

4X
...3ET

ORDINANCE NUMBER O- 19612 (NEW SERIES)

DATE OF FINAL PASSAGE MAY 02 2007

AN ORDINANCE AMENDING THE SAN DIEGO MUNICIPAL CODE BY AMENDING CHAPTER 2, ARTICLE 2, DIVISION 1, SECTION 22.0101.5, ENTITLED "PERMANENT RULES OF THE COUNCIL," BY AMENDING RULE 6.1 AND ADDING A NEW RULE 6.11.6; AMENDING CHAPTER 2, ARTICLE 2, BY ADDING NEW DIVISION 43, TITLED "AUDIT COMMITTEE", AND ADDING NEW SECTIONS 22.4301, 22.4302, 22.4303, 22.4304, AND 22.4305; AMENDING CHAPTER 2, ARTICLE 6, BY REPEALING DIVISION 17, TITLED "FINANCIAL REPORTING OVERSIGHT BOARD", AND BY REPEALING SECTIONS 26.1701, 26.1702, 26.1703, 26.1704, 26.1705 AND 26.1706 IN THEIR ENTIRETY; AMENDING CHAPTER 2, ARTICLE 2, DIVISION 41, TITLED "SECURITIES DISCLOSURE", BY AMENDING SECTIONS 22.4101, 22.4105, 22.4106, 22.4109, AND 22.4112; AMENDING CHAPTER 2, ARTICLE 2, DIVISION 3, TITLED "CITY ATTORNEY", BY AMENDING SECTION 22.0304; AMENDING CHAPTER 2, ARTICLE 2, DIVISION 7, TITLED "CITY AUDITOR AND COMPTROLLER", BY AMENDING SECTION 22.0708; ALL RELATED TO A NEW AUDIT COMMITTEE.

WHEREAS, on December 6, 2006 at a special meeting, the City Council established an Interim Audit Committee and directed the City Attorney to draft an ordinance to amend the Permanent Rules of the Council to establish an Audit Committee as a standing committee of the City Council, and directed that the Audit Committee prepare a written Charter; and further directed that the Financial Reporting Oversight Board be eliminated as being redundant to the Audit Committee; and

WHEREAS, on January 9, 2007, the City Council adopted the "San Diego City Council Temporary Rules Establishing the Audit Committee" until such time that the Permanent Rules of the City Council are amended and directed that the Audit Committee develop and recommend a Charter containing the duties and responsibilities of the Audit Committee; and

WHEREAS, on February 26, 2007, the Audit Committee proposed amendments to the

San Diego City Council Temporary Rules Establishing the Audit Committee, discussed and adopted an "Audit Committee Charter", and discussed and received a "Statement of Operating Principles" issued by the Mayor, a copy of which is attached for references purposes only as Exhibit A, and directed that the Audit Committee Charter be added to the Municipal Code; and

WHEREAS, under Charter section 280(a)(1) this ordinance is not subject to veto by the Mayor because this matter is exclusively within the purview of the City Council and not affecting the administrative service of the City under the control of the Mayor; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 2, Division 1, of the San Diego Municipal Code is hereby amended by amending Section 22.0101.5, Rule 6.1, and by adding Rule 6.11.6, titled "Audit Committee," as follows:

§ 22.0101.5 - Permanent Rules of the Council

Rule 1 through Rule 5.2. [No change in text.]

Rule 6: STANDING AND SPECIAL COMMITTEES

6.1 Creation of Standing Committees (former Rule 10)

The Council hereby creates six standing committees as follows:

(a) through (e) [No change to text.]

(f) Audit Committee

Rule 6.2 through Rule 6.11.5 [No change to text.]

Rule 6.11.6 Audit Committee

(a) The Audit Committee shall be composed of three voting Council members. Whenever possible, on a going forward basis, the terms of Audit Committee members should be arranged to ensure that

- (b) The Committee shall be comprised of three voting Council members. The terms of the members, whenever possible, shall be arranged to ensure that there is always at least one experienced member of the Committee.
- (c) The Committee shall meet periodically as it determines. It shall conduct its meetings in accordance with this Charter, the procedures of the Council, the requirements of California law and such other lawful procedures as the Committee may adopt. The Committee may, consistent with California law, meet in closed session when determined necessary, including for personnel matters.

§ 22.4303 Resources

- (a) The Committee shall be advised, from time-to-time, by an ad hoc advisory committee, created and established only for the purpose of advising on questions with clearly defined objectives, and shall be temporary in nature, and shall be dissolved upon the completion of the objectives for which the advisory committee was created. The advisory committee shall initially consist of at least three members, one member who shall be appointed by the Mayor and two members who shall be appointed by the Committee. Any additional members shall be appointed jointly by the Mayor and the Committee. The advisory committee members shall be citizens selected for their accounting or audit expertise or financial management expertise. Each of the members shall serve without compensation.
- (b) The Committee may, from time to time, retain professional consultants as it considers necessary to carry out its functions. The Committee shall be provided with appropriate funding, as determined by the Committee and

approved by the City Council, for payment of compensation to any such consultants and advisors and any outside auditor, as well as for any ordinary administrative expenses of the Committee that it determines are necessary or appropriate in carrying out its responsibilities.

§ 22.4304 **Complaint Procedures**

Any issue of significant financial misconduct shall be brought to the attention of the Committee for its consideration. In this connection, the Committee shall establish procedures for:

- (a) the receipt, retention and treatment of complaints received by the City regarding internal financial controls or financial auditing matters and
- (b) the confidential, anonymous submission by employees of the City of concerns regarding questionable financial or auditing matters.

§ 22.4305 **Key Responsibilities**

- (a) The Committee's role is one of oversight, and it is recognized that the Mayor is responsible for preparing the City's financial statements and that the outside auditor, which is ultimately accountable to the Committee, is responsible for auditing those financial statements.
- (b) The following functions shall be the common recurring activities of the Committee in carrying out its oversight role. The functions are set forth as a guide and may be varied and supplemented from time to time as appropriate under the circumstances.
 - (1) Appointment of Outside Auditor. The Committee shall have direct responsibility, with appropriate consultation with the Mayor, for

the appointment, compensation, retention and where appropriate, replacement of any registered public accounting firm selected to be the City's outside auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the City. The Committee shall provide oversight of the work of the outside auditor and, consistent with the requirements of the City Charter and California law, may meet with the outside auditor outside the presence of the Mayor to discuss the audit and the City's fiscal affairs.

- (2) Disclosure Controls and Procedures. The Committee shall review periodically with the Disclosure Practices Working Group and the Mayor the City's disclosure controls and procedures, and shall review and evaluate the annual report on the City's disclosure controls and procedures made by the Disclosure Practices Working Group and provide to the Disclosure Practices Working Group, the Mayor, and the City Council any comments or recommendations it may have.
- (3) Internal Controls. The Committee shall discuss periodically with the Mayor and the outside auditor the quality and adequacy of the City's internal controls over financial reporting and internal financial auditing procedures, including any significant deficiencies or material weaknesses in the design or operation of those controls which could adversely affect the City's ability to record, process, summarize or report financial data and any fraud,

whether or not material, that involves the Mayor or other employees who have a significant role in the City's financial internal controls, and discuss with the outside auditor how the City's financial systems and controls compare with practices in the municipal sector.

- (4) Internal Auditing. The Committee shall make recommendations, along with the City Council, the Mayor, and the City Attorney, for matters to be included in the Annual Audit Work Plan developed by the internal auditor as part of the internal audit function, which shall focus on financial reporting, completion of the City's Comprehensive Annual Financial Reports for fiscal years 2004 through 2007, and the City's internal controls over financial reporting, and which shall recognize the need to prioritize workload according to available resources, budget and critical needs. The Committee shall review and comment on the Annual Audit Work Plan and monitor its progress on at least a quarterly basis. The Committee shall review the results of internal financial audits and monitor the follow-up on recommendations. Consistent with the requirements of the City Charter and California law, the Committee may meet with the internal auditor outside the presence of the Mayor to discuss the internal financial audit.
- (5) Accounting Policies. The Committee shall review periodically with the Mayor and the outside auditor the quality, as well as acceptability, of the City's accounting policies, and discuss with

the outside auditor how the City's accounting policies compare with those in the municipal sector and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Mayor, the ramifications of use of such alternative disclosures and treatments and the treatment preferred by the outside auditor.

- (6) *Pre-approval of All Audit Services and Permitted Non-Audit Services.* The Committee shall approve, or establish procedures for representatives of the Committee to approve, in advance, all audit services and all permitted non-audit services to be provided to the City by the outside auditor in order to ensure the outside auditor's independence.
- (7) *Annual Audit.* In connection with the annual audit of the City's financial statements, the Committee shall:
 - (A) Request from the outside auditor a formal written statement delineating all relationships between the outside auditor and the City consistent with Independence Standards Board Standard No. 1 and any other applicable auditing requirements, discuss with the outside auditor any such disclosed relationships and their impact on the outside auditor's objectivity and independence, and take appropriate action to oversee the independence of the outside auditor.

- (B) After appropriate consultation with the Mayor, recommend to the City Council the selection and the terms of the engagement of the outside auditor.
 - (C) Review with the Mayor and the outside auditor the audited financial statements to be included in the City's Comprehensive Annual Financial Report, and provide to the Mayor any comments or recommendations it may have, and review and consider with the outside auditor the matters required to be discussed by Statement on Auditing Standards No. 61.
 - (D) Perform the procedures set forth below in "Financial Reporting Procedures" with respect to the annual financial statements to be reported.
 - (E) Review with the Mayor and the outside auditor the City's critical accounting policies and practices.
 - (F) Recommend to the Council whether, based on the reviews and discussions referred to above, the annual financial statements should be issued by the City.
- (8) Continuing Reporting. In connection with the City's preparation of its continuing reporting of financial information, the Committee shall:
- (A) Review the City's financial information to be included in the City's continuing reports, and discuss them with the Mayor and, to the extent appropriate, the outside auditor.

- (B) Perform the procedures set forth below in "Financial Reporting Procedures" with respect to the financial information to be included in the continuing reports.
- (9) Financial Reporting Procedures. In connection with the Committee's review of each reporting of the City's annual or continuing financial information, the Committee shall:
- (A) Discuss with the outside auditor, to the extent appropriate, whether all material correcting adjustments identified by the outside auditor in accordance with generally accepted accounting principles are reflected in the City's financial statements.
- (B) Review with the outside auditor all material communications between the outside auditor and the Mayor, such as any letter or schedule of unadjusted differences.
- (C) Review with the Mayor and the outside auditor any material financial or other arrangements of the City which do not appear on the City's financial statements and any transactions or courses of dealing with third parties that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and which arrangements or transactions are relevant to an understanding of the City's financial statements.

- (D) Resolve any disagreements between the Mayor and the outside auditor regarding financial reporting.
- (10) Securities Law Compliance. The Committee shall review and evaluate the City's compliance with its obligations under federal and state securities laws with respect to securities issued by the City and by the "related entities," as defined in San Diego Municipal Code section 22.1702, and provide to the Disclosure Practices Working Group, the Mayor, and the City Council any comments or recommendations it may have.
- (11) Coordination and Reporting. The Committee shall work to assure maximum coordination between the work of the internal auditor, the Council as legislative body and the outside auditor. The Audit Committee shall report to the City Council at least quarterly, and more frequently as needed, including reporting out of closed session, to assist the City Council in carrying out their legislative oversight duties.
- (12) Charter. The Committee shall review and reassess at least annually the adequacy of this Charter and recommend any proposed changes to the Council for approval, including any changes that may be appropriate or desirable as a result of any revision of the City Charter.

Section 3. That Chapter 2, Article 6, of the San Diego Municipal Code is hereby amended by repealing Division 17, titled "Financial Reporting Oversight Board" and by repealing sections 26.1701, 26.1702, 26.1703, 26.1704, 26.1705, and 26.1706 in their entirety.

Section 4. That Chapter 2, Article 2, Division 41, of the San Diego Municipal Code titled "Securities Disclosure", is hereby amended by amending Sections 22.4101 (b)(6), 22.4105 (b), 22.4105 (c), 22.4106 (a)(3), 22.4109 (b), and 22.4112 by replacing the words "Financial Reporting Oversight Board" with the words "Audit Committee".

Section 5. That Chapter 2, Article 2, Division 3, of the San Diego Municipal Code, titled "City Attorney", is hereby amended by amending the title of Section 22.0304 and Sections 22.0304 (a) and 22.0304 (b) by replacing the words "Financial Reporting Oversight Board" with the words "Audit Committee".

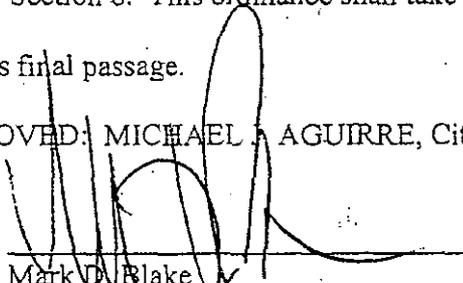
Section 6. That Chapter 2, Article 2, Division 7, titled "City Auditor and Comptroller", is hereby amended by amending Sections 22.0708 (b) and 22.0708 (b)(5) by replacing the words "Financial Reporting Oversight Board" with the words "Audit Committee".

Section 7. That a full reading of this ordinance is dispensed with prior to passage, since a written copy was made available to the City Council and the public prior to the day of its passage.

Section 8. This ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

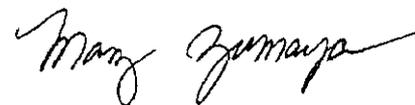
APPROVED: MICHAEL AGUIRRE, City Attorney

By


Mark D. Blake
Chief Deputy City Attorney

MDB:jdf
03/28/2007
Or.Dept:Audit Committee
O-2007-122

APR 24 2007



STATEMENT OF OPERATING PRINCIPLES

(Originally received by the Audit Committee on February 26, 2007, as revised on April 10, 2007)

WHEREAS the City Charter provides for an Auditor and Comptroller to perform those functions related to the City's fiscal affairs specified in the City Charter;

WHEREAS the Auditor and Comptroller is to perform those functions under the direction of the Mayor except as otherwise specified in the existing City Charter;

WHEREAS the Mayor believes that it is important for the financial integrity of the City for the Auditor and Comptroller, consistent with his responsibilities under the existing City Charter, to perform the internal audit function on an independent basis working not only with the Mayor's Office, but also with the Audit Committee recently established by the City Council to provide independent oversight over financial matters (the Auditor and Comptroller or his designee with responsibility over the internal audit function is referred to herein as the "Internal Auditor");

WHEREAS this Statement of Operating Principles shall apply during the interim period prior to revision of the City Charter (the "Interim Period");

Accordingly, the Mayor hereby sets forth the following operating principles:

1. The Internal Auditor, in the exercise of his internal audit function, is directed periodically and more frequently as necessary to communicate directly to and consult with the Audit Committee and to be responsive to its requests for information consistent with the Audit Committee's oversight responsibilities with respect to the internal audit function. Such communication shall take place at the initiative of the Internal Auditor or of the Audit Committee. The Internal Auditor shall have the responsibility to inform the Audit Committee if he believes his independence is being compromised.
2. During the Interim Period, the Internal Auditor's internal audit function shall focus on financial reporting, completion of the City's CAFRs for fiscal years 2003 through 2007, and the City's internal controls over financial reporting.
3. The Internal Auditor shall prepare an Annual Audit Work Plan consistent with the foregoing paragraph as part of the internal audit function after consultation with and taking into account the recommendations of the Mayor and the Audit Committee, including prioritization of the workload according to available resources and budget. The Internal Auditor shall resolve any differences through the exercise of his independent professional judgment.
4. The Internal Auditor may consult as appropriate with the City Council or its designees, such as the Independent Budget Analyst, or the City Attorney.

5. The Mayor shall direct the Auditor and Comptroller to select as the Internal Auditor, with the participation of the Audit Committee, a person with professional qualifications as an internal auditor.

6. To the extent that the Internal Auditor is not the Auditor and Comptroller as described in Section 39 of the City Charter, the Internal Auditor may be dismissed by the Auditor and Comptroller, subject only to a right to appeal to the Audit Committee to overturn the dismissal decision.

7. The Auditor and Comptroller, in consultation with the Audit Committee, shall evaluate the performance of the Internal Auditor and shall consult with the Audit Committee with respect to the budget and compensation of the Internal Auditor.

APPROVED: JERRY SANDERS, Mayor



002109

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 in the exercise of their official duties) with all applicable federal and state securities laws, and (ii) promote best practices regarding disclosures relating to securities issued by the City and the City's disclosure provided to its Related Entities.

Section 1.2. Disclosure Practices Working Group. Pursuant to Sections 22.4101 and 22.4103 of the Municipal Code, the City Manager, the City Attorney, the City Auditor and Comptroller, and the City Treasurer have established the Disclosure Group.

Section 1.3. Responsibilities of the Disclosure Group. The Disclosure Group 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 22.4109 of the Municipal Code, and (iv) such additional responsibilities as are set forth in these Disclosure Controls and Procedures.

Section 1.4. Rules and Regulations. The Disclosure Group may establish such Rules and Regulations as it determines are appropriate to govern the operation of its meetings and other procedural matters. In the event of any conflict between the terms of the Rules and Regulations and the terms of these Disclosure Controls and Procedures, the terms of the Disclosure Controls and Procedures shall govern.

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.

“*City Financial Statements*” means, individually or collectively as the context may require, CAFR, the audited financial statements of the Metropolitan Wastewater Utility, and the audited financial statements of the Water Utility.

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

“*Disclosure Group*” means the Disclosure Practices Working Group that has been established in the manner described in Section 1.2.

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

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

“*NRMSIRs*” means the nationally recognized municipal securities information repositories approved by the Securities and Exchange Commission to accept the filings referenced in Rule 15c2-12 under the federal Securities Exchange Act of 1934, 17 CFR 240.15c2-12.

“*Preparer*” means those persons defined as such in subsection A. of Section 4.4.

“*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, as updated from time to time.

“*Rules and Regulations*” means the rules and regulations established by the Disclosure Group, as described in Section 1.4.

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 offering documents, relating to the City's securities, together with any supplements;
- B. the City Financial Statements;
- C. any filing made by the City with the NRMSIRs, whether made pursuant to a continuing disclosure agreement to which the City is a party or made voluntarily;
- D. press releases (to the extent that such releases are or could reasonably be construed to be an intended communication to the financial markets), rating agency presentations, postings on the investor information section of the City's webpage, and other communications, reasonably likely, in the determination of the Disclosure Group, to reach investors or the securities markets;
- E. any disclosure materials requiring, pursuant to the Municipal Code, approval and certification by the City Manager, City Attorney, or City Auditor and Comptroller;
- 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, to the extent that the City, the City Council, or City officers, or staff are responsible for 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; and
- H. such portions of the City's published adopted annual budget as the Disclosure Group determines to be appropriate, which shall at a minimum include the executive summary.

Article IV *Review Process*

Section 4.1. Determination of "Disclosure Document" status. Whether a particular document or written, posted or other communication is a Disclosure Document shall be determined by the Disclosure Group, including the determination whether a document should be filed voluntarily with the NRMSIRs (see Section 3.1.C.) or whether a communication is reasonably likely to reach investors or the securities markets (see Section 3.1.D.). To assist the Disclosure Group 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 by means of a letter in the form attached as Exhibit B.

Section 4.2. Review of Form and Content of Disclosure Documents. The Disclosure Group shall review the form and content of each 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:

A. Financing Group. Financial Services shall timely identify for the Disclosure Group 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 Financing Services as the City Treasurer determines to be the appropriate 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), the City's outside disclosure counsel, and such other members of the Disclosure Group as the Disclosure Group determines to be appropriate.

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 manager of Financing Services working with the Financing Group shall certify to the Disclosure Group that, to the best of his/her knowledge, these Disclosure Controls and 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.

2. The Financing Group shall contact the individuals and departments identified as Contributors as soon as possible in order to provide adequate time for such individuals to perform a thoughtful and thorough review or draft of those portions of the Disclosure Document assigned to them.

3. The manager of Financing Services assigned to the financing, together with the Deputy City Attorney for Finance and Disclosure, shall maintain or cause to be maintained an accurate log of all individuals or departments that were requested to review or draft information in connection with a 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 collecting all transmittal letters, certifications, and lists of sources for incorporation into the minutes maintained by the Disclosure Group.

4. The Financing Group shall confirm to and advise the Disclosure Group 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 3. above (which shall constitute the "audit trail" referenced in Section 22.4105(a)(4) of the Municipal Code). Of particular import is that the "Appendix A" and other information concerning the City is thoroughly compared for accuracy against the City Financial Statements. The Financing Group shall review the letters and any accompanying information provided pursuant to subsections C. through G. of this Section 4.3 and shall transmit such materials to the Disclosure Group, such letters to be substantially in the form set forth in Exhibit D.

5. The Financing Group shall report any significant disclosure issues and concerns to the Disclosure Group as they are discovered.

6. The Financing Group shall advise the financial advisor and the underwriter(s) and their counsel, that they must execute upon their selection a confidentiality agreement substantially in the form attached as Exhibit E.

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 Disclosure Group requests.

D. Review by Human Resources Manager. With respect to those Disclosure Documents described in subsection A. of Section 3.1 that relate to securities that are secured directly or indirectly by the City's general fund, the Financing Group shall forward the Disclosure Document to the Human Resources Manager for review by means of a letter substantially similar to Exhibit C. In particular, the Human Resources Manager and the Personnel Director shall review any information in the Disclosure Document relating to employee relations, collective bargaining, pensions and benefits, and litigation concerning current or former employees. The Human Resources Manager shall timely send any comments on the Disclosure Document to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit F.

E. Review by San Diego City Employees' Retirement System (SDCERS). With respect to those Disclosure Documents described in subsection A. of Section 3.1 that relate to securities that are secured directly or indirectly by the City's general fund, the Financing Group shall forward the Disclosure Document to the [Retirement Administrator, Head of the Investment Division, Head of the Administration Division and Head of the Legal Division] by means of a letter substantially similar to Exhibit C. Such individuals shall be requested to review any information in the Disclosure

Document relating to pension benefits and other retirement benefits, pension plan funding and litigation concerning SDCERS. Any comments on the Disclosure Document shall timely be sent to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit G.

F. Review by City Attorney for Litigation. The Deputy City Attorney for Finance and Disclosure shall transmit the Disclosure Document to the appropriate attorneys in the City Attorney's office who are responsible for identifying any material current, pending or threatened litigation. The responsible attorneys shall timely draft descriptions of any such litigation, and of any material settlements or court orders, for the Disclosure Document after receiving the Disclosure Document. The responsible attorneys shall timely transmit the requested information to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit H.

