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COMMITTEE ACTION SHEET

COUNCIL DOCKET OF _____				
<input type="checkbox"/> Supplemental	<input type="checkbox"/> Adoption	<input type="checkbox"/> Consent	<input type="checkbox"/> Unanimous Consent	Rules Committee Consultant Review

R -

O -

Review of the Financial Statement Audit, Report on Internal Control Over Financial Reporting (Yellow Book Report) and the SAS 61 Letter

Reviewed Initiated By Audit On 11/03/08 Item No. 1

RECOMMENDATION TO:

Forward to the full City Council with the recommendation to receive and file.

VOTED YEA: Faulconer, Young, Atkins

VOTED NAY:

NOT PRESENT:

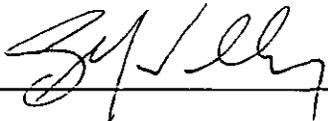
CITY CLERK: Please reference the following reports on the City Council Docket:

REPORT TO THE CITY COUNCIL NO.

COUNCIL COMMITTEE CONSULTANT ANALYSIS NO.

OTHER:

Macias Gini's 11/03/08, PowerPoint; City Treasurer's 10/30/08, memorandum; Hawkins Delafield's 10/31/08, memo; SDCER's Commentary on Current Investment Climate, dated 10/13/08; SDCERS' October 30, 2008, letter; Independent Auditor's Report, FY Ended 6/30/07; Chief Financial Officer's October 27, 2008, PowerPoint; CAFR Review Questions (Rev. 6/23/08); City Attorney's November 3, 2008, letter

COUNCIL COMMITTEE CONSULTANT 

000065

SDCERS

San Diego City Employees Retirement System

October 30, 2008

Jay Goldstone
Chief Operating Officer
The City of San Diego
202 C Street, MS 11A
San Diego, CA 92101

Dear Jay:

You asked us about the difference between SDCERS' reconciled portfolio values prepared as of month or fiscal year-end compared to the unreconciled asset values we can generate daily from State Street. (As you know, the only other SDCERS cash and investment assets are those held on deposit with the City's treasury.)

SDCERS' primary source of market value information is State Street's accounting platform. Each month and fiscal year-end, State Street produces reconciled asset valuation reports approximately seven business days after month-end. (As you know, due to the delays in receiving valuation, income and/or transaction data from our separate property real estate managers, State Street's valuation data on real estate properties may be several months in arrears.)

State Street's reconciliation process includes: settling trades (purchase and sales) by paying or collecting transactions proceeds, collecting all income payable to SDCERS on stock dividends and bond coupons, ensuring proper posting of fixed income accruals and amortization, ensuring proper posting of cash movements for settling margin requirements on swaps and futures contracts, monitoring corporate actions to ensure proper posting of stock splits, tender offers, etc., ensuring proper posting of currency exchange transactions and ensuring reasonable pricing of market traded securities through the use of independent third-party pricing services.

State Street also provides SDCERS with online daily access to our fund's market value as of the prior day's market close. However, these daily asset valuations are not reconciled by State Street. For example, non-reconciled asset values include the potential for:

- 1) Delays in posting daily cash income from bond interest payments, stock dividend payments and real estate property rents (received that day but posted the next day);

Jay Goldstone
October 30, 2008
Page two

- 2) Delays in posting the accrual of bond income or in amortizing the pay down of principle on mortgages;
- 3) Delays in posting corporate actions such as stock splits, exchange offers, tender offers and dividend reinvestments;
- 4) Lack of accurate market prices on securities that did not trade that day (e.g., a smaller issuance of a corporate bond);
- 5) Data entry errors in posting the size or amount of a purchase or sale transaction (number of units or shares, security price or currency exchange rate entered incorrectly);
- 6) Delays in posting separate property real estate purchase or sale transactions due to delayed receipt of transaction documentation from the escrow company; and
- 7) Delays in receiving market valuation data from sub-custody accounts.

Because the daily asset valuation numbers are not reconciled and can differ significantly from the reconciled monthly and year-end values for the reasons stated above, I use them only as an approximation of SDCERS' total market value of assets. That is why SDCERS only relies on reconciled monthly and fiscal year-end asset values for measuring portfolio performance.

Indeed, I want to emphasize that the primary use of the daily unreconciled asset valuation information is as a risk management tool to monitor the portfolio's relative exposures to asset classes and target benchmarks. When I developed this tool for this purpose, I never intended it to be used as an accurate and reconciled reflection of the value of SDCERS' total assets.

I hope this information is helpful for you. If you have any additional questions, please let know.

Sincerely,



Douglas B. McCalla
Chief Investment Officer

Enclosure

cc: Jim Godsey

Fiscal Year 2007 Comprehensive Annual Financial Report

Office of the CFO
City Comptroller
October 27, 2008



Audit 11/3/08 21

GASB 45

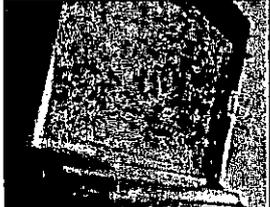
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❖ Effective for Fiscal Year 2008

- Early disclosure encouraged
 - Discussed in LOT
 - No full funding
 - CALPERS Trust

Retiree Healthcare Liabilities (Thousands)

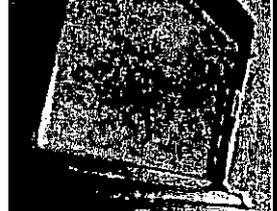
Valuation fiscal year ended 6/30/2007	Full Funding Method (7.75% Earnings Assumption)	UAAL Partial Funding (blended 6.69% rate)
Actuarial		
Accrued Liability	\$ 819,900	\$ 1,027,918
Annual Required Contribution	\$ 87,597	\$ 104,475



HUD Audit

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- ❖ HUD Audit Disclosed on Page 145
 - During the Audit HUD requested confidentiality
 - Risks Discussed
 - ▣ Loan Repayment
 - ▣ Disallowed Costs



Credit Risk

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- ❖ Cash and Investments footnote page 81
 - Credit risk of investments disclosed on page 86
 - For each type of investment:
 - Fair Value as of June 30, 2007
 - Credit rating as of June 30, 2007
 - Note 3 also discusses City Investment Policy and SDCERS investments as of June 30, 2007
 - Sub-Prime market activity on Page 99

Five Year Outlook

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❖ Discussed in Letter of Transmittal

- Used most current outlook data.
 - Displays most recently published projected deficits and future discretionary/non-discretionary funding commitments
- Discussion of City Budget Challenges also in Letter of Transmittal

“ The City is reviewing preliminary first quarter data and is forecasting a General Fund budget deficit of approximately \$43 million for fiscal year 2009. This deficit is primarily the result of reduced revenues in the areas of sales tax, property tax, transient occupancy tax, franchise fees, and interest earnings, as well as higher expenditures in booking fees and property tax administrative fees paid to the County. It also reflects approximately \$8 million of projected expenditures in excess of the adopted budget.”

Workforce Partnership / JPAs

000072

- ❖ Joint Powers Authorities are identified on page 119.
 - Department of Labor Audit disclosed on page 120
 - 2008 CAFR will reflect latest developments concerning audit findings and disallowed costs

Disclosure Lawsuits

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- ❖ Lawsuits where the City Attorney has identified the risk of loss as reasonably possible and or probable are discussed in Note 18 beginning on Page 148
 - General Materiality Threshold \$2 million
 - Derived from the FASB 5 letter signed by City Attorney
 - If loss probable (and accrued) the no disclosure required
 - Certain qualitative exceptions



City of San Diego Audit Committee

CAFR Review Questions

(revised 06/23/08)

I. Approach

The Audit Committee should satisfy itself as to the reasonableness of the process followed in the preparation and issuance of the CAFR and the appropriateness of the accounting judgments made, in order to ensure the overall reliability of the City's financial reporting. As part of such process, the Audit Committee should ask questions of financial management, the internal auditor, a representative of the City Attorney's Office and the outside auditor. Questions that might be asked are set forth below. Each member should then satisfy himself or herself that the responses to the questions are reasonable and appropriate in order to fulfill his or her individual responsibilities as a member of the Audit Committee. The City Attorney recommends that the Audit Committee require that the appropriate parties submit written responses to the CAFR review questions so that all responses are fully documented, especially negative responses which may, in some cases, require detailed explanations and suggested remedial measures. Additionally, the relevant officials should attest to the accuracy of their responses.

As stated in the Audit Committee's Charter, the CAFR is the responsibility of the City's management and the role of the Audit Committee is one of general oversight. Thus, the task is for the members of the Audit Committee to be satisfied as to (i) the reasonableness of reliance on management, taking into account the quality of the outside audit process, and (ii) that the member does not have actual knowledge of information that would cause him or her to believe that the information presented in the CAFR is materially false or misleading.

This process is designed to ensure that Audit Committee members satisfy their obligations with respect to the legislative review and oversight of the CAFR. However, no member of the Audit Committee shall be required to independently verify the factual information presented in the CAFR, and it is understood that no representation is being made that members of the Audit Committee have done so. Members of the Audit Committee shall be entitled to rely on accounting and financial experts with respect to the information presented in the CAFR, as long as such reliance is reasonable and in good faith.

II. Questions for Financial Management (CFO and Director of Financial Reporting)

The purpose of these questions is to elicit information about the process, the quality of the accounting and any issues of which the Audit Committee should be aware that impact the financial reports, accounting judgments and disclosure.

1. Do you believe the financial statements fairly present the government's net assets and activities in accordance with generally accepted accounting principles (GAAP) or some other acceptable comprehensive basis of accounting?
2. To the best of your knowledge, was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?
3. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?
4. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?
5. Are you satisfied that an appropriate audit was performed by the independent auditors?
6. Is there any activity at any level within the government that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP other than those already identified?
7. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

III. Questions for Internal Auditor

The purpose of these questions is to ascertain the role of the internal auditor in the CAFR process and whether there are any issues the internal auditor believes should be brought to the Audit Committee's attention.

1. Please describe your role in the audit process.
2. Were any limitations placed on your role in the audit process by management with which you disagreed?¹
3. Were you satisfied with the quality of the audit performed by the outside auditor?¹
4. Were there any issues that arose in connection with the audit which were not resolved to your satisfaction?¹
5. Are you aware of any reportable conditions or material weaknesses in the City's internal controls that were not identified by the outside auditor?
6. Do you have any reason to believe that the financial reports were not prepared in accordance with GAAP or that the audit was not conducted in accordance with GAAS or GAGAS?
7. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

¹ Indicates that discussion may need to be had with the internal auditor in "executive session" as permitted under the Brown Act. This may make these questions inappropriate for written submission.

IV. Questions for City Attorney's Office Representative

The purpose of these questions is to elicit information about litigation and other legal loss contingencies that are relevant to the City's financial reporting and as to any violations of law of which the Audit Committee should be aware.

1. Are you satisfied that litigation and other legal loss contingencies within the purview of the City Attorney's Office have been properly reflected in the City's financial statements?²
2. Are you aware of any significant violations of law, regulations, contracts or grants that have not already been identified?²
3. Is there anything else your office wants to bring to the Committee's attention?

² Indicates that discussion may need to be had with the City Attorney's Office representative in "executive session" as permitted under the Brown Act.

V. Questions for Outside Auditor

The purpose of these questions is to elicit information about the auditor's independence, the quality of the audit process, any issues or disagreements between management and the auditor that should be brought to the attention of the Audit Committee, significant deficiencies and material weaknesses in the City's internal controls over financial reporting and the quality, not just the acceptability, of the City's accounting.

1. Was any audit work not performed due to any limitations placed on you by management (e.g., any areas scoped out by management, or any restriction on fees that limited the scope of your work)?³
2. Explain the process your firm goes through to assure that all of your engagement personnel are independent and objective with respect to our audit. Do any non-audit services performed for the City or its related entities affect the work that you do or the manner in which the engagement team or others are compensated?
3. Was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?
4. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?
5. Were any new accounting principles adopted, were any changes made, or did you recommend any changes, in the accounting policies used or their application?
6. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?
7. Are there any areas of the financial statements, including the notes, in which you believe we could be more explicit or transparent, or provide more clarity to help a user better understand our financial statements?
8. Have you expressed any concerns or comments to management with respect to how our presentation, including the notes or Management's Discussion & Analysis, could be improved?³
9. Based on your audit procedures, do you have any concerns as to whether management may be attempting to commit management override? Have you noticed any biases as a result of your audit tests with respect to accounting estimates made by management?³

³ Indicates that discussion may need to be had with the outside auditor in "executive session" as permitted under the Brown Act.

10. Did you encounter any difficulties in dealing with management in performing the audit, including any disagreements with management regarding any accruals, estimates, reserves or accounting principles? Did you have the full cooperation of management and staff?³
11. Were there any accounting issues on which you sought the advice of other audit firms or regulatory bodies?
12. Describe any difficulties you encountered while performing the audit (e.g., delays by management in allowing you to begin the audit, lack of access to information, unreasonable timetables, unavailability of personnel, etc.).³
13. Discuss your impressions of the performance of the City's financial management in terms of the completeness, accuracy and faithfulness of the financial reporting process.³
14. Describe any situation in which you believe management has attempted to circumvent the spirit of GAAP, but has yet complied with GAAP.³
15. Would you characterize management's application of GAAP as conservative, aggressive or somewhere in between?
16. Are there any new pronouncements and or areas of potential financial risk affecting future financial statements of which the Audit Committee should be aware?
17. How would you compare the City's financial reporting with that of comparable government entities with which you are familiar?
18. Please explain the significance of any reportable conditions or material weaknesses referenced in your letter or report dealing with the City's internal controls.
19. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

IV. Questions Each Committee Member Should Consider

These are questions each member should ask himself or herself as part of the process of fulfilling his or her responsibility.

1. Am I satisfied that the process followed in preparing and auditing the CAFR has been reasonably designed to produce accurate and reliable financial information?
2. Do I have reason to question the integrity or competence of the members of management or the outside auditors that would affect my ability to rely on them?
3. Do I know anything that would cause me to question the accuracy of the disclosures in the relevant portions⁴ of the CAFR that I reviewed or that would indicate that there is a risk that those disclosures may be misleading?
4. In reviewing the relevant portions⁴ of the CAFR, are there any "red flags" that should be brought to the attention of management or the Disclosure Practices Working Group or for which I would like a further explanation (that is, is there information of which I have actual knowledge that would lead me to believe that the CAFR contains materially misleading information)?

⁴ What may be "relevant portions" of the CAFR is discussed in the Memorandum of the Office of City Attorney to the Audit Committee dated February 7, 2007 on Responsibilities of the Audit Committee Under Federal Securities Laws at p. 4.

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AMM 11/3/08 #1

BRANT C. WILL
DEPUTY CITY ATTORNEY

OFFICE OF
THE CITY ATTORNEY
CITY OF SAN DIEGO
MICHAEL J. AGUIRRE
CITY ATTORNEY

CIVIL DIVISION
1200 THIRD AVENUE, SUITE 1620
SAN DIEGO, CALIFORNIA 92101-4178
TELEPHONE (619) 236-6220
FAX (619) 236-7215

November 3, 2008

Audit Committee
202 C Street
San Diego, CA 92101

Re: *2007 CAFR Review*

Dear Committee:

The following are questions and answers required by the Audit Committee to assist the Committee in reviewing the City's Fiscal Year 2007 Comprehensive Annual Financial Report. The questions are drawn from the "City of San Diego Audit Committee CAFR Review Questions, revised 6/23/08, and are accurate as of October 17, 2008.

1. Are you satisfied that litigation and other legal loss contingencies within the purview of the City Attorney's Office have been properly reflected in the City's financial statements?

The City Attorney's Office believes that all litigation and legal loss contingencies are accurately disclosed in the 2007 CAFR.

2. Are you aware of any significant violations of law, regulations, contracts or grants that have not already been identified?

