



THE CITY OF SAN DIEGO  
MAYOR JERRY SANDERS

## M E M O R A N D U M

DATE: April 3, 2008

TO: Councilmember Donna Frye

FROM: Greg Levin, Comptroller

SUBJECT: Response to memo from Councilmember Donna Frye titled "*Changes to the City of San Diego's 2005 Summary of Net Assets in the 2006 Comprehensive Annual Financial Report (CAFR)*"

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This memorandum serves as the response to the attached memorandum entitled "*Changes to the City of San Diego's 2005 Summary of Net Assets in the 2006 Comprehensive Annual Financial Report (CAFR)*", dated April 1, 2008.

### **Background:**

In your memorandum you requested a response to why the City's *Governmental Activities* Net Assets for FY 2005 are reclassified in the FY 2006 CAFR on page 36 of the Management's Discussion and Analysis. You also noted that the same Net Assets were reclassified for the *Total Primary Government* column; that reclassification is simply the result of the Governmental Activities reclassification. This memo will address the six (6) questions.

### QUESTIONS 1 & 2:

Why were these numbers changed?  
Which numbers are correct?

### ANSWER 1 & 2:

The City is committed to continuously improving the City's financial statements. In this regard, the classification of each revenue, expense and equity/net asset balance is reviewed with the issuance of every CAFR. The review performed during the completion of the FY 2006 CAFR resulted in a different classification of the restrictions, both internal and external, for certain governmental activities debt, and housing reserves. The conclusion was that a significant amount of the outstanding bonds within the Redevelopment Agency accounts are for the purchase of assets that are inherently governmental (infrastructure and other general government

To: Councilmember Donna Frye  
Date: March 19, 2008

capital assets). Therefore, the related debt balances were reclassified as a component of invested in capital assets, net of related debt for governmental activities.

The external auditors agreed with management's position, and in order to comply with accounting standards the City needed to reclassify the Net Asset components for FY 2005 on page 36 in order to provide the users of the statements with comparable data.

According to accounting standards, it is necessary that prior-year figures shown for comparative purposes be comparable with those shown for the current period. Standards also require that reclassifications or other changes affecting comparability of financial statements presented should be disclosed (*Accounting Research Bulletin (ARB) – 43 Chapter 2*). The example given for proper disclosure of reclassifications which have **no effect on previously reported net income** is as follows:

***Example 16-1: Reclassifications of a General Nature***

***“Certain amounts in the prior periods presented have been reclassified to conform to current period financial statement presentation.”***

The MD&A is the only section within the CAFR which requires comparative schedules. Therefore, in keeping with FASB ARB No. 43 we reclassified the Governmental Activities Net Assets to conform to current year presentation, and we included the required footnote disclosures on page 36, under the comparison table, as well as page 75, Note 1 “Summary of Significant Accounting Policies.”

It is management's opinion that both presentations are acceptable. The presentation of accounts in the financial statements is occasionally subject to professional judgment and changes in presentation do not necessarily result in one number being incorrect or vice versa. In fact, changes in presentation can be the result of changes in the City's operations or organizational structure. Again, this reclassification had no effect on previously reported net income.

QUESTION 3:

Are these changes material?

ANSWER 3:

These reclassifications have no impact on net income or total net assets and are, in the opinion of management and the external auditors, properly disclosed and as such are not material.

QUESTION 4:

Do you believe that this information should have been pointed out to the City Council on March 25, 2008 when this specific item was being discussed?

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To: Councilmember Donna Frye

Date: March 19, 2008

ANSWER 4:

As mentioned previously, neither management nor the external auditors find this reclassification a significant or material change. The change was not made to have unrestricted net assets look better or worse, it was made to ensure that the presentation and reporting of the City's financial statements reflected the nature of the funds being reported. Reclassification of accounts to reflect the changing nature of the City's operations is common practice and management does not view the change as significant.

QUESTION 5:

What other numbers shown in the 2005 CAFR (for 2005) have been changed in the 2006 CAFR for 2005?

ANSWER:

None.

QUESTION 6:

Please provide a list of land and properties that are currently included in the restricted net assets including the reason(s) for the restrictions.

ANSWER 6:

Land and properties are not reported as a component of restricted net assets. All capital assets, which includes land and properties, is reported as the primary component of invested in capital assets, net of related debt.

Attachments:

1. Memorandum from Councilmember Donna Frye

cc: Honorable Mayor Jerry Sanders  
Honorable Members of the City Council  
Jay M. Goldstone, COO  
Mary Lewis, CFO  
Andrea Tevlin, IBA  
Michael Aguirre, City Attorney

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000743



**COUNCILMEMBER DONNA FRYE**

City of San Diego  
Sixth District

**MEMORANDUM**

08-13

**DATE:** April 1, 2008

**TO:** Macias, Gini & O'Connell  
Jay Goldstone, COO  
Greg Levin, City Comptroller

**FROM:** Councilmember Donna Frye

**SUBJECT:** Changes to the City of San Diego's 2005 Summary of Net Assets in the 2006 Comprehensive Annual Financial Report (CAFR)

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On March 21, 2008, Macias, Gini & O'Connell (MGO), issued their Independent Auditor's Report for the City of San Diego's 2006 CAFR.

On March 23, 2008, the Mayor released the City's 2006 CAFR with MGO's report.

On March 25, 2008, the City Council reviewed the City of San Diego's 2005 CAFR. There was a discussion and a variety of questions raised about the City of San Diego's Summary of Net Assets (both the numbers shown in the table and the narrative that directly followed the table) shown on page 38 (attached). The City Council voted to receive and file the 2005 CAFR, with my voting in opposition for a variety of reasons disclosed during that meeting.