G. Review by City Auditor and Comptroller. The Financing Group shall forward the Disclosure Document to the City Auditor and Comptroller by means of a letter substantially similar to Exhibit C. The City Auditor and Comptroller shall designate one or more employees to assist the Financing Group with comparing and noting any discrepancies between the City Financial Statements and the Disclosure Document. The City Auditor and Comptroller shall also review the Disclosure Document in full to identify any material difference in presentation of financial material from the Financial Statements, any misstatement or omission in any sections that contain descriptions of information prepared by or of interest to the City Auditor and Comptroller. Any comments on the Disclosure Document shall timely be sent to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit I.

H. Reference Materials. The Deputy City Attorney for Finance and Disclosure and the City's outside disclosure counsel, in providing advice to the Disclosure Group regarding the contents of those Disclosure Documents described in subsections A. or G. of Section 3.1, shall review and take into consideration the reference materials listed in Exhibit J, as updated from time to time.

Section 4.4. 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:

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 Disclosure Group of such information. The Disclosure Group shall timely make a determination whether such information is a Disclosure Document pursuant to Section 4.1.

B. Notify Disclosure Group. If it is determined that a document is a Disclosure Document, the Preparer shall inform the Disclosure Group 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, 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 the Disclosure Group.

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. These lists shall be submitted to the Disclosure Group along with the Disclosure Document.

Article V *Approval Process*

Section 5.1. General. The Disclosure Group shall review and approve the form and content of each Disclosure Document. Such approval shall be evidenced by the affirmative vote of a majority of a quorum of the Disclosure Group, as determined by the Rules and Regulations. The Disclosure Group may determine that those Disclosure Documents that (i) the City is contractually obligated to file with the NRMSIRs 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 NRMSIRs upon the approval of the City's outside disclosure counsel and at least one other member of the Disclosure Group.

Section 5.2. Submission of Official Statements to Disclosure Group for Approval. The Financing Group shall submit any Disclosure Document described in Section 4.3 to the Disclosure Group when (i) it has obtained all of the approvals and source documentation described in Section 4.3, and (ii) in its best judgment, the Disclosure Document is in substantially final form. Such submission shall be by means of the transmittal letter attached as Exhibit K.

The Disclosure Group shall critically 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. The Disclosure Group may send the Disclosure Document back to the Financing Group for revisions. The Disclosure Group shall timely contact the Financing

Group with any comments or questions on the Disclosure Document or the associated financing.

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

The City Manager and City Attorney shall critically evaluate, or cause to be evaluated, the Disclosure Document for accuracy. The City Manager and the City Attorney shall meet with the Financing Group and the Disclosure Group at a mutually convenient time, and ask questions of the Financing Group, the Disclosure Group, any Contributor, and any other person who reviewed or drafted any section of the Disclosure Document. The City Manager or City Attorney may send the Disclosure Document back to the Financing Group for revisions. Upon satisfaction with the Disclosure Document, the City Manager and City Attorney shall execute the certifications required by Section 22.4111(a) of the Municipal Code, in the form attached as Exhibit M, and provide a copy to the Disclosure Group.

Section 5.4. City Auditor and Comptroller Certification. Upon satisfaction with a Disclosure Document described in Section 4.3 or in subsection F. of Section 3.1, the City Auditor and Comptroller shall execute the certification required by 22.0709(b) of the Municipal Code, in the form attached as Exhibit N, and provide a copy to the Disclosure Group. With respect to each CAFR, the City Auditor and Comptroller shall execute the certification required by 22.0709(a) of the Municipal Code, in the form attached as Exhibit O, and provide a copy to the Disclosure Group.

Section 5.5. Submission of Official Statements to City Council for Approval. As part of the docketing process, the Disclosure Group shall submit any Disclosure Document described in Section 4.3 to the City Council for approval together with the certifications from the City Manager, the City Attorney, and the City Auditor and Comptroller 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 not be approved as a consent item. The City Council shall undertake such review as they are advised by the Deputy City Attorney advisor to the City Council appointed pursuant to Section 22.0303 of the Municipal Code and the City's outside disclosure counsel to be appropriate to fulfill their responsibilities under applicable federal and state securities laws.

Section 5.6. Approval of Disclosure Documents other than Official Statements. Any Disclosure Document and accompanying source lists described in Section 4.4 shall be submitted to the Disclosure Group 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.

The Disclosure Group shall critically evaluate the Disclosure Document for accuracy and sufficiency, and have the opportunity to ask questions of the Preparer or any other person who reviewed or drafted any section of the Disclosure Document. The Disclosure Group may send the Disclosure Document back to the Preparer for revisions. The Disclosure Group shall contact the Preparer with any comments or questions on the Disclosure Document or the associated financing by no later than (a) in the case of a Disclosure Document scheduled on the forward calendar referenced in Section 6.3., the later of (i) five (5) business days after receiving such Disclosure Document and (ii) the business day immediately succeeding the next regularly scheduled meeting of the Disclosure Group, or (b) in the case of an unscheduled Disclosure Document, as soon as reasonably practicable.

Article VI *Timelines for Review*

Section 6.1. Timelines 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 be used will vary depending on the type of bonds being offered (e.g., variable rate, fixed rate, auction rate), the security for the bonds (e.g., general obligation, revenue pledge), the purpose for the financing, and other factors unique to each bond financing. Accordingly, the following timeline has been developed to assist the Disclosure Group, each Financing Group, and each bond financing team in developing a bond financing schedule, but is intended only to provide very general guidance in light of the unique characteristics of each bond financing.

Day 270	Disclosure Group notified of the bond financing by inclusion of the financing on the forward calendar referenced in Section 6.3, and identifies a Financing Group
Days 150-270	Financing Group meets with the bond financing team to understand basics of bond financing; initial draft of Disclosure Document is prepared
Day 150	Financing Group distributes information to Contributors and department directors
Day 150	Financing Group distributes information to Human Resources Manager, SDCERS representative, and City Auditor and Comptroller, as may be applicable
Day 130	Deputy City Attorney for Finance and Disclosure transmits Disclosure Document to appropriate litigation attorneys in City Attorney's Office
Days 110-130	Department directors and Contributors discuss Disclosure Document at departmental meetings

002118

Day 100	Contributors submit requested information to Financing Group
Day 90	Human Resources Manager, SDCERS representative and City Attorney representative transmit any requested information to Financing Group
Days 60-90	Financing Group reviews Disclosure Document and all related materials, and transmits to Disclosure Group
Days 40-60	Disclosure Group reviews Disclosure Document and all related materials, and submits to City Manager and City Attorney
Days 30-40	City Manager and City Attorney meet with Disclosure Group
Day 30	City Manager and City Attorney execute required certifications
Day 29	Disclosure Group submits Disclosure Document and related certifications to City Council as part of the docketing process referenced in Section 5.5
Day 15-29	City Council briefed regarding Disclosure Document by Deputy City Attorney advisor to the City Council and the City's outside disclosure counsel
Day 5	City Council approves Disclosure Document
Day 0	Preliminary Official Statement is mailed
Day 0 – Delivery Date (or such later date through which the City is contractually obligated to advise the bond financing team of material events)	Financing Group advises Disclosure Group of (i) any material changes to Preliminary Official Statement to create the final Official Statement and (ii) any material changes to the final Official Statement up to and including the date of delivery of the bonds. In either such event, the Disclosure Group must review and approve the form and content of the material change disclosure and determine whether it is necessary or appropriate to submit the material change disclosure to the City Council for approval.

Section 6.2. Timelines 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 the Disclosure Group and the Preparer in developing a schedule, but is intended only to provide very 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	60 days	ASAP
Disclosure Group makes a determination whether a document is a Disclosure Document	N/A	2 business days
Preparer, Deputy City Attorney for Finance and Disclosure, and the City's outside disclosure counsel identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document	50-60 days	4 business days
Disclosure Document finalized and transmitted to Disclosure Group	25-50 days	4-5 business days
Disclosure Group reviews Disclosure Document and all related materials, and approves Disclosure Document for dissemination	10 days	5-6 business days

Section 6.3. Forward Calendar. The Disclosure Group shall develop a forward calendar that sets forth, to the best judgment of the Disclosure Group, a comprehensive list of Disclosure Documents that are subject to the review and approval of the Disclosure Group over the next twelve months. Such forward calendar shall be revised from time to time, and every effort shall be made to keep such document current. The City Treasurer shall advise the Disclosure Group of all Disclosure Documents originating in Financing Services (being those Disclosure Documents described in subsection A. of Section 3.1, and those Disclosure Documents filed by the City with the NRMSIRs pursuant to continuing disclosure agreements described in subsection C. of Section 3.1) that are expected to be submitted to the Disclosure Group for review and approval over the next twelve months. In addition, the City Treasurer shall advise the Disclosure Group, after soliciting the appropriate information from the Related Entities, of those Disclosure Documents described in subsections F. or G. of Section 3.1 that are expected to be submitted to the Disclosure Group for review and approval over the next twelve months. The City Auditor and Comptroller shall advise the Disclosure Group of the dates that the CAFR, the audited financial statements of the Metropolitan Wastewater Utility, the audited financial statements of the Water Utility, the Disclosure Documents described in subsection B. of Section 3.1, and any other Disclosure Document, are expected to be

submitted to the Disclosure Group for review and approval over the next twelve months. The Deputy City Manager for Finance shall advise the Disclosure Group of the date that the Disclosure Document described in subsection H. of Section 3.1 is expected to be submitted to the Disclosure Group for review and approval over the next twelve months.

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 appointed pursuant to Section 22.0302 of the Municipal Code. New employees shall attend 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, the anonymous and confidential contact information for the Financial Reporting Oversight Board described in Section 9.2, and the contact information for the Deputy City Attorney for Finance and Disclosure. Such training sessions may be conducted by videotape.

B. The determination as to whether or not an employee shall receive such training shall be made by the Deputy City Manager, the City Auditor and Comptroller, or the City Attorney, as appropriate, responsible for such employee. The Disclosure Group may also require training for an employee not specified by any such person.

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 and the Deputy City Attorney designated as an advisor to the City Council pursuant to Section 22.0303 of the Municipal Code, for the Mayor and City Council members.

Article VIII *Document Retention Policies*

Section 8.1. Official Statements.

A. Materials retained. The Disclosure Group 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, the following materials:

1. the printed copy of the Preliminary and final Official Statement (or Preliminary and final Offering Memoranda);
2. the "deemed final" certification provided by a City official to the underwriter of the securities in accordance with paragraph (b)(1) of Rule 15c2-12;

3. the executed copies of the letters, requests, and certifications, the forms of which are attached as Exhibits B-K, and M;
4. the information and related sources referenced in the materials described in 3. above;
5. the bond purchase agreement; and
6. any written certification or opinions executed by a City official relating to disclosure matters, delivered at the time of delivery of the related securities.

B. Materials not retained. The Disclosure Group shall not retain after the date of delivery of the related securities the drafts of any of the materials referenced in subsection A. above.

Section 8.2. Disclosure Documents other than Official Statements. The Disclosure Group 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.

The Disclosure Group 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. Financial Reporting Oversight Board (FROB) Contact Information. The City shall set up a confidential and anonymous system so that City employees can contact the FROB with any concerns about accounting or financial disclosure issues if they prefer not to contact the Deputy City Attorney for Finance and Disclosure. The FROB will create a procedure for contacting them in an anonymous and confidential manner.

Article X
Annual Review

Section 10.1. Annual Review. The Disclosure Group shall conduct an annual evaluation of these Disclosure Controls and Procedures and prepare an annual report, in accordance with the procedures and the dates established by Section 22.4106 of the Municipal Code.

L:\BLAKE\DPWG\Disclosure Controls (4th Draft) 9 27 05.doc

Exhibits

- A. List of Related Entities
- B. Related Entity Letter
- C. Request for Information from Contributors
- D. Transmittal by Department Director or Deputy City Manger to Financing Group
- E. Underwriter's/Financial Advisor's Confidentiality Agreement
- F. Letter from Human Resources Manager
- G. Letter from SDCERS Representative
- H. Letter from City Attorney's Office Regarding Litigation
- I. Letter from City Auditor and Comptroller
- J. Municipal Finance Disclosure Reference Materials
- K. Transmittal of Official Statement by Financing Group to Disclosure Group
- L. Transmittal of Official Statement by Disclosure Group to City Manager and City Attorney
- M. Certifications by City Attorney and City Manager
- N. Certification by City Auditor and Comptroller Regarding Official Statements
- O. Certification by City Auditor and Comptroller Regarding CAFR

Related Entities

Assessment District 4030 (Otay Mesa Industrial Park)
Assessment District 4096 (Piper Ranch Business Park)
City of San Diego/MTDB Authority
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
Redevelopment Agency of the City of San Diego
San Diego Facilities and Equipment Leasing Corporation
San Diego Housing Commission
San Diego Open Space Park District No. 1

Related Entity Letter

Pursuant to Ordinance No. O-19320 (the "Ordinance"), 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 Ordinance). 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. 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 Financing Services Division of the City Treasurer's Office 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 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 in all ways 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.

**Transmittal by Department Director
or Deputy City Manager
to Financing Group**

I am the [Department Director/Deputy City Manager] responsible for reviewing the portion of the Disclosure Document that is attached. This disclosure has been reviewed by me and by each identified Contributor, and was discussed at a meeting of the _____ department. I have also attached copies of any materials that were a source for all or a portion of this disclosure. I have reviewed and complied with the procedures set forth in subsection C. of Section 4.3 of the Disclosure Controls and Procedures. I have attended the federal securities law training seminar conducted by the City's outside disclosure counsel. 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 promptly advise the Financing Group.

[Department director/Deputy City Manager]

Attachments

- reviewed disclosure
- source materials
- list of Contributors

[Underwriter's/Financial Advisor's] Confidentiality Agreement

The [Underwriter/Financial Advisor] acknowledges, represents and warrants to the City that in connection with the preparation for and offering and sale of the Bonds, the [Underwriter/Financial Advisor], its agents, employees and counsel involved in the offering have been and will be provided non-public information by or on behalf of the City, including but not limited to drafts of the Preliminary Official Statement and Official Statement; the [Underwriter/Financial Advisor], its agents, employees and counsel involved in the offering have been and will be provided such information for the purpose of the offering and sale of the Bonds and not for any other purpose; and the Preliminary Official Statement and Official Statement, and any supplements or amendments thereto in accordance with the provisions of the Bond Purchase Agreement, constitute the only documents authorized by the City for dissemination of such information.

The [Underwriter/Financial Advisor] covenants and agrees to protect and maintain the confidentiality of such information and to take appropriate steps to assure that its agents, employees and counsel involved in the offering will not make use of such information for any purpose other than the offer and sale of the Bonds.

Notwithstanding the preceding two paragraphs, the [Underwriter/Financial Advisor] has the right to use or to disclose any information: (i) which is, at the time of disclosure, generally known or available to the public (other than as a result of a breach of this Agreement); (ii) which becomes, at a later date, generally known or available to the public through no fault of the [Underwriter/Financial Advisor] and then only after said later date; (iii) which is disclosed to the [Underwriter/Financial Advisor] in good faith by a third party who, to [Underwriter/Financial Advisor]'s knowledge, has an independent right to such information and is under no known obligation not to disclose it to the [Underwriter/Financial Advisor]; (iv) which is possessed by the [Underwriter/Financial Advisor], as evidenced by such [Underwriter/Financial Advisor]'s written or other tangible evidence, before receipt thereof from the City; (v) to the extent expressly required by any governmental, judicial, supervisory or regulatory authorities pursuant to federal or state law, subpoena or similar legislative, administrative or judicial process; (vi) in connection with the offering and sale of the Bonds if the [Underwriter/Financial Advisor] or its counsel determines that confidential information is material (within the meaning of the federal securities laws) and therefore must be disclosed in connection with the offering and sale of the Bonds, provided, that the [Underwriter/Financial Advisor] shall provide prior written notice thereof to the City (to the extent permitted by law), including a copy of the proposed disclosure or other use, and shall have obtained the City's written consent to such use if the offering has not commenced; or (vii) the use of which is consented to by the express prior written consent of the City.

The [Underwriter/Financial Advisor] shall return all confidential material to the City when the bond transaction is completed or their services are otherwise completed.

Letter from the Human Resources Manager

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum] that relates to employee relations, collective bargaining, pensions and benefits, and litigation concerning current or former employees. I have also read and understand the directions that were provided to me in the letter from the Financing Group. 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. [No information concerning the above categories was included./I have no comments./My comments are attached.]

Human Resources Manager

Letter from SDCERS Representative

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum] that relates to pension benefits and other retirement benefits, pension plan funding, and litigation concerning SDCERS. I have also read and understand the directions that were provided to me in the letter from the Financing Group. 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. [No information concerning the above categories was included./I have no comments./My comments are attached.]

SDCERS Representative

Letter from City Attorney's Office Regarding Litigation

Financing Group:

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, or the power of the Issuer to issue, the Bonds, (ii) any litigation the potential exposure for which is greater than \$5,000,000. 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 Financing Group.

Deputy City Attorney for Finance and
Disclosure

Letter from City Auditor and Comptroller

Financing Group:

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 City Auditor and Comptroller. 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.]

City Auditor and Comptroller

Municipal Finance Disclosure Reference Materials

1. Public Finance Criteria, Standard & Poor's (see www.standardandpoors.com, click on "Criteria and Definitions" under "Credit Ratings").
2. Questions to Ask Before You Approve a Bond Issue: A Pocket Guide for Elected and Other Public Officials, National League of Cities; National Association of Counties; National Association of State Auditors, Comptrollers, and Treasurers; and the Government Finance Officers Association, Dec. 1996
3. Disclosure Roles of Counsel in State and Local Government Securities Offerings, American Bar Association, State and Local Government Law, and National Association of Bond Lawyers, 1995.
4. Recommended Best Practices in Disclosure, National Federation of Municipal Analysts, 2004.
5. Making Good Disclosure: The Role and Responsibilities of State and Local Officials Under the Federal Securities Laws, Government Finance Officers Association, 2001.
6. Disclosure Guidelines for State and Local Government Securities, Government Finance Officers Association, 1991.

**Transmittal of Official
Statement by Financing Group
to Disclosure Group**

Disclosure Group:

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 the Disclosure Group.

Representative of Financing Group

[list names of members of Financing Group]

**Transmittal of Official
Statement by Disclosure Group
To City Manager and City Attorney**

City Manager and City Attorney:

The Disclosure Group 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 the Disclosure Group, the Disclosure Document is in final form and the Disclosure Group has complied with the Disclosure Controls and Procedures.

Representative of Disclosure Group

[list names of members of Disclosure Group]

Certifications by City Attorney and City Manager

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, the Disclosure Group, 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 Manager/City Attorney

Certification by City Auditor and Comptroller Regarding Official Statements

City Council:

I have reviewed the [description of Official Statement or Offering Memorandum] and compared the City Financial Statements 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 City Auditor and Comptroller. 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 Financial Statements 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 Financial Statements.

City Auditor and Comptroller

Certification by City Auditor and Comptroller 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.

City Auditor and Comptroller

002139



OFFICE OF MAYOR JERRY SANDERS
CITY OF SAN DIEGO

MEMORANDUM

DATE : January 22, 2007
TO : Council President Peters and Members of the San Diego City Council
FROM : Mayor Jerry Sanders 
SUBJECT : Establishment of a Charter Review Committee

In the City's first year operating under Charter Article XV: Strong Mayor Trial Form of Governance it has become apparent there are a number of areas where clarification and fine-tuning would help achieve the original intent of this reform.

In cooperation with the City Attorney's office we have begun to work through some of these issues as they arise, but much more work must be focused on these issues in order to fully prepare for an effective long-term implementation of the Strong Mayor form of governance. I believe we can all agree that when roles and responsibilities are unclear, the business of the public is not optimally served, and that a fresh review of this Charter section is a timely priority.

In addressing these issues, there are four subject areas or questions around which a work plan for the Committee will be set:

- What Charter modifications are necessary to implement the Kroll recommendations and other financial reforms?
- What is a clear definition of the roles and responsibilities of elected officials and the separation of powers under strong mayor?
- What measures may improve the functionality of strong mayor during this trial period?
- What legislative tightening would be required for effective permanent implementation of Article XV?

Each of these areas will be explored by a designated subcommittee and addressed concurrently in the Committee's work.

002140

Committee meetings will be held twice monthly and will be noticed to the public in keeping with the Ralph M. Brown Act. Subcommittees working in each topic area are anticipated to meet once or twice monthly as is convenient for their membership and in keeping with their work load.

I will move immediately to empanel the Committee in preparation for them to begin their work on or around March 1st. It is my intention that the Committee complete its work and return its recommendations in readiness for the 2008 election cycle.

Valuing varied points of view, I would like to work with each of you to identify and nominate three individuals who may be appropriate to serve on the Committee from which I will select one from each of your submissions. In addition, I will make a number of appointments to round out the Committee ensuring a representative balance. We are looking for individuals who can be independent, possess scholarly and operational subject matter expertise, those who have experience with previous charter reform efforts and who are broadly representative of our talented citizenry.

In addition to the Committee members, three ex-officio members will serve as support resources and advisers to the Committee; one each from the City Attorney, Mayor and the Independent Budget Analyst.

I look forward to working with you on these issues so critical to our City's future and welcome your support for this effort.

JS:ACH

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 in the exercise of their official duties) with all applicable federal and state securities laws, and (ii) promote best practices regarding disclosures relating to securities issued by the City and the City's disclosure provided to its Related Entities.

Section 1.2. Disclosure Practices Working Group. Pursuant to Sections 22.4101 and 22.4103 of the Municipal Code, the City Manager, the City Attorney, the City Auditor and Comptroller, and the City Treasurer have established the Disclosure Group.

Section 1.3. Responsibilities of the Disclosure Group. The Disclosure Group 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 22.4109 of the Municipal Code, and (iv) such additional responsibilities as are set forth in these Disclosure Controls and Procedures.

Section 1.4. Rules and Regulations. The Disclosure Group may establish such Rules and Regulations as it determines are appropriate to govern the operation of its meetings and other procedural matters. In the event of any conflict between the terms of the Rules and Regulations and the terms of these Disclosure Controls and Procedures, the terms of the Disclosure Controls and Procedures shall govern.

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.

"*City Financial Statements*" means, individually or collectively as the context may require, CAFR, the audited financial statements of the Metropolitan Wastewater Utility, and the audited financial statements of the Water Utility.

"*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 Documents*" means those documents defined as such in Article III.

