THE CITY OF SAN DIEGO

# MEMORANDUM

DATE: March 1, 2011

TO: Honorable Members of the City Council

FROM: Mary Lewis, Chief Financial Officer

SUBJECT: Update of FY11 Financial Reporting and the FY10 Financial Close Schedule

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In November 2010, I informed City Council regarding the delay in issuing financial reports and the FY 2010 Comprehensive Annual Financial Report (CAFR). The cause of the delay is the time it has taken in a highly integrated financial system to correct the labor distribution charges, fix erroneous data entry by employees (from the early days after the new payroll system went live) and revise the customized program that posts labor charges in the financial system. These issues did not affect the accuracy of individual paychecks, but did affect the posting of expense and revenue transactions, which impacted the general ledger of every City fund with payroll activity. It is important to note that the SAP system is operating as planned. Issues that were identified soon after the implementation of the SAP Payroll module were corrected during November and December of 2010 through the adjustment and refinement of the customized program or "rules set" that takes the City's payroll data and charges the correct project or fund.

At that time, I provided an estimate of the financial close schedule for FY 2010 and the current FY 2011 financial reports. This schedule was based on the best projections of our ERP support organization and accounting team, even though there were a number of identified, yet unsolved elements that needed to be remediated. The permanent programming for the Payroll to General Ledger interface posting problems have been completed, tested and applied. While no new major issues have been identified since our last update, the programming work and final accounting adjustments have taken longer than originally anticipated. During this time, the ERP support department and the accounting team has worked tirelessly to ensure these permanent fixes resolve the underlying root cause of the problems we experienced and that our financial records are accurate and complete.

Our first priority throughout this challenging process was to complete the programming necessary to provide accurate financial information for the current FY 2011 mid-year projection, which was available to departments according to the original schedule on January 14, 2011. On-going FY 2011 financial transactions are current, and the Payroll interface to the General Ledger is posting correctly. The six month Charter 39 Financial Report for FY 2011 has been docketed and will be heard before the Budget and Finance Committee on Wednesday, March 2nd. We expect no further issues or delays with FY 2011 reports.

In order to meet the FY 2011 mid-year projection schedule, however, it was necessary to schedule the work on the FY 2010 financial close after FY 2011 because of the additional time required to

program the SAP Payroll to General Ledger interface fixes. In addition, the same accounting team worked on both FY 2010 and FY 2011 remediation and so the work was sequential. More time was also required of our accounting team to fix an unexpectedly large amount of labor posting errors which occurred in FY 2010 and needed to be individually remediated. The cumulative impact of these delays along with other minor issue fixes has moved our FY 2010 financial closing out by approximately seven weeks.

The revised schedule has the FY 2010 year-end Charter 39 report available by mid-May; however, the Comptrollers' Department will be in a position to provide an unaudited estimate of the FY 2010 closing General Fund balance as part of the discussion of the FY 2012 Proposed Budget. The first draft of the CAFR will be available by approximately mid-June. Depending on the timing of when Macias, Gini and O'Connell begin their field work, we would expect to see a completed, published CAFR in the July through August timeframe.

As challenging as this delay has been, it has been a prudent decision to address our labor posting problems head on with permanent and not temporary solutions. No effort has been spared in identifying and correcting the problem issues. Producing reliable, accurate financial statements is our uncompromising goal.

Mary Lewis
Chief Financial Officer

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cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst