



# City of San Diego

## Audit Committee

### CAFR Review Questions

(revised 06/23/08)

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#### I. Approach

The Audit Committee should satisfy itself as to the reasonableness of the process followed in the preparation and issuance of the CAFR and the appropriateness of the accounting judgments made, in order to ensure the overall reliability of the City's financial reporting. As part of such process, the Audit Committee should ask questions of financial management, the internal auditor, a representative of the City Attorney's Office and the outside auditor. Questions that might be asked are set forth below. Each member should then satisfy himself or herself that the responses to the questions are reasonable and appropriate in order to fulfill his or her individual responsibilities as a member of the Audit Committee. The City Attorney recommends that the Audit Committee require that the appropriate parties submit written responses to the CAFR review questions so that all responses are fully documented, especially negative responses which may, in some cases, require detailed explanations and suggested remedial measures. Additionally, the relevant officials should attest to the accuracy of their responses.

As stated in the Audit Committee's Charter, the CAFR is the responsibility of the City's management and the role of the Audit Committee is one of general oversight. Thus, the task is for the members of the Audit Committee to be satisfied as to (i) the reasonableness of reliance on management, taking into account the quality of the outside audit process, and (ii) that the member does not have actual knowledge of information that would cause him or her to believe that the information presented in the CAFR is materially false or misleading.

This process is designed to ensure that Audit Committee members satisfy their obligations with respect to the legislative review and oversight of the CAFR. However, no member of the Audit Committee shall be required to independently verify the factual information presented in the CAFR, and it is understood that no representation is being made that members of the Audit Committee have done so. Members of the Audit Committee shall be entitled to rely on accounting and financial experts with respect to the information presented in the CAFR, as long as such reliance is reasonable and in good faith.

I. Questions for Financial Management (CFO and Director of Financial Reporting)

*The purpose of these questions is to elicit information about the process, the quality of the accounting and any issues of which the Audit Committee should be aware that impact the financial reports, accounting judgments and disclosure.*

1. Do you believe the financial statements fairly present the government's net assets and activities in accordance with generally accepted accounting principles (GAAP) or some other acceptable comprehensive basis of accounting?

Yes.

2. To the best of your knowledge, was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?

Yes.

3. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?

No.

4. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?

No.

5. Are you satisfied that an appropriate audit was performed by the independent auditors?

Yes.

6. Is there any activity at any level within the government that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP other than those already identified?

No.

7. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

No.

### III. Questions for Internal Auditor

*The purpose of these questions is to ascertain the role of the internal auditor in the CAFR process and whether there are any issues the internal auditor believes should be brought to the Audit Committee's attention.*

1. Please describe your role in the audit process.

My role in the audit process is a liaison between the auditors and SDHC. I assist with the planning, entrance conference, field work, formulating the CAFR and the exit conference. I assist in gathering and reviewing the prepared by client (PBC) requests.

2. Were any limitations placed on your role in the audit process by management with which you disagreed?

No, there was no limitation placed by Management.

3. Were you satisfied with the quality of the audit performed by the outside auditor?

Yes we were very satisfied with the quality of the audit performed by Reznick Group.

4. Were there any issues that arose in connection with the audit which were not resolved to your satisfaction?

No.

5. Are you aware of any reportable conditions or material weaknesses in the City's internal controls that were not identified by the outside auditor?

No.

6. Do you have any reason to believe that the financial reports were not prepared in accordance with GAAP or that the audit was not conducted in accordance with GAAS or GAGAS?

No, the audit was performed in accordance with GAAS and GAGAS and the reports were prepared in accordance with GAAP.

7. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

No.

### III. Questions for Outside Auditor

*The purpose of these questions is to elicit information about the auditor's independence, the quality of the audit process, any issues or disagreements between management and the auditor that should be brought to the attention of the Audit Committee, significant deficiencies and material weaknesses in the unit's internal control over financial reporting and the quality, not just the acceptability, of the unit's accounting.*

1. Was any audit work not performed due to any limitations placed on you by management (e.g., any areas scoped out by management, or any restriction on fees that limited the scope of your work)?