"*Disclosure Group*" means the Disclosure Practices Working Group that has been established in the manner described in Section 1.2.

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

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

"*NRMSIRs*" means the nationally recognized municipal securities information repositories approved by the Securities and Exchange Commission to accept the filings referenced in Rule 15c2-12 under the federal Securities Exchange Act of 1934, 17 CFR 240.15c2-12.

"*Preparer*" means those persons defined as such in subsection A. of Section 4.4.

"*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, as updated from time to time.

"*Rules and Regulations*" means the rules and regulations established by the Disclosure Group, as described in Section 1.4.

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 offering documents, relating to the City's securities, together with any supplements;
- B. the City Financial Statements;
- C. any filing made by the City with the NRMSIRs, whether made pursuant to a continuing disclosure agreement to which the City is a party or made voluntarily;
- D. press releases (to the extent that such releases are or could reasonably be construed to be an intended communication to the financial markets), rating agency presentations, postings on the investor information section of the City's webpage, and other communications, reasonably likely, in the determination of the Disclosure Group, to reach investors or the securities markets;
- E. any disclosure materials requiring, pursuant to the Municipal Code, approval and certification by the City Manager, City Attorney, or City Auditor and Comptroller;
- 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, to the extent that the City, the City Council, or City officers, or staff are responsible for 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; and
- H. such portions of the City's published adopted annual budget as the Disclosure Group determines to be appropriate, which shall at a minimum include the executive summary.

Article IV *Review Process*

Section 4.1. Determination of "Disclosure Document" status. Whether a particular document or written, posted or other communication is a Disclosure Document shall be determined by the Disclosure Group, including the determination whether a document should be filed voluntarily with the NRMSIRs (see Section 3.1.C.) or whether a communication is reasonably likely to reach investors or the securities markets (see Section 3.1.D.). To assist the Disclosure Group 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 by means of a letter in the form attached as Exhibit B.

Section 4.2. Review of Form and Content of Disclosure Documents. The Disclosure Group shall review the form and content of each 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:

A. Financing Group. Financial Services shall timely identify for the Disclosure Group 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 Financing Services as the City Treasurer determines to be the appropriate 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), the City's outside disclosure counsel, and such other members of the Disclosure Group as the Disclosure Group determines to be appropriate.

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 manager of Financing Services working with the Financing Group shall certify to the Disclosure Group that, to the best of his/her knowledge, these Disclosure Controls and 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.

2. The Financing Group shall contact the individuals and departments identified as Contributors as soon as possible in order to provide adequate time for such individuals to perform a thoughtful and thorough review or draft of those portions of the Disclosure Document assigned to them.

3. The manager of Financing Services assigned to the financing, together with the Deputy City Attorney for Finance and Disclosure, shall maintain or cause to be maintained an accurate log of all individuals or departments that were requested to review or draft information in connection with a 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 collecting all transmittal letters, certifications, and lists of sources for incorporation into the minutes maintained by the Disclosure Group.

4. The Financing Group shall confirm to and advise the Disclosure Group 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 3. above (which shall constitute the "audit trail" referenced in Section 22.4105(a)(4) of the Municipal Code). Of particular import is that the "Appendix A" and other information concerning the City is thoroughly compared for accuracy against the City Financial Statements. The Financing Group shall review the letters and any accompanying information provided pursuant to subsections C. through G. of this Section 4.3 and shall transmit such materials to the Disclosure Group, such letters to be substantially in the form set forth in Exhibit D.

5. The Financing Group shall report any significant disclosure issues and concerns to the Disclosure Group as they are discovered.

6. The Financing Group shall advise the financial advisor and the underwriter(s) and their counsel, that they must execute upon their selection a confidentiality agreement substantially in the form attached as Exhibit E.

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 Disclosure Group requests.

D. Review by Human Resources Manager. With respect to those Disclosure Documents described in subsection A. of Section 3.1 that relate to securities that are secured directly or indirectly by the City's general fund, the Financing Group shall forward the Disclosure Document to the Human Resources Manager for review by means of a letter substantially similar to Exhibit C. In particular, the Human Resources Manager and the Personnel Director shall review any information in the Disclosure Document relating to employee relations, collective bargaining, pensions and benefits, and litigation concerning current or former employees. The Human Resources Manager shall timely send any comments on the Disclosure Document to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit F.

E. Review by San Diego City Employees' Retirement System (SDCERS). With respect to those Disclosure Documents described in subsection A. of Section 3.1 that relate to securities that are secured directly or indirectly by the City's general fund, the Financing Group shall forward the Disclosure Document to the [Retirement Administrator, Head of the Investment Division, Head of the Administration Division and Head of the Legal Division] by means of a letter substantially similar to Exhibit C. Such individuals shall be requested to review any information in the Disclosure

Document relating to pension benefits and other retirement benefits, pension plan funding and litigation concerning SDCERS. Any comments on the Disclosure Document shall timely be sent to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit G.

F. Review by City Attorney for Litigation. The Deputy City Attorney for Finance and Disclosure shall transmit the Disclosure Document to the appropriate attorneys in the City Attorney's office who are responsible for identifying any material current, pending or threatened litigation. The responsible attorneys shall timely draft descriptions of any such litigation, and of any material settlements or court orders, for the Disclosure Document after receiving the Disclosure Document. The responsible attorneys shall timely transmit the requested information to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit H.

G. Review by City Auditor and Comptroller. The Financing Group shall forward the Disclosure Document to the City Auditor and Comptroller by means of a letter substantially similar to Exhibit C. The City Auditor and Comptroller shall designate one or more employees to assist the Financing Group with comparing and noting any discrepancies between the City Financial Statements and the Disclosure Document. The City Auditor and Comptroller shall also review the Disclosure Document in full to identify any material difference in presentation of financial material from the Financial Statements, any misstatement or omission in any sections that contain descriptions of information prepared by or of interest to the City Auditor and Comptroller. Any comments on the Disclosure Document shall timely be sent to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit I.

H. Reference Materials. The Deputy City Attorney for Finance and Disclosure and the City's outside disclosure counsel, in providing advice to the Disclosure Group regarding the contents of those Disclosure Documents described in subsections A. or G. of Section 3.1, shall review and take into consideration the reference materials listed in Exhibit J, as updated from time to time.

Section 4.4. 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:

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 Disclosure Group of such information. The Disclosure Group shall timely make a determination whether such information is a Disclosure Document pursuant to Section 4.1.

B. Notify Disclosure Group. If it is determined that a document is a Disclosure Document, the Preparer shall inform the Disclosure Group 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, 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 the Disclosure Group.

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. These lists shall be submitted to the Disclosure Group along with the Disclosure Document.

Article V *Approval Process*

Section 5.1. General. The Disclosure Group shall review and approve the form and content of each Disclosure Document. Such approval shall be evidenced by the affirmative vote of a majority of a quorum of the Disclosure Group, as determined by the Rules and Regulations. The Disclosure Group may determine that those Disclosure Documents that (i) the City is contractually obligated to file with the NRMSIRs 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 NRMSIRs upon the approval of the City's outside disclosure counsel and at least one other member of the Disclosure Group.

Section 5.2. Submission of Official Statements to Disclosure Group for Approval. The Financing Group shall submit any Disclosure Document described in Section 4.3 to the Disclosure Group when (i) it has obtained all of the approvals and source documentation described in Section 4.3, and (ii) in its best judgment, the Disclosure Document is in substantially final form. Such submission shall be by means of the transmittal letter attached as Exhibit K.

The Disclosure Group shall critically 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. The Disclosure Group may send the Disclosure Document back to the Financing Group for revisions. The Disclosure Group shall timely contact the Financing

Group with any comments or questions on the Disclosure Document or the associated financing.

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

The City Manager and City Attorney shall critically evaluate, or cause to be evaluated, the Disclosure Document for accuracy. The City Manager and the City Attorney shall meet with the Financing Group and the Disclosure Group at a mutually convenient time, and ask questions of the Financing Group, the Disclosure Group, any Contributor, and any other person who reviewed or drafted any section of the Disclosure Document. The City Manager or City Attorney may send the Disclosure Document back to the Financing Group for revisions. Upon satisfaction with the Disclosure Document, the City Manager and City Attorney shall execute the certifications required by Section 22.4111(a) of the Municipal Code, in the form attached as Exhibit M, and provide a copy to the Disclosure Group.

Section 5.4. City Auditor and Comptroller Certification. Upon satisfaction with a Disclosure Document described in Section 4.3 or in subsection F. of Section 3.1, the City Auditor and Comptroller shall execute the certification required by 22.0709(b) of the Municipal Code, in the form attached as Exhibit N, and provide a copy to the Disclosure Group. With respect to each CAFR, the City Auditor and Comptroller shall execute the certification required by 22.0709(a) of the Municipal Code, in the form attached as Exhibit O, and provide a copy to the Disclosure Group.

Section 5.5. Submission of Official Statements to City Council for Approval. As part of the docketing process, the Disclosure Group shall submit any Disclosure Document described in Section 4.3 to the City Council for approval together with the certifications from the City Manager, the City Attorney, and the City Auditor and Comptroller 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 not be approved as a consent item. The City Council shall undertake such review as they are advised by the Deputy City Attorney advisor to the City Council appointed pursuant to Section 22.0303 of the Municipal Code and the City's outside disclosure counsel to be appropriate to fulfill their responsibilities under applicable federal and state securities laws.

Section 5.6. Approval of Disclosure Documents other than Official Statements. Any Disclosure Document and accompanying source lists described in Section 4.4 shall be submitted to the Disclosure Group 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.

The Disclosure Group shall critically evaluate the Disclosure Document for accuracy and sufficiency, and have the opportunity to ask questions of the Preparer or any other person who reviewed or drafted any section of the Disclosure Document. The Disclosure Group may send the Disclosure Document back to the Preparer for revisions. The Disclosure Group shall contact the Preparer with any comments or questions on the Disclosure Document or the associated financing by no later than (a) in the case of a Disclosure Document scheduled on the forward calendar referenced in Section 6.3., the later of (i) five (5) business days after receiving such Disclosure Document and (ii) the business day immediately succeeding the next regularly scheduled meeting of the Disclosure Group, or (b) in the case of an unscheduled Disclosure Document, as soon as reasonably practicable.

Article VI *Timelines for Review*

Section 6.1. Timelines 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 be used will vary depending on the type of bonds being offered (e.g., variable rate, fixed rate, auction rate), the security for the bonds (e.g., general obligation, revenue pledge), the purpose for the financing, and other factors unique to each bond financing. Accordingly, the following timeline has been developed to assist the Disclosure Group, each Financing Group, and each bond financing team in developing a bond financing schedule, but is intended only to provide very general guidance in light of the unique characteristics of each bond financing.

Day 270	Disclosure Group notified of the bond financing by inclusion of the financing on the forward calendar referenced in Section 6.3, and identifies a Financing Group
Days 150-270	Financing Group meets with the bond financing team to understand basics of bond financing; initial draft of Disclosure Document is prepared
Day 150	Financing Group distributes information to Contributors and department directors
Day 150	Financing Group distributes information to Human Resources Manager, SDCERS representative, and City Auditor and Comptroller, as may be applicable
Day 130	Deputy City Attorney for Finance and Disclosure transmits Disclosure Document to appropriate litigation attorneys in City Attorney's Office
Days 110-130	Department directors and Contributors discuss Disclosure Document at departmental meetings

002150

Day 100	Contributors submit requested information to Financing Group
Day 90	Human Resources Manager, SDCERS representative and City Attorney representative transmit any requested information to Financing Group
Days 60-90	Financing Group reviews Disclosure Document and all related materials, and transmits to Disclosure Group
Days 40-60	Disclosure Group reviews Disclosure Document and all related materials, and submits to City Manager and City Attorney
Days 30-40	City Manager and City Attorney meet with Disclosure Group
Day 30	City Manager and City Attorney execute required certifications
Day 29	Disclosure Group submits Disclosure Document and related certifications to City Council as part of the docketing process referenced in Section 5.5
Day 15-29	City Council briefed regarding Disclosure Document by Deputy City Attorney advisor to the City Council and the City's outside disclosure counsel
Day 5	City Council approves Disclosure Document
Day 0	Preliminary Official Statement is mailed
Day 0 – Delivery Date (or such later date through which the City is contractually obligated to advise the bond financing team of material events)	Financing Group advises Disclosure Group of (i) any material changes to Preliminary Official Statement to create the final Official Statement and (ii) any material changes to the final Official Statement up to and including the date of delivery of the bonds. In either such event, the Disclosure Group must review and approve the form and content of the material change disclosure and determine whether it is necessary or appropriate to submit the material change disclosure to the City Council for approval.

Section 6.2. Timelines 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 the Disclosure Group and the Preparer in developing a schedule, but is intended only to provide very 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	60 days	ASAP
Disclosure Group makes a determination whether a document is a Disclosure Document	N/A	2 business days
Preparer, Deputy City Attorney for Finance and Disclosure, and the City's outside disclosure counsel identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document	50-60 days	4 business days
Disclosure Document finalized and transmitted to Disclosure Group	25-50 days	4-5 business days
Disclosure Group reviews Disclosure Document and all related materials, and approves Disclosure Document for dissemination	10 days	5-6 business days

Section 6.3. Forward Calendar. The Disclosure Group shall develop a forward calendar that sets forth, to the best judgment of the Disclosure Group, a comprehensive list of Disclosure Documents that are subject to the review and approval of the Disclosure Group over the next twelve months. Such forward calendar shall be revised from time to time, and every effort shall be made to keep such document current. The City Treasurer shall advise the Disclosure Group of all Disclosure Documents originating in Financing Services (being those Disclosure Documents described in subsection A. of Section 3.1, and those Disclosure Documents filed by the City with the NRMSIRs pursuant to continuing disclosure agreements described in subsection C. of Section 3.1) that are expected to be submitted to the Disclosure Group for review and approval over the next twelve months. In addition, the City Treasurer shall advise the Disclosure Group, after soliciting the appropriate information from the Related Entities, of those Disclosure Documents described in subsections F. or G. of Section 3.1 that are expected to be submitted to the Disclosure Group for review and approval over the next twelve months. The City Auditor and Comptroller shall advise the Disclosure Group of the dates that the CAFR, the audited financial statements of the Metropolitan Wastewater Utility, the audited financial statements of the Water Utility, the Disclosure Documents described in subsection B. of Section 3.1, and any other Disclosure Document, are expected to be

submitted to the Disclosure Group for review and approval over the next twelve months. The Deputy City Manager for Finance shall advise the Disclosure Group of the date that the Disclosure Document described in subsection H. of Section 3.1 is expected to be submitted to the Disclosure Group for review and approval over the next twelve months.

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 appointed pursuant to Section 22.0302 of the Municipal Code. New employees shall attend 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, the anonymous and confidential contact information for the Financial Reporting Oversight Board described in Section 9.2, and the contact information for the Deputy City Attorney for Finance and Disclosure. Such training sessions may be conducted by videotape.

B. The determination as to whether or not an employee shall receive such training shall be made by the Deputy City Manager, the City Auditor and Comptroller, or the City Attorney, as appropriate, responsible for such employee. The Disclosure Group may also require training for an employee not specified by any such person.

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 and the Deputy City Attorney designated as an advisor to the City Council pursuant to Section 22.0303 of the Municipal Code, for the Mayor and City Council members.

Article VIII *Document Retention Policies*

Section 8.1. Official Statements.

A. Materials retained. The Disclosure Group 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, the following materials:

1. the printed copy of the Preliminary and final Official Statement (or Preliminary and final Offering Memoranda);
2. the "deemed final" certification provided by a City official to the underwriter of the securities in accordance with paragraph (b)(1) of Rule 15c2-12;

3. the executed copies of the letters, requests, and certifications, the forms of which are attached as Exhibits B-K, and M;
4. the information and related sources referenced in the materials described in 3. above;
5. the bond purchase agreement; and
6. any written certification or opinions executed by a City official relating to disclosure matters, delivered at the time of delivery of the related securities.

B. Materials not retained. The Disclosure Group shall not retain after the date of delivery of the related securities the drafts of any of the materials referenced in subsection A. above.

Section 8.2. Disclosure Documents other than Official Statements. The Disclosure Group 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.

The Disclosure Group 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. Financial Reporting Oversight Board (FROB) Contact Information. The City shall set up a confidential and anonymous system so that City employees can contact the FROB with any concerns about accounting or financial disclosure issues if they prefer not to contact the Deputy City Attorney for Finance and Disclosure. The FROB will create a procedure for contacting them in an anonymous and confidential manner.

002154

Article X
Annual Review

Section 10.1. Annual Review. The Disclosure Group shall conduct an annual evaluation of these Disclosure Controls and Procedures and prepare an annual report, in accordance with the procedures and the dates established by Section 22.4106 of the Municipal Code.

L:\BLAKE\DPWG\Disclosure Controls (4th Draft) 9 27 05.doc

002155

Exhibits

- A. List of Related Entities
 - B. Related Entity Letter
 - C. Request for Information from Contributors
 - D. Transmittal by Department Director or Deputy City Manger to Financing Group
 - E. Underwriter's/Financial Advisor's Confidentiality Agreement
 - F. Letter from Human Resources Manager
 - G. Letter from SDCERS Representative
 - H. Letter from City Attorney's Office Regarding Litigation
 - I. Letter from City Auditor and Comptroller
 - J. Municipal Finance Disclosure Reference Materials
 - K. Transmittal of Official Statement by Financing Group to Disclosure Group
 - L. Transmittal of Official Statement by Disclosure Group to City Manager and City Attorney
 - M. Certifications by City Attorney and City Manager
 - N. Certification by City Auditor and Comptroller Regarding Official Statements
 - O. Certification by City Auditor and Comptroller Regarding CAFR
-

Related Entities

Assessment District 4030 (Otay Mesa Industrial Park)

Assessment District 4096 (Piper Ranch Business Park)

City of San Diego/MTDB Authority

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

Redevelopment Agency of the City of San Diego

San Diego Facilities and Equipment Leasing Corporation

San Diego Housing Commission

San Diego Open Space Park District No. 1

Related Entity Letter

Pursuant to Ordinance No. O-19320 (the "Ordinance"), 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 Ordinance). 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. 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 Financing Services Division of the City Treasurer's Office 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 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 in all ways 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.

002159 Transmittal by Department Director
or Deputy City Manager
to Financing Group

I am the [Department Director/Deputy City Manager] responsible for reviewing the portion of the Disclosure Document that is attached. This disclosure has been reviewed by me and by each identified Contributor, and was discussed at a meeting of the _____ department. I have also attached copies of any materials that were a source for all or a portion of this disclosure. I have reviewed and complied with the procedures set forth in subsection C. of Section 4.3 of the Disclosure Controls and Procedures. I have attended the federal securities law training seminar conducted by the City's outside disclosure counsel. 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 promptly advise the Financing Group.

[Department director/Deputy City Manager]

Attachments

- reviewed disclosure
- source materials
- list of Contributors

[Underwriter's/Financial Advisor's] Confidentiality Agreement

The [Underwriter/Financial Advisor] acknowledges, represents and warrants to the City that in connection with the preparation for and offering and sale of the Bonds, the [Underwriter/Financial Advisor], its agents, employees and counsel involved in the offering have been and will be provided non-public information by or on behalf of the City, including but not limited to drafts of the Preliminary Official Statement and Official Statement; the [Underwriter/Financial Advisor], its agents, employees and counsel involved in the offering have been and will be provided such information for the purpose of the offering and sale of the Bonds and not for any other purpose; and the Preliminary Official Statement and Official Statement, and any supplements or amendments thereto in accordance with the provisions of the Bond Purchase Agreement, constitute the only documents authorized by the City for dissemination of such information.

The [Underwriter/Financial Advisor] covenants and agrees to protect and maintain the confidentiality of such information and to take appropriate steps to assure that its agents, employees and counsel involved in the offering will not make use of such information for any purpose other than the offer and sale of the Bonds.

Notwithstanding the preceding two paragraphs, the [Underwriter/Financial Advisor] has the right to use or to disclose any information: (i) which is, at the time of disclosure, generally known or available to the public (other than as a result of a breach of this Agreement); (ii) which becomes, at a later date, generally known or available to the public through no fault of the [Underwriter/Financial Advisor] and then only after said later date; (iii) which is disclosed to the [Underwriter/Financial Advisor] in good faith by a third party who, to [Underwriter/Financial Advisor]'s knowledge, has an independent right to such information and is under no known obligation not to disclose it to the [Underwriter/Financial Advisor]; (iv) which is possessed by the [Underwriter/Financial Advisor], as evidenced by such [Underwriter/Financial Advisor]'s written or other tangible evidence, before receipt thereof from the City; (v) to the extent expressly required by any governmental, judicial, supervisory or regulatory authorities pursuant to federal or state law, subpoena or similar legislative, administrative or judicial process; (vi) in connection with the offering and sale of the Bonds if the [Underwriter/Financial Advisor] or its counsel determines that confidential information is material (within the meaning of the federal securities laws) and therefore must be disclosed in connection with the offering and sale of the Bonds, provided, that the [Underwriter/Financial Advisor] shall provide prior written notice thereof to the City (to the extent permitted by law), including a copy of the proposed disclosure or other use, and shall have obtained the City's written consent to such use if the offering has not commenced; or (vii) the use of which is consented to by the express prior written consent of the City.

The [Underwriter/Financial Advisor] shall return all confidential material to the City when the bond transaction is completed or their services are otherwise completed.

Letter from the Human Resources Manager

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum] that relates to employee relations, collective bargaining, pensions and benefits, and litigation concerning current or former employees. I have also read and understand the directions that were provided to me in the letter from the Financing Group. 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. [No information concerning the above categories was included./I have no comments./My comments are attached.]

Human Resources Manager

Letter from SDCERS Representative

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum] that relates to pension benefits and other retirement benefits, pension plan funding, and litigation concerning SDCERS. I have also read and understand the directions that were provided to me in the letter from the Financing Group. 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. [No information concerning the above categories was included./I have no comments./My comments are attached.]

SDCERS Representative

Letter from City Attorney's Office Regarding Litigation

Financing Group:

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, or the power of the Issuer to issue, the Bonds, (ii) any litigation the potential exposure for which is greater than \$5,000,000. 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 Financing Group.

Deputy City Attorney for Finance and
Disclosure

Letter from City Auditor and Comptroller

Financing Group:

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 City Auditor and Comptroller. 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.]

