

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 29, 2006

IBA Report Number: 06-60

City Council Agenda Date: December 6, 2006

Item Numbers: 601 and 603

Item: Kroll Remediation Status Report Numbers 2 and 3

OVERVIEW

On December 6, 2006, the City Council will hold a special meeting to hear status updates on Kroll remediations as published on October 30 and November 22, 2006. As documented, a number of the identified remediations have been completed or are in process and the City Council is being asked to take action to modify the Municipal Code with respect to the Disclosure Practices Working Group (DPWG) and to establish an audit committee.

FISCAL/POLICY DISCUSSION

Regarding the status updates from October 30, 2006 and associated actions to modify the Municipal Code to form an audit committee, the IBA reiterates statements made in our IBA Report 06-35 and 06-53. Prior to City Charter modifications to allow for a more complete implementation as envisioned by Kroll, we support the City Council's November 13, 2006 action to direct the development of an independent audit committee and audit function consistent with current industry standards. The proposal before the City Council is not consistent with that direction, therefore the IBA does not support it.

As requested by the City Council, this office did contact Kroll via letter and phone to discuss the divergence between their recommendation for the audit committee and industry standards as presented on November 13, 2006. While Kroll, through Troy Dahlberg, has declined the opportunity to provide further information in writing or via a formal presentation, he did verbally express the commitment to be available to any official that wishes to discuss this further. In addition, they emphasized that it is valuable for the City to have reasoned discussions on the details of these items, as long as the City does aggressively pursue the implementation of the remediations in general and accomplishes the larger intent behind the recommendations. As a result, the IBA concludes, as we have previously stated in IBA Report 06-35, that the City is not

expected by any party to simply “rubber stamp” recommendations without careful review and public discussion.

With regard to the status updates dated November 22, 2006, the IBA supports the proposal to amend the Municipal Code to modify the DPWG. In addition, we applaud the completion of other items as reported therein. Regarding remedial action 87, which calls for the development of a realistic retirement plan for future City hires, we would additionally direct all parties to IBA Report 06-52, “Pension Plans: Alternatives for the Future” which provides significant baseline research on different plans and systems that may meet the City’s goals to attract and retain excellent employees with an affordable retirement plan. With regard to remedial actions 1-6 – Oversight Monitor, we hope that the discussion on December 6 will further illuminate the report’s stated goal to reconcile the independent consultant function called for by the SEC and the monitor role recommended in the Kroll Report, with more details on the scope of work and duties of this function.

CONCLUSION

The IBA recommends approval of the Municipal Code modifications required for the DPWG, but does not support the Municipal Code revisions proposed for the formation of an audit committee.

[SIGNED]

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