

RESOLUTION NUMBER R- 300203

ADOPTED ON MAR 08 2005

WHEREAS, in February of 2004, the Securities and Exchange Commission [SEC] and the U. S. Attorney's Office, informed the City that they were undertaking investigations into certain financial disclosure practices by the City, which investigations are on-going; and

WHEREAS, early in 2004 the City retained the services of the law firm Vinson & Elkins LLP [V&E] to conduct an investigation and provide a report on disclosure practices of the City from 1996 to the present, and V&E completed its investigation and issued its report in September of 2004; and

WHEREAS, in the spring of 2004 the City retained the services of the accounting firm KPMG to perform the outside audit of the City's FY 2003 financial statements; and

WHEREAS, in furtherance of the FY 2003 audit, the City has undertaken two separate further investigations; one by V&E and one by the City Attorney; and

WHEREAS, the City Attorney issued a First Interim Report on January 14, 2005, and a Second Interim Report on February 9, 2005, and V&E is expected to issue a report on its further investigation; and

WHEREAS, KPMG has not yet issued its audit opinion for the City's FY 2003 financial statements; and

WHEREAS, the SEC is continuing its investigation; and

WHEREAS, on February 14, 2005, the City retained the services of Mr. Lynn Turner and Kroll Associates, Inc. to perform certain services in connection with these matters; and

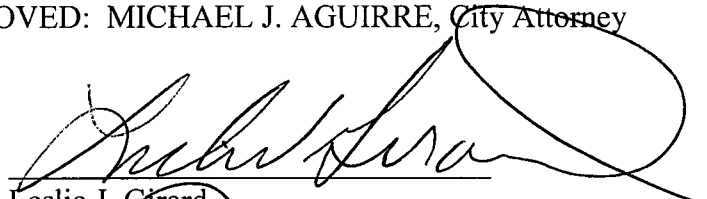
WHEREAS, it is now necessary and appropriate for the City to take additional steps in furtherance of obtaining the audit opinion for the FY 2003 financial statements and in furtherance or resolving the SEC's investigation; NOW THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that in order for the City to achieve the full benefit of the work of Kroll Associates, Inc. under an agreement with the City dated February 10, 2005, the City Council affirms to the City's outside auditor, KPMG, and all interested parties that, for the purposes described in such agreement, Mr. Lynn Turner, Mr. Troy Dahlberg, and Mr. Arthur Levitt are serving as the Audit Committee of the City as contemplated by the Sarbanes-Oxley Act of 2002 (Pub. L. 107-204, 116 Stat. 745).

BE IT FURTHER RESOLVED, that in order for the City to expedite the work of the Audit Committee and facilitate the release of the audit letter by KPMG, the City's independent auditor, as well as to demonstrate the continued cooperation by the City of San Diego with the inquiries of the U.S. Securities and Exchange Commission and the U.S. Attorney for the Southern District of California, the City Council approves of the execution of the letter attached hereto.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By



Leslie J. Girard
Assistant City Attorney

LJG:km
3/04/05
Or.Dept:City Manager
R-2005-933

[Letterhead of the City of San Diego]

March 7, 2005

An Open Letter to the Citizens of San Diego:

We, the undersigned Mayor, City Attorney, City Manager and Members of the City Council recognize the importance to the welfare of the City of the issuance of opinions on the City's Combined Audited Financial Statements for 2003 and 2004 by the City's independent auditors.

In order to expedite the satisfactory conclusion of independent investigations intended to address concerns of the City's independent auditor and to demonstrate the City's intention to fully cooperate with ongoing investigations by the U.S. Securities and Exchange Commission and the U.S. Attorney for the Southern District of California, the City has entered into an agreement with Kroll Associates, Inc. Pursuant to that agreement, Mr. Arthur Levitt, former Chairman of the Securities and Exchange Commission, Mr. Lynn Turner, former Chief Accountant of the Securities and Exchange Commission, and Mr. Troy Dahlberg are serving as the independent *de facto* Audit Committee of the City as contemplated by the Sarbanes-Oxley Act of 2002. The Audit Committee will conduct a process through which it will receive and review all investigative work relating to the issuance of opinions for the City's Combined Audited Financial Statements for 2003 and 2004 and present conclusions thereon to the City's independent auditors, the City Council, and the City Attorney.

Accordingly, we agree with each other and pledge to you, our full cooperation and non-interference with the investigation and work of the Audit Committee until its final completion.

We understand that this means that the appropriate means of making any accusation of illegal conduct relating to the City's disclosure obligations, conduct of pension matters, or the City's financial condition is through the Audit Committee, which will appropriately evaluate and promptly report such matters to the regulators.

We recognize this process as one that is well understood by financial markets, the auditing profession, the SEC and the Department of Justice. We also understand that, in order for this process to be effective, we must assure its complete independence and our non-interference, allowing it to run its course.

We understand that our commitment and pledge requires us to refrain from the personal criticism and accusation that prompted the San Diego Union Tribune Editorial "City Hall Conflict," published on February 24, 2005, whether it be in this Chamber, the press conferences referred to in the editorial, or elsewhere.

And we understand the importance that our honoring of our commitment and pledge made to you in this letter has to the restoration of the City of San Diego's well being, financial reputation, and position of "best in the class."

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We agree to support a 120-day stay of the litigation involving SDCERS v. AGUIRRE ET AL and SAN DIEGO COUNTY TAXPAYERS ASSOCIATION v. CITY of SAN DIEGO, ET AL., subject to satisfactory language being agreed to by the Parties no later than 12:00 noon, March 14, 2005.

Sincerely,

Dick Murphy, Mayor

Michael Aguirre, City Attorney

Scott Peters, District 1

Brian Maienschein, District 5

Michael Zucchet, District 2

Donna Frye, District 6

Toni Atkins, District 3

Jim Madaffer, District 7

Tony Young, District 4

Ralph Inzunza, District 8

P. Lamont Ewell, City Manager

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