City Auditor and Comptroller

Municipal Finance Disclosure Reference Materials

1. Public Finance Criteria, Standard & Poor's (see www.standardandpoors.com, click on "Criteria and Definitions" under "Credit Ratings").
2. Questions to Ask Before You Approve a Bond Issue: A Pocket Guide for Elected and Other Public Officials, National League of Cities; National Association of Counties; National Association of State Auditors, Comptrollers, and Treasurers; and the Government Finance Officers Association, Dec. 1996
3. Disclosure Roles of Counsel in State and Local Government Securities Offerings, American Bar Association, State and Local Government Law, and National Association of Bond Lawyers, 1995.
4. Recommended Best Practices in Disclosure, National Federation of Municipal Analysts, 2004.
5. Making Good Disclosure: The Role and Responsibilities of State and Local Officials Under the Federal Securities Laws, Government Finance Officers Association, 2001.
6. Disclosure Guidelines for State and Local Government Securities, Government Finance Officers Association, 1991.

**Transmittal of Official
Statement by Financing Group
to Disclosure Group**

Disclosure Group:

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 the Disclosure Group.

Representative of Financing Group

[list names of members of Financing Group]

Transmittal of Official
Statement by Disclosure Group
To City Manager and City Attorney

City Manager and City Attorney:

The Disclosure Group 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 the Disclosure Group, the Disclosure Document is in final form and the Disclosure Group has complied with the Disclosure Controls and Procedures.

Representative of Disclosure Group

[list names of members of Disclosure Group]

Certifications by City Attorney and City Manager

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, the Disclosure Group, 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 Manager/City Attorney

Certification by City Auditor and Comptroller Regarding Official Statements

City Council:

I have reviewed the [description of Official Statement or Offering Memorandum] and compared the City Financial Statements 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 City Auditor and Comptroller. 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 Financial Statements 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 Financial Statements.

City Auditor and Comptroller

Certification by City Auditor and Comptroller 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.

City Auditor and Comptroller

002171



DAVID B. WESCOE
Retirement Administrator

January 31, 2007

Jay Goldstone
Chief Financial Officer
The City of San Diego
202 C Street, M.S. 9A
San Diego, CA 92101

RE: Status of Kroll Remediation Items Involving SDCERS

Dear Jay:

We are providing you with an update regarding the remediation items contained in Kroll's August 8, 2006 report identified by your tracking number.

97. The Audit Committee concurs with actions being taken by the Retirement Administrator to establish a financial reporting function within SDCERS. (Page M-9)

My letter to Lynn Turner, dated July 12, 2006 (Attachment 1), describes SDCERS' Financial Reporting and Administration Division, which has been expanded to include four accountants, one management analyst and three support staff—the most experienced and talented financial team in SDCERS' history.

98. SDCERS should develop a comprehensive methodology to identify, track, and recover overpayments made to deceased pensioners. (Page M-25)

In January 2005, SDCERS' Benefits Administration Division implemented a comprehensive review of deceased Member and Beneficiary accounts. This review includes identifying, tracking and recovering overpayments to deceased Members and Beneficiaries. In September 2006, SDCERS improved this process by implementing monthly social security number "death matches." As a result, outstanding overpayments have all but been eliminated.

email: dwescoe@sandiego.gov • website: www.sdcers.org

401 B Street • Suite 400 • MS 840 • San Diego, CA 92101 • tel: 619.525.3600 • fax: 619.595.0357

002172

99. SDCERS should re-bid the contract for the performance of its actuarial valuation every five years and that the actuary not be engaged for more than two five-year terms. (Pages 260 & M-12)

In 2005, SDCERS contracted with Cheiron for valuation years ending June 30, 2005 through June 30, 2007. While the contract provides for a five-year automatic extension, it may be terminated by SDCERS without cause at any time.

100. SDCERS should require its investment consultants and fund managers to annually complete a Vendor Disclosure Form that calls for disclosure of all information regarding remuneration paid or received related to funds managed for SDCERS, as well as its business dealings with the SDCERS investment consultant. (Pages 258 & M-10)

SDCERS' investment consultant discloses any relationship where they receive remuneration from investment managers. In addition, SDCERS requires disclosure from its investment managers of any soft dollar arrangements involving SDCERS' assets.

101. Investment consultants and managers should be advised that a failure or delay in filing the annual disclosure will result in a penalty, including termination of services. (Pages 258 & M-10)

Failure by any firm to disclose the information outlined in response to item 100 above can result in penalties up to and including termination of their contract with SDCERS.

102. The Retirement Administrator and CFO of SDCERS should annually include in the SDCERS' CAFR a signed management report on the financial statements and disclosures which include a statement of SDCERS' responsibility for establishing and maintaining an effective system of internal control over financial reporting and disclosures; a statement setting forth SDCERS' assessment of the effectiveness of the internal controls; a statement that based on their knowledge, the CAFR does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the CAFR not misleading; and a statement that the financial statement and other information included in the CAFR fairly present in all material respects the net assets and activities of SDCERS for the period presented. (Pages 257 & M-9)

We agree with this recommendation, and we intend to include the report and statements in SDCERS' 2006 CAFR.

112. To address Board authority and pursue administrative excellence, the controlling documents should be reviewed and, if necessary, modified to ensure that the Board has the necessary tools available to effectively and efficiently carry out its fiduciary duties. (Page M-25)

The Navigant Consulting report, issued on January 20, 2006 (seven months prior to the issuance of Kroll's report), contained numerous recommendations involving SDCERS' corporate governance, actuarial soundness, benefit payments, staff and internal audit. (A copy of Navigant's report is available on-line at www.sdcers.com.) An ad-hoc SDCERS Board Committee was established in January 2006 to review Navigant's recommendations, and the Committee issued its final report on November 3, 2006. (Attachment 2)

Over the next several months, SDCERS' Business and Governance Committee, together with our General Counsel and Chief Compliance Officer, will review all existing SDCERS policies and applicable City ordinances to ensure that all SDCERS policies and City laws reflect best practices in the public pension area.

113. The controlling legal documents must make the Board's authority clear related to investment policy, actuarial assumptions, system budget and policies, retention of outside professionals, and administrative rules. (Page M-25)

They do.

114. The chief accounting officer of SDCERS should have adequate prior experience with investment operations and financial reporting and disclosures. (Pages 258 & M-10)

As discussed in item 97 above, effective on July 10, 2006, the CFO position was elevated to report directly to SDCERS' CEO. The current CFO, Bob Wilson, has a BS in accounting and has had a long career with the City of San Diego's Auditor and Comptroller Department prior to his appointment as Assistant Administrator at SDCERS on November 1, 2005. Mr. Wilson's resume is attached to the July 12, 2006 letter. (Attachment 1)

119. SDCERS should have standing committees to address board governance, compensation and evaluation of the Retirement Administrator, investments, and an audit and compliance committee. (Pages 256 & M-9).

SDCERS' standing committees include Investments, Business and Governance, Executive, Audit and Disability. Sections 3.00 through 3.04 of SDCERS' Board Rules are enclosed. (Attachment 3)

120. SDCERS should adopt a formal charter for each committee which should be updated no less frequent than every three years. Pages 257 & M-9)

The Audit Committee's charter is attached. (Attachment 4) Charters are being drafted for the other Board standing committees, and their responsibilities are outlined in SDCERS' Board Rules.

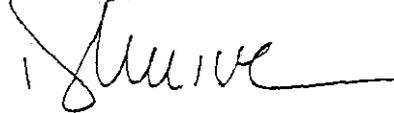
002174

121. SDCERS must be free to retain its own independent legal counsel. (Pages 260 & M-12)

It is. SDCERS vigorously asserted its right to retain its own independent counsel in litigation with the City Attorney of San Diego and prevailed. On November 6, 2006, SDCERS hired Christopher W. Waddell, formerly the General Counsel of CalSTRS, as its new General Counsel.

I hope these answers are satisfactory. If you have additional questions or need any other information, please let me know.

Sincerely,



David B. Wescoe

Enclosures

cc: Council President Scott Peters
Julie Dubick, Mayor's Office
John Dyer, CPA

002175



DAVID B. WESCOE
Retirement Administrator

July 12, 2006

Lynn Turner
10901 West 120 Avenue
Suite 335
Broomfield, CO 80021

VIA DHL

Dear Lynn:

I am writing to follow-up to our recent telephone call discussing Kroll's forthcoming report ("Report"), which will include several "remediation" recommendations concerning SDCERS. Because SDCERS' Board has addressed many, if not all, of the items that you mentioned, I wanted to confirm the Board's actions so that they can be reflected in the Report.

As background, in August 2005, SDCERS' Board unanimously approved the retention, through special fiduciary counsel, of Navigant Consulting Inc. ("Navigant") to conduct an independent investigation. Navigant issued its report on January 20, 2006, and a copy is available on SDCERS' web site: http://www.sdcers.org/forms_newsevents.jsp.

Portions of Navigant's Report focused on SDCERS' corporate governance. After reviewing Navigant's report, the Board voted to modify and improve our governance structure significantly by:

- Consolidating the Business and Procedures Committee with the Rules Committee to form a single, more effective Business and Governance Committee;
- Reconfiguring the Audit Committee to be comprised of two Board members and three independent, financially experienced non-Board member citizens of San Diego. One of the three independent members will serve as Committee Chair, and the SDCERS' Board President will serve on the Committee *ex-officio*. This Committee is being reconstituted now;

email: dwescoe@sandiego.gov • website: www.sdcers.org

401 B Street • Suite 400 • MS 840 • San Diego, CA 92101 • tel: 619.525.3600 • fax: 619.595.0357

002176

- Hiring a full-time Internal Auditor staff position that will report directly to the Audit Committee. This will be the first time in SDCERS' history that an internal auditor position will report directly to a truly independent Audit Committee;
- Creating a Compliance Officer staff position reporting directly to the Board; and
- Developing a training program to provide Board members with exposure to and knowledge in fiduciary responsibility, Board governance, conflicts of interest, actuarial science, prudent investment policies, SDCERS' operations and finance, and benefit administration.

These are significant steps by SDCERS and reflect the Board's commitment to a "best practices" approach to corporate governance.

You and I also discussed SDCERS' Chief Financial Officer (CFO) position. Most recently, this position was held by Patrick Lane, who reports to Bob Wilson, SDCERS' Assistant Administrator. Effective July 10th, Bob Wilson became our CFO with responsibility for all financial management and reporting. This will elevate the CFO position by making it a direct report to the CEO, and it will expand our financial management organization. (Bob, who has a BS in accounting, had a long and distinguished career with the City of San Diego's Auditor and Comptroller Department prior to his appointment as Assistant Administrator here on November 1, 2005.)

In addition, the Financial Reporting and Administration division has been expanded to include four accountants, one management analyst and three support staff. The accountants include Sara Jimenez, who has a BS in Accounting and an MA in Information Systems and is a CPA and Certified Internal Auditor, with over 20 years of accounting and financial management experience, and Stella Kuzukian, who has a BS in Accounting and a certification in Quality Business Practices, with over 15 years of experience, and two positions to be filled. Sussan Johnsen, our management analyst, has two Masters degrees, one in public administration and one in business administration, and over 20 years of financial and budget administration experience. The support staff members include Denise Zent, who has over 18 years operating day-to-day pension payroll administration, Danielle Esquivel, who has over 13 years of experience in accounting operations, and one position to be filled.

This is the most experienced and talented financial team in SDCERS' history.

During our conversation, you also suggested that it would be a good idea if SDCERS' financial statements were certified by its CEO and CFO. Peter Preovolos, our Board President, and I agree, and we plan to institute the practice as soon as possible.

Lynn Turner

July 12, 2006

Page 3 002177

As these actions make clear, SDCERS is committed to, and well down the path toward, having a corporate governance structure as good as or better than any public company we might invest in.

If you have questions about the issues we discussed or about SDCERS, please call me.

Sincerely,



David B. Wescoe

cc: SDCERS Board of Administration
Honorable Mayor Jerry Sanders
Council President Scott Peters
Ronne Froman
Jay Goldstone

Bob Wilson

B.S. Accounting, San Diego St. University, December 1976

City of San Diego. Auditor and Comptroller Department
March 1978-October. 2005

1978 - 1981: Audit Division, Internal Auditor

Performed internal audits in areas including financial statements; departmental operations; efficiency improvement and best practices; payroll and all payables and special investigations.

1981 - 1985: Financial Systems Division, Systems Accountant

Partnered with computer programmers to develop and maintain financial computer systems, including general ledger, payroll, accounts receivable, accounts payable. Documented existing systems, developed requirements and system design, performed system tests through implementation, trained end users.

1985 - 1995: Accounting Division, Accounting Operations Manager

Managed general accounting operations section; responsible for budgetary control and expenditure review, expenditure and revenue projections. Coordinated staff for compilation of City of San Diego CAFR, FY1986 - FY1994.

1995 - October, 2005: Financial Systems Division, Financial Systems Division Manager

Managed Division staff and contracted San Diego Data Processing Corporation staff. Responsible for maintenance and development of Auditor Department financial systems. Coordinated review and development of computer systems of other City departments when fiscal components involved.

San Diego City Employees Retirement System (SDCERS).
November. 2005 - present

Joined SDCERS as Assistant Retirement Administrator, to oversee functions including financial reporting, information systems and operations. Led management team and staff in absence of Retirement Administrator, January through April, 2006. Coordinated Board agenda development; oversaw daily operations and current projects; liaison to Board President and Board members.

EXPERIENCE

Managing accountant with 20+ years of accounting and management experience. Hands-on manager with expertise in accounting, auditing, fiscal management, financial reporting, computer systems, and system development and testing. Strong leadership, analytical, and technical skills.

CITY OF SAN DIEGO – Auditor and Comptroller Department
June 17, 1985 thru Present

Retirement Accountant

- Prepare monthly financial statements for Retirement Board.
- Prepare annual Comprehensive Annual Financial Report (CAFR) and required supplemental statements and schedules.
- Prepare annual State Controller's Report.
- Compute monthly cash request.
- Supervise pension payroll staff.
- Review and approve payment requests.
- Responded to requests for public information.
- Provide support to SDCERS management & staff.

Payment Services Division – Accounts Payable/Support Services Manager

- Supervised Accounts Payable (AP) and Support Services sections. Both sections required continuous support and decision-making.
- Re-organized the AP section. This included the re-engineering of processing invoices which has resulted in invoice being paid quicker, reduced staff stress, more discounts earned, and overall pulled the section to work together as a team, instead of just individuals who were part of a section.
- Ensured all vendor payments were processed accurately and timely, available vendor discounts were maximized, and customer requests were addressed and followed-up timely.
- Review bi-weekly payroll for accuracy and completeness.
- Coordinated ten interview panels (within 2 years), recommended staff to hire, and instilled disciplinary action.
- Coordinated and participated in staff training.
- Responded to requests for public information.
- Responded to outside auditor inquiries regarding AP and citywide vendor payments.

Audit Division – Internal Audit Manager (highest position held)

- Supervised six internal auditors responsible for performing internal (departmental), compliance, financial, required (fiscal year end cash counts and physical inventories), special investigations, and follow-up audits.
 - Reviewed staff audit programs, audit work papers, and audit reports to ensure sufficient, relevant testing was performed to verify appropriate controls were in place to safeguard assets, verify findings, and compliance with pertinent rules, regulations, and accounting pronouncements.
 - Prepared audit programs, planned and performed departmental, financial, and compliance audits, including Water Utilities Department (now Water and MWWD), Airports, and Waste Disposal Enterprise Funds. Lead Auditor in the financial statement audit of the Airports Department. Duties included developing worksheet applications and schedules, researching and applying appropriate accounting standards, analytical procedures, statistical sampling tests, documenting findings, formulating recommendations, and preparing audit reports.
-

002182 Systems Division – Principal Accountant (highest position held)

- Department project manager responsible for the successful testing and implementation of the new pension/payroll system (MBS). Coordinated the efforts of systems programmers, staff, end users, and the Retirement department staff. Responsibilities included development of test plans, conversion data testing, and ensuring interfaces with Auditor systems functioned properly and transmitted accurate and complete data.
- Project leader on teams evaluating new City systems and financial system enhancements including an Equipment Management System (EMS – vehicle and stock inventory management system), the City's first client-server financial system, automation of annual uniform and tool allowance payments to more than 2,000 employees, garnishments payments, and system modifications for the outsourcing of the City's 401K and SPSP (pension plan) to American Express. Responsible for developing test plans, sample test data, and reviewing test results to ensure system modifications functioned as designed.
- Responsible for ensuring proper audit trails were provided during the conversion of existing data in legacy system to new systems. Analyzed errors detected during production processing to determine the reason for the problem and made appropriate and timely decisions to correct these errors. Coordinated programming changes with programmer analysts and tested changes prior to their implementation.
- Prepared operating procedures and conducted several training sessions including for the following: FAMIS (fixed asset system), Attachments, Garnishments and Assignments, and Annual Uniform and Tool Allowance payments.

Accounting Division – Accountant II (highest position held)

- Lead Water Utilities accountant responsible for the training of new staff members, preparing the CAFR and departmental financial statements for the then known as Water and Sewer funds (now MWWD), processing of accounting documents, and prepared various types of account analysis and reconciliations.
- Responsible for monitoring assigned CIP funds. Duties included evaluating and analyzing the financial status of these funds, preparing the related CAFRs, processing accounting documents, preparing spreadsheets supporting the State TransNet/Gas Tax transfer to the City General fund, verifying compliance with the TransNet Maintenance of Efforts requirements.
- Coordinated the updating of the AMRIS Procedure Manual. Duties included updating existing procedures, developing new procedures, and coordinating review sessions with the Accounting Division principals.
- Assisted independent auditors during the CAFR audits.
- Prepared financial statements for Open Space, Planetarium, Stadium and Redevelopment Agencies.

EDUCATION

San Diego State University, May 1985
B.S. Business Administration, Accounting

Certified Public Accountant, December 1993

San Diego State University, May 1997
M.S. Business Administration, Information Systems

Certified Internal Auditor, May 2002

OBJECTIVE: To provide background on my experience and education to the SDCERS Retirement Administrator.

EDUCATION:

- San Diego State University - B. S. Degree in Business Administration – Accounting.
- San Diego State University - Quality Business Practices Program professional certification.

SUMMARY OF EXPERIENCE:

City of San Diego - Office of the City Auditor and Comptroller

SDCERS Pension Accountant

10/05-Present

- Perform professional accounting duties, including pension general ledger maintenance, account/fund reconciliations, data compilation, analysis and research.
- Review pension expenditures and fund conditions.
- Perform Pension Gold System functionality testing for pension payroll related processes.
- Supervise and coordinate the Pension Payroll process, staff assignments and related activities.

Financial Systems Accountant

09/97 – 9/00

- Project lead for new information systems and enhancement projects, including the coordination of staff efforts for the Auditor's Office and other City departments.
- Responsible for understanding system functionality and provided user support and training for the Auditor's Office major financial /accounting information systems (Accounts Payable, Accounts Receivable, Fixed Assets, General Ledger, and Citywide Payroll) and interfaces.
- Developed system requirements, established proper audit trails and internal controls for new systems.

Internal Auditor

01/88 – 09/97

- Performed complex and sensitive financial and operational/performance audits of City departments, including contract reviews, confidential investigations, special studies, and participated on City information system development teams to assess internal controls.
- Reviewed, evaluated, and analyzed operational processes and performed budget and cost analysis of City departments, programs and contracts. Prepared reports with findings and recommendations.
- Participated on cross-functional and multi-jurisdictional teams to ensure fiscal accountability, efficiency and operational improvements.

002184

STELLA KUZUKIAN

Accountant III

6/26/06

City of San Diego - Water Department - Management Analyst - Special Projects 9/00 - 9/05

Strategic Business Plan Coordinator - Water Policy & Strategic Planning Division 02/05 - 9/05

- Developed and implemented the Water Department Strategic Business Plan, including develop, monitor, and report on department performance measures. Prepared reports as needed.
- Coordinated the annual American Water Works Association Performance Indicator process, including research and analysis of inter-departmental and inter-agency benchmarking efforts.
- Supported departmental optimization and process improvement processes.
- Coordinated project efforts with Department and Citywide staff at all levels of the organization.

Water Reuse Study Administrative Manager - Water Policy & Strategic Planning Division

3/04 - 01/05

- Managed and provided public involvement activity oversight for a comprehensive, impartial, and science-based review of recycled water opportunities.
- Responsible for Study cost analysis, expenditure monitoring and reporting, including writing and monitoring grant applications and awards for the Study.
- Developed and administered multiple professional services contracts.
- Coordinated public involvement and outreach events regarding recycled water, including educational presentations to business organizations and community groups.

Optimization Program Project Manager - Water Operations Division

12/01 - 02/04

- Managed the development of an optimization program, including historical expenditure analysis, expenditure projections, and performance measures and process improvement development.
- Administered a \$1.3 million contract for professional services, which included the managing and monitoring of contract tasks, scope of work, schedules/timelines, costs, contract compliance and status reports to management.
- Conducted presentations to department management, committees and commissions. Prepared reports as needed.
- Coordinated and facilitated the Management Committee and sub-committees' activities.

Acting Supervising Management Analyst - Water Operations Division

10/00 - 11/01

- Responsible for the administration and the personnel management of the Administrative Support section. Directly and indirectly overseeing and supervising 24 employees in budget monitoring, special projects, administrative and clerical support for a Division with a \$70 million budget.
- Responsible for budget development, expenditure oversight and reporting for the Administrative Support Program.
- Performed and analyzed complex financial projects and confidential personnel assignments.
- Coordinated personnel issues with Human Resources Office, including new classification development, disciplinary actions, hiring practices and employee performance plans and reviews.

**SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
COMMITTEE REPORT**

DATE: November 3, 2006
TO: Business and Governance Committee
FROM: Mark Sullivan, Chair, Navigant Report Committee
SUBJECT: Navigant Report Committee – Final Report

BACKGROUND

On August 30, 2005, the Board of Administration of the San Diego City Employees' Retirement System (SDCERS) retained Navigant Consulting, Inc. (Navigant) to conduct an independent investigation into allegations of illegal or wrongful acts by previous SDCERS Board members.

Navigant, led by Managing Director Amanda Massucci, was charged with making a comprehensive review of prior board actions and practices. Their work was overseen by the law firm of Reish, Luftman, Reicher & Cohen and was conducted independent of direction from the SDCERS Board and staff. Navigant was given complete access to all documents and individuals relevant to the inquiry.

The Navigant delivered their report, on-time and under budget, simultaneously to the Board, SDCERS' staff and the public on January 20, 2006. The Report concluded that there had been a breach of fiduciary duty by former SDCERS Board members by approving the 1996 Manager's Proposal and 2002 Contribution Agreement presented by the City of San Diego. Reish Luftman Reicher & Cohen provided legal analysis of Navigant's findings and concluded that approval of these agreements also violated state and municipal law.

