

Internal Control Items with a Direct Impact on Financial Reporting - Financial Disclosure

Exhibit C

Item Number	Description of Finding	Source	Remediation Complete per Management?	Remedial Actions taken by Management [1]	Date Reported as Remediated [2]	Estimated Completion Date per Management if Remediation Not Complete	Tested by Internal Audit?
1	Continue the operations of the Disclosure Practices Working Group (DPWG) and add the CFO not only as an official member but also have this person serve as chair.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	<p>Per 11/22/06 3rd Mayor Kroll Status report: Mayoral task complete. The Mayor's Office submitted a Request for Council Action that the City Council direct the City Attorney to amend the Municipal Code for the following changes to the DPWG.</p> <ul style="list-style-type: none"> • The Chief Financial Officer will serve as the chair of the revised DPWG. • Membership in the DPWG will consists of the following five official voting members: Chief Operating Officer, Chief Financial Officer, City Attorney, Auditor General and Independent Budget Analyst (or designees). Outside disclosure counsel serves as an ex-officio member. • No DPWG committee member (including the Chair) can prevent any other committee member from placing an item on the agenda. 	Nov-06	NA	Yes - Verified that during the April 30, 2007, City Council voted to accept the Independent SEC Monitor's report to make changes to SDMC §22.4101 - 22.4112, which included adding the CFO to the DPWG. The City Attorney's office was asked to draft an ordinance to make the approved changes. This item is still in process as the ordinance has not been drafted, and therefore the SDMC changes have not been made. We recommend that the necessary steps are taken to finalize the changes to the DPWG ordinance so it is incorporated into the SDMC.

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2	The DPWG should report to the City's new Audit Committee.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	<p>Per 2/21/07 4th Mayor Kroll Status Report: "Mayoral task complete. The Mayor's Office previously submitted a Request for Council Action that the City Council direct the City Attorney to amend the Municipal Code for certain changes to the DPWG (refer to Council item 330 and my memorandum dated November 22, 2006). At the December 6, 2006 Council meeting, the item was continued until the independent monitor/consultant is hired and could provide input.</p> <p>I recommend that the Council add the requirement to item 330 that the DPWG meet periodically (on an as needed basis) with the City's new Audit Committee to discuss the City's disclosure controls and procedures."</p>	Feb-07	NA	Yes - Per SDMC §22.4106(a)(3), the DPWG is required to submit a written annual report on the committee's work and findings to the City Council and the Audit Committee on or before November 1 of each year. However, the report was not submitted to City Council and the Audit Committee Consultant until December 17 and December 18, respectively. We recommend that the DPWG file their annual report to the City's Audit Committee by November 1 of each year, or this requirement should be removed from the DPWG ordinance if this filing requirement is overly restrictive.

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3	The City CAFR is an integral component of the financial information provided as part of any debt issuance; the City Council should review and approve its use following the same procedures as offering statements.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	DPWG controls and Procedures requires Council to review and approve "disclosure documents". Disclosure documents as defined by the DPWG Controls and Procedures includes the City Financial Statements.	Oct-07	NA	Yes - Reviewed SDMC §22.4107 and the DPWG's Controls and Procedures which require that all disclosure documents (offering statements) are reviewed and approved by the DPWG. Additionally, the City Council Meeting Minutes for 6/5/07 and 7/24/07 were reviewed to determine what actions were taken by Council. Council accepted the FY2003 and 2004 reports. This item has been accepted by Internal Audit as remediated.
4	Certain challenges face the DPWG in its compliance with Ordinance 19320, including time constraints, awareness of departmental initiatives, DPWG jurisdiction, and dissemination of information likely to reach financial markets. All communications from the Mayor, Council, and City Attorney cannot be completely monitored for potential impacts to financial markets. Therefore, further define the scope and responsibilities of the DPWG.	A&C Internal Control Report	Yes	On April 20, 2007, the Mayor's Office submitted a Request for Council Action that the City Council direct the City Attorney to amend the Municipal Code to restructure the DPWG and to more thoroughly define its operation. City Council approved the changes on April 30, 2007.	Oct-07	NA	Yes - Verified that during the April 30, 2007, City Council voted to accept the Independent SEC Monitor's report to make changes to SDMC §22.4101 - 22.4112 without exception. The City Attorney's office was asked to draft an ordinance to make the approved changes, in which no changes were proposed with regards to the DPWG's scope and responsibilities. We recommend the DPWG draft and submit a Request for Council Action to further define the DPWG's scope and responsibilities.

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5	The City Attorney or City Attorney staff member should collect information relevant to public filings and bond offerings and should confirm, in writing, the accuracy of this information in the City's public documents.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Per 2/21/07 4th Mayor Kroll Status report: "Complete (internal control operating effectiveness to be tested upon the City's issuance of public filings or bond offerings). The Disclosure Practices Working Group (DPWG) adopted Controls and Procedures in October 2005 (refer to Attachment D) that require the City Attorney's Office to collect information relevant to public filings and bond offerings and to confirm, in writing, the accuracy of this information."	Feb-07	NA	No

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6	The City Council should have at least two weeks to review substantially completed drafts of a preliminary offering statement before it is asked to vote to approve the final document.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	<p>Per 2/21/07 4th Mayor Kroll Status report: "Complete. The DPWG adopted Controls and Procedures in October 2005 that require it to provide the City Council over two weeks of review time before the City Council is asked to approve final offering documents. Refer to Article VI of the DPWG Controls and Procedures.</p> <p>In the most recent offering statements (Ballpark Refunding and Water System Financing), the City Council was provided with over three weeks of review time. Documentation of over three weeks of lead time is included in the following Independent Budget Analyst (IBA) Reports.</p> <ul style="list-style-type: none"> • IBA Report Number: 07-7, Refunding of the Ballpark Bonds • IBA Report Number: 07-8, Subordinated Water Revenue Notes, Series 2007A" 	Feb-07	NA	No