The City Attorney's Office is not aware of any significant violations of law, regulations, contracts or grants that have not already been identified and disclosed on the 2007 CAFR.

3. Is there anything else your office wants to bring to the Committee's attention?

There is no additional information that the City Attorney's Office wishes to bring to the attention of the Audit Committee at this time.

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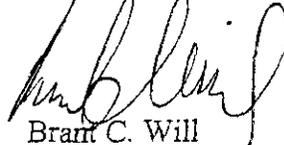
Audit Committee
November 3, 2008
Page 2

I have served as the representative of the City Attorney's Office in responding to the questions above.

Sincerely yours,

MICHAEL J. AGUIRRE, City Attorney

By



Brant C. Will
Deputy City Attorney

BCW:jdf



MACIAS GINI & O'CONNELL LLP

Certified Public Accountants & Management Consultants

***City of San Diego
Audit Committee
November 3, 2008***

Macias Gini & O'Connell LLP

Certified Public Accountants & Management Consultants



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Overview

- FY2007 City of San Diego CAFR and GAGAS Report
- SAS 61 Letter



FY2007 CAFR and GAGAS Report

- Unqualified opinion
 - Subsequent event - Note 22: discussion on current financial crisis
- Prior year findings on internal controls
- Two (2) new significant deficiencies identified
 - Risk management – public liability – documentation on rationale for changes in reserves missing and authorization missing.
 - Journal entry – access controls – restrictions on the ability for employees to delete journal entries not in place.

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BDO
SEIDMAN
ADLER
LLP



SAS 61

- Communications with Audit Committees
 - See letter dated October 17, 2008
 - Auditor responsibilities
 - Other information in documents containing audited financial statements
 - Significant accounting policies
 - Unusual transactions
 - Accounting estimates
 - Audit adjustments
 - Disagreements with management
 - Consultations with other independent auditor's
 - Issues discussed prior to retention
 - Difficulties encountered in performing the audit

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The End

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**BDO
SEIDMAN
ALLIANCE**

An Independent Member of the BDO SEIDMAN ALLIANCE

Hawkins Delafield & Wood LLP

601 THIRTEENTH STREET, N.W.
 SUITE 800 SOUTH
 WASHINGTON, DC 20005
 WWW.HAWKINS.COM

MEMORANDUM

TO: City of San Diego Audit Committee

FROM: John M. McNally 

DATE: October 31, 2008

RE: 2007 CAFR / Water POS

At the Audit Committee meeting on October 27, 2008, I was asked by Councilmembers Atkins and Faulconer to address three questions: (1) how are other jurisdictions addressing their GASB 45 disclosures regarding other post-employment benefits ("OPEB"), with respect to both the magnitude of the unfunded liability and how presented, (2) should any additional information be provided in the Letter of Transmittal ("LOT") to the 2007 CAFR regarding the City's liability to the pension system, in light of the market turmoil between September 30, 2008, and the date of the audit opinion (October 17, 2008), and (3) what pension disclosure should be made in the Water Official Statement.

GASB 45

GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, is effective for reporting periods beginning after December 15, 2006, and thus would apply to the City's fiscal year 2008 financial statements. But for federal securities law purposes, if the City has knowledge of its OPEB actuarial liability and if such liability is material, that information should be disclosed in the City's CAFRs and Official Statements. The information was disclosed in the FY 07 CAFR, which provided as follows in the LOT:

The City's actuarial valuation for retiree healthcare costs estimated an unfunded actuarial accrued liability of \$1.03 billion as of June 30, 2007, which is the basis for the fiscal year 2009 budget. The City is participating in a trust administered by CalPERS to begin advance-funding this liability and, to date, has contributed \$54 million to the CalPERS trust. The City is not currently fully funding the ARC for retiree healthcare, which is estimated to be \$104 million for fiscal year 2009, [and] the amount budgeted in fiscal year 2009 is \$50 million.

Additional information is set forth in Note 12 to the 2007 CAFR, including a plan description.

At your request, we have reviewed recent Official Statements from several major cities,

including New York, Los Angeles, Boston, Miami, Atlanta, Seattle and Dallas. These issuers have provided disclosure regarding their OPEB actuarial liability as part of their overall Official Statement disclosure, generally including a description of the requirements of GASB 45, the magnitude of the OPEB liability (if an actuarial study has been completed) and, in some cases, a description of how the city intends to fund the liability (or, in the alternative, a note that GASB 45 does not require such funding). The magnitude of unfunded OPEB liability ranged from \$84 million (Seattle) to \$57.8 billion (New York). The City's disclosure is consistent with that of other major municipalities, and satisfies the City's federal securities law obligations.

2007 CAFR Pension Disclosure

SDCERS, similar to the City, is on a June 30 fiscal year. The LOT sets forth the actuarial value of the pension system assets for June 30, 2007; June 30, 2008; and September 30, 2008. The question is whether, in light of the market turmoil between September 30, 2008 and the date of the audit opinion (October 17, 2008), a more current market valuation should be provided. In my view, the answer is no. First, the September 30, 2008 information is, to my knowledge, accurate, so there is no information to correct. Second, the reader is advised generally to review the information in light of the recent market turmoil:

Presently, the global financial markets have experienced significant declines. The effects of the market declines have been wide ranging and impact even the most diversified investment portfolios. The San Diego City Employee Retirement System (SDCERS) investment portfolio is no exception.

Third, it is my understanding that although SDCERS monitors the market value of the system assets on a daily basis, such information is not reconciled until the month end and could be subject to material corrections.

When the City is provided with updated reconciled monthly information, it can elect to provide such information to the market, although it would not be required to do so absent a primary offering of securities. In a similar fashion, in connection with the primary offering of the 2009 Water Bonds, the City can provide in the related Official Statement the then most recent monthly valuation, as further explained below.

Water 2009 POS

The Water POS includes a presentation of the City's pension system and OPEB liabilities, as well as the water system's proportionate share of such liabilities. The water system's proportionate shares of such liabilities is relatively small, and the rate case projection used figures for both liabilities that were greater than the actual annual amounts required to be paid for the last two fiscal years. Thus, neither the pension nor OPEB liabilities are a significant financial burden on the water system revenues. Nevertheless, the prudent approach would be to include in the general description of the City's pension liabilities the most current reconciled month end numbers that are available at the time of the printing of the Water POS and OS.

cc: Stanley Keller
Walter J. St. Onge, III
Brant C. Will
Lourdes M. Epley

CITY OF SAN DIEGO
MEMORANDUM

DATE: October 30, 2008

TO: Honorable Council President Peters and Members of the City Council

FROM: Gail R. Granewich, City Treasurer
Kent J. Morris, Chief Investment Officer

SUBJECT: City Investment Pool Update

In light of the recent volatility in the financial markets, as well as a request received from Council President Peters at our Council presentation on October 27, 2008, this memorandum provides an update on the safety and liquidity of the City's Investment Pool ("the Pool") and the effects recent market conditions have had on the Pool.

The Pool consists of high quality securities. As of September 30, 2008, the Pool was invested 42.61% in U.S. Treasuries and 47.22% in "AAA" U.S. Agencies. The Pool was also invested in 7.27% high quality corporate securities. The high quality of the corporate holdings can be seen in their credit ratings: 3.27% are AAA, 2.85% are AA, 1.14% are A, and none are below A. Additionally, the average maturity of the Pool's corporate exposure is very short. The longest corporate security will mature in August 2009 and the majority will mature within the next 6 months. It is important to note that the Pool did not have any exposure to Lehman Brothers, AIG, Merrill Lynch, or Washington Mutual during the recent unprecedented market events.

The Pool is primarily invested in liquid securities in order to meet the City's anticipated operating expenditures for the next 6 months per California Government Code §53645. Within the next 3 months, 16.6% of the Pool will mature, 53.1% will mature within 1 year, and nearly 100% of the portfolio will mature within 3 years. The Pool's liquidity is further enhanced by splitting the Pool into two separate portfolios (Liquidity and Core portfolios). The Liquidity portfolio, which typically comprises 35% of the Pool, is invested in securities maturing in less than one year and has an average duration of about 4 months. The Liquidity portfolio is designed to provide funds for all of the City's near term cash needs.