The Board accepted the Report, appointed a special ad-hoc Navigant Report Committee NRC to evaluate each of the recommendations, and thereafter adopted and implemented new policies, procedures and rules within its jurisdiction to strengthen SDCERS' operations, administration and oversight of its assets.

COMMITTEE MEETINGS

The NRC led by chairman Mark Sullivan, met for seven months from February to August 2006 to review the Report findings, recommendations and major issues. In an effort to improve transparency and foster public participation in the meetings, special

Business and Governance Committee
November 3, 2006

non-voting, stakeholder representative positions were created for interested outside parties. In total, there were 10 stakeholder representatives registered for the NRC including:

- Julie Dubick City of San Diego, Mayor's Office
- Michael Aguirre City of San Diego, City Attorney's Office
- Betsy Kinsley City of San Diego, City Council President's Office
- Woo Jin Shim City of San Diego, City Council President's Office
- Penni Takade City of San Diego, Independent Budget Analyst Office
- Judie Italiano Municipal Employees Association (MEA)
- Ed Lehman AFSCME (Local 127)
- Virginia Silverman City of San Diego Retired Employees Association
- James Clem Retired Fire and Police Officers' Association
- Lani Lutar San Diego County Taxpayers' Association

Stakeholder representatives were actively included in committee discussions on agenda items and were given the opportunity to make presentations of their own on any noticed topic. The inclusion of stakeholder representatives in the review and exploration process of the myriad topics covered by the report and the committee was particularly successful as it brought additional perspectives and historical knowledge to the often in-depth discussions.

REPORT RECOMMENDATIONS

Navigant's recommendations for improvement were grouped into the five following areas:

1. Governance and Oversight
2. Actuarial Soundness
3. Tax Compliance
4. Training and Education
5. Institutional Independence

On the following pages, you will find each of the 47 recommendations made in the Report with a summary of actions taken for each recommendation. Note that some recommendations were outside the purview of the SDCERS Board and have subsequently been forwarded to the Mayor and City Council for their consideration and action.

NAVIGANT REPORT RECOMMENDATION PROGRESS REPORT

RECOMMENDATION	ACTION TAKEN/NOTES	STATUS
GOVERNANCE & OVERSIGHT		
N1 Review and update Board Rules and Trustee Handbook annually. (Page 110 of 115)	* Addressed at April 06 NRC Mtg. Annual review to be conducted by General Counsel.	Completed
N2a It is also important for the Board to understand when Board members should recuse themselves from matters where a Board member's constituency or the Board member individually, might be affected by actions of the Board (Page 110 of 115)	* General Counsel and/or Compliance Officer to prepare recusal policy for Board adoption that details the circumstances under which a Board Member should recuse themselves from voting, but not including matters that affect the Board Member's constituency which is why they were appointed to the Board to represent the interests of their constituency.	Dec '06
N2b Legal counsel should assist in the determination of conflicts and development of protocol for recommendation 2a. (Page 110 of 115)	* Addressed by Board adoption of recusal policy in N2a	Dec '06
N3a Board members and Executive staff should set an "Ethical Tone at the Top" (Page 110 of 115)	* Addressed by Board adoption of Code of Conduct in N3b	Dec '06
N3b Adopt a "common English" statement of ethical standards and communicate it to the organization frequently. (Page 110 of 115)	* Created Compliance Officer position (4/06), General Counsel to present Board Rules [1.10 & 1.20] to B&G Committee, then prepare a common English Code of Conduct for the Board's consideration.	Dec '06
N4 Re-evaluate Board committee structure to include: <ul style="list-style-type: none"> ♦ Strategic Planning ♦ Funding of the pension plan to be based on sound actuarial principles ♦ Investment of pension funds ♦ Distribution of pension funds in accordance with contractual agreements ♦ Assessment of performance of Administrator and approval of executive compensation ♦ Assessment of performance of other functions and executive staff ♦ Financial reporting, internal controls, and external audit (Page 111 of 115)	Redesign of committees ADOPTED by the Board April 21, 2006. Board adopted amendments to Board Rule [3.00], with corrections. Staff added corrections and released final rules (Sep'06).	Completed
N5 Create Governance Committee / to conduct annual self-assessment of Board members, Board effectiveness, assignment of Board members to committees, orientation of new Board members, determine need for specific skill training of Board members, and conduct discussions with outgoing Board members on effectiveness of Board (Page 111 of 115)	* B&G Committee was created and its jurisdiction established in Board Rule [3.02]. The implementation of this recommendation should be addressed by the Board President (BP) and its B&G Committee as follows: to conduct annual self-assessment of Board members (B&G); Board effectiveness (B&G); assignment of Board members to committees (BP); orientation of new Board members (B&G); determine specific skill training of Board members (B&G); and conduct discussions with outgoing Board members on effectiveness of Board (B&G).	Ongoing
N6 Establish protocol for the Board and/or committees to receive direct reports from executive staff (Page 111 of 115)	* This recommendation related primarily to the actions surrounding the adoption of MP1, a protocol for Executive Staff reporting to the Board was incorporated in the implementation of the new Committees.	Completed

2187

NAVIGANT REPORT RECOMMENDATION PROGRESS REPORT

002188

RECOMMENDATION	ACTION TAKEN / NOTES	STATUS
N7 Establish an open invitation and responsibility to executive staff to bring any concerns they have directly to the Board (Page 111 of 115)	After the Navigant report was completed, an invitation was extended to Exec staff by Board President. The Board has requested staff to make regular update reports in their monthly meetings and to draft whistleblower provisions in the Code of Conduct.	Completed
N10 Board should assess a need for a "facilitator" to evaluate the effectiveness of the Board in its working relationships within the Board and as it relates to others externally (Page 112 of 115)	The Board's Executive Committee should consider as part of their work plan [committee charter]; whether this quality control task is already included in its responsibilities or should be added to their charter.	Ongoing
N11 Strengthen process for issues management and resolution to ensure identification, discussion, analysis and resolution of issues in a manner that is a) transparent, b) clearly documented and c) legal (Page 112 of 115)	Creation of new Board Committees implements the first component of this recommendation. The second part is the development of a Board decision-making process which includes the creation of the monthly milestone report which tracks all Board requests and staff action on those requests.	Completed
N13 General Counsel or Compliance Officer should establish a document retention policy to be adopted by the Board and reviewed periodically (Page 113 of 115)	* Resolution passed re: Retention of Member Files 10-18-02, Resolution passed re: Retention of Disability Files 10-18-02, EDMS project requires establishment of document retention policies for all documents. General Counsel in conjunction with staff will prepare a document retention policy for the Board's consideration (part of GC work plan 2006-2007).	Ongoing
N14 Designate a member of executive staff, perhaps General Counsel, as Compliance Officer to assess and report to Board compliance with critical policies and procedures (Page 113 of 115)	A Board Rule amendment was adopted for the Compliance Officer reporting to the Board through the B&G Committee. Board Rule adopted also reserves the right to have the Compliance Officer be a separate position from the General Counsel.	Completed
N17a Board should consider becoming more involved in hiring of future employees and hiring executive staff without prior City employment (Administrator, Asst Administrator, General Counsel, CIO) (Page 114 of 115)	Board directed EFL to expand search for Administrator outside of City of San Diego, new Administrator hired from private sector. General Counsel search was also a nationwide search. New General Counsel was hired from outside of San Diego.	Completed
N17b Board should consider a succession plan for CIO position currently held by employee participating in DROP program (Page 114 of 115)	Recommendation accepted by Administrator, plan in progress.	Completed
R5a The Board should require that the SDCERS general counsel report directly to the Board rather than to the Retirement Administrator. (Page 126 of 127)	The General Counsel has an ethical obligation as a licensed professional, under the State Bar, to the Board as the highest level of authority within their client entity, in this case the System. Therefore the Board felt it was appropriate for organizational effectiveness for the General Counsel to report to the Administrator.	Completed
R5b The Board should conduct formal annual reviews of the Retirement Administrator and General Counsel and annually set their compensation. (Page 126 of 127)	Approved at April 06 NRC and Board Mtgs, Board Rule [3.03] was changed to reflect this new responsibility of the Board.	Completed

NAVIGANT REPORT RECOMMENDATION PROGRESS REPORT

012189

RECOMMENDATION	ACTION TAKEN/NOTES	STATUS
R10 Assessment of Other Issues. To the extent legal conclusions were not expressed in the Report arising out of facts developed by Navigant Consulting in its investigation, the Board should consider what steps, if any, should be taken with respect thereto. (Page 127 of 127)	Board will conduct self-assessment as part of the implementation of recommendation #N5 and engage outside experts when dealing with complex issues as identified in recommendation #N12.	Completed
ACTUARIAL SOUNDNESS		
N15 Develop a reasonable definition of Actuarial Soundness and an approach for periodic assessment of definition as it applies to SDCERS (Page 113 of 115)	* There is no industry standard or requirement for defining the concept of Actuarial Soundness. SDCERS' actuary and fiduciary counsel have opined that the Board should pursue a formal funding policy (elements to ensure actuarial soundness) once it concludes its Actuarial Funding Study.	Ongoing
N16a Consider treatment of Disability benefit payments in connection with Corbett settlement to include: should disability payments be impacted by Corbett (Page 114 of 115)	The SDCERS Board voted to suspend the practice (May'06) and the question of extending the benefit was referred to the Mayor and the City Council (date of letter)	Completed
N16b Should current practice of adding 10% be altered (are muni code changes necessary?) (Page 114 of 115)	The SDCERS Board voted to suspend the practice (May'06) and the question of extending the benefit was referred to the Mayor and the City Council (date of letter)	Completed
N16c Have disability benefits been overpaid; if so do they need to be recovered (Page 114 of 115)	The SDCERS Board voted (May'06) not to pursue overpayment of disability benefits.	Completed
N16d What additional actions should be taken on the subject? (Page 114 of 115)	The SDCERS Board voted to suspend the practice (May'06) and the question of extending the benefit was referred to the Mayor and the City Council (date of letter)	Completed
N18 Consider eliminating use of "reserves" to fund benefits or employer/employee contributions (Page 114 of 115)	City Attorney to Draft Amendment to Muni Code [24.1502], per City Council request. Navigant Committee reviewed the use of reserves at its May'06 meeting and the SDCERS actuary has included this issue in their Actuarial Funding Study.	Completed
N19 Consider additional areas for internal audit testing (Page 115 of 115)	* The FY 07 Budget included new internal audit position that reports to Audit Committee. When hired, Internal Auditor, at the direction of the Audit Committee, will perform financial and operational audits, e.g. health care administration, processing of DROP applications.	Ongoing
R2 The SDCERS actuary should provide a written Report each year in conjunction with its actuarial valuation which discusses the actuarial requirements under each of the Constitution, State and Municipal law and reports whether each of those laws has been complied with for the preceding year. (Page 124 of 127)	The Actuarial Report adopted by the SDCERS Board (May'06), included 8 recommendations, which make up the Actuarial Funding Study for 2006. The Actuary will be returning to the Board in September, October and November with specific recommendations on each area of further study.	Completed

NAVIGANT REPORT RECOMMENDATION PROGRESS REPORT

002190

RECOMMENDATION	ACTION TAKEN/NOTES	STATUS
R2a This Report should also provide for projected assets, liabilities and contributions based on the assumptions then being used by the Retirement System. (Page 124 of 127)	The Actuarial Report adopted by the SDCERS Board [May'06], included 8 recommendations, which make up the Actuarial Funding Study for 2006. The Actuary will be returning to the Board in September, October and November with specific recommendations on each area of further study.	Completed
R2b The Report should include any benefit increases which have been granted and become effective during the five year period. (Page 125 of 127)	Recommendation accepted by SDCERS Actuary and added as a Board Rule and resolution, July'06.	Completed
R2c A copy of that Report should concurrently be delivered to the Mayor and the City Council and posted on the SDCERS website for public awareness. (Page 124 of 127).	Report delivered to the Mayor and the City Council [May 06] and it was also posted on the SDCERS website. The same process will be used annually thereafter.	Completed
R2d The Board rules should be amended to require that the actuary deliver this Report and comment on his conclusions in open session. (Page 125 of 127)	Board Rule adopted to require that the report be made in open session and that on a date certain.	Completed
R2e The Board should render a formal billing to the City for that amount. The bill should be presented no later than January 31 of each year. Page 125 of 127)	Board Rule adopted to require that the report be made in open session and that on a date certain.	Completed
R7 We believe it is essential for SDCERS to continue to pursue its declaratory relief action against the City related to the propriety of benefits. (Page 126 of 127)	Court supported SDCERS legal position.	Completed
R8a We recommend that the Board analyze, with the assistance of its actuary and independent counsel, the best way to recoup that shortfall, and if it is permitted to be amortized, the period over which such amortization be permitted. (Page 126 of 127)	Cross Complaint Filed in Dec Relief. re: right to recoup \$ if MPI & II are repealed.	Completed
R9b To the extent that correction of the failures requires the payment of a correction amount from the City, the Board should initiate discussions with the City for the payment of those amounts. (Page 127 of 127)	Discussed at NRC Mtg and Board Mtg June/July 2006. Board will send bill after final determination is issued by IRS.	Completed
RECOMMENDATION	ACTION TAKEN/NOTES	STATUS
N3c Board members and Executive Staff should create a culture of autonomy from the City of San Diego (Page 110 of 115)	B&G should include in its work plan for 2007 a comprehensive review of structural changes that can create real autonomy from the City, e.g. civil service, payroll, similar to the independence established with it General Counsel.	Ongoing

NAVIGANT REPORT RECOMMENDATION PROGRESS REPORT

RECOMMENDATION	ACTION TAKEN/NOTES	STATUS
R3a The Board recommend to the Mayor and the City Council that the Municipal Code, or if necessary, the Charter, be amended to provide that a Board Member may not resign until a qualified successor has been selected and agreed to serve. (Page 125 of 127)	None. Since no legislative body can compel a Board member to stay on the Board, this recommendation cannot be implemented. However, the Board could advise the Mayor and the City Council that a vacant seat on the SDCERS Board be filled by the City within 60 days of the resignation that created the vacancy. This alternative will be included in the NRC Final Report to the Board.	Completed
R3b The Board recommend that the Municipal Code, or if necessary, the Charter be amended to create a commission to identify and recommend qualified Board candidates to the Mayor to ensure that only qualified and independent individuals serve on the Board. (Page 125 of 127)	None. Given the response to R3a, this recommendation would be unduly burdensome and bureaucratic.	Completed
R6 We recommend that SDCERS continue to have the General Counsel position filled by its employee. (Page 126 of 127)	Court decision on this issue.	Completed
R3c Therefore, the Board should recommend to the City that it amend the Municipal Code, or if necessary, the Charter, to comply with the express intent of Prop. 162 as stated in the following "finding": "The integrity of our public pension systems demands that safeguards be instituted to prevent political 'packing' of retirement boards, and encroachment upon the sole and exclusive fiduciary powers or infringement upon the actuarial duties of those retirement boards." (Page 125 of 127)	* The Board will review this recommendation with the Mayor and the City Council.	2007
R4a The Board Rules should provide that the Board may not be involved in the setting of benefits or engage in any discussions that condition the amount of funding on the setting of benefits. (Page 125 of 127)	* Board Rule [1.20] should be revised to include this prohibition, or alternatively, Rule [1.43] could be amended and either of these changes would need to be adopted by the Board.	Dec '06
R4b The Board should also recommend to the City Council that it amend the Municipal Code (or perhaps send to the voters a proposal to amend the City Charter) to preclude the City from linking benefit increases to actions by the Board. (Page 126 of 127)	* The City Charter [Section 143] created a prohibition on the Board adopting any action to delay funding which removes the incentive for linking benefit increases to actions of the Board. This recommendation is also covered under adoption of an amendment to Board Rule [1.20] under recommendation R4a.	Dec '06
R8b In addition, the Board should analyze the likelihood of the City entering into an arrangement under the U. S. Bankruptcy Code; and if that is deemed likely, determine what steps to protect the Retirement system and its Members. (Page 126 of 127)	Explored at March 8 NRC meeting; no further action was taken.	Completed
TRAINING & EDUCATION		
N8 Board should engage an expert to perform a review of the Board orientation process for new Board members to ensure effective orientation and general training (Page 112 of 115)	Addressed at April 06 NRC Mtg, Bid Orientation and training sessions are being developed and will be managed by the new Board Committee, B&G.	Completed

012191

NAVIGANT REPORT RECOMMENDATION PROGRESS REPORT

002192

RECOMMENDATION	ACTION TAKEN/NOTES	STATUS
<p>N9 Board should engage a consultant with expertise in training programs to develop a training curriculum for Board members with respect to general and specific skills necessary for assignments to committees. (Page 112 of 115)</p>	<p>* Staff is reviewing consultant/trainer for seven selected disciplines. Once training disciplines are established, Board members will be scheduled for training sessions. Board Secretary will be tasked with tracking the trainings.</p>	<p>Dec '06</p>
<p>N12 Board, with aide of legal counsel, should obtain the counsel of outside experts when dealing with complex issues; Board should satisfy itself as to expert's objectivity & independence, proper basis for conclusions, analysis, thorough discussion and questioning of experts conclusions. Page 113 of 115)</p>	<p>Historically, the Board has and will continue to select, where appropriate and in keeping with its fiduciary responsibilities, outside experts e.g. Investment Advisors, Actuary, Fiduciary Counsel.</p>	<p>Completed</p>
<p>R1 Formal Fiduciary Training for Board Members (Page 124 of 127)</p>	<p>* The Board's Fiduciary Counsel has developed an outline of the elements required for the Board's fiduciary training. Staff is reviewing possible training consultants.</p>	<p>Ongoing</p>
<p>TAX COMPLIANCE</p>		
<p>R9a We recommend that SDCERS file an application with the IRS under the remedial correction program to negotiate and make retroactive correction of these failures. (Page 127 of 127)</p>	<p>VCP application with IRS is complete. Corrective action at SDCERS has been taken on the eliminate violations. Board is awaiting approval from the IRS.</p>	<p>Completed</p>
<p>* Proposed for Further Committee or Board Action</p>		

RESULTS

Upon completion of the NRC meetings, 40 of the 47 recommendations outlined in the Report had been addressed by the Board or SDCERS staff including: establishing a new committee structure including a Business and Governance committee and an Audit Committee comprised of two Board members and three outside, independent members. An internal audit position was budgeted that reports directly to the Audit Committee, and a Chief Compliance Officer position that reports directly to the Board through the Business and Governance committee. The vacant Administrator and General Counsel positions were filled by independent, outside professionals, following two extensive executive searches (David Wescoe and Christopher Waddell, respectively).

Additionally, the Board embarked on the development of a fiduciary training curriculum for Board members and SDCERS' Executive Staff and re-evaluated the treatment of the Corbett benefit as it relates to non-service eligible disability recipients. The remaining recommendations have been forwarded for assessment by the Business and Governance Committee.

CONCLUSION

The events involving SDCERS and the San Diego City Council which culminated with the engagement of Navigant and Reish, Luftman, Reicher and Cohen, began more than a decade ago. Since then, many groups and individuals have proffered explanations and allegations as to the origin of the situation, culpability of professionals involved in the decision making process, the severity of the current funding levels, and SDCERS' ability to pay benefits. The current Board of Administration undertook the investigation and review of past plan oversight and management practices in order to identify areas of operation in need of improvement and create a road map for policy reform.

To date, the Board has carefully considered the Report's recommendations and has adopted the majority of proposed changes. It has reviewed and discussed the recommendations in public and with the participation of Plan stakeholders at all times. Implementing these changes will help SDCERS achieve better, more efficient plan operations; more transparency in the decision-making process; more accountability to plan members, beneficiaries and plan sponsors; and, ultimately, to maintain a financially sound and thriving retirement fund.

The Report quantified and articulated the operational and conceptual changes necessary to improve SDCERS. As changes continue to be discussed and implemented, management and actuarial soundness will continue to improve. Not only have past events necessitated a review of all aspects of how SDCERS makes decisions and administers the assets of the trust fund, they have also touched off a cultural shift within SDCERS of increased personal responsibility, open communications and consideration of all actions against a strengthened ethical standard.

By the signatures below, the Navigant Report Committee Members accept and approve this report.

By: _____
Mark Sullivan
Committee Chair

By: _____
Tom Hebrank

By: _____
Wayne Kennedy

By: _____
Richard Kipperman

By: _____
William Sheffler

By: _____
Peter E. Preovolos
President

002195

other employee appointed by the Board under the provisions of Article VIII of the City Charter, may be appointed and may serve as secretary to the Board.

Adopted July 22, 1994

Rule 2.11 Duties of the Secretary

The Secretary shall do or cause to be done the following:

- (a) prepare the agenda for all meetings of the Board and its committees, as set by the President and Retirement Administrator;
- (b) assure that minutes are taken of all Board and committee meetings;
- (c) issue communications, sign requisitions and reports;
- (d) arrange for and conduct any Retirement System elections required under the Charter or Municipal Code;
- (e) schedule an annual budget for review by the Board; and,
- (f) perform such other duties as directed by the Board.
- (g) The duties of Secretary may be combined with those of the Retirement Administrator.

Amended July 22, 1994

Division 3 - Committees

Rule 3.00 Establishment of Committees

- (a) The following committees are established:
 - (1) Investment Committee, which consists of at least four Board members;
 - (2) Business and Governance Committee, which consists of at least three Board members, and may also include other Board members;
 - (3) Executive Committee, which consists of the President, the Vice President and the Chairpersons of the Investment, Business and Governance, and Disability Committees;
-

002196

- (4) Audit Committee, which consists of two Board members, and three independent members who serve at the pleasure of the Board and must have a minimum of 15 years of accounting, banking or financial management experience; and
- (5) Disability Committee, which consists of five Board Members.
- (b) The Board may establish additional advisory committees to assist with conducting SDCERS business. When an advisory committee is created, the Board must state for the record the committee's: (1) purpose, (2) composition, (3) scope of duties, and (4) duration.
- (c) The Board, the President or any committee of the Board may establish a subcommittee to assist with conducting SDCERS business. When a subcommittee is created, the Board, President or committee chairperson must state for the record the subcommittee's: (1) purpose, (2) composition (3) scope of duties, and (4) duration.
- (d) No more than six Board Members, including the President, may be assigned to any committee or subcommittee of the Board.

