

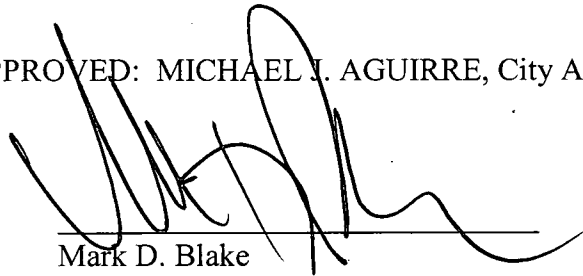
RESOLUTION NUMBER R- 303021

DATE OF FINAL PASSAGE OCT 10 2007

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN DIEGO DIRECTING THE MAYOR TO SUBMIT A RESPONSE TO THE SECURITIES AND EXCHANGE COMMISSION

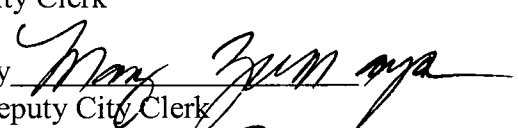
BE IT RESOLVED by the Council of the City of San Diego that the Mayor is hereby authorized and directed to deliver or cause to be delivered the City's response to the letter dated July 23, 2007 from the Securities and Exchange Commission, substantially in the form presented to the Council on the date hereto and attached hereto as Exhibit A.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

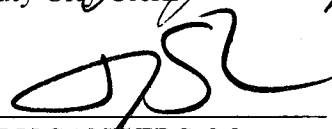
By   
Mark D. Blake  
Chief Deputy City Attorney

MDB:jdf  
09/26/07  
Or.Dept:City Attorney  
R-2008-268

I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of SEP 24 2007.

ELIZABETH S. MALAND  
City Clerk  
By   
Deputy City Clerk

Approved: 10-10-07  
(date)

  
JERRY SANDERS, Mayor

Vetoed: \_\_\_\_\_  
(date)

\_\_\_\_\_  
JERRY SANDERS, Mayor



## THE CITY OF SAN DIEGO

September 21, 2007

Ms. Kelly C. Bowers  
 Senior Assistant Regional Director  
 Securities and Exchange Commission  
 Los Angeles Regional Office  
 11<sup>th</sup> Floor  
 5670 Wilshire Boulevard  
 Los Angeles, CA 90036-3648

Dear Mr. Bowers:

This is in response to your July 23, 2007 letter to Messrs. John Hartigan and Stanley Keller regarding Mr. Keller's "Initial Report of Independent Consultant" dated June 7, 2007.

Let me first assure the Securities and Exchange Commission (SEC) that the City has taken the need for reform seriously. Proper disclosure has been a top priority and to that end the City has taken a number of steps to ensure proper disclosure as follows:

- The City established the Disclosure Practices Working Group (DPWG), which has been recently restructured to make it even more responsive to disclosure requirements.
- I have established a new Chief Financial Officer (CFO) position that oversees the City's financial affairs.
- The City has established an Audit Committee to oversee the City's financial reporting.
- Selected a new financial accounting and reporting system has begun its full implementation, including hiring a systems integrator.
- The City completed and issued the 2003 and 2004 CAFRs.
- The City conducted disclosure training for all managers and Council Members.

Speaking specifically to the recommendations in Mr. Keller's report and noted in your letter, the City's response is as follows:



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1. **The City must finalize the internal audit function and hire as soon as possible a qualified internal auditor.**

The City concurs with this recommendation and has conducted a nationwide search for a new internal auditor. The CFO, along with representatives of the Audit Committee and the Independent Budget Analyst, interviewed the candidates and I have recently hired a highly qualified internal auditor. The auditor will start with the City on October 22, 2007 and will report to the COO and communicate directly with the Audit Committee. Until the new auditor starts, the interim auditor will continue to oversee the Internal Audit Unit. In addition, steps are being taken, as described in item 4 below to enhance the independence of the internal auditor through City Charter revision.

2. **The Audit Committee should complete its organization as quickly as possible by selecting citizen advisers and professional consultants, as necessary, to assist the Audit Committee in discharging its responsibilities.**

The City has established an Audit Committee. The Audit Committee has been functioning since the beginning of the calendar year, holding meetings at least twice each month and overseeing the completion of the City's CAFRs. The Committee is currently comprised of three Council members and an ad hoc committee of three outside advisors. The three ad hoc, non-voting public advisors were confirmed at the Committee's July 30, 2007 meeting and bring extensive technical expertise to the Committee. At the September 10, 2007 meeting, the three public advisors appeared and are commencing their work plan to assist the Committee on specific issues. In addition, the Audit Committee is in the final states of selecting an outside professional consultant and will fund its final recommendation to the full City Council.

On a parallel track, in order for the Audit Committee to ultimately be comprised, in some part, of technically proficient public voting members, the City's Charter must be amended. As is the City's custom and practice, I established a 15 member City Charter Review Committee. The charge of the Committee is, among other things, to review and recommend a number changes to the Charter regarding financial items, including recommendations regarding the structure of an independent Audit Committee. Their work is scheduled to be completed by October 4, 2007 and will come before Rules Committee of the Council on October 24, 2007 for recommendation to the full Council. Council's determination will then be put before the voters in 2008.