As of September 30, 2008, the Pool was yielding 2.96% and has accumulated significant unrealized gains due to the Pool's heavy concentration of U.S. Treasuries, which have appreciated in value significantly in the falling interest rate environment. (Note: as interest rates decrease, the prices of bonds increase, and when interest rates increase, the prices of bonds

Honorable Council President Peters and Members of the City Council

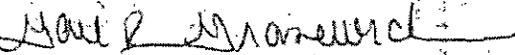
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October 30, 2008

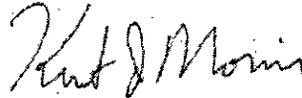
decrease.) These unrealized gains will decline over time as short dated securities mature and/or interest rates renormalize to historical levels. Additionally, the yield on the Pool will decline going forward as higher yielding securities mature and are reinvested at much lower interest rates.

The City's budgeted revenue projected from interest earnings was reduced in the May revision to the 2009 budget. We are currently assessing whether the recent drop in interest rates will necessitate further downward revision to the interest earnings projection for the 2009 budget. This low interest rate environment may be prolonged for some time by the accommodating monetary policy of the Federal Reserve and continued risk aversion by investors, which may add downward pressure on current and future interest earning forecasts.

The Investment Division continually manages the Pool to adhere to its primary objectives of safety of principal and liquidity. Once these objectives are met, investment staff only then attempt to maximize yield within the guidelines established by the City's Investment Policy. Throughout the investment process, investment staff ensure that the Pool is in continuous compliance with the City's Investment Policy.



Gail R. Granewich
City Treasurer



Kent J. Morris
Chief Investment Officer

cc: The Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Andrea Tevlin, Independent Budget Analyst

