A – Authorization
C – Compliance
M – Management Review
R – Reconciliation
S – System Control
SA – Safeguarding of Assets
SD – Segregation of Duties
V – Review and Verification

Control Method (CM):

A – Automated
M – Manual

Control Category (CC):

D – Detective
P – Preventative

Frequency (F):

D – Daily
W – Weekly
BW – Bi-Weekly
M – Monthly
Q – Quarterly
S – Semi-Annual
A – Annual
BA – Bi-Annual
T – Transactional
SY – System

Financial Statement Assertions (FS):

A – Accuracy and Classification
C – Completeness
E – Existence and Occurrence
R – Rights and Obligation
U – Cutoff
V – Valuation and Allocation