No, there was no limitation placed on the scope of our work by Management.

2. Explain the process your firm goes through to assure that all of your engagement personnel are independent and objective with respect to our audit. Do any non-audit services performed for the City or its related entities affect the work that you do or the manner in which the engagement team or others are compensated?

Reznick Group monitors the independence rules for all engagements nationwide using a web-based electronic system which includes the monitoring of independence under the rules of the PCAOB, SEC, GAO and AICPA. The system is systematically updated for the listing of our clients and the types of engagements and services performed. At least once per year, each employee of the firm is required to review the listing of all the firm's clients and respond to all independence questions online and any independence issue is monitored through that electronic system. Also, in the initial assessment of whether to accept a new engagement, a firm-wide e-mail is sent to the partners and managers asking if there is any potential independence conflict. The email includes the type of services we will provide, the name of the potential client along with its principal officers and owners.

3. Was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?

Yes, the audit was performed in accordance with GAAS and GAGAS

4. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?

No, the financial statements do not contain deviations from GAAP.

5. Were any new accounting principles adopted, were any changes made, or did you recommend any changes, in the accounting policies used or their application?

No new accounting principles were adopted or recommended during the fiscal year.

6. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?

During the audit fieldwork, two accounting adjustments have been proposed by management and properly recorded in the financial statements. There are no uncorrected financial statements misstatements.

7. Are there any areas of the financial statements, including the notes, in which you believe we could be more explicit or transparent, or provide more clarity to help a user better understand our financial statements?

No.

8. Have you expressed any concerns or comments to management with respect to how our presentation, including the notes or management's Discussion & Analysis, could be improved?

No.

9. Based on your audit procedures, do you have any concerns as to whether management may be attempting to commit management override? Have you noticed any biases as a result of your audit tests with respect to accounting estimates made by management? <sup>1</sup>

No, we do not have concerns regarding management override or biases.

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10. Did you encounter any difficulties in dealing with management in performing the audit, including disagreements with management regarding any accruals, estimates, reserves or accounting principles? Did you have the full cooperation of management and staff? <sup>1</sup>

No difficulties were encountered and we had full cooperation of management. We held periodic conference calls with the audit committee of the Commission during the course of the audit to keep the audit process moving positively forward.

11. Were there any accounting issues on which you sought the advice of other audit firms or regulatory bodies?

No.

12. Describe any difficulties you encountered while performing the audit (e.g., delays by management in allowing you to begin the audit, lack of access to information, unreasonable timetables, unavailability of personnel, etc.).

We did not encounter any difficulties with management while performing the audit.

13. Discuss your impressions of the performance of the City's financial management in terms of the completeness, accuracy and faithfulness of the financial reporting process.

We feel the San Diego Housing Commission's financial management is complete, accurate and faithful to the financial reporting process.

14. Describe any situation in which you believe management has attempted to circumvent the spirit of GAAP, but has yet complied with GAAP. <sup>1</sup>

No situations occurred where management has attempted to circumvent GAAP.

15. Would you characterize management's application of GAAP as conservative, aggressive or somewhat in between?

The application of GAAP is conservative.

16. Are there any new pronouncements and or areas of potential financial risk affecting future financial statements of which the Audit Committee should be aware?

We are not aware of any new pronouncement or area of potential financial risk affecting future financial statements.

17. How would you compare the City's financial reporting with that of comparable government entities with which you are familiar?

We feel the San Diego Housing Commission's financial reporting is above standard as evidenced by the receipt of the GFOA Certificate of Achievement for Excellence in Financial Reporting for fiscal year 2009, which is the second year the Commission has received the award.

18. Please explain the significance of any reportable conditions or material weaknesses you identified with respect to the unit's internal controls.

There were no reportable conditions or material weaknesses.

19. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

No.