On page 36 of the City's 2006 CAFR (attached), there is a footnote to the City of San Diego's Summary of Net Assets table that states, "*Certain amounts have been reclassified to conform to current year presentation.*"

Upon first review, I noticed that three of the four amounts shown for 2005 Net Assets for *Governmental Activities* are different in the 2006 CAFR than what was shown in the 2005 CAFR, and three of the four amounts shown for 2005 Net Assets for *Total Primary Government* are different in the 2006 CAFR than the 2005 CAFR.

For example, the 2005 CAFR for *Total Primary Government* shows approximately \$279 million in total Net Assets that “*represent resources that are subject to external restrictions on how they may be used*” and approximately \$56 million in total Net Assets that is unrestricted and “*available to finance ongoing services and obligations to the City’s citizens and creditors.*”

In the 2006 CAFR, the amount shown for 2005 restricted Net Assets is approximately \$434 million and the amount shown for 2005 unrestricted net assets is approximately \$23 million.

**Specifically, restricted Net Assets increased from \$279,237 million to \$434,415 (approximately \$155 million), and unrestricted Net Assets decreased from \$56,224 million to \$23,266 million (approximately \$33 million)**

Please address the following questions:

1. Why were these numbers changed?
2. Which numbers are correct?
3. Are these changes material?
4. Do you believe that this information should have been pointed out to the City Council on March 25, 2008 when this specific item was being discussed? If yes, why wasn't it? If no, why not?
5. What other numbers shown in the 2005 CAFR (for 2005) have been changed in the 2006 CAFR for 2005?
6. Please provide a list of land and properties that are currently included in the restricted net assets including the reason(s) for the restrictions.

I am requesting a written response to my questions within 30 days. Thank you.

CC: Councilmember Kevin Faulconer, Chair, Audit Committee  
Honorable City Councilmembers  
Honorable Mayor Jerry Sanders  
Andrea Tevlin, Independent Budget Analyst  
Michael Aguirre, City Attorney  
Stanley Keller, Independent Monitor

DF/ks

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO'S SUMMARY OF NET ASSETS  
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005*	2006	2005	2006	2005*
Capital Assets	\$ 4,307,640	\$ 4,284,409	\$ 4,536,313	\$ 4,507,385	\$ 8,843,953	\$ 8,791,794
Other Assets	1,511,124	1,337,369	650,350	647,459	2,161,474	1,984,828
Total Assets	5,818,764	5,621,778	5,186,663	5,154,844	11,005,427	10,776,622
Net Long-Term Liabilities	1,876,763	1,797,521	1,866,411	1,870,766	3,743,174	3,668,287
Other Liabilities	160,423	192,679	109,123	116,070	269,546	308,749
Total Liabilities	2,037,186	1,990,200	1,975,534	1,986,836	4,012,720	3,977,036
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	3,472,531	3,478,769	2,867,469	2,863,136	6,340,000	6,341,905
Restricted	449,173	401,486	35,085	32,929	484,258	434,415
Unrestricted	(140,126)	(248,677)	308,575	271,943	168,449	23,266
Total Net Assets	\$ 3,781,578	\$ 3,631,578	\$ 3,211,129	\$ 3,168,008	\$ 6,992,707	\$ 6,799,586

\* Certain amounts have been reclassified to conform to current year presentation

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,992,707 at June 30, 2006, an increase of \$193,121 over fiscal year 2005.

\$6,340,000, or approximately 91%, of total Net Assets represent the City's investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally are not used to liquidate these liabilities.

\$484,258, or approximately 7%, of total Net Assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$168,449, or approximately 2%, is available to finance ongoing services and obligations to the City's citizens and creditors.

Unrestricted Net Assets increased by \$145,183, primarily due to: a decrease of approximately \$46,000 in the amount of outstanding debt for governmental activities which is not capital or housing related; an increase in revenue accruals of approximately \$30,000 for In-Lieu Vehicle License Fees and grants receivable of governmental activities; an increase of \$23,000 in capital contributions related to land acquisition credits of the governmental activities; a decrease in liability claim accruals of approximately \$21,000 resulting from claims settled in fiscal year 2005 and fiscal year 2006 and a slightly lower actuarial valuation for public liability claims; and an increase in sales of water of approximately \$12,000 in the Water Utility due to rate increases.

The deficit balance of (\$140,126) in Unrestricted Net Assets for Governmental Activities reflects the fact that governmental activities raise resources based on when liabilities are expected to be paid, rather than when they are incurred. Most governments normally do not have sufficient current resources on hand to cover current and long-term liabilities. This deficit in and of itself should not be considered an economic or financial difficulty; however, it does measure how far the City has committed the government's future taxing power for purposes other than capital acquisition.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO'S SUMMARY OF NET ASSETS  
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Capital Assets	\$ 4,284,409	\$ 4,146,158	\$ 4,507,385	\$ 4,417,208	\$ 8,791,794	\$ 8,563,366
Other Assets	1,337,369	1,231,985	647,459	773,434	1,984,828	2,005,419
Total Assets	5,621,778	5,378,143	5,154,844	5,190,642	10,776,622	10,568,785
Net Long-Term Liabilities	1,797,521	1,676,681	1,870,766	1,901,897	3,668,287	3,578,578
Other Liabilities	192,679	156,271	116,070	122,288	308,749	278,559
Total Liabilities	1,990,200	1,832,952	1,986,836	2,024,185	3,977,036	3,857,137
Net Assets:						
Invested in Capital Assets, Net of						
Related Debt	3,600,989	3,200,262	2,863,136	2,818,690	6,464,125	6,018,952
Restricted	246,308	491,722	32,929	30,409	279,237	522,131
Unrestricted	(215,719)	(146,793)	271,943	317,358	56,224	170,565
Total Net Assets	\$ 3,631,578	\$ 3,545,191	\$ 3,168,008	\$ 3,166,457	\$ 6,799,586	\$ 6,711,648

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,799,586 at June 30, 2005, an increase of \$87,938 over fiscal year 2004.