3. **The City should upgrade to a more modern and reliable financial accounting system so as to ultimately improve financial reporting.**

The City concurs with this recommendation and has already selected a new software vendor for an enterprise resource planning system. The current schedule

calls for the implementation of a new core financial system by October 2008 and the human resources/payroll system by January 2009. We are committed to moving as expeditiously as possible.

The Enterprise Resource Planning System (ERP) system is intended to replace the City's major financial software systems and integrate a wide range of financial and human resources functions into a single consolidated system that will improve financial management capabilities and reporting and improve overall City efficiency. The ERP System Core implementation project will address this remediation concern by replacing the major software systems currently in use by the City's Department of Finance and Business Operations & Support Services with an ERP System.

The major systems to be replaced within the scope of this project include:

- AMRIS (General Ledger)
- ALVA (Financial Reporting)
- APIS (Accounts Payable)
- ARIS (Accounts Receivable)
- FMIS (Budgeting)
- FAMIS (Fixed Asset Management)
- OPIS (Purchasing)
- CAPPs (Payroll)
- PATS (Applicant Tracking)

On June 12, 2007, San Diego Data Processing Corporation (SDDPC) executed a contract with SAP AG to provide the ERP software and maintenance for the ERP Project. The City, through SDDPC, has selected SAP AG as the software vendor for the ERP system. The my SAP ECC 6.0 software is a real time integrated product suite that supports real-time data analysis and reporting, and facilitates executive access to data for more timely decision making. It will support preparation of timely and accurate CAFRs and budgets.

4. **The City should re-evaluate the role and accountability of its Chief Financial Officer and consider having the same person serve as the Chief Financial Official and Auditor and Comptroller.**

Upon taking office, I established the City's first ever CFO position. As part of this action, I consolidated all financial related activities and responsibilities under this position. About one year after the establishment of this position, the City's Auditor and Comptroller resigned, providing the City with an opportunity to take those responsibilities and assign them specifically to the CFO. This change also permitted the City to take the first step toward separating the internal audit responsibilities from the comptroller duties. In order to officially separate internal auditing from the comptroller and management, however, the City's Charter must

be changed through a public vote. The Charter Review Committee is also addressing this issue.

5. **The City should continue evaluating the disclosure process and consider whether moving toward a shelf-like disclosure system would be appropriate.**

The Independent Consultant's Report stated that "it will be desirable for the City to consider whether to move toward a more shelf-like disclosure system, similar to that used by private issuers, as a way to permit accessing the capital markets in a timely and efficient manner in order to achieve savings for taxpayers and ratepayers." The Independent Consultant made this suggestion in light of the City's comprehensive disclosure processes, including the Disclosure Controls and Procedures of the City Disclosure Practices Working Group. The City's current disclosure processes and procedures were enacted by Ordinance No. 0-19320 (Ordinance), adopted by the City Council on October 11, 2004. The formation of the DPWG was in response to recommendations made by the law firm Vinson & Elkins L.L.P. in its report of September 16, 2004, regarding deficiencies in the processes and practices of the City with respect to the disclosure of financial information to the financial markets.

The DPWG is a cross-disciplinary internal working group of the City (currently composed of the City Attorney, the Chief Deputy City Attorney for Finance and Disclosure, the City's Chief Financial Officer, the Debt Management Administrator, and the City's outside Disclosure Counsel, along with the City Council's Independent Budget Analyst as an ex-officio member) designed to ensure communication between City departments, to create a clearinghouse to discuss and debate best practices with respect to disclosure controls and procedures, and to directly address the deficiencies cited in the Vinson & Elkins report. The objectives of the DPWG are twofold: to ensure the compliance of the City (and the City Council, City officers, and staff in the exercise of their official duties) with federal and state securities laws and to promote the highest standards of accuracy in disclosures relating to securities issued by the City.

The City has developed a process for issuing the CAFR which could assist in the shelf-registration. The City's procedure is as follows: prior to completion the CAFR goes through multiple workshop meetings at the DPWG to ensure the document reflects the consensus of numerous City officials. Once the opinion is issued the CAFR is presented to the Audit Committee for discussion at which point the Audit Committee uses a pre-determined process through which they inquire of management on topics relevant to the CAFR and items presented in the independent auditor's official communication to the Audit Committee. When the Audit Committee determines it is comfortable with the document it is then referred to the full Council where it is received and filed prior to the release to the public markets.

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Ms. Kelly C. Bowers  
September 21, 2007

The City is carefully reviewing the suggestion of the Independent Consultant, including the evaluation of so-called shelf-registration models currently in use by a limited number of public agencies that frequently access the public markets, especially if the current model is too cumbersome to ensure the timely process of documents as the City regains access to the public markets. The City is mindful, however, that its current disclosure regime has made significant improvements to the City's controls regarding the release of financial information to the public capital markets. Accordingly, any shelf-registration model would take into consideration procedures currently in place which were designed to ensure that City would not make misleading statements or omissions to the market place in the future.

I trust this responds to your concerns. The City will be moving forward to implement any and all recommendations of the SEC-approved Independent Consultant or appropriate alternatives.

Sincerely,

*UNSIGNED*

JERRY SANDERS  
Mayor

Cc: Honorable Members of City Council/ Audit Committee Members  
Michael Aguirre, City Attorney  
Jay Goldstone, Chief Operating Officer  
Andrea Teylin, Independent Budget Analyst

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