Amended June 16, 2006

Rule 3.01 The Investment Committee

The Investment Committee meets monthly, or at other times as needed to:

- (a) develop the investment guidelines, for adoption by the Board;
 - (b) monitor investment transactions for compliance with the investment guidelines;
 - (c) monitor investment performance and market conditions;
 - (d) recommend needed changes to the investment guidelines, as prudently dictated by changing conditions in the financial marketplace;
 - (e) interview and recommend investment managers and consultants to carry out the Board's investment policies; and,
 - (f) develop proxy voting guidelines, for adoption by the Board;
 - (g) review legislative issues and staff recommendations for changes or updates to the proxy voting guidelines;
-

002197

- (h) ensure that the proxy voting agent's votes comply with the proxy voting guidelines; and,
- (i) perform other duties as directed by the Board.

Amended June 16, 2006

Rule 3.02 The Business and Governance Committee

The Business and Governance Committee meets monthly, or at other times as needed to:

- (a) review the Retirement System's business and procedures and recommend needed changes;
- (b) review and recommend solutions to specific issues raised by the Administrator or the Board that relate to administering the Retirement System;
- (c) develop strategic planning and performance plans for the Retirement System, for adoption by the Board, and review and update these plans;
- (d) review actuarial valuation reports and make recommendations to the Board;
- (e) review and approve the annual budget;
- (f) develop Board Rules, for adoption by the Board;
- (g) recommend needed changes to the Board Rules;
- (h) evaluate candidates' qualifications for independent non-Board members of Audit Committee;
- (i) facilitate training programs for new Board members; and
- (j) perform other duties as directed by the Board.

Amended June 16, 2006

Rule 3.03 The Executive Committee

The Executive Committee meets monthly or at other times as needed to:

-
- (a) review the Board agendas;

- (b) develop the performance review plan for the Administrator and General Counsel, for adoption by the Board;
- (c) evaluate and review the Administrator's and General Counsel's performance and compensation consistent with their respective performance review plans;
- (d) assist the Board President as needed; and
- (e) perform other duties as directed by the Board.

Amended June 16, 2006

Rule 3.04 The Audit Committee

The Audit Committee meets monthly, or at other times as needed to:

- (a) oversee the annual audit of the System's Financial Statements and any other internal and external audits of the System;
- (b) refer all audit results to the full Board for further action;
- (c) recommend the issuance and timing of Requests for Proposals for selecting outside auditors, review Requests for Proposals and oversee the selection process;
- (d) ensure the adequacy of internal controls;
- (e) direct investigations, as appropriate; and
- (f) perform other duties as directed by the Board.

Amended June 16, 2006

Rule 3.05 Disability Committee

The Disability Committee meets monthly, or at other times as needed to:

- (a) hear Staff recommendations and, when refuted, applicant responses in cases where the application for disability retirement has not been heard by an Adjudicator, and to make recommendations to the full Board;
- (b) recommend to the full Board final decisions on adjudicator findings with regard to disability retirement applications;

- (c) recommend needed changes to the disability retirement process; and
- (d) perform other duties as directed by the Board.

Amended June 16, 2006

San Diego City Employees' Retirement System

Audit Committee Charter

PURPOSE

The purpose of the Audit Committee (the "Committee") is to assist the Board of Administration (the "Board") in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the System's process for monitoring compliance with laws and regulations and internal financial policies and procedures.

AUTHORITY

Primary responsibility for SDCERS' financial reporting, accounting systems, and internal controls is vested in the Chief Executive Officer and Chief Financial Officer and is overseen by the Board. The external auditors are accountable to the Committee and to the Board.

The Committee shall have unrestricted access to SDCERS' personnel, books, records and facilities. The external auditors and the internal auditor shall report directly to the Committee.

The Committee has authority to review any matter within its scope of responsibility, including:

- Resolving disagreements between management and the external auditor regarding financial reporting.
- Recommending to the Board the appointment and establishing the compensation of the external audit firm.
- Approving all auditing and other audit services provided by the external auditor.
- Seeking counsel and advice from the System's fiduciary counsel and the General Counsel, external and internal accountants and auditors, and others to advise the committee or assist in the conduct of any review. The Committee shall not retain any other professional or firm without the approval of the Board.
- Seeking any information it requires from employees—all of whom are directed to cooperate with the Committee's requests—or external parties.
- Meeting with System officers, external auditors, or outside counsel, as necessary.

COMPOSITION

The Committee shall consist of five members, three of whom shall be independent non-Board members appointed by the Board. Ex-officio Committee members shall not be entitled to vote on Committee items. The Committee shall appoint a chair from the independent, non-Board members. Each Committee member shall be both independent and knowledgeable in financial reporting issues. SDCERS will contractually indemnify the independent, non-Board members.

MEETINGS

The Committee will meet at least quarterly at the call of the chair. All Committee members are expected to attend each meeting, and the Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared and retained by the System. Committee members shall serve without compensation but shall receive reimbursement for their necessary expenses incurred in performance of their duties for the System.

RESPONSIBILITIES

The Committee has the following responsibilities:

External Audit

- Review and approve all external audit services.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the System, including any non-audit services, and discussing the relationships with representatives of the external auditing firm.
- Review the planning and results of the external audit including:
 - Appointing the external auditor and signing off on the auditors engagement letter;
 - Defining the scope of the audit, including materiality, areas of risk, timetable, deadlines and co-ordination with internal audit and the accounting section;
 - Reviewing the post-audit management letter together with management's response;
 - Assessing the auditor's objectivity, accountability, effectiveness, and past performance;
- Assessing the working relationship with management;

002201

- Meeting privately with the auditors to discuss pertinent matters, including the quality of personnel and, if necessary, terminating the relationship with the external auditors;
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards; and,
- Communicating with the Board regarding the outcome of the external audit, including identification of any areas of concern.

Internal Audit

- Review with management and the internal auditor the audit plan, activities, staffing, resources, budget, reporting relationship, and organizational structure of the internal audit function.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- Review internal audit findings and determine that they are being properly followed up.

Financial Statements

- Review the financial section of the Comprehensive Annual Financial Report (CAFR) including the annual financial statements, other financial information, and the management discussion and analysis (MD&A) and recommend their approval to the Board. This approval should be granted only after discussing the following topics with management, external auditors, and actuaries:
 - The selection of and/or changes in accounting policies,
 - The quality of accounting principles,
 - Major accounting judgments including complex or unusual transactions,
 - Recent professional and regulatory pronouncements, and
 - Accruals, actuarial assumptions, valuations and estimates.
- The Committee will determine if the financial statements were prepared in accordance with applicable Governmental Accounting Standards Board (GASB) requirements.
- The Committee will determine if the financial section of the CAFR provides adequate and complete disclosure to ensure the financial statements are free of misleading or ambiguous transaction reporting. The Committee will also review any comments submitted by the GFOA Special Review Committee members who review the CAFR for compliance with GFOA's Guidelines for the Preparation of a Comprehensive Annual Financial Report.

TO: **002203** Council President
 2. FROM (ORIGINATING DEPARTMENT): Mayor Sanders
 3. DATE: February 21, 2006

4. SUBJECT: **Soil Remediation Status Report Number 4 and Related Action**
 5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.): Jay Goldstone / 236-5941
 6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.): John Dyer / 533-3978
 7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND					9. ADDITIONAL INFORMATION / ESTIMATED COST:
DEPT.					
ORGANIZATION					
OBJECT ACCOUNT					
JOB ORDER					
C.I.P. NUMBER					
AMOUNT					

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>Edward L. Hance</i>	2/21/07	8	CFO	<i>[Signature]</i>	2/21/07
2				9			
3				10			
4				11			
5				DOCKET COORD: _____ COUNCIL LIAISON: _____			
6				<input checked="" type="checkbox"/> COUNCIL PRESIDENT	<input type="checkbox"/> SPOB	<input type="checkbox"/> CONSENT	<input checked="" type="checkbox"/> ADOPTION
7				<i>[Signature]</i>	<input type="checkbox"/> REFER TO: _____	COUNCIL DATE: 3/5/07	

REPARATION OF: RESOLUTION(S) ORDINANCE(S) AGREEMENT(S) DEED(S)

Please docket the following for discussion at an upcoming City Council meeting:

- fourth informational update report on the Kröll remediation, and
- ~~directing the City Attorney to prepare an Ordinance amending the Municipal Code¹ consistent with the following changes:~~

- The Chief Financial Officer will serve as the chair of the revised DPWG.
- Membership in the DPWG will consists of the following five official voting members: Chief Operating Officer, Chief Financial Officer, City Attorney, Auditor General and Independent Budget Analyst (or designees). Outside disclosure counsel serves as an ex-officio member.
- No DPWG committee member (including the Chair) can prevent any other committee member from placing an item on the agenda.
- The DPWG to meet periodically (on an as needed basis) with the City's Audit Committee

11A. STAFF RECOMMENDATIONS:

- Docket the requested items for discussion
- Approve the recommended action

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): ALL

COMMUNITY AREA(S):

ENVIRONMENTAL IMPACT:

HOUSING IMPACT:

OTHER ISSUES:

¹ San Diego Municipal Code, Chapter 2: Government, Article 2, Administrative Code, Division 41: Securities Disclosure
 CM-1472

002205

City of San Diego
Office of Ethics and Integrity

Doing What's Right

1-866-309-3500
24 Hours A Day
7 Days A Week
365 Days A Year

City Employee
Waste, Fraud, Abuse and Ethics Hotline
Policy and Procedures Manual

Issued TBD

Table of Contents

Prelude.....	2
I. Overview of the Employee Hotline and Complaint Program.....	3
A. Introduction	3
B. Terms & Definitions	5
II. Processing of Employee Hotline Complaints.....	10
III. Processing of All Other Employee Complaints.....	13
IV. Dissemination and Escalation Teams.....	14
V. Processing of Citizen Complaints	16
VI. Security for Complaints and Associated Reports, Working Papers, and Other Documents	17
VII. Requests for Information Regarding All Complaints.....	19
VIII. Referral of Employee Complaints.....	20
A. Background	20
B. Methodology for Referral of Complaints.....	20
IX. Transmittal Memos	22

002207

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 2 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

Prelude

The purpose of the manual is to assist Department Directors or their designee, Agencies, and anyone involved in the Employee Hotline or citizen complaint investigations to ensure they understand their responsibilities. It is also intended to provide consistency among all parties involved in the management and conduct of Employee Hotline or citizen complaint investigations.

Office of Ethics and Integrity
(619) 236 - 7072
deputychiefethicsintegrity@sandiego.gov

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 3 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

I. Overview of the Employee Hotline and Complaint Program

A. Introduction

History	In an investigative report authored by Vinson & Elkins L.L.P. (V&E Report) dated September 16, 2004, and adopted by San Diego City Council as San Diego Municipal Code §26.1703(c) in October 2004, recommendations were made to "establish procedures to receive and respond to any complaints or concerns regarding accounting, internal controls or auditing matters, including procedures for the confidential and anonymous submission by employees of any such complaints or concerns."
Implementation of the Employee Hotline	The Auditor and Comptroller's Office implemented the Employee Hotline (866-809-3500) on December 2, 2005, in response to San Diego Municipal Code §26.1703(c).
OEI Role	Upon the transition to the Strong Mayor form of Government on January 1, 2006, the Mayor's Office of Ethics and Integrity (OEI) was created and now, through a third-party provider, administers the Employee Hotline. As well, OEI directly accepts employee and citizen complaints.
Objective	The primary objective of the Employee Hotline/Complaint program is to provide a means for City of San Diego employees and citizens to confidentially report 1) any activity or conduct in which he/she suspects instances of fraud, waste, or abuse, 2) behavior not conducive to the City's ethical policies, rules and regulations, and 3) violations of certain federal or state laws and regulations (e.g., laws prohibiting discrimination or whistleblower laws).
Structure	With respect to the Employee Hotline, an independent third-party provider receives calls from City employees, providing complete confidentiality. The caller can choose to remain anonymous. The third-party provider

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 4 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

issues reports for each call and submits the reports to OEI for review and referral.

Employees and citizens may also contact OEI directly via email (oei@sandiego.gov) or by phone (619-236-7182). These communications are also treated confidentially.

DRAFT

OFFICE OF ETHICS AND INTEGRITY Policies and Procedures Manual	Page 5 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

B. Terms & Definitions

Fraud

A dishonest and deliberate course of action that results in the obtaining of money, property or an advantage to which the City employee or official committing the action would not normally be entitled. Intentional misleading or deceitful conduct that deprives the City of its resources or rights.

Examples of Activities Involving Fraud (not an all-inclusive list)

- Falsifying financial records to misrepresent financial data or conceal the theft of money or City property.
- Theft or misuse of City of San Diego money, equipment, supplies and/or other materials.
- Intentionally misrepresenting the cost of goods and services provided.
- Soliciting or accepting a bribe or kickback.
- Falsifying payroll information.

Waste

The intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of City resources. Waste also includes incurring unnecessary costs because of inefficient or ineffective practices, systems, or controls.

Examples of Activities Involving Waste (not an all-inclusive list)

- Unnecessary spending of City funds to purchase supplies or equipment.
- Failure to reuse or recycle major resources or reduce waste generation.

Abuse

Intentional destruction, diversion, manipulation, misapplication, maltreatment, or misuse of City resources. Extravagant or excessive use as to abuse one's position or authority. Abuse can occur in financial or non-financial settings.

Examples of Activities

- Failure to report damage to City equipment or property.

City Employee Hotline and Complaint Program	Effective Date TBD
---	-----------------------

**Involving Abuse
(not an all-
inclusive list)**

- Receiving favor for awarding contracts to certain vendors.
- Using one's position in one City department to gain an advantage over another City resident or vendor when conducting personal business in another City department.

**Ethics Intake and
Review
Committee**

The Ethics Intake and Review Committee is composed of (1) the Deputy Chief Ethics and Integrity, (2) the Personnel Director, (3) the Auditor General or designee¹, and (4) the Ethics Audit and Compliance Specialist. This committee meets regularly to review complaints which have been made to OEI either through the Employee Hotline or by any other means.

**Governmental
Ethics Laws**

Consist of the following: San Diego Municipal Code at Chapter 2, Article 7, Division 29 (Elections Campaign Control Ordinance); Chapter 2, Article 7, Division 35 (Ethics Ordinance); and Chapter 2, Article 7, Division 40 (Municipal Lobbying Ordinance).

The Ethics Commission enforces violations of the Election Campaign Control Ordinance, the Ethics Ordinance, and the Municipal Lobbying Ordinance.

**City Ethical
Policies, Rules &
Regulations**

City Charter sections, Administrative Regulations, Personnel Regulations, Council Policies, and City EEO Policy regarding subjects including:

- Avoidance of the Appearance of Impropriety
- Confidentiality
- Conflict of Interest
- Electronic mail and Internet Usage
- Employment of Relatives
- Future Employment
- Gifts/Favors
- Improper Use of Position
- Incompatible Employment
- Nondiscrimination
- Objective Contracting Process

¹ The Auditor General position is subject to Council and Voter Approval. In the interim, we will use the existing process that is analogous to the City.

002212

OFFICE OF ETHICS AND INTEGRITY Policies and Procedures Manual	Page 7 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

- Obligations to Citizens
- Participation in Political Activities
- Reporting Improper Conduct/Whistleblower Protection
- Sexual Harassment
- Use of City Resources for Private Gain

Employee	Any person who is employed by the City of San Diego.
Complainant	A party (employee or citizen) that lodges a complaint or concern, written or otherwise, with the Office of Ethics and Integrity.
Complaint	An expression of dissatisfaction or a cause or reason for complaining; a grievance filed by either an employee or citizen. Throughout the remainder of this manual "Complaint" will include Incident Reports resulting from an employee and/or citizen filing.
Third-Party Provider	An independent company (The Network, Inc.), which provides offsite, hotline coverage 24/7/365, with live interviewers who ask probative questions to gather necessary information to obtain actionable information. This information is then transcribed into a report.
Incident Report	The case management system converts the information received through the interview process into an organized report called an Incident Report. These reports are disseminated to OEI's designated recipients (See Section IV - Dissemination and Escalation Teams for further details).
Summary Complaint Report	A summary of all incident reports by type (e.g., policy issues, employee relations, customer relations) within a specified period of time. This report is available on the OEI website.
Closed Hotline Calls Report	A summary of all closed non-personnel incident reports within a specified time period. The Summary Complaint Report includes the date and time reports were received, incident types, and brief descriptions of the incidents. This report is available on the OEI website.

<p style="text-align: center;">OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i></p>	<p style="text-align: center;">Page 8 of 27</p>
<p style="text-align: center;">City Employee Hotline and Complaint Program</p>	<p style="text-align: center;">Effective Date TBD</p>

Case Management System

The Network's online tool to facilitate a thorough interview that adapts to the issues identified in each call, and to the monitoring of investigations. It allows OEI to document all activities in a single, centralized system.

Response

A reply or an answer from the designated division or department head that addresses the following:

- A description of an *immediate* plan to address the issue/concern,
- Description of a plan to *prevent* the issue/concern from happening again, if warranted and
- Description of the resolution of the issue/concern.

Audit Committeeⁱⁱ

The Audit Committee is comprised of three-members, two are appointed by the Mayor from the public and confirmed by the City Council and one is a member of Council. The two public members should have expertise in accounting, auditing and financial reporting.

The purpose of the Audit Committee is:

- To ensure objective oversight of the City's financial reporting process;
- To monitor the performance of the City's internal audit function and Auditor General; and
- To retain the independent auditor, who will report to and take direction from, the audit committee.

ⁱⁱ The Audit Committee is subject to Council Approval. In the interim, we will use the existing process that is analogous to the City.

002214

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 9 of 27
City Employee Hotline and Complaint Program	Effective Date 010/30/2006

Auditor General¹

The Auditor General is nominated by the Mayor and confirmed by a majority of the City Council. The Auditor General is responsible for internal audits of the City's:

1. internal controls;
2. financial accounting, reporting and disclosure;
3. operations; and
4. incidents of fraud, waste and abuse.

Citizens' Review Board of Police Practices

The Citizens' Review Board of Police Practices:

- reviews and evaluates serious complaints brought by the public against officers of the Police Department of the City of San Diego;
- reviews all officer involved shootings and in-custody deaths; and
- reviews and evaluates the administration of discipline arising from sustained complaints.

DRAFT

¹ The Auditor General position is subject to Council and Voter Approval. In the interim, we will use the existing process that is analogous to the City.

II. Processing of Employee Hotline Complaints

1. A third-party provider shall receive and record all hotline calls through a designated toll-free number published to City employees. Information from such calls is recorded on an "Incident Report."
2. Upon completion of a complainant's call, the independent third-party provider sends an Incident Report via e-mail to the City's designated dissemination team, comprised of (1) the Deputy Chief Ethics and Integrity, (2) the Ethics Audit and Compliance Specialist, and (3) the Auditor General.ⁱ OEI Ethics Audit and Compliance Specialist shall be responsible for logging those complaints that come directly to the OEI's third-party's Case Management System. A copy of the incident reports will be forwarded to the Ethics Commission.
 - o The Ethics Commission Director reviews each report to determine if there exist factual allegations suggesting a violation of any governmental ethics laws. Nothing contained in these policies and procedures shall preclude the Ethics Commission from exercising its statutory investigatory and/or enforcement authority as set forth in the Election Campaign Control Ordinance, the Ethics Ordinance, and the Municipal Lobbying Ordinance should such allegations be contained in an Incident Report.
3. At the time of the call, in the instance where the complainant has identified him/herself, the third-party provider shall ask whether OEI may share his/her identity with persons outside of OEI. Identities of complainants will not be shared outside of OEI without such permission.
4. Intake and Review Committee reviews the complaint and determines whether it meets the criteria as set forth in Section VIII, B, Criteria for referral and resolution through OEI (i.e., allegations involving unethical conduct, fraud, waste and abuse). If the complaint meets the criteria, the Committee determines the appropriate City department for referral for investigation/resolution.
5. At the discretion of the OEI Deputy Chief or his/her designee, and based on the circumstances of the complaint, the

ⁱ The Auditor General position is subject to Council and Voter Approval. In the interim, we will use the existing process that is analogous to the City.

<p style="text-align: center;">OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i></p>	<p style="text-align: center;">Page 11 of 27</p>
<p style="text-align: center;">City Employee Hotline and Complaint Program</p>	<p style="text-align: center;">Effective Date TBD</p>

complaint may be referred to the appropriate department for action prior to the Intake and Review Committee meeting.

6. If a complaint is received by OEI which contains allegations of misconduct or wrongdoing involving a member of the Intake and Review Committee, the member shall be informed a complaint has been filed. That member shall immediately recuse him/herself from the review of such complaint.
7. As follow-up, the OEI Deputy Chief or his/her designee may determine that an OEI staff member may need to obtain clarification or additional information from the complainant regarding the complaint/allegation.
8. OEI staff member prepares and forwards a memorandum and copy of the Incident Report to the appropriate department head, with within 2 business days of the Committee's review. The memorandum advises of the filing of the complaint, requests a response and advises of the process to secure additional information concerning the complaint, if necessary.
9. If the subject of the complaint is a supervisor/manager at any level, the complaint will be forwarded to and should be resolved by the next level of supervisor/manager. It is expected that the subject of the complaint will have no involvement in the response.
10. Complaints alleging criminal activity will be forwarded to the San Diego Police Department for investigation. Complaints against sworn officers may be forwarded to the Citizens Review Board of Police Practices for referral to Internal Affairs.
11. Complaints alleging improper financial activity and fraud, waste or abuse will be referred to the Auditor General for investigation.
12. If a complaint involves a department head, it is forwarded to the appropriate Deputy Chief for investigation/review.
13. Department Directors and any other personnel involved in the investigation of a complaint shall not share the substance of a complaint with anyone except those individuals who are directly involved in conducting the investigation. Such

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 12 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

personnel provided with this information shall hold all information obtained as confidential to the greatest extent possible.

14. If it is deemed necessary by the Department/Division head to disclose the nature of the allegation(s) to the target for investigative purposes, such may be done by providing only a summary of the allegation(s). However, care should be taken to provide no information that would compromise the complainant's or any witness' identity. Sharing allegation(s) of non-compliance outside of the OEI intake process may constitute cause for an ethics complaint and/or for a legal claim of defamation.
15. Breaches of confidentiality may result in disciplinary action carried out through the existing process and procedures.
16. OEI staff member ensures, through monitoring and reminders to the affected Department head, that timely investigative and resolution activities are undertaken in response to complaints received through the hotline.
17. The OEI Deputy Chief or his/her designee in conjunction with the Intake and Review Committee will review the response submitted by the Division or Department head to determine if the allegation(s) raised in the complaint have been adequately addressed in the response. Upon such a determination, a memo from OEI to the Division or Department head will thereafter be provided, indicating closure of the matter.
18. However, if the response is deemed to inadequately address the allegation(s) raised in the complaint, the Division or Department head and appropriate Deputy Chief will be notified. The Division or Department head will be provided an opportunity to provide further clarification of the response and/or to further acquire additional information or to perform other actions as deemed necessary.
19. In the instance where a complainant has identified him/herself, such complainant will be notified of the OEI action on or referral of the complaint. The complainant may be advised that, in the instance of a referral, OEI may not be able to provide the complainant further information regarding the outcome of his/her complaint.