Attachments – Pooled Investment Fund (Holdings Report) as of September 30, 2008

City of San Diego - Pooled Investment Fund as of September 30, 2008

Security Type	Issuer	Inst No.	Sec. Description	Coupon	Maturity	CUSIP	Par	Book	Market Value	Price Source
US Treasury Bill	US Treasury	72253	TB-99-278-K91-43	1.463	3/26/2008	912799K91	\$30,000,000.00	\$29,782,968.33	\$29,803,125.00	SUNGARD
US Treasury Bill	US Treasury	72254	TB-99-601-Q87-07	1.799	7/22/2008	912795Q87	\$25,000,000.00	\$24,650,385.89	\$24,871,876.00	SUNGARD
US Treasury Bill	US Treasury	72165	TB-97-879-G28-43	2.103	8/27/2009	912795G28	\$25,000,000.00	\$24,959,268.10	\$25,065,025.00	SUNGARD
US Treasury Note	US Treasury	71059	TN-100-126-CY0-83	4.625	7/31/2009	912828CY0	\$50,000,000.00	\$50,062,000.00	\$51,149,675.00	SUNGARD
US Treasury Note	US Treasury	70291	TN-100-283-PP0-40	4.576	8/15/2009	912828PP0	\$20,000,000.00	\$20,076,562.50	\$20,812,500.00	SUNGARD
US Treasury Note	US Treasury	71819	TN-102-433-CV0-79	3.375	8/15/2009	912828CV0	\$50,000,000.00	\$51,490,150.25	\$50,843,750.00	SUNGARD
US Treasury Note	US Treasury	72114	TN-101-350-CV0-07	3.375	8/15/2009	912828CV0	\$55,000,000.00	\$55,715,429.69	\$55,773,437.50	SUNGARD
US Treasury Note	US Treasury	71299	TN-100-192-HD5-83	4	9/30/2009	912828HD5	\$45,000,000.00	\$45,059,765.63	\$45,528,125.00	SUNGARD
US Treasury Note	US Treasury	71279	TN-100-192-HD5-83	4	9/30/2009	912828HD5	\$45,000,000.00	\$45,059,765.63	\$45,528,125.00	SUNGARD
US Treasury Note	US Treasury	71781	TN-99-995-HU7-42	1.75	5/31/2010	912828HU7	\$30,000,000.00	\$29,934,375.00	\$29,934,375.00	SUNGARD
US Treasury Note	US Treasury	71899	TN-99-845-HX1-07	2.125	4/30/2010	912828HX1	\$25,000,000.00	\$24,969,931.75	\$25,117,187.50	SUNGARD
US Treasury Note	US Treasury	71907	TN-99-600-HX1-07	2.125	4/30/2010	912828HX1	\$50,000,000.00	\$49,752,887.23	\$50,234,375.00	SUNGARD
US Treasury Note	US Treasury	71980	TN-100-015-JA9-79	2.625	5/31/2010	912828JA9	\$30,000,000.00	\$30,008,890.73	\$30,337,500.00	SUNGARD
US Treasury Note	US Treasury	72055	TN-100-445-JC5-78	3.875	6/30/2010	912828JC5	\$30,000,000.00	\$30,135,937.50	\$30,469,875.00	SUNGARD
US Treasury Note	US Treasury	72078	TN-100-625-JC5-67	3.875	6/30/2010	912828JC5	\$20,000,000.00	\$20,146,875.00	\$20,331,250.00	SUNGARD
US Treasury Note	US Treasury	72166	TN-99-977-JJ4-07	2.375	8/31/2010	912828JJ4	\$25,000,000.00	\$24,891,159.66	\$25,000,000.00	SUNGARD
US Treasury Note	US Treasury	72187	TN-99-981-JJ4-42	2.375	8/31/2010	912828JJ4	\$50,000,000.00	\$49,897,469.27	\$50,390,625.00	SUNGARD
US Treasury Note	US Treasury	70900	TN-99-080-E55-05	4.25	1/15/2011	912828E55	\$10,000,000.00	\$9,808,954.37	\$10,521,875.00	SUNGARD
US Treasury Note	US Treasury	71182	TN-100-051-E55-05	4.25	1/15/2011	912828E55	\$50,000,000.00	\$50,175,781.25	\$52,009,375.00	SUNGARD
US Treasury Note	US Treasury	72115	TN-100-813-FN5-79	4.875	7/31/2011	912828FN5	\$30,000,000.00	\$31,757,069.16	\$32,203,125.00	SUNGARD
US Treasury Note	US Treasury	72174	TN-100-351-FU9-38	4.5	8/30/2011	912828FU9	\$70,000,000.00	\$71,748,093.75	\$74,418,750.00	SUNGARD
Treasury Total						42.87%	\$825,600,000.00	\$832,409,571.79	\$841,868,437.50	
US Agency	Federal National Mortgage Association	71605	FNMA-DN-99-710-J20-07	2.18	10/31/2008	313588J20	\$25,000,000.00	\$24,877,541.67	\$25,000,000.00	SUNGARD
US Agency	Federal National Mortgage Association	71679	FNMA-DN-99-722-J30-39	2.18	10/31/2008	313588J30	\$30,000,000.00	\$29,810,583.33	\$30,000,000.00	SUNGARD
US Agency	Federal National Mortgage Association	72045	FNMA-DN-99-273-K95-43	2.4	10/17/2008	313588K95	\$45,000,000.00	\$44,655,000.00	\$44,965,937.50	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	72047	FRE-DN-99-162-M75-07	2.45	10/31/2008	313398M75	\$12,750,000.00	\$12,750,000.00	\$12,750,000.00	SUNGARD
US Agency	Federal National Mortgage Association	71651	FNMA-DN-98-484-N92-07	2.14	11/19/2008	313688N92	\$31,000,000.00	\$30,530,001.67	\$30,832,187.50	SUNGARD
US Agency	Federal National Mortgage Association	72048	FNMA-DN-98-845-S97-25	2.82	12/12/2008	313688S97	\$21,000,000.00	\$20,757,450.00	\$21,000,000.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	71787	FRE-DN-98-507-T89-07	3.02	12/19/2008	313398T89	\$25,000,000.00	\$24,526,881.11	\$24,959,375.00	SUNGARD
US Agency	Federal Home Loan Bank	71469	FHLB-DN-98-240-U85-07	2.72	12/24/2008	313398U85	\$28,000,000.00	\$27,035,488.67	\$27,845,025.00	SUNGARD
US Agency	Federal Farm Credit Bank	71871	FFCB-100-875-NF8-99	3.75	1/15/2009	313318NF8	\$25,000,000.00	\$25,218,250.00	\$25,409,875.00	SUNGARD
US Agency	Federal Home Loan Bank	71680	FHLB-DN-98-074-AV8-07	2.168	1/20/2009	313398AV8	\$20,000,000.00	\$19,814,933.33	\$19,825,000.00	SUNGARD
US Agency	Federal National Mortgage Association	72234	FNMA-DN-99-087-GB6-43	2.85	1/26/2009	313588GB6	\$25,000,000.00	\$24,704,479.17	\$24,773,437.50	SUNGARD
US Agency	Federal Home Loan Bank	71604	FHLB-CC0808-100-00-SY1-07	2.75	2/20/2009	313398SY1	\$15,000,000.00	\$15,000,000.00	\$14,971,875.00	SUNGARD
US Agency	Federal National Mortgage Association	72161	FNMA-DN-98-576-CK7-07	2.818	2/27/2009	313588CK7	\$7,329,000.00	\$7,329,000.00	\$7,329,000.00	SUNGARD
US Agency	Federal National Mortgage Association	72182	FNMA-DN-98-426-DG5-07	2.78	3/20/2009	313588DG5	\$3,000,000.00	\$2,852,802.50	\$2,865,750.00	SUNGARD
US Agency	Federal Home Loan Bank	71901	FHLB-DN-98-025-OP5-07	2.147	3/27/2009	313398OP5	\$28,000,000.00	\$24,506,488.18	\$24,840,625.00	SUNGARD
US Agency	Federal Home Loan Bank	72230	FHLB-DN-99-699-DW3-07	2.37	4/30/2009	313398DW3	\$25,000,000.00	\$24,872,479.17	\$24,817,187.50	SUNGARD
US Agency	Federal Home Loan Bank	72181	FHLB-DN-98-329-DZ6-38	2.81	4/30/2009	313398DZ6	\$27,459,000.00	\$27,029,826.80	\$27,059,484.38	SUNGARD
US Agency	Federal Home Loan Bank	69474	FHLB-98-875-LG9-05	5.25	5/12/2009	313398LG9	\$25,000,000.00	\$24,888,750.00	\$25,351,875.00	SUNGARD
US Agency	Federal Home Loan Bank	72249	FHLB-DN-98-898-RH5-49	3	6/30/2009	313398RH5	\$25,000,000.00	\$26,165,000.00	\$26,000,000.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	72237	FRE-DN-97-428-LS8-48	2.55	9/14/2009	313397LS8	\$25,000,000.00	\$24,357,187.50	\$24,265,625.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	52783	FHLMC-100-PB-179	4.935	9/23/2009	312648PB1	\$5,000,000.00	\$5,000,000.00	\$5,000,000.00	SUNGARD
US Agency	Federal Farm Credit Bank	71823	FFCB-101-216-BG4-42	5	10/23/2009	313318BG4	\$20,000,000.00	\$20,381,250.00	\$20,381,250.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	72243	FHLMC-100-82-BG3-65	2.875	4/30/2010	313718BG3	\$25,000,000.00	\$25,566,294.72	\$24,843,750.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	72251	FHLMC-88-958-BG3-39	2.875	4/30/2010	313718BG3	\$25,000,000.00	\$25,412,263.89	\$25,412,263.89	SUNGARD
US Agency	Federal Home Loan Bank	71636	FHLB-DN-99-808-U20-83	2.75	6/18/2010	313398U20	\$25,000,000.00	\$24,870,500.00	\$24,773,437.50	SUNGARD
US Agency	Federal National Mortgage Association	71882	FNMA-99-929-SC7-42	3	7/12/2010	313588SC7	\$25,000,000.00	\$24,945,312.50	\$24,882,250.00	SUNGARD
US Agency	Federal Home Loan Bank	72018	FHLB-99-885-N22-67	3.5	7/16/2010	313398N22	\$25,000,000.00	\$24,971,250.00	\$25,079,125.00	SUNGARD
US Agency	Federal National Mortgage Association	72076	FNMA-99-968-S-17-83	3.25	8/17/2010	313588S17	\$25,000,000.00	\$25,054,687.50	\$25,009,500.00	SUNGARD
US Agency	Federal Home Loan Bank	62777	FHLB-100-374-UR2-87	4.5	8/16/2010	313398UR2	\$20,000,000.00	\$20,074,880.00	\$20,418,750.00	SUNGARD
US Agency	Federal National Mortgage Association	72220	FNMA-99-859-TZ5-43	3.975	8/15/2010	313588TZ5	\$25,000,000.00	\$24,589,750.00	\$24,682,812.50	SUNGARD
US Agency	Federal Home Loan Bank	72255	FHLB-99-960-CT3-07	3.975	10/20/2010	313398CT3	\$35,000,000.00	\$34,888,000.00	\$35,021,875.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	72182	FHLMC-99-782-BU2-42	3.125	10/25/2010	313718BU2	\$25,000,000.00	\$24,945,500.00	\$25,000,000.00	SUNGARD
US Agency	Federal National Mortgage Association	71852	FNMA-DT8409-100-00-PM5-10	4	4/1/2011	313588PM5	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	SUNGARD
US Agency	Federal Farm Credit Bank	71844	FFCB-99-885-C46-48	2.825	4/21/2011	313318C46	\$20,000,000.00	\$19,937,000.00	\$19,937,000.00	SUNGARD
US Agency	Federal Home Loan Bank	71953	FHLB-99-906-CW8-05	3.375	6/24/2011	313398CW8	\$20,000,000.00	\$19,895,200.00	\$19,825,000.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	72005	FHLMC-99-757-BN8-83	3.875	8/28/2011	313718BN8	\$20,000,000.00	\$19,891,400.00	\$20,275,000.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	72135	FHLMC-070709-100-00-R48-10	4	7/28/2011	312837R48	\$25,000,000.00	\$25,047,222.22	\$25,101,875.00	SUNGARD
US Agency	Federal National Mortgage Association	72134	FNMA-99-952-TL6-83	3.625	8/15/2011	313588TL6	\$25,000,000.00	\$24,589,000.00	\$25,171,875.00	SUNGARD
US Agency	Federal Home Loan Bank	72152	FHLB-99-832-4S4-07	3.625	1/18/2011	3133984S4	\$15,000,000.00	\$14,974,800.00	\$15,000,000.00	SUNGARD
US Agency	Federal Home Loan Mortgage Corporation	72013	FHLMC-070109-100-00-WL3-10	5.3	1/9/2012	312837WL3	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	SUNGARD
U.S. Agency Total						47.22%	\$927,568,000.00	\$922,530,470.82	\$924,677,365.32	

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City of San Diego -- Pooled Investment Fund as of September 30, 2008