\$6,464,125, or approximately 95%, of total Net Assets represent the City's investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally are not used to liquidate these liabilities.

\$279,237, or approximately 4%, of total Net Assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$56,224, or approximately 1%, is available to finance ongoing services and obligations to the City's citizens and creditors.

Unrestricted Net Assets decreased by \$114,341, or approximately 67%, primarily due to an increase in the Net Pension Obligation (approximately \$58,000) as well as resources being utilized in the acquisition and construction of capital assets.

The deficit balance of (\$215,719) in Governmental Activities Unrestricted Net Assets reflects the fact that governmental activities raise resources based on when liabilities are expected to be paid, rather than when they are incurred. Most governments normally do not have sufficient current resources on hand to cover current and long-term liabilities. This deficit in and of itself should not be considered an economic or financial difficulty; however, it does measure how far the City has committed the government's future taxing power for purposes other than capital acquisition.

000747

**REQUEST FOR COUNCIL ACTION**  
 CITY OF SAN DIEGO

 1. CERTIFICATE NUMBER  
 (FOR AUDITOR'S USE ONLY) 332  
 N/A 4/22

 TO: City Attorney  
 2. FROM (ORIGINATING DEPARTMENT): Auditor & Comptroller  
 3. DATE: 4/11/2008

 4. SUBJECT:  
 Pursuant to Municipal Code Section 22.0710, the City Auditor & Comptroller's Office is hereby requesting a hearing on the City's Comprehensive Annual Financial Report for the Fiscal Year Ending June 30, 2006 and the related Single Audit and Yellow Book Reports

 5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.) Greg Levin, Comptroller x66162  
 6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.) Tracy McCraner, Director of Financial Reporting x55821  
 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:
							No Financial Impact

**10. ROUTING AND APPROVALS**

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>[Signature]</i>	4.11.08	8	CFO	<i>[Signature]</i>	4/11/08
2	LIAISON OFFICE	<i>[Signature]</i>	4/11/08	9	COO	<i>[Signature]</i>	4/11/08
3				10	CITY ATTORNEY		
4				11	ORIGINATING DEPARTMENT		
5				DOCKET COORD: _____ COUNCIL LIAISON: _____			
6				✓	COUNCIL PRESIDENT	<i>[Signature]</i>	
7					<input type="checkbox"/> SPOB	<input type="checkbox"/> CONSENT	<input checked="" type="checkbox"/> ADOPTION
					<input type="checkbox"/> REFER TO: _____		COUNCIL DATE: 4.22.08

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

Adopt the attached resolution of the City Council of San Diego regarding the City's Fiscal Year 2006 Comprehensive Annual Financial Report, Single Audit and Yellow Book Report.

 11A. STAFF RECOMMENDATIONS:  
 Receive and File the Fiscal Year 2006 CAFR and Single Audit

 12. SPECIAL CONDITIONS:  
COUNCIL DISTRICT(S):  
COMMUNITY AREA(S):  
ENVIRONMENTAL IMPACT:  
HOUSING IMPACT:  
OTHER ISSUES:

000747

REQUEST FOR COUNCIL ACTION  
CITY OF SAN DIEGO

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N/A 4/22

TO: City Attorney

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Greg Levin, Comptroller x66162

6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.)  
Tracy McCraner, Director of Financial Reporting  
x55821

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:  
No Financial Impact

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>[Signature]</i>	4-11-08	8	CFO	<i>[Signature]</i>	4/11/08
2	LIAISON OFFICE	<i>[Signature]</i>	4/11/08	9	COO	<i>[Signature]</i>	4/11/08
3				10	CITY ATTORNEY	<i>[Signature]</i>	4/15/08
4				11	ORIGINATING DEPARTMENT		
5				DOCKET COORD: _____ COUNCIL LIAISON: _____			
6				✓	COUNCIL PRESIDENT <input checked="" type="checkbox"/>	SPOB <input type="checkbox"/>	CONSENT <input type="checkbox"/>
7					ADOPTION <input checked="" type="checkbox"/>	REFER TO: _____	COUNCIL DATE: 4-22-08

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

Adopt the attached resolution of the City Council of San Diego regarding the City's Fiscal Year 2006 Comprehensive Annual Financial Report, Single Audit and Yellow Book Report.

11A. STAFF RECOMMENDATIONS:  
Receive and File the Fiscal Year 2006 CAFR and Single Audit

12. SPECIAL CONDITIONS:  
COUNCIL DISTRICT(S):  
COMMUNITY AREA(S):  
ENVIRONMENTAL IMPACT:  
HOUSING IMPACT:  
OTHER ISSUES:

000749

**EXECUTIVE SUMMARY SHEET**  
CITY OF SAN DIEGO

DATE ISSUED: April 10, 2008 REPORT NO:  
ATTENTION: Council President Peters and City Council  
ORIGINATING DEPARTMENT: Comptroller's Office  
SUBJECT: 2006 CAFR, Single Audit and Yellow Book Reports  
COUNCIL DISTRICT(S): All  
CONTACT/PHONE NUMBER: Greg Levin, Comptroller: 619-236-6162

REQUESTED ACTION:

Receive and File the City's Comprehensive Annual Financial Report and Single Audit for Fiscal Year 2006

STAFF RECOMMENDATION:

Approve the Requested Action

EXECUTIVE SUMMARY:

The City received an Audit Opinion from its Independent Auditor Macias Gini & O'Connell LLP dated March 21, 2008 on the 2006 Comprehensive Annual Financial Report and Yellow Book report. The City will receive the Single Audit Report from Macias Gini & O'Connell on April 16, 2008 and it will be distributed separately as soon as it is available.

FISCAL CONSIDERATIONS:

None with this action.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

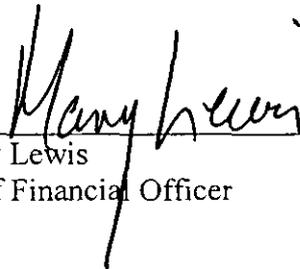
The Audit Committee is scheduled to consider these documents during the week of April 14, 2008.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: n/a

KEY STAKEHOLDERS AND PROJECTED IMPACTS: n/a



Greg Levin  
Comptroller



Mary Lewis  
Chief Financial Officer

#332  
4/22/08

RESOLUTION NUMBER R- \_\_\_\_\_

DATE OF FINAL PASSAGE \_\_\_\_\_

RESOLUTION OF THE COUNCIL OF THE CITY OF SAN  
DIEGO REGARDING THE CITY'S FISCAL YEAR 2006  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

WHEREAS, there has been presented to this Council the City's Fiscal Year 2006 Comprehensive Annual Financial Report [CAFR], together with an unqualified opinion of the City's Independent Auditor Macias Gini & O'Connell LLP [Macias], dated March 21, 2008, relative to the City's 2006 financial statements and such documents are on file with the City Clerk as Document No. \_\_\_\_\_, and Document No. \_\_\_\_\_; and

WHEREAS, the CAFR is the responsibility of the City management and the role of the Council, as part of its legislative oversight responsibilities, is to determine, to each Council members satisfaction, based on the process followed, including the certifications of certain City officials regarding the CAFR, and applying the knowledge that each Council member has of the City's affairs, that there is no reason the CAFR should not be made available to investors and the securities markets as an official document of the City; and

WHEREAS, while the Council is not required to review the City's CAFRs this Council deems it prudent and a best practice for the Council to do so to ensure that appropriate and reasonable processes have been followed in the preparation of CAFRs since they contain the City's financial statements and other information that will be included in official statements and other disclosure documents used in connection with sale of securities of the City and its related entities, which will require approval by the Council; and

WHEREAS, the Council also deems it prudent and a best practice that the Council receive and file the City's FY 2006 Single Audit, prepared pursuant to the federal Single Audit Act of 1986, as amended; and

WHEREAS, in receiving the City's FY 2006 CAFR and FY 2006 Single Audit, the Council deems it prudent to review the Yellow Book Reports accompanying each audit; and

WHEREAS, in accordance with Sections 22.4107(a)(1) and 22.4111 of the Municipal Code and the Disclosure Controls and Procedures adopted by the Disclosure Practices Working Group [DPWG], the final draft of the Fiscal Year 2006 CAFR in the form presented at the DPWG meeting of March 21, 2008 was reviewed, and in the best judgment of the DPWG, such draft was in substantially final form, subject to the receipt of the final opinion letter of Macias and the certification of the Chief Financial Officer, and the certifications of the Chief Financial Officer and the DPWG are on file with City Clerk as Document No. \_\_\_\_\_ and Document No. \_\_\_\_\_; and

WHEREAS, on April 18, 2008 the Audit Committee recommended, in accordance with the procedures of its Charter, that the Council receive and file the Fiscal Year 2006 CAFR;

NOW THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego that:

1. The City's Fiscal Year 2006 CAFR is hereby received and filed with the City Council.
2. The City's Fiscal Year 2006 Single Audit is hereby received and filed with the City Council.

3. This Resolution shall take effect immediately on the passage thereof.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By  \_\_\_\_\_  
Brant C. Will  
Deputy City Attorney

BCW:jdf  
04/18/08  
Or.Dept:Finance  
R-2008-930

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

ELIZABETH S. MALAND  
City Clerk

By \_\_\_\_\_  
Deputy City Clerk

Approved: \_\_\_\_\_  
(date)

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

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

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



**MACIAS GINI & O'CONNELL LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

#332  
4/22/08

3000 S Street, Suite 300  
Sacramento, CA 95816

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596

515 S Figueroa Street, Suite 325  
Los Angeles, CA 90071

402 West Broadway, Suite 400  
San Diego, CA 92101

**INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor, City Council  
and City Manager of the City of San Diego  
San Diego, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego, California, (the City), as of and for the year ended June 30, 2006, which collectively comprise of the City's basic financial statements and have issued our report thereon dated March 21, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the San Diego Housing Commission, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as 2006-(a). Reportable conditions are also described in the status of prior year findings (findings related to financial statements) as items 2004-(b) and 2003-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-(b) and 2003-1 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2006-(a).

We also noted certain other matters that we reported to management of the City, in a separate letter dated March 21, 2008.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Jini & O'Connell LLP*

Certified Public Accountant

San Diego, California

March 21, 2008

**CITY OF SAN DIEGO**  
Schedule of Findings  
For the Fiscal Year Ended June 30, 2006

**Finding No. 2006-(a) City of San Diego Redevelopment Agency (RDA) - Properties Held for Longer than 5 Yrs**

**Observation** – In accordance with CA Health & Safety Code §33334.16, the RDA is required to initiate activities to develop properties purchased with Housing Fund money within five years from the date of acquisition. If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. During our review of RDA's year ended June 30, 2006 property listing, we noted that out of a sample of 25 properties selected for testing, 1 property acquired with Housing Fund money did not initiate activities within the five year period nor did they attempt to obtain an extension by resolution.

**Recommendation** – The RDA should consistently monitor its properties in order to maintain compliance with CA Health & Safety Code §33334.16. RDA should obtain the appropriate resolutions to extend the periods of time for properties approaching 5 years, or sell the property and the money from the sale less reimbursement to the agency for the cost of the sale should be deposited in the agency's Housing Fund.

**Management Response:** SEDC management agrees. The subject property is located in the Southcrest Redevelopment Project Area immediately north of the former 252 Corridor – a former abandoned right-of-way that was redeveloped in part with a public investment of \$11.8 million. The acquisition of the property was a part of the development strategy and effort employed by SEDC to assemble developable parcels without the use of eminent domain. The development contemplated for the subject property at the time of its acquisition was affordable housing which was to be accomplished by private development consistent with the goals of the Southcrest Redevelopment Plan and the requirements of the California Redevelopment Law (CRL). In this regard, SEDC has been engaged in various marketing efforts and strategies to promote the requisite affordable housing opportunities. However, given the financial challenges associated with this effort, SEDC has unfortunately been unable to attract the type of quality development contemplated for this property. Therefore, SEDC is going to request that the City Council extend for a period of five (5) additional years the time in which it may initiate on the property the requisite affordable housing opportunities pursuant to Section 33334.16 of the CRL.

**CITY OF SAN DIEGO**  
Status of Prior Year Findings  
For the Fiscal Year Ended June 30, 2006

Reference Number: 2005-(a)

Topic Risk Management (Public Liability)

Audit Finding: The City's internal controls over public liability reserves requires the completion and authorization of a "Request for Action" form (RFA) documenting the rationale whenever an adjustment is required. During our testing of internal controls, we noted that none of the 12 RFAs we selected for testing indicated the rationale for the reserve adjustment, nor was there any indication that management had reviewed or authorized any of these RFAs.

Status of Corrective Action: Corrected. Risk Management implemented procedures on April 20, 2006 to ensure proper completion and authorization of a Request for Action (RFA) whenever an adjustment is made to a public liability reserve. The procedure applies to reserves exceeding \$100,000. Reserves exceeding \$100,000 will require the claims representatives to document the basis for adjustment on an RFA. Once completed, the RFA will be forwarded to the Claims Supervisor for review and approval. To ensure consistency of the procedure within the division, a quarterly report listing claims including reserves that exceed \$50,000 will be generated. The quarterly report will be forwarded to the Claims and Insurance Manager, at which time claims filed will be pulled randomly for review. The Claims and Insurance manager will evaluate whether reserve adjustment procedures were adhered to.

Reference Number: 2004-(a)

Topic Key Estimates and Assumptions Development Process

Audit Finding: The City did not have an established methodology for determining allowances for a significant portion of its governmental fund accounts receivable balances despite the fact that a sizeable percentage of these were over one year old.

Status of Corrective Action: Corrected. The City developed a methodology and implemented this process during the current year ended June 30, 2006. Procedures are now in place to obtain detailed receivable listings for both current invoices and invoices referred to the City Treasurer's Collections division. An analysis is performed on the age of all receivables and an allowance percentage is calculated for current and invoices referred to the City Treasurer's Collections division separately. This allowance for uncollectible receivables is then booked as a contra asset account to accounts receivable within the City's financial statements to reduce the net receivable balances for each fiscal year ending June 30.

Reference Number: 2004-(b)

Topic Accounting for Land-held-for-resale

**CITY OF SAN DIEGO**  
Status of Prior Year Findings  
For the Fiscal Year Ended June 30, 2006

**Audit Finding:** The San Diego Redevelopment Agency (RDA) utilizes two management companies to administer some of the RDA's project areas (Southeastern Economic Development Corporation manages four project areas and Centre City Development Corporation manages two project areas.) The two corporations did not communicate information relating to sales of land or transfers of land to capital assets to the RDA in a timely fashion. As a result, the RDA had reduced the reported land-held-for-resale balance by \$22 million for errors related to the existence of land-held-for-resale and \$11 million related to unrecorded net realizable value adjustments to the beginning balance in its 2003 statements.

**Status of Corrective Action:** In progress. This finding was not corrected during the fiscal year ended June 30, 2006 but was corrected shortly thereafter. On October 26, 2006 the City implemented revised procedures including confirmations of land inventory balances to component units and revised procedures for monitoring the effects of various Developer Disposition Agreements on the status of land held in inventory.

**Reference Number:** 2003-1

**Topic** Material Weakness in Internal Controls over the Financial Reporting Process

**Audit Finding:** There were inadequate policies, procedures, internal controls and personnel to ensure the preparation of an accurate and reliable Comprehensive Annual Financial Report (CAFR) on a timely basis. Specifically, deficiencies were noted in the following areas:  
CAFR Preparation  
Pension Accounting  
Capital Asset Accounting  
Metropolitan Wastewater Utility  
Risk Management  
City Treasurer's Cash and Investment Pool  
Procurement  
Accounts Payable and Accrued Expense  
Human Resources  
Accounts Receivable  
Information Technology.  
As a result of this, numerous material corrections to the CAFR for the year ended June 30, 2003 in the amount of \$1 billion were proposed and booked.