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7	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 testing of internal controls, it was noted that none of the 12 RFAs that were 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. MGO recommends that the City's Risk Management Department should implement procedures to ensure proper completion and authorization of an RFA whenever an adjustment is to be made to a public liability reserve.	2005 MGO Report	Yes	Risk Management has implemented procedures 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 \$50,000. Reserves exceeding \$50,000 will require the claims representatives to document the basis for the adjustment on an RFA. Once the RFA is completed, it 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.	Oct-07	NA	No

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8	DPWG is responsible for reviewing all documents reasonably foreseen as reaching the investing public to ensure adequate disclosures are included.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	Yes	Under the Disclosure Ordinance, DPWG has jurisdiction over all disclosure documents as defined in the ordinance and has review responsibility over such documents. The ordinance also requires that DPWG meet at least once a month. City Departments and Department Heads request review of disclosure documents as required. Through it's annual reports DPWG provides an update of all disclosure materials that the entity reviewed during the year. While it is envisioned that DPWG would review press releases, there are practical limitations on the ability of DPWG to review statements by elected officials.	Dec-07	NA	No

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9	The City Council members should also establish a reasonable period of time for the review of a final offering statement document, with marked changes from earlier drafts.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	In Process	<p>In response to Kroll Item 52, the Mayor (Debt Management Department) has agreed to provide substantially completed drafts of a preliminary official statement (POS) directly to the City Council for review at least two weeks prior to asking them to approve the document.</p> <p>Kroll Item 52.1: If the POS requires any changes following City Council approval, those changes will either be presented directly to the City Council for approval OR a marked copy of the proposed changes will be provided directly to the City Council and the IBA for review at least 3 business days before the final Official Statement is to be printed. It should be noted that the City Attorney, Disclosure Practices Working Group and the City's Disclosure Counsel will determine which changes need to be directly approved or reviewed in writing by the City Council.</p> <p>The process described above is effective immediately; however, it will be incorporated into section 6.4 of the City's recently adopted Debt Policy as soon as possible and before the end of FY 2008.</p>	NA	ASAP - by the end of FY08	No

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10	<p>The Risk Management department should have responsibility for tracking all claims and cases against the City. Formal procedures to monitor the adequacy of case reserves and general litigation estimates should be implemented. Such procedures should include an established communication process between the RM, the CFO, Auditor General, and the City Attorney. This communication should take place at least quarterly.</p> <p>The City does not update litigated case files timely as a result of poor communication between relevant departments, nor does the City effectively monitor all risks: litigated and non-litigated claims are not centrally monitored by one department.</p> <p>We noted limited communications between RM and the City Attorney's Office regarding outstanding case reserves and other litigation issues. Also, the City incorrectly understated its workers compensation liability by \$64.9 million as of 6/30/02 due to errors in its calculation methodology and incorrectly overstated its public liability claims by \$21.9 million as of 06/30/02 due to the communication issues.</p>	<p>Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report</p> <p>A&C Internal Control Report</p> <p>2003 KPMG Report</p>	In process	<p>Risk Management has implemented a formal procedure with the City Attorney's office to review litigated claims status on a quarterly basis to ensure that all litigated claims managed by the independently elected City Attorney's office are accurately reflected in the city's claims system for claims, insurance and financial reporting purposes.</p> <p>It must be noted that this model only works to the extent that the independently elected City Attorney is responsive to the Mayor's Risk Management department requests.</p> <p>Risk Management tracks all known claims (tort) against the city.</p>	NA	Ongoing	No

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11	<p>In November of 2006, the 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 3 years to foster compliance with its disclosure obligations under federal securities laws.</p> <p>The City consented to the issuance of the Order without admitting or denying the findings in the Order. The SEC's investigation is ongoing as to individuals and other entities that may have violated the federal securities laws. Therefore, the City should implement the applicable actions as outlined in the Mayors' August 24, 2006 responses to the Kroll Report.</p>	2003 KPMG Report	In Process (Ongoing until all items remediated)	Multiple actions taken by Management to date as outlined in the Mayoral Kroll Status Reports. This item is ongoing and will not be considered remediated until all items have been remediated and tested by Internal Audit.	NA	Ongoing	No

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12	The City should assign the responsibilities for preparing public documents and filings to the appropriate City employees. Ultimate responsibility for preparing these City documents cannot be assigned to the independent auditor, disclosure counsel, fiduciary counsel, actuary, or other professionals.	Mayor's 8/24/06 Response to Remedial Recommendations Found in the Kroll Report	In Process	Financing Groups are currently developing Official Statements for the following 3 public offerings: Community Facilities District 3, Series 2008; Community Facilities District 4, Series 2008; and Water System Revenue Bonds, Series 2008.	NA	None Provided	No

Footnotes:

[1] Per information provided to Internal Audit by Management Staff and information provided via the Mayoral Kroll Status updates.

[2] "Date Reported" refers to the date the finding was reported as remediated via: 1) Memos from Management, 2) Mayoral Kroll Status Reports, 3) Status Reports to Internal Audit from Process Owners, 4) Independent Auditor's Reports and 5) Report from John Dyer, Mayoral Consultant, to Internal Audit.