Security Type	Issuer	Invtl No.	Sec. Description	Coupon	Maturity	CUSIP	Par	Book	Market Value	Price Source
Repurchase Agreement	Overnight Repo	72268	REPURCHASE AGREEMENT ACT-300	1.2	10/1/2008		\$24,356,275.00	\$27,356,275.00	\$27,356,275.00	BOOK
Local Agency Investment Fund	California State Pool	40819	LOCAL AGENCY INVESTMENT FUND	3.11	10/1/2008		\$24,226,297.71	\$24,226,297.71	\$24,226,297.71	BOOK
Commercial Paper	General Electric Capital Corporation	71518	CP-GECC-97-442-KA4-23	3.41	10/10/2008	36959HKA4	\$30,000,000.00	\$29,232,750.00	\$29,072,250.00	SUNGARD
Commercial Paper	Toyota Motor Credit Corporation	71974	CP-TOYCC-EE 700 LS3-24	2.6	11/28/2008	89233GLS3	\$75,000,000.00	\$74,875,900.00	\$74,856,111.11	SUNGARD
Non-Negotiable CD's	Neighborhood National Bank CDARS	71850	NNCD-CDARS-100 00-04	3.78	3/28/2009		\$5,000,000.00	\$5,000,000.00	\$5,000,000.00	USERPR
	Repo, BA's, CD's, CP, LAIF, Funds Total					5.66%	\$111,562,572.71	\$110,490,322.71	\$111,410,933.82	
Medium Term Note	HSBC Finance Corporation	38763	MTN-HSBC-98 207-KFD-40	4.125	12/15/2008	441812KFD	\$5,000,000.00	\$5,050,464.36	\$4,945,850.00	UPRICE
Medium Term Note	Credit Suisse FB USA	38764	MTN-CS-97-07-AL7-41	3.875	1/15/2009	22541LAL7	\$10,000,000.00	\$10,042,486.24	\$9,991,600.00	UPRICE
Medium Term Note	Alibon Laboratories	71960	MTN-ABT-100 322-AN0-63	3.5	2/17/2009	002624AN0	\$7,000,000.00	\$7,073,726.60	\$7,014,744.99	UPRICE
Medium Term Note	JP Morgan Chase & Co	72120	MTN-JPM-100 226-BH2-83	3.5	3/19/2009	49825HBH2	\$15,897,000.00	\$15,935,187.72	\$16,769,258.86	UPRICE
Medium Term Note	Wells Fargo Bank	35765	MTN-WFC-95 391-FG9-41	3.125	4/1/2009	949746FG9	\$3,000,000.00	\$3,048,829.32	\$2,920,320.00	UPRICE
Medium Term Note	American Honda Finance	71920	MTN-HNDA-101 526-LW1-08	4.5	5/26/2009	036080LW1	\$15,000,000.00	\$15,228,850.00	\$14,898,218.75	SUNGARD
Medium Term Note	Wal-Mart	70279	MTN-WMT-105 033-BE2-40	6.875	8/10/2009	931142BE2	\$10,000,000.00	\$10,593,390.00	\$10,270,600.00	UPRICE
Medium Term Note	Wal-Mart	70534	MTN-WMT-104 134-BE2-83	6.875	8/10/2009	931142BE2	\$5,000,000.00	\$5,206,700.00	\$5,125,300.00	UPRICE
Medium Term Note	General Electric Capital Corporation	70486	MTN-GE 100 226-231-42	5.25	10/27/2009	38362GZ31	\$10,000,000.00	\$10,002,600.00	\$9,858,400.00	UPRICE
	Corporate MTN's and Other Notes Total					4.57%	\$86,927,000.00	\$88,112,293.74	\$88,729,292.33	
						100.00%	\$1,951,577,572.71	\$1,932,547,516.46	\$1,954,658,029.97	

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CITY OF SAN DIEGO

Independent Auditor's Report on Internal Control over
Financial Reporting and Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

For the Fiscal Year Ended June 30, 2007



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**INDEPENDENT AUDITOR'S 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 fiscal year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 17, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than

inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in 2007-(a) and 2007-(b) in the accompanying schedule of *Current Year Findings* to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's responses to the findings identified in our audit are described in the accompanying schedules of *Current Year Findings* and *Prior Year Findings*. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, City Council and Mayor, City management, 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 Accountants

Los Angeles, California
October 17, 2008

CITY OF SAN DIEGO
Current Year Findings
For the Fiscal Year Ended June 30, 2007

Finding No. 2007-(a) Risk Management – Public Liability

Observation – The City’s internal controls over public liability reserves require 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 seven RFAs we tested indicated the rationale for the reserve adjustment, nor was there any indication that management had reviewed or authorized any of these RFAs.

Recommendation – The City’s Risk Management Department should implement procedures to ensure proper completion and authorization of an RFA whenever an adjustment is made to a public liability reserve.

Management Response - Management agrees with this finding and is taking steps to correct the finding. Planned corrections include the implementation of a new claims management system and quarterly review procedures performed by employees on a sample basis.

Finding No. 2007-(b) Journal Entry – Access Controls

Observation – We noted that access controls for on-line journal entries do not prevent employees within the City with a greater than “view only” access from deleting any post-close on-line journal entry after the entry has been posted. This lack of access controls increases the risk of potential management override and/or errors. Currently, there are no compensating controls in place to mitigate this risk.

Recommendation – Management should implement additional controls that prohibit limited users, such as approvers and above, the access to delete journal entries.

Management Response: - Corrected during fiscal year 2008. Prior to the issuance of this report, the City already put controls in place to prevent on-line journal entries from being deleted. The staff of the Comptroller’s Office were provided training on revised journal entry procedures in May 2008. Additionally, as of June 30, 2008, the Operations section of the Comptroller’s Office revised procedures and confirmed to management that journal vouchers for the accounting period had been properly approved. Follow up training will occur annually.

CITY OF SAN DIEGO
 Prior Year Findings
 For the Fiscal Year Ended June 30, 2007

Findings related to the financial statements

Reference Number: 2006-(a)
Topic: City of San Diego Redevelopment Agency (RDA) - Properties Held for Longer than 5 Yrs

Audit Finding: 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.

Status of Corrective Action: In progress. Management has established monitoring controls to identify land held for resale purchased with low and moderate income housing funds that could exceed the 5 year limit established by CA Health & Safety Code §33334.16. For properties identified, management will ensure appropriate action is taken to either obtain an extension by resolution or to reimburse the housing fund for acquisition costs associated with land purchases before the 5 year limit is exceeded.

Reference Number: 2004-(b)

Topic: Accounting for Land-held-for-resale

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: Corrected.

CITY OF SAN DIEGO
 Prior Year Findings (Continued)
 For the Fiscal Year Ended June 30, 2007

Reference Number:	2003-1
Topic	Material Weakness in Internal Controls over the Financial Reporting Process
Audit Finding:	<p>There were inadequate policies, procedures, internal controls and personnel to ensure the preparation of an accurate and reliable CAFR on a timely basis. Specifically, deficiencies were noted in the following areas;</p> <p>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.</p> <p>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.</p>
Status of Corrective Action:	<p>In progress. 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 internal controls, and the implementation of revised policies, procedures and training for employees. Additionally, the implementation of OneSD will dramatically change (and improve) the year-end process; however, the preparation of the Fiscal Year 2008 Comprehensive Annual Financial Report will be completed using the City's current accounting systems.</p> <p>Also improving controls for 2008 is a new year-end processing flowchart that has been developed. It identifies tasks necessary to complete the CAFR by responsible staff member; identified items contingent on information from other sections within the Comptroller's Office and other departments within the City. Use of the flowchart along with the year-end closing calendar already in use will allow management to more effectively monitor progress toward completion of the CAFR and ensure critical components are not omitted.</p> <p>Notwithstanding the improvements made prior to the issuance of this report, management agrees further improvement is necessary and remains committed to continuing to strengthen its internal controls and procedures over financial reporting.</p>
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

CITY OF SAN DIEGO
 Prior Year Findings (Continued)
 For the Fiscal Year Ended June 30, 2007

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, 2007. Settlement was reached with plaintiff during the current year and the City has taken several actions in order to correct flaws in its rate structure during the fiscal year ended June 30, 2008.
Reference Number:	2003-4
Topic	Violations of Securities Laws
Audit Finding:	<p>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.</p> <p>In issuing the Order, the SEC made the following determinations:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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.

CITY OF SAN DIEGO
Prior Year Findings
For the Fiscal Year Ended June 30, 2007

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 part of 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. The independent monitor required by the SEC order has reported on the City's progress with respect to several remediation issues from the SEC order. The latest report is dated March 25, 2008 and is available for review.

SDCERS Commentary on the Current Investment Climate
October 13, 2008

SDCERS has been in the investment business since 1927 and has never missed a benefit payment. Even with the recent market downturn, SDCERS has billions of dollars of assets, more than enough to pay retiree benefits when they come due. SDCERS is actuarially sound, and its financial statements are current and audited. The Board of Administration's Investment Committee and SDCERS' investment staff regularly and closely monitor the activities of our 30 professional money managers and custodial bank.