**Status of Corrective Action:** In progress. This finding was not corrected during the fiscal year ended June 30, 2006. However, prior to the issuance of this report several modifications to the City's financial reporting process and control environment have been made. These modifications include the hiring of new management to oversee financial reporting and the implementation of revised policies, procedures and training for employees. Notwithstanding the improvements made prior to the issuance of this report, many more improvements need to be made to financial reporting controls in order to fully mitigate all aspects of the finding.

**CITY OF SAN DIEGO**  
Status of Prior Year Findings  
For the Fiscal Year Ended June 30, 2006

Reference Number: 2003-2

Topic: Violations of the Internal Revenue Code

Audit Finding: San Diego City Employees' Retirement System (SDCERS) operates as a retirement system trust fund under Section 401(a) of the Internal Revenue Code of 1986, as amended ("IRC"). The City and SDCERS may not have complied with the IRC in the manner in which it funds and administers healthcare and other benefits for employees. Between 1982 and 2005, the SDCERS may have violated the qualification requirements of IRC Sections applicable to defined benefit plans.

Status of Corrective Action: Corrected. In February 2005, after exhausting the balance of the 401(h) account, the City began funding and paying its retiree healthcare benefit on a pay-as-you-go basis. On January 18, 2008 the City entered into an agreement with CalPERS to administer the City's post-employment healthcare benefits. The plan requires the City to pre-fund the plan in an amount not less than \$5,000,000; however, the City intends to pay an amount not less than 50% of the ARC, as calculated by an actuary of the City's choice.

Reference Number: 2003-3

Topic: Violations of Law: Wastewater

Audit Finding: The Clean Water Act requires municipalities to structure their rates in a proportionate manner to ensure that each user pays his fair share. Because the City's rate structure for the ten-year period from 1995 to 2004 did not fairly allocate the significantly higher cost of treating water discharged by certain industrial users, resulting in residential users subsidizing the rates of industrial ones by millions of dollars per year, the City's rates were not proportionate and thus may have violated the Clean Water Act's proportionality requirements.

Status of Corrective Action: Not corrected during the fiscal year ended June 30, 2006. Settlement was reached with plaintiff during the fiscal year ended June 30, 2007. Additionally, prior to the issuance of this report, the City has taken several actions in order to correct flaws in its rate structure.

Reference Number: 2003-4

Topic: Violations of Securities Laws

Audit Finding: In November 2006, the Securities and Exchange Commission (SEC) entered an Order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investing public important information about its pension and retiree healthcare obligations. To settle the action, the City agreed to cease and desist from future securities fraud violations and to retain an independent consultant for three years to foster compliance with its disclosure obligations under the federal securities laws.

**CITY OF SAN DIEGO**  
Status of Prior Year Findings  
For the Fiscal Year Ended June 30, 2006

Reference Number:

2003-4 (Continued)

In issuing the Order, the SEC made the following determinations:

- The City failed to disclose the City's unfunded liability to its pension plan was projected to dramatically increase.
- The City failed to disclose that it had been intentionally underfunding its pension obligations so that it could increase pension benefits but defer the costs.
- The City knew or was reckless in not knowing that its disclosures were materially misleading.
- The City made these misleading statements through three different means:
  - The City made misleading statements in the offering documents for five municipal offerings in 2002 and 2003 that raised over \$260 million from investors. The offering documents included offering statements.
  - The City made misleading statements to the agencies that gave the City its credit rating for its municipal bonds.

The City made misleading statements in its "continuing disclosure statements", which described the City's financial condition.

Status of Corrective Action:

In progress. The City consented to the SEC order and as part of the applicable remediation, the City has retained an independent monitor to oversee the City's compliance with and remediation of the issues identified in the Order. The City continues to work on improving its internal control framework and address other material weaknesses which are in part the underlying cause of this finding. The City's response to this finding has been a combination of staffing changes, modified policies and procedures along with systems initiatives to correct the internal control weaknesses that created the materially misleading disclosures. Furthermore, the City has established an audit committee and a Disclosure Practices Working Group (DPWG). The DPWG is responsible for reviewing the City's annual financial statements to ensure that all material items are appropriately disclosed and reported in the City's CAFR.



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March 21, 2008

To the Audit Committee  
of the City of San Diego

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego (the "City") for the year ended June 30, 2006, and have issued our report thereon dated March 21, 2008. We did not audit the financial statements of the San Diego Housing Commission, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the San Diego Housing Commission, is based on the report of the other auditors. This letter does not include any communication matters related to the San Diego Housing Commission. We have also completed the compliance audit of the City's federal award programs (the Single Audit) and are in the process of preparing our report. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated April 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

### Other Information in Documents Containing Audited Financial Statements

The City's 2006 basic financial statements, including required supplementary information, and our auditor's report were included in the City's Comprehensive Annual Financial Report (CAFR.)

Our responsibility for other information in documents containing the City's financial statements and our auditor's report does not extend beyond the financial information identified in our audit report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. However, we read the other information in the CAFR and considered whether such information, or its manner of presentation, was materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. Nothing came to our attention that caused us to believe that such information in the CAFR, or its manner of presentation is materially inconsistent with the information, or its presentation, appearing in the financial statements.