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 13 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

III. Processing of All Other Employee Complaints

1. OEI receives complaints by means other than through the Employee Hotline (e.g., e-mail, telephone, letter, etc.). Complainants may remain anonymous.
2. If the complaint is orally provided either in person or by telephone, an OEI staff member records, in writing, the factual allegation(s) of the complaint and attempts to obtain adequate information to facilitate an effective review.
3. OEI staff member logs the complaint and places a time/date stamp on all such complaints received.
4. OEI staff member enters the employee complaint into the third-party provider case management system.
5. Once entered into the case management system, the complaint is processed according to procedures as set forth in Section II, 2-14.

IV. Dissemination and Escalation Teams

Dissemination Team

Upon completion of the call, the third-party provider sends Incident Reports to the City's designated dissemination team. The team consists of the following: (1) Deputy Chief Ethics and Integrity, (2) Ethics and Compliance Audit Specialist, and (3) Auditor General.¹

A copy of all the incident reports will be forwarded to the Ethics Commission Director. He/she reviews each report to determine if there exist factual allegations suggesting a violation of any governmental ethics laws. Nothing contained in these policies and procedures shall preclude the Ethics Commission from exercising its statutory investigatory and/or enforcement authority as set forth in the Election Campaign Control Ordinance, the Ethics Ordinance, and the Municipal Lobbying Ordinance should such allegations be contained in an Incident Report.

Escalation Team

When a report is received that is designated for escalation (reports of high-risk/threat situations requiring immediate notice), the third-party provider shall call the appropriate designated agency representatives immediately. The City has designated the Auditor General for financial emergencies, the Personnel Director for personnel-related matters, and the Labor Relations Manager for workplace violence. The notified representative will inform the Deputy Chief Ethics and Integrity of the call and respond as detailed in Section II, 2-14.

Process

Standard Incident Report Dissemination

Incident Reports shall be disseminated by the third-party provider, within two hours via email to the dissemination team members.

¹ The Auditor General position is subject to Council and Voter Approval. In the interim, we will use the existing process that is analogous to the City.

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 15 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

Escalation

If one of the following Incident Types is assigned to an Incident Report, and if it is determined the incident will happen again within 24 hours, then escalation is automatically triggered. Such Incident Types are:

- o Falsification of Organization Records
- o Fraud
- o Fraudulent Insurance Claims
- o Kickbacks
- o Improper Release of Proprietary Information
- o Substance Abuse
- o Theft of Cash
- o Theft of Goods/Services
- o Product Quality Concern
- o Workplace Violence/Threats

The third-party provider shall immediately call the appropriate designated escalation team representative if an Incident Report meets both of the following criteria:

- Threat of or actual harm to employees, customers, or operations
- Any significant incident projected to reoccur within 24 hours

All such reports are checked by the third-party provider's Quality Assurance Team prior to contacting the designated persons on the City's Escalation Team.

If the Deputy Chief Ethics and Integrity believes that any communication received by OEI or any OEI staff member constitutes a threat to any individual, organization, or to the public, he/she shall immediately notify the appropriate escalation team member and any other individual(s) as is deemed appropriate.

V. Processing of Citizen Complaints

1. OEI receives complaints of waste, fraud and abuse and/or other unethical conduct from citizens through a variety of means, including e-mail, telephone, letter, etc.
2. If the complaint is provided orally either in person or by telephone, an OEI staff member shall record, on a Citizens Complaint Form, the factual allegation(s) of the complaint and attempts to obtain adequate information to facilitate an effective review.
3. OEI staff member logs the complaint and places a time/date stamp on all such complaints received.
4. OEI staff member assigns a case number to each complaint to facilitate a follow-up process. As follow-up, the OEI staff member may need to clarify or obtain additional information regarding the complaint/allegation(s).
5. Once assigned a case number, the complaint is processed according to procedures as set forth in Section II, 2-14.
6. Employees, who are the subject of a complaint, shall be notified as set forth in the applicable MOU.

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 17 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

VI. Security for Complaints and Associated Reports, Working Papers, and Other Documents

Policy

- All complaints, associated reports, working papers, and other documents detailing employee and citizen complaints, which are received either through the Employee Hotline, by mail, e-mail and those documents or notes of any oral conversations with City employees or citizens, shall remain confidential at all times.
 - Such complaints, associated reports, working papers, and other documents shall **ONLY** be discussed with the Ethics Audit and Compliance Specialist, the Deputy Chief Ethics and Integrity and other individuals as determined by the Intake and Review Committee.
 - No copies are to be made of any complaints, associated reports, working papers, and other documents, except for discussion in Intake and Review Committee meetings or when forwarded to a department head for investigation and resolution. At the conclusion of each Intake and Review Committee meeting all copies shall be destroyed and the original complaints, associated reports, working papers, and other documents shall be maintained in a secured manner by an OEI staff member as designated by the OEI Deputy Chief.
 - Incident Reports and associated case numbers shall **ONLY** be provided to individuals who are responsible for conducting the investigation or reviewing of the complaint. Such information shall be held in strict confidence.
 - The confidentiality of all complaints, associated reports, working papers, and other documents shall be maintained at all times by OEI and investigating/reviewing departments.
 - Only the Deputy Chief Ethics and Integrity or his/her designee, in conjunction with the Office of City Attorney is authorized to determine the distribution or release of any complaints, associated reports, working papers, other documents and correspondence associated thereto, in accordance with the California Public Records Request Act (CPRA).
-

City Employee Hotline and Complaint Program

Effective Date
TBD**Confidentiality**

1. All complaints, associated reports, working papers, and other documents concerning the review or investigation of complaints shall be marked as **Confidential** documents by OEI and investigating/reviewing departments.
2. Strict confidentiality shall be maintained by OEI and investigating/reviewing departments throughout the processing of all complaints and through disposition/resolution and after.

**Custodian Of
Complaint
Documents**

OEI shall maintain custody of complaints, associated reports, working papers, and all other pertinent information regarding any investigations of complaints. Other parties involved in the investigation shall also retain their own documentation.

002224

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 19 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

VII. Requests for Information Regarding All Complaints

1. All requests for information concerning any employee or citizen complaint shall be directed for response to either the Ethics Audit and Compliance Specialist, the Assistant Deputy Chief Ethics and Integrity or the Deputy Chief Ethics and Integrity. The OEI shall respond to such requests as permissible under applicable state law and City policy, rules and regulations.
 2. Departments shall refer to OEI any CPRA or other requests for information regarding complaints received through OEI or the Employee Hotline.
-

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 20 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

VIII. Referral of Employee Complaints

A. Background

Policy

City employees who have complaints or concerns regarding waste, fraud and abuse, individual or organizational processes, or who allege of non-compliance with City rules or regulations that relate to ethics, are encouraged to report such complaints or concerns to OEI. All such complaints and concerns shall be reviewed by the Intake and Review Committee for a determination of whether the allegation(s) are credible and appropriate for department referral through OEI.

B. Methodology for Referral of Complaints

Procedures

- As complaints are received, the Ethics Audit and Compliance Specialist reviews and evaluates the seriousness of the allegation(s) to determine if the Intake and Review Committee should meet immediately.
- Otherwise, the Intake and Review Committee shall convene every two weeks to review the Incident Reports received by OEI and decide upon the referral of each report or any other appropriate action. A complaint may be referred to:
 - Deputy Chief
 - Department Director
 - Police Department
 - Auditor General
 - Ethics Commission
 - Citizens Review Board of Police Practices
 - Equal Employment Investigation Office
 - Other referral as deemed appropriate by the Committee
- OEI shall prepare a transmittal memo (refer to Section IX for examples) and attach a copy of the incident report.

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 21 of 27
City Employee Hotline and Complaint Program	Effective Date TBD

- The Ethics Audit and Compliance Specialist shall maintain a database that includes summary information from each complaint, assignment date, assigned to, meeting notes, memo sent date, forms sent date, received department response, and complaint matter is closed. This information is confidential and shall be securely maintained.

Criteria

An incident report shall contain all of the elements listed below to be within the purview of the Office of Ethics and Integrity, which will monitor the complaint until its disposition. The allegations contained in the report must be:

- **Credible** (Is worthy of belief in the opinion of the Intake Review Committee and appears to have been filed in good faith, with no malicious intent)
- **Ethics-Related** (Alleges waste, fraud, abuse or unethical behavior)
- **Timely** (Complaint should be filed within one year of the incident happening)

If the report does not address one or more of the above-mentioned issues, the report may be forwarded to the appropriate department director for their information and the Office of Ethics and Integrity will take no further action.

Referral to Auditor General

Any allegations of improper financial activity and fraud, waste and/or abuse will be referred to the Auditor General, who will determine the appropriate course of action.

The Auditor General should report to the Audit Committee the results of any investigation and disposition of such complaints. Documents reflecting such an investigation should be preserved in accordance with established procedures.¹

The Auditor General will provide a copy of any investigation results and dispositions to O&I.

¹ Excerpt from the Kroll Report dated August 8, 2006, regarding the establishment of the Auditor General.

IX. Transmittal Memos

Introduction

OEI uses the following types of transmittal memos to assign cases for investigation. A copy of the Incident Report is attached to the transmittal letter along with resolution forms. Identified or unidentified complainants receive memos or comments indicating the initial course of action by the Intake and Review Committee (e.g., referred to Deputy Chief for investigation).

1. Sample Memo when an Incident Report is Assigned to Department Director:

Date: October 30, 2006
 To: Department Director
 From: Jo Anne SawyerKnoll, Deputy Chief Ethics and Integrity
 Subject: Employee Hotline Report <#>

Attached is a copy of a confidential incident report that was filed with the City's Employee Hotline. This office received the report on <date> regarding an issue or concern in your department. Since the report is specifically related to matters under your direction, you will best be able to address the issue(s) or concern(s) reported. Please ensure all existing policies and procedures are properly followed while reviewing or investigating this claim.

Callers are provided a report number and a date to call back to check the status of their complaint; additionally, if allows you to obtain any additional information that is needed as their allegations are investigated. For this reason, it is important that you respond to this report to provide feedback to the caller and to ensure that all issues or concerns are adequately addressed.

After you review the attached report, determine if you need any additional information from the caller and provide the caller with a status report (even if no action is to be taken). To do so, send an email with all questions and/or comments to The Network, our independent third-party hotline provider, at NetworkCallbacks@tnwinc.com and copy the DeputyChiefEthicsIntegrity@sandiego.gov. When submitting your questions and/or comments, include the report number, as indicated on the attached report, in the subject line by the response date provided in the *Client Instructions* section of the report. Your questions and/or comments will be forwarded to the caller should they call back on or after their assigned date.

In order to help sustain the integrity and success of the hotline, send the attached forms completed and signed to Danielle Knighten, MS 9A, within 10 business days of receiving this memo. If you have any additional questions regarding the incident report, or this process, contact Danielle at (619) 236-7072. We want to ensure all issues or concerns are addressed in a timely manner.

002228

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 23 of 27
City Employee Hotline and Complaint Program	Effective Date 010/30/2006

2. Sample Memo when Incident Report is provided to Department Director for informational purposes only:

Date: October 30, 2006
To: Department Director
From: Jo Anne SawyerKnoll, Deputy Chief Ethics and Integrity
Subject: Employee Hotline Report <#>

Attached is a copy of a confidential incident report that was filed with the City's Employee Hotline. This office received the report on <date> regarding a complaint/issue or concern in your department. The Intake and Review Committee has established a process for screening the complaints/concerns and it has been determined that this complaint/concern does not require further action be taken by OEI; however, we are providing this report to you for informational purposes. You do not need to provide a response regarding this report.

Accordingly, if you feel that an investigation is necessary, ensure all existing policies and procedures are properly followed while reviewing or investigating this claim and contact us to discuss any action you plan to take, so we can update our records as needed. If you have any questions regarding this report or this process, you can contact Danielle Knighten at (619) 236-7072.

Thank you.

3. Sample Memo to an identified caller whose complaint meets the criteria set forth in Section VIII, B, Criteria :

Date: October 30, 2006
To: Identified Caller
From: Jo Anne SawyerKnoll, Deputy Chief Ethics and Integrity
Subject: Employee Hotline Report <#> dated (...)

This office received your complaint/concern filed with the Employee Hotline and, upon an initial review, the Intake and Review Committee has determined that your concern should be referred to XXX for further review. Any further communications related to your concern should be directed to XXX. XXX has been instructed to provide a resolution to this office upon completion of his/her review or investigation.

The City of San Diego will not retaliate, nor will it tolerate retaliation against those who, *in good faith*, report suspected ethics violations or who participate in an investigation of suspected ethics violations. An act of retaliation should be reported immediately to the Office of Ethics and Integrity (OEI), which will investigate any such report as a potential ethics violation. In addition, those who bring matters to OEI are protected through the state Whistleblower Protection Act. Details of the Act can be found at <http://www.dir.ca.gov/dlse/whistleblowersnotice.doc>.

002229

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 24 of 27
City Employee Hotline and Complaint Program	Effective Date 010/30/2006

If you feel your concern is not addressed, please contact this office directly via email at deputychiefethics&integrity@sandiego.gov and reference the report number above.

Due to the nature of the complaint filed, this office may not be able to provide you with the outcome.

We appreciate your efforts and thank you for "Doing the Right Thing!"

4. Sample Message sent to the unidentified caller indicating course of action taken by the Intake and Review Committee:

Your complaint/concern filed with this Hotline has been reviewed by the Intake and Review Committee and they have determined that your complaint/concern should be referred to XXX for further review. If you have additional information that would be useful in XXX's review into your complaint/concern please contact The Network again with any additional information.

If you feel your concern is not addressed, please contact this office directly via email at deputychiefethics&integrity@sandiego.gov and reference the report number above.

Due to the nature of the complaint filed, this office may not be able to provide you with the outcome.

We appreciate your efforts and thank you for "Doing the Right Thing!"

5. Sample memo requesting additional information from the identified complainant before the Intake and Review Committee proceeds because there is not enough information to make an informed decision:

Date: October 30, 2006
To: Caller
From: Jo Anne SawyerKnoll, Deputy Chief Ethics and Integrity
Subject: Complaint Filed

All documents provided to this Office have been reviewed, but before this Office can move forward, please provide specific cases with appropriate details (e.g., etc). Your claim cannot be substantiated without the requested information. Once this information is provided, this Office will be able to determine the appropriate course of action.

6. Sample memo informing the identified complainant that his/her complaint does not meet the criteria as set forth in Section II 2-14, and therefore not in the purview of OEI:

Date: October 30, 2006
 To: Identified Caller
 From: Jo Anne SawyerKnoll, Deputy Chief Ethics and Integrity
 Subject: Employee Hotline Report <#> dated (...)

This office received your complaint/concern filed with the Employee Hotline and, upon an initial review, the Intake and Review Committee has determined that this matter should be referred to **XXX**, (Title) **Director** for further review. We have determined that allegations contained in your complaint does not constitute an ethical violation and, therefore, is not within the purview of the Office of Ethics and Integrity. Accordingly, this office will not take any further action regarding this matter. Any further communications related to your concern should be directed to **XXX**. If you feel your concern is not addressed, you should then contact your union.

The City of San Diego will not retaliate, nor will it tolerate retaliation against those who, *in good faith*, report suspected ethics violations or who participate in an investigation of suspected ethics violations. An act of retaliation should be reported immediately to the Office of Ethics and Integrity (OEI), which will investigate any such report as a potential ethics violation. In addition, those who bring matters to OEI are protected through the state Whistleblower Protection Act. Details of the Act can be found at <http://www.dir.ca.gov/dlse/whistleblowersnotice.doc>.

We appreciate your efforts and thank you for "Doing the Right Thing!"

What Are The Reporting Requirements?

OEI requires a response within 10 days of receiving the memo.

Extensions to Reporting Deadlines

OEI will determine extensions on a case-by-case basis, but will generally grant extensions.

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 26 of 27
City Employee Hotline and Complaint Program	Effective Date 010/30/2006

002231

7. Sample reminder memo to referred party that a response is due to OEI and the deadline is approaching:

Date: October 30, 2006
To: Department Directors
From: Jo Anne SawyerKnoll, Deputy Chief Ethics and Integrity
Subject: Hotline Report Response Deadline Reminder

You are receiving this memo as a reminder that your response(s) to the confidential hotline report(s) is(are) due by <date>. You have been asked to respond with 10 business days of receiving the memo dated <date>, and to date this office has not yet received your response. If you need details regarding the report(s) previously provided, please contact Danielle Knighten (619) 236-7072 or dknighten@sandiego.gov.

If you need more time to resolve the complaint, send an email to deputychiefethicsintegrity@sandiego.gov explaining your course of action and why additional time is necessary to resolve the complaint properly. Otherwise, the resolution form(s) should be completed, signed and sent to Danielle at MS 9A, within 5 days of receiving this memo, unless other arrangements have been made. If you feel you have received this memo in error, contact Danielle to confirm your response has been received by OEI.

Your attention to this matter is greatly appreciated.

8. Sample memo to referred parties when a response is past due:

Date: October 30, 2006
To: Department Directors
From: Jo Anne SawyerKnoll, Deputy Chief Ethics and Integrity
Subject: Hotline Report Responses Outstanding

Within the last month, this office has forwarded one or more Hotline report(s) asking you to reply, and to date this office has not received your response. If you need details regarding the reports previously provided, contact Danielle Knighten at (619) 236-7072 or dknighten@sandiego.gov.

If you need more time to resolve the complaint, please contact Danielle or send an email to deputychiefethicsintegrity@sandiego.gov explaining your course of action and why additional time is necessary to resolve the complaint properly. Otherwise, the outstanding resolution form(s) should be completed, signed and sent to Danielle, MS 9A within 5 days of receiving this memo, unless other arrangements have been made. If you feel you have received this memo in error, contact Danielle to confirm your response has been received by OEI.

Your attention to this matter is greatly appreciated.

002232

OFFICE OF ETHICS AND INTEGRITY <i>Policies and Procedures Manual</i>	Page 27 of 27
City Employee Hotline and Complaint Program	Effective Date 010/30/2006

9. Sample memo to department directors or appropriate referred party when OEI closed the complaint:

Date: October 30, 2006
To: Department Directors
From: Jo Anne SawyerKnoll, Deputy Chief Ethics and Integrity
Subject: Employee Hotline Report <#>

On <date>, OEI received your response to the City's Employee Hotline report <#>. The Intake and Review Committee has reviewed the response and deems the response is satisfactory, therefore, OEI will close this case and no further action will be taken regarding this matter. If you have any questions regarding this report or the process, contact Danielle Knighten at (619) 236-7072.

We appreciate your contributions to improving the City's ethical climate and to making the hotline a success.

City of San Diego
Office of Ethics and Integrity

002233

Addressing Submission of Suspected Wrongdoing (Whistleblowers)

A key defense against management override of internal controls is a process for anonymous submission of suspected wrongdoing (whistleblowing) that typically incorporates a telephone hotline. The issues posed below by the Association of Certified Fraud Examiners (ACFE) are some examples of questions to consider when designing an effective whistleblower hotline. While ACFE has stated that the questions are not intended to be all-inclusive, and that some items may not apply to every entity's operations, the Office of Ethics and Integrity addressed each area set forth by ACFE.

Whistleblower Issues for Audit Committees to Consider Tool	Yes	No	Partially	Comments
A. Design Effectiveness				
In assessing the design effectiveness of the hotline, a government audit committee should consider the following questions:				
1. Does the hotline have a dedicated hotline number, fax number, web site, e-mail address, and regular mail or post office box address to expedite reports of suspected incidents of misconduct?	X	<input type="checkbox"/>	<input type="checkbox"/>	The City of San Diego's Office of Ethics and Integrity (OEI) contracts with The Network for hotline administration, which includes a dedicated toll-free phone number. The Network has helped clients—including the ACFE-- collect information and address critical issues such as ethics and risk management for nearly 25 years. The Network has more than 2,200 clients, including 45% of the Fortune 500 and a large number of municipalities and government entities.

Anonymous Submission of Suspected Wrongdoing (Whistleblowers)

002234

<p>2. Does the hotline demonstrate confidentiality, including showing how caller ID, e-mail tracking, and other technologies cannot be used to identify the whistleblower? Has the government considered the use of an independent hotline operator to enhance the perception of confidentiality in addition to any real improvement?</p>	<p>X</p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>	<p>The City of San Diego, through OEI, The Network in order to enhance the perception of confidentiality. Complaints made directly to OEI may also be made anonymously, and all complaints, associated reports, working papers, and other documents detailing employee and citizen complaints, shall remain confidential at all times</p>
<p>3. Does the hotline utilize trained interviewers to handle calls to the hotline rather than a voice mail system?</p>	<p>X</p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>	<p>All calls to the hotline are handled by trained, third-party call takers who ask probative questions to gather necessary information. The hotline is staffed and available 24 hours/day, 365 days/year.</p>
<p>4. Is the hotline availability 24 hours a day, 365 days a year?</p>	<p>X</p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>	
<p>5. Does the hotline have multilingual capability to support hotline callers with different ethnic backgrounds or those that are calling from different countries?</p>	<p>X</p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>	
<p>6. Are callers provided with a unique identification number to enable them to call back later anonymously to receive feedback or follow-up questions from investigators?</p>	<p>X</p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>	<p>Each caller is provided a unique identification number so that they can leave additional information (anonymously if they choose) and so OEI may inform them of the status of their concern (e.g., under investigation) or ask additional questions.</p>
<p>7. Does the government have a case management system to log all calls and their follow-up, to facilitate management of the resolution process, testing by internal auditors, and oversight by the audit committee?</p>	<p>X</p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>	<p>The Network receives and records all hotline calls and then creates an "Incident Report." Incident Reports are tracked by OEI to facilitate management of the resolution process. The confidentiality of complaints and these reports is maintained at all times. Upon the establishment of the City of San Diego's Audit Committee, these procedures may be</p>

002235

				revised.
8. Has the government established protocols for the timely distribution of each type of complaint, regardless of the mechanism used to report the complaint? Are complaints of any kind involving senior management automatically and directly submitted to the audit committee without filtering by management or other government personnel?	X	<input type="checkbox"/>	<input type="checkbox"/>	Each complaint is reviewed by OEI's Intake and Review Committee (currently comprised of the Deputy Chief of Ethics and Integrity, Ethics and Audit Compliance Specialist, Director of Personnel and Auditor/Comptroller) within three weeks of its receipt. At the discretion of the OEI Deputy Chief or his/her designee, and based on the circumstances of the complaint, the complaint may be referred to the appropriate department for action prior to the Intake and Review Committee meeting. In the absence of the Audit Committee, complaints involving senior management are referred within existing City mechanisms (e.g., EEIO, Police Department, etc.), depending on the nature of the allegation(s).
9. Does the government effectively distribute comprehensive educational materials and training programs among potential users to raise awareness of the hotline? Are these materials available in all relevant languages, given the potential user base and taking into consideration cultural differences that may require alternative approaches to achieve the desired goal?	<input type="checkbox"/>	<input type="checkbox"/>	X	In November-December 2005, literature, wallet cards, and flyers with information on the hotline (what it is, how to contact, etc.) were sent to <i>all</i> City employees. OEI is currently participating in meet and confer with the City's unions to finalize the hotline procedures. Upon completion of this process, OEI and the Internal Communications group will undertake a City-wide education program to familiarize employees with the hotline, criteria for calls, process for handling concerns, etc. In the meantime, OEI is making <i>in-person presentations to employees that describe the hotline (thus far reaching an estimated 1/3 of the City's workforce) and information is available on OEI's intranet and</i>

002236

				Internet sites.
10. Does the government support outreach to potential stakeholders other than employees?	<input type="checkbox"/>	<input type="checkbox"/>	X	At this point in time, the hotline is intended for employees only. Complaints from citizens are accepted through other means (phone calls, e-mails, in-person, etc.), but addressed through an analogous process. Upon formation of the Audit Committee, the hotline may be expanded to receive citizen complaints, also. At that point, OEI will reach out to citizens and other potential stakeholders.
11. Do the government's internal auditors periodically evaluate the design and operating effectiveness of the hotline? What were the internal auditors' conclusions regarding how the hotline reflects changes in the government's operations and in best practices; (2) whether the hotline is receiving satisfactory support from management, employees, and other participants; and, (3) whether protocols established for forwarding information to the government audit committee have been followed?	X	<input type="checkbox"/>	<input type="checkbox"/>	The City's Auditor/Comptroller is part of the hotline process and was involved in designing the process for effectively operating the hotline and processing complaints. The Deputy Chief of Ethics and Integrity is instrumental informing City management and ensuring appropriate support from management. The Ethics Audit and Compliance Specialist is responsible for advising the Intake and Review Committee on protocol issues.
B. Educating Employees and Others About the Hotline				
In assessing whether management is actively promoting the existence and use of the hotline, a government audit committee should consider the following questions:				
1. Is confidentiality of communications made to the hotline stressed?	X	<input type="checkbox"/>	<input type="checkbox"/>	All complaints, associated reports, working papers, and other documents detailing employee and citizen complaints, which are received either through the Employee Hotline, by mail, e-mail and those documents or notes of any oral conversations with City employees

002237

				or citizens, shall remain confidential at all times, as described in OEI procedures.
2. Is training provided to employees upon hiring and periodically thereafter?	<input type="checkbox"/>	<input type="checkbox"/>	X	OEI will begin its ethics training, slated to include information on the hotline and other mechanisms for reporting complaints involving waste, fraud, abuse or other unethical behavior, in early 2007. In the meantime, all new employees receive information regarding the employee hotline upon hire. Current employees may contact OEI at any time for information regarding or assistance with the hotline or ethics-related questions. Information on how to do so is available on the intranet and Internet, and through in-person presentations.
3. For suppliers, is information incorporated into a vendor approval process, in purchase contracts, and on purchase orders?	<input type="checkbox"/>	X	<input type="checkbox"/>	By Spring 2007, to accompany a Contractor's Code of Conduct, a brochure with information about the ethics-related rules and regulations that govern City employee behavior will be provided to firms doing business with the City. This will assist contractors in avoiding behavior that may encourage ethical lapses and will include information about how contractors can report ethical lapses to the City.
4. Is the hotline number and other contact information provided on the government's Web site, intranet, newsletters, invoices, purchase orders, pay stubs, checks, and even vehicles?	<input type="checkbox"/>	<input type="checkbox"/>	X	As the hotline is currently intended only for employees, the hotline number and contact information is made available through OEI's intranet site, in-person presentations, and collateral such as bookmarks. Upon formation of the Audit Committee, the hotline may be expanded to receive citizen complaints, also. At that point, OEI will reach out to citizens and other potential stakeholders through a variety of means.
C. Evaluating Communications Received				

002238

In evaluating the communications received, a government audit committee should consider the following questions:			
<p>1. Is management taking all communications made to the hotline seriously? Are allegations appropriately investigated?</p>	<p>X</p>	<p><input type="checkbox"/></p>	<p>The OEI Deputy Chief or his/her designee, in conjunction with the Intake and Review Committee, reviews each investigations' response to determine if the allegation(s) raised in the complaint have been adequately addressed in the response. If the response is deemed to inadequately address the allegation(s) raised in the complaint, the Division or Department head and appropriate Deputy Chief are notified. This allows OEI to verify appropriate investigation of complaints while assessing management support.</p>
<p>2. Does the government have a process for reporting back to the whistleblower on a timely basis, where possible, regarding the action taken?</p>	<p>X</p>		<p>In the instance where a complainant has identified him/herself, such complainant will be notified of the OEI action on or referral of the complaint. The complainant may be advised that, in the instance of a referral, OEI may not be able to provide the complainant further information regarding the outcome of his/her complaint due to confidentiality or personnel-related issues. For an anonymous complainant, a notification is sent to The Network so when the complainant calls back, he/she will know the disposition of the complaint and will have an opportunity to report additional information.</p>

002239

10/25/2006

City of San Diego
Kroll Remediation
Remedial Category – Interest Allocation

Kroll Item	Report Ref.	Description
74	M-16	The interest allocation process should receive sufficient management review.

Background

During its audit, KPMG discovered that the interest accrual was allocated incorrectly. Current City management believes this was caused by either an accountant key punch error or a manual calculation error. Current City management believes this issue will be remediated by November 2006. Documented controls currently in place should prevent this type of error from happening again.

Action Taken for Kroll Remediation

The interest allocation process was documented in a format that management believes is acceptable for internal controls. The documentation includes:

- Process flow, process narrative and identification of significant control activities
- Control matrix containing:
 - Control objectives, risks, significant control activities, control number, control type
 - Identification of preventive/detective control, system or manual control, control frequency, fraud control, safeguarding of assets, financial statement assertions and the pertinent components of internal control from the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework

Design Effectiveness Assessment

Effective with the exception of one Design Gap - Segregation of duties related to significant control activity 74D. The same accountant has AMRIS (general ledger) system access to run preliminary and final reports. Management is in the process of remediating this gap by having information technology change system access. Once this gap is fixed, the accountant that runs the preliminary report will not be able to run the final report. This gap is planned to be remediated prior to the time that interest allocation is performed for November 2006.

Operating Effectiveness Assessment

Management plans to test operating effectiveness by March 31, 2007.

Process Improvement Recommendations

None.

**Kroll Remediation Item 74
Interest Allocation Process**

Control Objective	Risks	Significant Control Activity	CA							F/S Assertions					COSO				
			Ref	Ctrl Type	P/D	S/M	F	FC	SOA	Comp	E/O	V/A	R/O	P/D	C	R	I	M	E
Interest income is allocated to the appropriate funds for financial reporting	Interest income is not properly allocated to the appropriate funds resulting in inaccurate financial reporting	Accountant reconciles cash interest earned and investment balances among SunGard Investment Reports and AMRIS.	74A	R	P	M	M						X		X				
		AMRIS system allocates interest among investment pool accounts.	74B	C	P	S	SY						X		X		X		
		The preliminary report and supporting data are reviewed and approved by the Operations Section Supervisor.	74C	M	P	M	M						X		X				X
		The Accountant has system access to run preliminary reports. The Supervisor has system access to run the final reports. THIS IS CURRENTLY A GAP AND SYSTEM ACCESS NEEDS TO BE ADDRESSED.	74D	SD	P	S	SY									X			

002240

Reference Legend

Control Type

- A - Authorization
- C - Configuration/account mapping
- E - Exception reports/edit checks
- I - Interface/conversion controls
- K - Key performance indicators
- M - Management review
- R - Reconciliation
- SD - Segregation of duties
- SA - System access
- SOA - Safeguarding of Assets

(F) Frequency

- D - Daily
- W - Weekly
- B - Bi-Weekly
- M - Monthly
- Q - Quarterly
- S - Semi Annual
- A - Annually
- T - Transactional - daily
- SY - System

F/S Assertions

- Comp - Completeness
- E/O - Existence or occurrence
- V/A - Valuation or allocation
- R/O - Rights and obligations
- P/D - Presentation and disclosure

COSO Framework

- C - Control Activities
- R - Risk Assessment
- I - Information and Communications
- M - Monitoring
- E - Control Environment

Headers

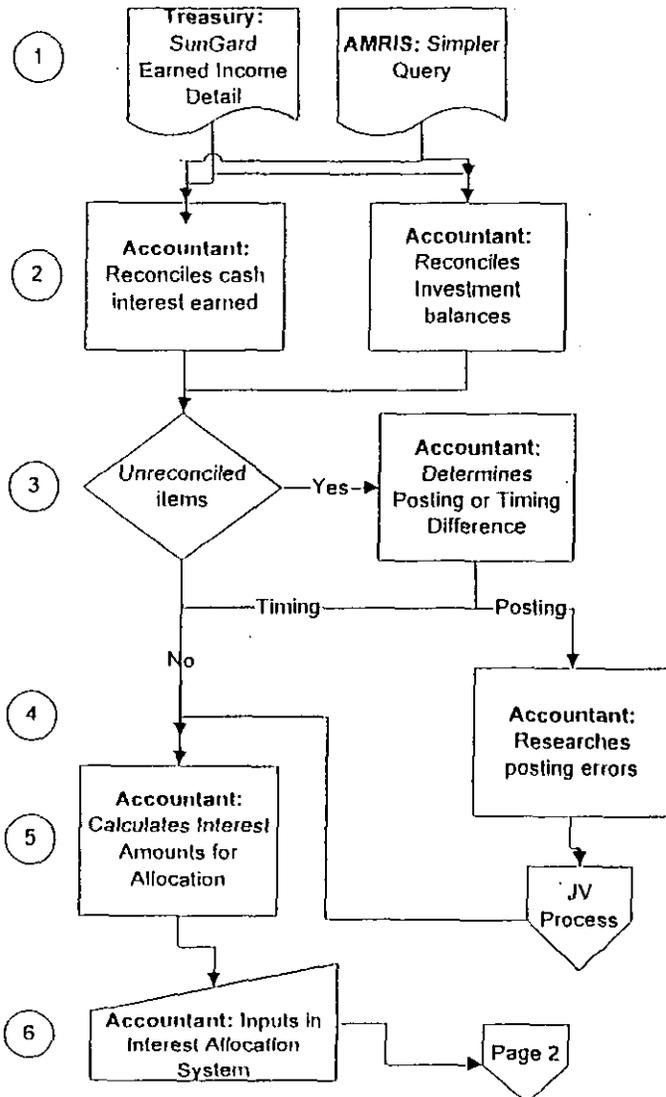
- CA Ref - Control Activity reference number
- Ctrl Type - Control Type
- P/D - Preventive/Detective Control
- S/M - System/Manual Control
- F - Frequency
- FC - Fraud Control
- SOA - Safeguarding of Assets

Process Flow

Process Narrative

Significant Control Activities

002241



Background: Interest is required to be allocated to all funds included in the City's pooled cash. Fund 99998 is the City's investment pool account. There are approximately 1,500 funds in the pool. Interest allocation distribution occurs on a calendar month basis. The City's AMRIS accounting system is on a 13 period basis. Interest Allocation Procedures were issued on 8/23/1999. That document serves as a "Desk Procedure."

The process begins with the receipt of the SunGard Monthly Investment Reports from the Treasurer's Department. These reports are available 2-3 weeks after month end. The SunGard report amounts need to be reconciled to the amounts in AMRIS. The Interest Allocation Accountant runs a Simpler query to obtain AMRIS fund amounts.

The Interest Allocation Accountant reconciles cash interest earned between the SunGard Investment Report and AMRIS. The Interest Allocation Accountant also reconciles investment balances among SunGard and AMRIS. Cash interest received and investment pool activity must reconcile prior to allocating interest to the funds.

There could be unreconciled items due to timing or posting errors. When there are unreconciled items, first the Interest Allocation Accountant researches for any timing differences. Typically, timing differences are related to posting on the first day of the next calendar month in AMRIS. A query report from the Simpler system is run to obtain daily transactions for the first day of the next calendar month. This report is used to identify timing differences.

If there are posting errors, they are researched with the supervisor and a Journal Voucher is prepared.

Upon completion of the reconciliation, the "TOTAL ENDING ACCRUAL" and "TOTAL CASH RECEIVED" is calculated by the Interest Allocation Accountant. Both figures are calculated from data contained in the SunGard Monthly Investment Reports.

Once these amounts are determined, they are entered into the Interest Allocation System (C3502 screen) with a status of "P" for Preliminary.

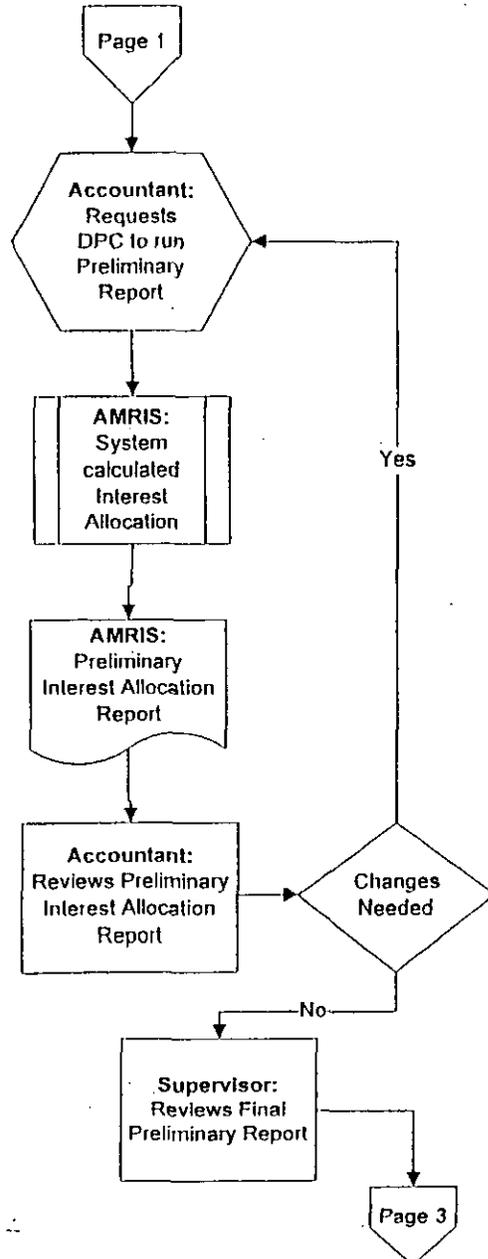
2 (CA - 74A) Reconciliation. Accountant reconciles cash interest earned and investment balances among SunGard Investment Reports and AMRIS.

Process Flow

Process Narrative

Significant Control Activities

002242



The Interest Allocation Accountant requests the preliminary interest allocation reports be printed. The accountant sends an email to San Diego Data Processing Corporation (DPC) indicating jobs needed to run the preliminary report.

DPC runs AMRIS system preliminary reports that show the results of interest allocation distribution based on the two amounts entered for the TOTAL ENDING ACCRUAL AND TOTAL CASH RECEIVED.

The Interest Allocation Accountant reviews the preliminary report. Specifically, the ending accrual, beginning accrual and cash received amounts are reviewed to confirm they are accurate. Three particular funds are analyzed for reasonableness: General Fund (100), Water Fund (41500), and Sewer Fund (41506). These three funds were chosen because each have substantial cash balances. The prior monthly reports for these three funds are compared to the current reports for reasonableness. At this time, the Interest Allocation Accountant can also enter any needed adjustments to cash or accrual balances into the Interest Allocation System. These adjustments are based on information from the preliminary report. If any adjustments are made, another preliminary report run is run and reviewed for accuracy.

After complete review of the preliminary report and any adjustments, the Interest Allocation Accountant submits all documents and work papers to the Operations Section Supervisor. The Operations Section Supervisor reviews the summary and supporting information and approves by initialing the front page of the work papers.

(CA - 74B) System Configuration. AMRIS system allocates interest among investment pool accounts.

(CA - 74C) Management Review. The preliminary report and supporting data are reviewed and approved by the Operations Section Supervisor.

7
8
9
10
11

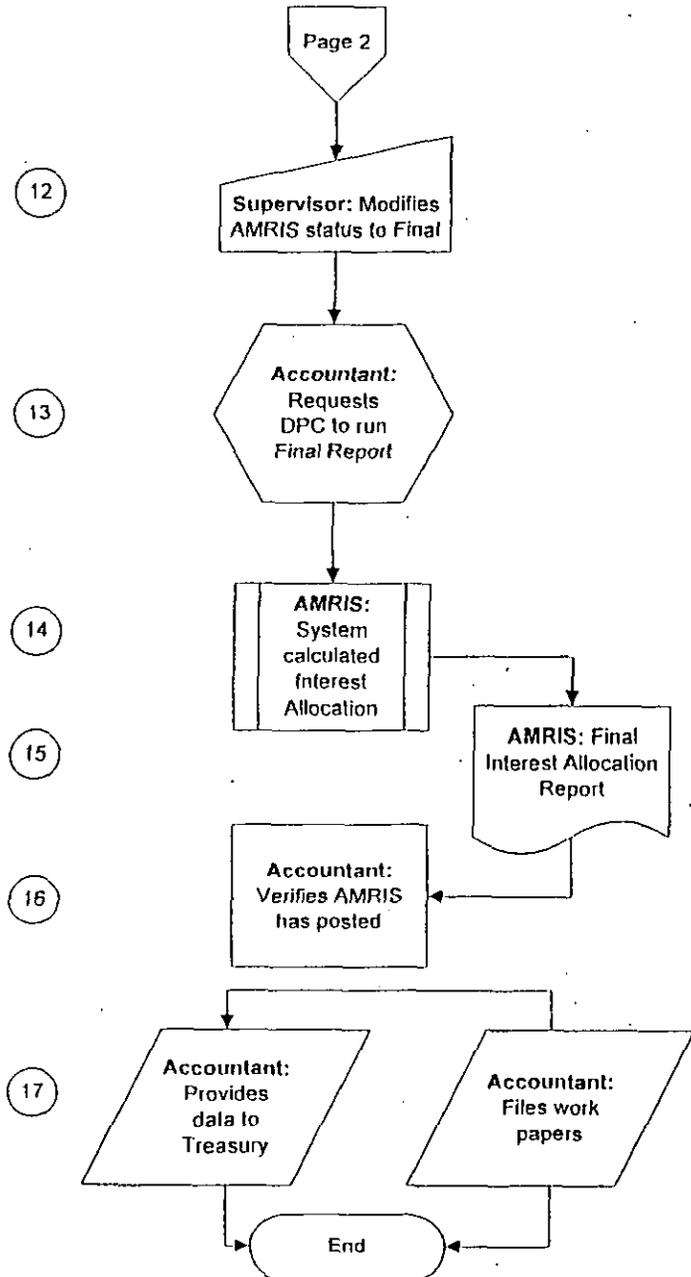
8
11

002243

Process Flow

Process Narrative

Significant Control Activities



With the Operations Section Supervisor's approval, the posting of Interest Allocation is ready. The Supervisor modifies the status of the C3502 screen to "F" for Final.

(12) (CA - 74D) Segregation of Duties. The Accountant has system access to run preliminary reports. The Supervisor has system access to run the final reports. THIS IS CURRENTLY A GAP AND SYSTEM ACCESS NEEDS TO BE ADDRESSED.

The Interest Allocation Accountant sends an email to San Diego DPC indicating jobs needed to run the Final Interest Allocation Report and the system generated postings to AMRIS (the G/L).

DPC runs AMRIS system generated Final Interest Allocation Reports.

(14) See CA - 74B on page 2 of 3.

The Interest Allocation Accountant reviews the final report and verifies that AMRIS has posted interest allocation.

The Interest Allocation Accountant provides receiving fund daily average cash balances to the Treasurer's Department through email. The work papers for the month are filed in the Interest Allocation file.

002245

REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO

1. CERTIFICATE NUMBER
(FOR AUDITOR'S USE ONLY)

TO:
CITY COUNCIL

2. FROM (ORIGINATING DEPARTMENT):
Acting Chief Operating Officer

3. DATE:
8/23/2007

4. SUBJECT:
City Response to July 23, 2007 Securities and Exchange Commission Letter

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.)
Julie Dubick 619-236-5929 MS 11A

6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.)

7. CHECK BOX IF REPORT TO
COUNCIL IS ATTACHED

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND			
DEPT.			
ORGANIZATION			
OBJECT ACCOUNT			
JOB ORDER			
C.I.P. NUMBER			
AMOUNT			

9. ADDITIONAL INFORMATION / ESTIMATED COST:

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	
1	ORIGINATING DEPARTMENT		8-23-07	8	DEPUTY CHIEF			
2				9	COO		8/23/07	
3				10	CITY ATTORNEY			
4	LIAISON OFFICE			11	ORIGINATING DEPARTMENT		8-23-07	
5				DOCKET COORD: _____ COUNCIL LIAISON: _____				
6				✓	COUNCIL PRESIDENT	<input type="checkbox"/> SPOB	<input type="checkbox"/> CONSENT	<input checked="" type="checkbox"/> ADOPTION
7			<input type="checkbox"/> REFER TO: _____		COUNCIL DATE: 9/4/07			

11. PREPARATION OF: RESOLUTION(S) ORDINANCE(S) AGREEMENT(S) DEED(S)

1. Authorize Mayor to Submit City's Response to July 23, 2007 Securities and Exchange Commission Letter.

11A. STAFF RECOMMENDATIONS:
Approve the requested action.

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): ALL

COMMUNITY AREA(S): ALL

ENVIRONMENTAL IMPACT: THIS ACTIVITY IS NOT A "PROJECT" AND THEREFORE IS EXEMPT FROM CEQA PURSUANT TO STATE GUIDELINES SECTION 15060

HOUSING IMPACT: NONE

OTHER ISSUES: NONE