The current turmoil in the global financial markets has impacted SDCERS' investments just as it has every other institutional and individual investor. However, it is important to understand that SDCERS' mission is significantly different than that of most other investors who may have shorter investment time horizons or lack the ability to ride out turbulent market cycles.

SDCERS invests for the very long term. For example, we invest contributions for a newly-hired employee who might work for thirty years and then, based on their life expectancy at retirement in 2038, for another thirty years until 2068. As a result of this sixty-year time period, SDCERS' investment philosophy and strategy is geared to long-term results. Short-term market dislocations - even those as severe as what we are experiencing today - are, in relation to SDCERS' time horizon, just that: short-term.

To keep current events in proper perspective, it is the fiscal year's final investment return (as of June 30) that SDCERS' actuary uses to determine a Plan Sponsor's Annually Required Contribution (ARC). The ARC that the Plan Sponsors will pay for the fiscal year beginning on July 1, 2009 will be based on last fiscal year's investment returns (July 1, 2007 through June 30, 2008). Therefore, the market downturn from July 1 through September 30, 2008 reflects only one quarter of SDCERS' four-quarter fiscal 2009 year. Only when all four fiscal quarters have been concluded - on June 30, 2009 - and the ARC payment calculated, will the impact of the current market condition be known. Once calculated, that ARC will not be paid by our Plan Sponsors until the following fiscal year, beginning in July 2010.

Because of the long-term nature of SDCERS' obligations and investment strategies, overreaction to short-term results can lead to emotional or irrational investment decisions. SDCERS has never - and should never - manage its portfolio for the short term. Indeed, because recent declines in SDCERS' equity portfolio have pushed those asset levels below our investment targets for equities, SDCERS is rebalancing its portfolio by buying additional equity securities. This disciplined strategy of a well-balanced portfolio has and will continue to work over the long haul.

000107

REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO

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

TO:
City Attorney

2. FROM (ORIGINATING DEPARTMENT):
City Comptroller

3. DATE:
October 30, 2008

4. SUBJECT:
Pursuant to Municipal Code Section 22.0710, the City Comptroller's Office is hereby requesting a hearing on the City's Comprehensive Annual Financial Report (CAFR) for fiscal year ending June 30, 2007, as well as the related Yellowbook Report for fiscal year ending June 30, 2007.

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.)
Greg Levin, Comptroller, 236-6162

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

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		10/30/08	8	DEPUTY CHIEF		10/30/08	
2				9	COO		10/30/08	
3				10	CITY ATTORNEY		10/30/08	
4	LIAISON OFFICE			11	ORIGINATING DEPARTMENT			
5				DOCKET COORD: _____ COUNCIL LIAISON: _____				
6				✓	COUNCIL PRESIDENT	<input type="checkbox"/> SPOB	<input type="checkbox"/> CONSENT	<input type="checkbox"/> ADOPTION
7						<input type="checkbox"/> REFER TO: _____	COUNCIL DATE: _____	

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

Adopt the attached resolution to the City Council of San Diego regarding the City's Fiscal Year 2007 CAFR and Yellowbook Reports.

11A. STAFF RECOMMENDATIONS:
Receive and file the Fiscal Year 2007 CAFR and Yellowbook Reports.

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

000109

EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE ISSUED: October 30, 2008 REPORT NO:
ATTENTION: Council President Peters and City Council
ORIGINATING DEPARTMENT: Comptroller's Office
SUBJECT: 2007 CAFR and Yellow Book Report
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 Yellowbook Report for Fiscal Year 2007

STAFF RECOMMENDATION:

Approve the Requested Action

EXECUTIVE SUMMARY:

The City received an Audit Opinion from its Independent Auditor Macias Gini & O'Connell LLP dated October 17, 2008 for the 2007 Comprehensive Annual Financial Report, and will be distributing the Yellowbook report as soon as received by Macias Gini & O'Connell.

FISCAL CONSIDERATIONS:

None with this action.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The Audit Committee is scheduled to consider these documents for the second time on Monday November 3, 2008.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: n/a

KEY STAKEHOLDERS AND PROJECTED IMPACTS: n/a



Greg Levin
Comptroller



Mary Lewis
Chief Financial Officer

RESOLUTION NUMBER R-_____

DATE OF FINAL PASSAGE _____

RESOLUTION OF THE COUNCIL OF THE CITY OF SAN
DIEGO REGARDING THE CITY'S FISCAL YEAR 2007
COMPREHENSIVE ANNUAL FINANCIAL REPORT

WHEREAS, there has been presented to this Council the City's Fiscal Year 2007 Comprehensive Annual Financial Report [CAFR], together with an unqualified opinion of the City's Independent Auditor Macias Gini & O'Connell LLP [Macias], dated October 17, 2008, relative to the City's 2007 financial statements and such documents are on file with the City Clerk as Document No. RR-_____ ; 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, in receiving the City's FY 2007 CAFR, the Council deems it prudent to review the Yellow Book Report the 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], DPWG reviewed the draft of the Fiscal Year 2007 CAFR presented to the DPWG on October 17, 2008, including approved revisions at subsequent meetings and incorporated into the 2007 CAFR, 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. RR-_____ and Document No. RR-_____; and

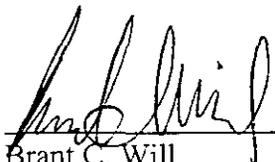
WHEREAS, on November 3, 2008 the Audit Committee reviewed the 2007 CAFR, in accordance with the procedures of its Charter, and voted to forward it to the full City Council with a recommendation that the City Council receive and file the 2007 CAFR; NOW THEREFORE,

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

1. The City's Fiscal Year 2007 CAFR is hereby received by 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
10/30/08
11/04/08.COR.Copy
Or.Dept:Finance
R-2009-565

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

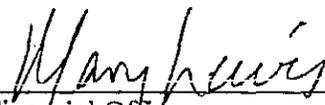
Certification by Chief Financial Officer Regarding CAFR

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 2007 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.



Chief Financial Officer



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

#151
11/10/08

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4800

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.786.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

October 17, 2008

To the Audit Committee
of the City of San Diego

This letter is in response to the following questions asked us by the City of San Diego's (City's) Audit committee with respect to the June 30, 2007 financial statement audit of the City.

1. Was any audit work not performed due to any limitations placed on you by management (e.g., any areas scoped out by management, or any restriction on fees that limited the scope of your work)?

No.

2. Explain the process your firm goes through to assure that all of your engagement personnel are independent and objective with respect to our audit. Do any non-audit services performed for the City or its related entities affect the work that you do or the manner in which the engagement team or others are compensated?

All MGO staff sign an annual independence statement attesting to their independence from our clients. In addition, during our planning procedures, the manager goes through and ascertains that all staff assigned to the engagement are independent with respect to that particular client. In addition, all prospective work with existing clients is reviewed in advance to determine potential conflicts of interest.

3. Was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?

Yes, this audit was performed in accordance with GAGAS.

4. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?

The financial statements do not contain material deviations from GAAP.

5. Were any new accounting principles adopted, were any changes made, or did you recommend any changes, in the accounting policies used or their application?

No. There were no new accounting principles adopted, nor did we recommend any changes in the accounting principles used or their application.

6. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?

All known accounting adjustments (booked or passed) have been disclosed as attached schedules to the auditor's Statement on Auditing Standards No. 61 (SAS 61) letter.

7. Are there any areas of the financial statements, including the notes, in which you believe we could be more explicit or transparent, or provide more clarity to help a user better understand our financial statements?

No. We believe that the financial statements and disclosures are appropriate.

8. Have you expressed any concerns or comments to management with respect to how our presentation, including the notes or Management's Discussion & Analysis, could be improved?

Management has incorporated our comments into the City's current financial statements.

9. Based on your audit procedures, do you have any concerns as to whether management may be attempting to commit management override? Have you noticed any biases as a result of your audit tests with respect to accounting estimates made by management?

We have not noted any attempts by management to commit management override. Also, we have not noticed any biases with respect to accounting estimates made by management.