During the year, the City also included, or referenced to, the fiscal year 2005 audited financial statements in certain private placement financing agreements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We were not associated with and did not have any involvement in the private placement financing agreements. Accordingly, we did not perform any procedures on these documents and provide no assurance as to the other information contained in the private placement financing agreements.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2006.

### Significant and Unusual Transactions

During the performance of our audit procedures, we noted the following significant and unusual transactions.

- The City has a Joint Use and Management Agreement (Agreement) with the San Diego Padres baseball team (Padres) governing the rights and duties of the City and Padres regarding the use and operation of the Petco Park Ballpark Facility (Facility). The City and Padres jointly own the facility with the Padres having a 30% divided interest based on the original facility cost estimate of \$267.5 million (\$80.25 million), with the City owning the balance. The portion of the Facility owned by the Padres has been excluded from the capital assets and net assets of the City.
- The Zoological Society of San Diego leases Balboa Park from the City and routinely constructs capital assets on the City's land. These additions have been excluded from the City's reported capital assets and net assets.
- The City, as part of approving new development in the community planning process, requires that certain public facilities be constructed per the provisions of community financing plans. Historically, the City has agreed to pay a pro-rata share of these assets. In lieu of providing direct funding for said assets, the City often provides developers with credits for future permit fees. These credits are earned by the developer upon successful completion of construction phases and when City engineers have accepted the work. The credits are recognized as permit revenue upon issuance and a corresponding capital asset is recorded in the government-wide statement of net assets.
- In 1998, a lawsuit was filed by retired employees who alleged that the City's method of calculating retiree pension benefits improperly excluded the value of certain benefits such as vacation and sick leave when computing the employees' pensionable salaries. The City's settlement in May of 2000 came to be known

as the Corbett Settlement. This settlement provided for a flat increase of 7% in benefits payable to eligible retirees from annual realized earnings of SDCERS' pension assets, if sufficient. To the extent earnings are insufficient, the unpaid amount is carried forward. These benefits have been included as part of the unfunded accrued actuarial liability (UAAL) and the annual required contribution (ARC) in the City's Comprehensive Annual Financial Report (CAFR).

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Estimates for worker's compensation, general liability, auto liability, malpractice liability were based on actuarial evaluations using historical loss, employee and other data.
- The City's Annual Required Contribution (ARC) to SDCERS is based on an annual actuarial valuation using an accepted actuarial method and various actuarial assumptions. The Net Pension Obligation (NPO) is a function of the ARC and is estimated by comparing the ARC with the actual funding during the current year and applying an interest rate factor and an amortization adjustment factor to the prior year's NPO.
- Useful lives for depreciable property were determined by management based on the nature of the capital asset.
- Estimated bad debt allowances for accounts receivable were based on historical experience on collections related to outstanding invoices.
- Claim losses and contingencies were determined by management based on advice from legal counsel about the ultimate outcome of the claim.
- Estimates for the landfill closure and postclosure care liability were based on the percentage of the landfill capacity used to date applied to the cost estimates for closure, monitoring and postclosure maintenance, less actual costs incurred.
- Estimates for the fair values of investments, except real estate, are based on quoted market values. Directly owned real-estate assets (SDCERS investments) are stated at appraised values as determined by SDCERS real estate managers and third party appraisal firms.

We evaluated the key factors and assumptions used to develop the estimates listed above in determining that they are reasonable in relation to the financial statements taken as a whole.

### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustments in the attached Schedule A, in our judgment, indicate matters that could have a significant effect on the City's financial reporting process

In addition, the attached schedule B summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of Audit Committee of the City of San Diego and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Macias Gini & O'Connell LLP*

Macias Gini & O'Connell LLP  
Certified Public Accountants



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To the Audit Committee  
and Mayor of the City of San Diego.

In planning and performing our audit of the basic financial statements of the City of San Diego, California (City), for the year ended June 30, 2006, we considered its internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal accounting controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the City's internal control in our report dated March 21, 2008, in conjunction with our audit of the City's basic financial statements for the year ended June 30, 2006. This letter does not affect that report.

## CURRENT YEAR COMMENTS

### *2006 (a) Insufficient Public Liability (Internal Service Fund) budgeting*

**Observation** – The City prepares budgets for its Public Liability internal service fund (Public Liability) on an annual basis for Public Liability claims expenses. During the performance of our audit procedures, we noted that the Public Liability expenses have significantly exceeded the related budget for the past three fiscal years. This has resulted in the City's General Fund having to make supplementary transfers during the year to supplement this shortfall.

**Recommendation** – The City should utilize historical data when preparing the annual budget for the Public Liability to reduce the use of General Fund emergency supplementary transfers that the City has to make during the year.

**Management Response:** Management agrees with the comment. In the three fiscal years preceding the date of the related report, the City experienced a significant increase in public liability expenditures as a result of numerous special investigations and unique litigation against the City. This trend continued through the two fiscal years subsequent to the period covered by the management letter.

Management will continue to evaluate the process for budgeting public liability expenditures; including potentially using a "rate" to charge participating funds instead of the current practice of transferring General Fund monies on an as needed basis. Currently, for City-wide expenditures, General Fund contributions are only made to the extent that a portion of the related expense is the obligation of the General Fund. The City is also discontinuing the practice of using the Public Liability fund for expenses related to special investigations and related consulting work. Additionally, the City's Financial Management will work with the City Attorney's office to determine whether the experience of the last five years is indicative of the future expectations or if claims and estimated liabilities are expected to return to a level consistent with the City's experience prior to fiscal year 2005 in the near future.

*2006 (b) Construction in Progress (CIP) Capitalization Policy*

**Observation** – The City has a policy of transferring CIP projects out of non-depreciable capital assets to depreciable capital assets when a project is 95% completed or 80% of the final estimated cost is exceeded. During the performance of our testwork on CIP capitalization, out of a sample of 20 CIP projects selected for testing, 3 projects met the threshold for transferring, but were not properly transferred in accordance with the City's policy.

**Recommendation** – The City should implement additional controls to closely monitor compliance with its capitalization policies and procedures to ensure that projects that are completed or placed into use are transferred to depreciable capital assets in a timely fashion.

**Management Response:** Management agrees there has been a delay in the capitalization of some CIP projects. This was in part due to our reliance on the responsible departments to notify the Comptroller's office when a project was completed. Starting in fiscal year 2007 we will take a more proactive approach to completed projects. When the list of projects is sent out to the responsible departments for review we will inform them that any project that has construction expenditures in excess of 95% of construction budget and 80% of total project budget will be treated as a completed project and will be transferred automatically by the Comptroller's department. The customer department will be responsible for supplying sufficient back up to justify if a project should remain in CIP (non-depreciable capital assets) and not be transferred to depreciable capital assets.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with City personnel and have included management's responses to our recommendations. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Maciar Jini & O'Connell LLP*

San Diego, California

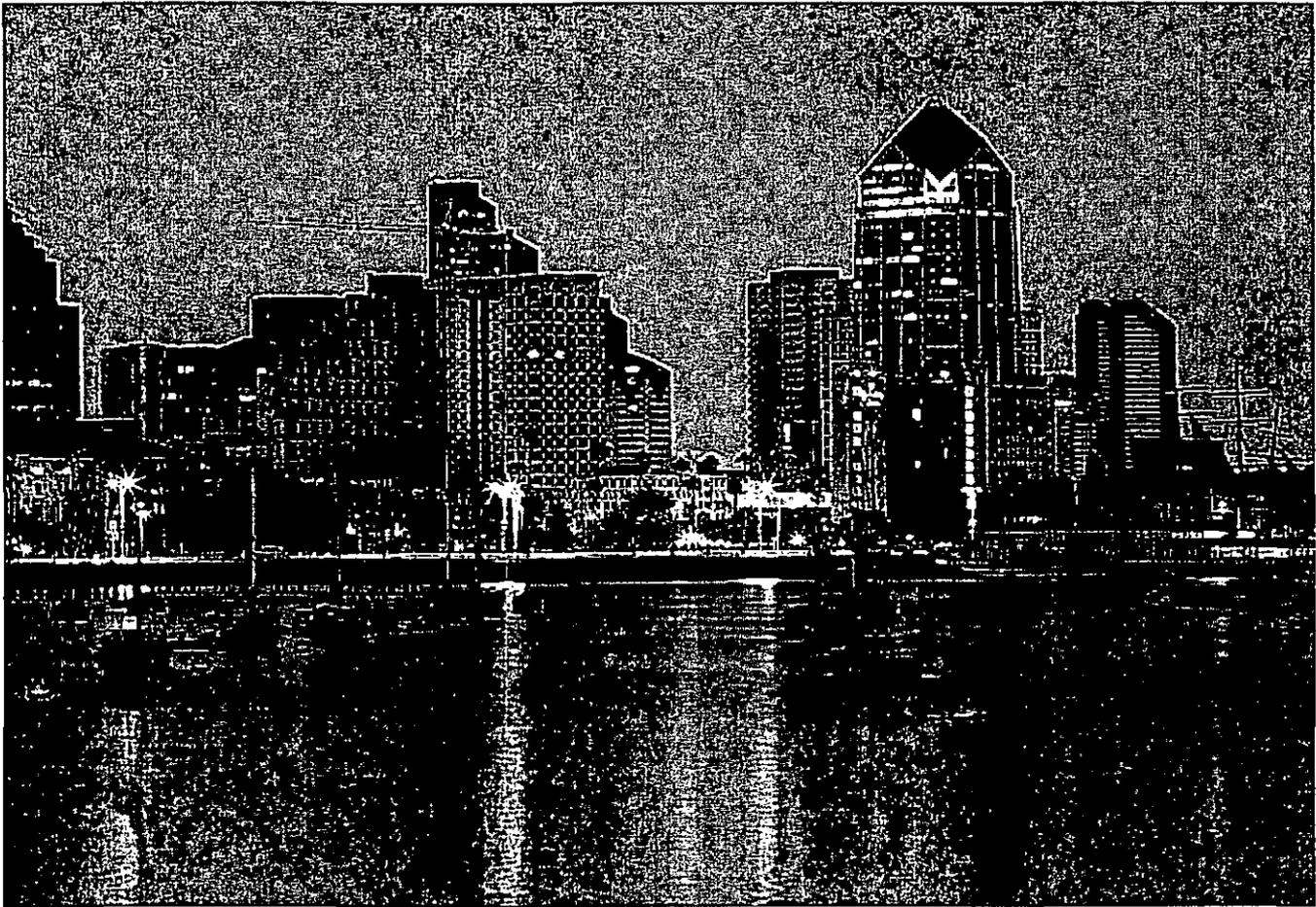
March 21, 2008

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**City of San Diego**  
**State of California**

*Available for viewing in the*  
*Office of the City Clerk*  
*Cab 2<sup>nd</sup> floor*

**Comprehensive Annual Financial Report**



Fiscal Year Ended June 30, 2006