10. Did you encounter any difficulties in dealing with management in performing the audit, including any disagreements with management regarding any accruals, estimates, reserves or accounting principles? Did you have the full cooperation of management and staff?

We did not experience any significant difficulties with management during the audit and enjoyed full cooperation of management and staff.

11. Were there any accounting issues on which you sought the advice of other audit firms or regulatory bodies?

No. We do utilize a professional standards reviewer who attends regulatory setting bodies meetings on various GAAP issues and updates us that provides us with the latest issues at the national level. However, we did not seek the advice of other audit firms, nor did we consult with regulatory bodies relating to issues for the City's June 30, 2007 financial statements.

12. Describe any difficulties you encountered while performing the audit (e.g., delays by management in allowing you to begin the audit, lack of access to information, unreasonable timetables, unavailability of personnel, etc)

We did not encounter any significant difficulties in performing the audit.

13. Discuss your impression of the performance of the City's financial management in terms of the completeness, accuracy and faithfulness of the financial reporting process.

The City has taken significant steps to improve external financial reporting as noted in the updates to the status of weaknesses in internal controls. However, the financial reporting process will not be completely addressed until the final implementation of the ERP system that is currently scheduled for the spring of 2009.

14. Describe any situation in which you believe management has attempted to circumvent the spirit of GAAP, but has yet complied with GAAP.

We are not aware of any situation in which management has attempted to circumvent the spirit of generally accepted accounting principles.

15. Would you characterize management's application of GAAP as conservative, aggressive or somewhere in between?

Management's application of GAAP is conservative in nature.

16. Are there any new procurements and or areas of potential financial risk affecting future financial statements of which the Audit Committee should be aware?

New accounting pronouncements are discussed in the City's financial statements. The implementation of Statement 45 dealing with other post-employment benefits will have significant impact on the City as discussed in the CAFR.

17. How would you compare the City's financial reporting with that of comparable government entities with which you are familiar?

The City has achieved a high level of expertise in its financial reporting due in part to the experience and commitment of the core City's Comprehensive Annual Financial Report (CAFR) team. The size and depth of the CAFR team is smaller than that for comparable Cities which may present an issue in the future from the standpoint of continuity with in the reporting function. Additionally the City surpasses most of its peers in the use of its Disclosure Practices Working Group (DPWG) and the in role of the audit committee.

18. Please explain the significance of any reportable conditions or material weaknesses referenced in your letter or report dealing with the City's internal controls.

The first significant deficiency relates to a prior year's comment on internal controls in the public liability department. The absence of the particular control document referenced to in the finding could potentially lead to the under-reserving or over-reserving of particular cases leading to an under-accrual or over accrual of the liability related to public liability cases. The short period of time in-between issuance of the financial statements also has not allowed the department to implement changes before the next financial statements were issued.

The second deficiency relates to access controls related to post-close journal entries. There is a potential for the financial statements to be misstated by any employee with access either deliberately or inadvertently through their deleting posted journal entries. This problem is a new one since prior to the current financial statements, the post-close journal entry process was a manual one.

19. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

No.

Sincerely,

Macias Gini & O'Connell LLP

Macias Gini & O'Connell LLP

BRANT C. WILL
DEPUTY CITY ATTORNEY

OFFICE OF
THE CITY ATTORNEY
CITY OF SAN DIEGO

MICHAEL J. AGUIRRE
CITY ATTORNEY

CIVIL DIVISION
1200 THIRD AVENUE, SUITE 1620
SAN DIEGO, CALIFORNIA 92101-4178
TELEPHONE (619) 236-6220
FAX (619) 236-7215

November 3, 2008

Audit Committee
202 C Street
San Diego, CA 92101

Re: 2007 CAFR Review

Dear Committee:

The following are questions and answers required by the Audit Committee to assist the Committee in reviewing the City's Fiscal Year 2007 Comprehensive Annual Financial Report. The questions are drawn from the "City of San Diego Audit Committee CAFR Review Questions, revised 6/23/08, and are accurate as of October 17, 2008.

1. Are you satisfied that litigation and other legal loss contingencies within the purview of the City Attorney's Office have been properly reflected in the City's financial statements?

The City Attorney's Office believes that all litigation and legal loss contingencies are accurately disclosed in the 2007 CAFR.

2. Are you aware of any significant violations of law, regulations, contracts or grants that have not already been identified?

The City Attorney's Office is not aware of any significant violations of law, regulations, contracts or grants that have not already been identified and disclosed on the 2007 CAFR.

3. Is there anything else your office wants to bring to the Committee's attention?

There is no additional information that the City Attorney's Office wishes to bring to the attention of the Audit Committee at this time.

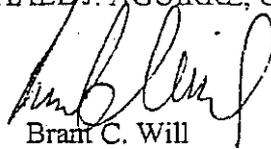
Audit Committee
November 3, 2008
Page 2

I have served as the representative of the City Attorney's Office in responding to the questions above.

Sincerely yours,

MICHAEL J. AGUIRRE, City Attorney

By



Bran C. Will
Deputy City Attorney

BCW:jdf



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: November 3, 2008

TO: Honorable Councilmember Kevin Faulconer, Chair and Audit Committee Members

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: 2007 CAFR Due Diligence Questions

Pursuant to the request of the City Council Audit Committee please see my written responses to the Audit Committee's due diligence questions.

1. Do you believe the financial statements fairly present the government's net assets and activities in accordance with generally accepted accounting principles (GAAP) or some other acceptable comprehensive basis of accounting?
 - To the best of my knowledge and belief, the financial statements fairly present the government's assets and activities and were prepared in accordance with GAAP.
2. To the best of your knowledge, was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?
 - To the best of my knowledge and belief, the financial statements were audited in accordance with GAAS and GAGAS where appropriate.
3. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?
 - To the best of my knowledge and belief, the statements do not contain deviations from GAAP.
4. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?
 - To the best of my knowledge and belief, No.

November 3, 2008

5. Are you satisfied that an appropriate audit was performed by the independent auditors?
 - To the best of my knowledge and belief, yes.

6. Is there any activity at any level within the government that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP other than those already identified?
 - Other than those already identified and to the best of my knowledge and belief, there are none.

7. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?
 - To the best of my knowledge and belief there are no additional questions that should have been asked.

Mary Lewis
Chief Financial Officer

ML/slh

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer



THE CITY OF SAN DIEGO

DATE: November 3, 2008
TO: Honorable Members of the Audit Committee
FROM: Eduardo Luna, City Auditor 
SUBJECT: **Audit Committee's Review of the City's Fiscal Year 2007 Comprehensive Annual Financial Report**

At the request of the Audit Committee Chairman, I am submitting in writing my responses to the following questions in relation to the Audit Committee's review of the City's Fiscal Year 2007 Comprehensive Annual Financial Report (CAFR).

1. Please describe your role in the audit process.

I was not involved in the preparation or the audit of the 2007 CAFR. I do not supervise or review the work of the outside auditors. I am a non-voting member of the Disclosure Practices Working Group, which reviewed the 2007 CAFR.

2. Were any limitations placed on your role in the audit process by management with which you disagreed?

Management did not place any limitations in my role in the audit process.

3. Were you satisfied with the quality of the audit performed by the outside auditor?

I am satisfied with the quality of the audit.

4. Were there any issues that arose in connection with the audit which were not resolved to your satisfaction?

There are no issues that arose in connection with the audit that were not resolved to my satisfaction.



- 5. Are you aware of any reportable conditions or material weaknesses in the City's internal controls that were not identified by the outside auditor?**

I am not aware of any reportable conditions or material weaknesses in the City's internal controls that were not identified by the outside auditor.

- 6. Do you have any reason to believe that the financial reports were not prepared in accordance with GAAP or that the audit was not conducted in accordance with GAAS or GAGAS?**

I have no reason to believe that the financial reports were not prepared in accordance with GAAP or that the audit was not conducted in accordance with GAAS or GAGAS.

- 7. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?**

There are no further questions that I am aware of that should be asked during the review of the 2007 CAFR.

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Greg Levin, City Comptroller
Michael Aguirre, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor