

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item: Responses to Remedial Recommendations of the City of San Diego's Audit Committee

OVERVIEW

In February 2005, the City Council adopted a resolution to retain Kroll, Inc. ("Kroll") to evaluate the investigative reports of Vinson & Elkins and the City Attorney and to make appropriate recommendations to the City Council. At a meeting with SEC officials on March 2, 2005, the City was instructed to complete a thorough investigation into its own finances and develop a plan for remediation. In response to SEC concerns, the City formed an independent Audit Committee on March 8, 2005 consisting of Kroll representatives Arthur Levitt, Lynn Turner and Troy Dahlberg.

On August 8, 2006, the City's Audit Committee presented the Report of the Audit Committee of the City of San Diego that included investigation into the Retirement System and Sewer Rate Structure ("Kroll Report"). As was requested by SEC officials, the Kroll Report provided details of the Audit Committee's investigation and a comprehensive remediation plan to correct the City's internal controls and prevent future control lapses.

On August 24, 2006, the Mayor presented his response to the Kroll Report. The Mayor and his staff carefully reviewed the report, identifying 121 recommended remediations which they organized into 33 different categories. In his memorandum to the City Council dated August 24, 2006, the Mayor indicated that he had directed his staff to begin implementing all of the recommended remediations identified. The Mayor's implementation plan provides brief responses for the 121 identified remediation recommendations and associated fiscal impact estimates for the proposed actions discussed in each response.

The IBA has spent the preceding weeks reviewing the report and remediations, as well. In this report, the IBA presents a discussion on several remediations that we believe warrant critical examination prior to wholesale adoption. While the IBA is supportive of the Audit Committee's recommendations and the Mayor's timeline for implementation, we believe that true reform begins with an honest and open exchange of ideas. As the Audit Committee discussed at the August 8th presentation, the City's past practice of suppressing dissent and thoughtful discussion in the interest of expediency was an underlying cause of the challenges the City faces today. Given that admonition, the IBA believes it is critical to carefully consider these remediations in a public forum, discuss the merits of each, and explore possible alternatives. We also emphasize that adoption of the overall strategy should not preclude continuing public discussion and examination as plans evolve and details are developed.

The City must now consider a remediation package that will dramatically alter the way our government is structured. The reforms that are set into place will establish a foundation for the future operation of city government. In time, San Diego will become a blueprint for other municipalities facing the same challenges. The reforms that are considered today should be irrespective of any current elected official or personality; instead, they should focus on establishing a better process by which local government is run, today and in the future.

FISCAL/POLICY DISCUSSION

In general, the remediations proposed in the report represent improved practices in many areas of finance, accounting and management. The IBA has not found any of the remediations to be inappropriate or unnecessary; rather we encourage the adoption of all remediations proposed as part of a total strategy to achieve financial accountability and operational success. In addition, the IBA strongly endorses the Mayor's timeline for individual remediations as well as the broader goal to complete implementation within the next 30 months. This aggressive timeline makes this effort the top priority for the City of San Diego, which is entirely appropriate and necessary.

The IBA supports and is in agreement with the vast majority of the Mayor's plan for implementation of these remediations. With regard to Budget Policies and Financial Reporting, for instance, all of these recommendations are critical to enhance fiscal accountability, and many of the recommendations mirror those made by the IBA in several past reports and memos including our review of the FY 2007 Proposed Budget. Many other recommendations, such as Training, Reconciliation of Accounts, and Personnel, as examples, are clearly procedures and policies that should have always been in place in this organization. The IBA also supports the recommendations under City Funding/SDCERS, some of which are also reflective of past recommendations by this office.

Although the report made 121 recommendations, there is only one recommendation for which our research leads us to believe modifications are warranted. In addition, there are four subjects we will endeavor to clarify or supplement with additional detail or recommendations at this time. The five areas this report will address are:

1. Audit Organization
2. City Council Approval of Interdepartmental Transfers
3. City Council Review Period
4. Internal Hotline
5. Oversight Monitor

Audit Organization

Two of the most significant and fundamental remediations recommended by the Kroll Report are the establishment of an Audit Committee and the creation of the Auditor General position. As recommended in the report, the Audit Committee – which would be separate and distinct from the Kroll Audit Committee that conducted the investigation and produced these recommendations – would be made up of three members, including one Council member and two subject-matter experts appointed by the Mayor subject to Council confirmation. The Audit Committee will have oversight of all of the financial operations that are managed on a day to day basis by the Mayor. The Auditor General, who will be responsible for internal audits and will report to the Audit Committee, would also be appointed by the Mayor subject to Council confirmation.

Together, the two new entities will create an “audit organization,” which will effectively become a new arm to City government. The central role of this arm will be to provide independent oversight and auditing for the accounting and financial reporting functions of City management. While the IBA strongly supports the creation and role of this audit organization, we have concerns over the degree of independence that will be accorded this organization by virtue of the powers of appointment recommended by the Kroll Report.

Independence

Given that the audit organization’s independence will and should be its most distinguishing attribute, we believe it is critical to explore the concept of independence and how to best provide for it in the City’s audit organization. The United States Government Accountability Office (GAO) states that “the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from organizational impairments to independence.”¹ Further, the Institute of

¹ United States General Accountability Office, *GAO Government Auditing Standards Amendment No. 3, Independence* (Washington DC: United States General Accountability Office, 2002), §3.11.

Internal Auditors (IIA) defines independence as “[t]he freedom from conditions that threaten objectivity or the appearance of objectivity.”²

Thus, when establishing this audit organization the City of San Diego must ensure that the risk of undue influence, either real or perceived, that would impair objectivity and independence should be minimized or eliminated. The greatest risk of undue influence stems from City management, since all of the financial reporting functions and organizational controls, on which the audit organization is to perform its auditing functions, resides with management. Therefore, the key for the audit organization is not independence in the general sense, as in independence from all City officials and entities, but independence from management specifically. As a result, balancing the power of the various branches within the audit organization is not the desired outcome. Rather, the audit organization is itself a balance to the enormous power over financial reporting and internal controls that is rightly vested in management.

Audit Committee

The U.S. Securities and Exchange Commission (SEC) and the Government Finance Officers Association (GFOA) place particular emphasis on the separation of management from audit committee members.³ Also, both the GFOA and the Association of Local Government Auditors (ALGA) strongly recommend that management have no involvement in selecting audit committee members.⁴ Each vests the authority for

² Institute of Internal Auditors, *International Standards for Professional Practice of Internal Auditing* (Altamonte Springs: Institute of Internal Auditors, 2003), http://www.theiia.org/index.cfm?doc_id=2507.

³ “An effective audit committee may enhance the accountant’s independence by, among other things, providing a forum apart from management where the accountants may discuss their concerns.” U.S. Securities and Exchange Commission, *Strengthening the Commission’s Requirements Regarding Auditor Independence* (Washington DC: Securities and Exchange Commission, 2003), 17 CFR Parts 210, 240, 249 and 274, <http://www.sec.gov/rules/final/33-8183.htm>; “An audit committee provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns.” Government Finance Officers Association, *Recommended Practice: Audit Committees (1997, 2002, and 2006)* (CAAFR) (Chicago: Government Finance Officers Association, 2006).

⁴ “The governing body(4) of every state and local government should establish an audit committee or its equivalent...” (4) footnote: “For the purposes of this recommended practice, the term ‘governing body’ should be understood to include any other elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do *not* exercise managerial responsibility within the scope of the audit.”

Government Finance Officers Association, *Recommended Practice: Audit Committees (1997, 2002, and 2006)* (CAAFR) (Chicago: Government Finance Officers Association, 2006); “Audit committee members shall be appointed by the legislative body and all appointees shall be independent of the local government’s management and administrative service.” Association of Local Government Auditors, *Guidelines and Model Legislation for Local Government Auditors* (Lexington: Association of Local Government Auditors, 1999), <http://www.nalga.org/reports/Legislation>.

establishment of the committee, as well as nomination and appointment of members, in the governing or legislative body of the organization. In a Strong Mayor form of government, the Mayor is a member of the management, and therefore it is not recommended that s/he participate in audit committee appointments.

Additionally, in reviewing other municipalities that use audit committees, the City of Denver is the only municipality that requires the executive to make appointments of private citizens to the committee. The City of Denver has found that this has not allowed for a sufficient level of independence from management. On August 28, 2006, the Denver City Council approved a measure for the ballot to revise the composition of the Audit Committee. This measure is intended to enhance independence by reducing management influence, in the form of appointments, on the Audit Committee.⁵ Finally, we refer to the private sector wherein appointments to an Audit Committee are typically made by the Board of Directors (governing body) rather than by the chief executive (management).

Regardless of the ample evidence to the contrary, some may argue that the current recommendation is sufficient to ensure independence in that a check and balance is provided through Council confirmation of the Mayoral appointees. In theory, the Council would have the ability to reject a Mayoral appointee who either did not meet the required qualifications or who was not deemed to be sufficiently independent from the City's management, in either fact or appearance. While this system does provide a check and balance to ensure some level of independence, it still presents certain challenges. First, the power of Council confirmation is less effective in reality than in theory. Council confirmation proceedings have in the past been little more than a formality, with little or no challenge to the appointee. Secondly, this process only gives the Council one choice: confirm or reject the Mayoral appointee. The selection process whereby candidates are vetted may not be apparent to the public. The public, and very likely the Council, may not know why or how the appointee was ultimately selected. If the appointee is rejected, the same selection process begins again and valuable time is lost.

The Mayor makes all of the financial appointments within the managerial structure, including the CFO, the Budget Director, the Comptroller, and the Treasurer. With 75%

⁵ During a phone conversation on August 15, 2006, the Director of Communications further elaborated that the mayoral appointment of four members, including the chair of the committee, to the six-member audit committee was "problematic." Denis Burckefeldt (Director of Communications, City and County of Denver, Auditor's office), in discussion with Lauren Beresford (Intern, City of San Diego, Office of the Independent Budget Analyst), 15 August 2006; During another phone conversation on August 29, 2006, the Director of Communications alerted the IBA that the Denver City Council had approved a ballot measure to reform the audit committee. Denis Burckefeldt (Director of Communications, City and County of Denver, Auditor's office), in discussion with Lauren Beresford (Intern, City of San Diego, Office of the Independent Budget Analyst), 29 August 2006.

of the appointments to the audit organization made by management as well (the two private citizens on the Audit Committee and the Auditor General), and insufficient checks available to non-managerial officials, the IBA concludes that this proposal does not provide the necessary independence from management to effectively serve the oversight function as envisioned. This proposal is inconsistent with the national guidelines and best practices established by reputable advisory organizations. The fact or appearance of compromised independence in the City's audit organization would eliminate the potential benefits of this body's oversight function. Therefore, the IBA recommends that the City of San Diego require the legislative body to make the two private citizen appointments to the Audit Committee, as endorsed by accepted practices and guidelines.

Drawing from procedures and practices employed in other organizations, the IBA suggests that the City Council appoint a screening committee to take recommendations and applications for the positions, review qualifications, and provide a pool of candidates to the City Council. The screening committee should be convened immediately and be charged to make their recommendations within 60 days of amending the ordinance for the Financial Reporting Oversight Board, consistent with the timeline as proposed in the Mayor's report. Please see Attachment 1 for a sample process to implement this recommendation.

The Kroll Report recommends that the third member of the Audit Committee be appointed from among the City Council Members. The Council Member should serve as a representative of the policy-making body, assisting the committee to identify long-term or pervasive issues within the organization that should be addressed. Additionally, as a layperson, the Council Member may serve to challenge the Audit Committee as a whole to understand the more basic underpinnings of financial and disclosure statements. The appointment of governing body members is recommended by the ALGA as well as the GFOA.⁶ Therefore, we support the Kroll Report recommendation that one Council Member be appointed to the Audit Committee.

We support the Kroll Report recommendation that the Audit Committee should establish a charter, and further recommend that this should include term limits and procedures for removal of committee members. This charter should be approved by the legislative body, the City Council, once drafted.

⁶ "The legislative body shall appoint at least one of its members to serve on the committee." Association of Local Government Auditors, *Guidelines and Model Legislation for Local Government Auditors* (Lexington: Association of Local Government Auditors, 1999), <http://www.nalga.org/reports/Legislation>; "All members of the audit committee should be members of the governing body." Government Finance Officers Association, *Recommended Practice: Audit Committees (1997, 2002, and 2006)* (CAAFR) (Chicago: Government Finance Officers Association, 2006).

Auditor General

With regard to the Auditor General, best practices and guidelines suggest several mechanisms by which an auditor can gain independence. The GAO suggests that audit heads should be made free from organizational impairment primarily by being directly elected or appointed by the legislative body or a governing body. However, s/he also may be free from impairment if that person is appointed by another official, as long as the legislative body confirms the appointment, the appointee reports results and is accountable to the legislative body, and s/he subject to removal by the legislative body.⁷ This is supported by the ALGA, as well.⁸

As recommended by the Kroll Report, the City's Auditor General would be nominated by the Mayor and appointed by a majority vote of the City Council. A 10 year term and removal only by the legislative body or the Audit Committee enhances the Auditor General's independence from management. In addition, the Auditor General would submit reports to the City Council on his/her activities and findings. This model is consistent with best practices and national guidelines in ensuring independence for the Auditor General. In addition, it is not uncommon in the private sector for the executive to hire the internal auditor.

Notwithstanding this support for Kroll's proposal, it is valuable to take this opportunity to review the benefits and detriments of alternative proposals for establishing this position. One alternative is establishing an elected position for the Auditor General. In IBA Report 06-20, we explored this and several other mechanisms by which the City's Auditor and Comptroller could gain the requisite independence from management. It is likely that requiring the Auditor General to be elected would secure the greatest degree of independence. In this case, the establishment of an Audit Committee would probably be unnecessary, as the Auditor General would report directly to the voters of the City of San Diego. Many models for an elected auditor exist, although in most cases the position also has responsibility for treasury and management functions, which the Kroll Report seeks to separate from the internal audit function. The disadvantage to electing an Auditor General is that the position could become highly political. An elected Auditor General

⁷ "... A government audit organization may also be free from organizational impairments for external reporting if the audit organization's head meets any of the following criteria:... c. is appointed by someone other than a legislative body, so long as the appointment is confirmed by a legislative body and removal from the position is subject to oversight or approval by a legislative body, and reports the results of audits to and is accountable to a legislative body..." United States General Accountability Office, GAO *Government Auditing Standards Amendment No. 3, Independence*, (Washington DC: United States General Accountability Office, 2002), §3.30.2.

⁸ "Provide for an 'independent' auditor either through election or appointment by the legislative body or chief executive officer. Appointment or removal of an appointed auditor by a chief executive officer should be subject to legislative approval." Association of Local Government Auditors, *Guidelines and Model Legislation for Local Government Auditors* (Lexington: Association of Local Government Auditors, 1999), <http://www.nalga.org/reports/Legislation>.

would not only serve as an expert in auditing, but would also have to be a politician. As stated by the City of San Diego's current Auditor and Comptroller, this may increase "susceptibility to special interest groups and other politically powerful members within the entity."⁹ For this reason, the City's Auditor and Comptroller found election to be the least desirable method by which to gain independence from management. In addition, it is uncertain whether an elected auditor would possess the same high degree of experience and expertise as that of an appointed auditor, unless the City Charter provided for specific qualifications.

The election of an Auditor General would first require a Charter change, by the vote of the people at an election, and then a subsequent election to choose the Auditor General. This makes the timeframe for implementing an elected position several years out, at the very least. Given the support for the Kroll recommendation throughout the guidelines of reputable advisory groups and in practice nationwide, the IBA recommends that the City of San Diego move forward to establish an internal audit function with the greatest degree of independence possible within the structure of our current City Charter.

Another alternative is to have the Audit Committee appoint the Auditor General. This option was also discussed in IBA Report 06-20, wherein we suggested that the Financial Resources Oversight Board could serve as the appointing authority for this position. A variation on this model is seen in Seattle where the committee, comprised solely of Council Members, has this authority. This model is also seen in the City of San Diego for both the Personnel Director, who is appointed by the Civil Service Commission, and the Executive Director of the Ethics Commission, who is appointed by the Ethics Commission. Although this alternative is worthy of consideration and is illustrated by other systems that could serve as valuable models, best practices and guidelines more consistently support the appointment of the Auditor General directly by the executive, given sufficient checks for the legislative body.

In light of the research discussed above, the IBA supports the report's recommendation that the City of San Diego require the executive to appoint the Auditor General, subject to the confirmation of the legislative body, provided the IBA recommendation for the City Council appointment of Audit Committee members is implemented. Together, these proposals will provide for sufficient independence for the audit organization as a whole.

We furthermore emphasize that the power and responsibility of the City Council's confirmation is significant and should be used with great care and thoughtfulness. We recommend that confirmation hearings serve as a last stage in the interview process for the Auditor General. This public examination should include a process mirroring that used in the nomination phase by the Mayor, including prepared questions in order to

⁹ City of San Diego. *Annual Report on Internal Controls*. (San Diego: Office of the Auditor and Comptroller, 2006), 11.

assess the qualifications and skills of the candidate, and responses by the candidate in open session, prior to a vote.

Final Audit Organization Recommendation

The IBA's recommended model for the audit organization, wherein the Audit Committee is established by the legislative body and the Auditor General is nominated by the executive and appointed with consent of the legislative body, is most consistent with principles of independence and best practices across the nation. The IBA strongly recommends that the City Council adopt this model for the City's audit organization to ensure that, both in appearance and in fact, this organization will entirely fulfill the independent role envisioned.

City Council Approval of Interdepartmental Transfers

On July 31, 2006 the City Council approved an ordinance establishing a policy to reorganize the departments of the City, otherwise known as the Business Process Reengineering (BPR) Ordinance. This ordinance intended to strike a balance between the Mayor's desire to expeditiously implement BPR reforms, and the Council's Charter authority under Section 26 to "change, abolish, combine, and rearrange" the City departments.

The basic provisions of the BPR Ordinance state that prior to implementation of a proposed BPR, the Mayor will provide a report to the Council detailing any departmental or budgetary changes that would result from the BPR, including the reorganization of department, division or board, and any required changes to the Administrative Code or Appropriation Ordinance. The Council then has the discretion, within a specified review period, to hold a public hearing on the BPR and to make a determination to approve or reject the proposal. The review period has been established as five Council meetings or 60 days, whichever comes first. If no hearing is held or determination made within the review period, then the BPR proposal will be deemed approved.

The IBA has expressed concern on several occasions about the Council delegating its Charter authority to allow for BPR implementation. This concern was first noted at the Budget and Finance Committee meeting on June 14 and in Memo 06-10, where the IBA stated that the Council should retain its authority given its interest in the BPR process, and this being the first year under the new form of government. Subsequent IBA reports and memos echoed this sentiment, and issued new concerns over the length of the review period. While we continue to feel that the current process is not optimal with regard to the length of the review period, the remedial recommendations presented in the Kroll Report have brought new focus on the delegation of Council's Charter authority.

Recommendation 20 in Appendix M of the Kroll Report states the following:

Interdepartmental transfers to meet budgetary goals, or for any other purpose, should not be permitted unless approved in advance by the City Council.

While this statement is not addressed in the Mayor's response to the Kroll recommendations, we believe that it substantiates our concern with the BPR Ordinance. The Mayor's BPR process is likely to bring about fundamental reform to the way City departments are organized and operated, and the City Council should have a vested interest in engaging in this process. While the City Council has no authority over the operation or management of City departments, it does have the authority to determine how the City is organized, granted by Charter Section 26. By surrendering this authority, the Council is abrogating one of its sole sources of power.

To look at it from another perspective, it could also be argued that the BPR Ordinance as currently written erodes accountability. Under the current process, the Council is not required to affirmatively approve the reorganization of City departments, or the transfer of dollars, positions or appropriations between departments within the same fund. It is unclear the degree to which the Council can be held accountable if reforms are made without explicit approval. Without having to cast an affirmative vote, there is a greater chance that BPR proposals will not receive the highest level of scrutiny. Quite simply, a non-voting or *de facto* approval imparts less accountability than approval that is achieved by way of an affirmative vote.

Arguably, one of the most apparent conclusions of the Kroll Report is that the City Council has the obligation to fully understand what is being approved. Under the current BPR process, the Council has surrendered its approval without first knowing what is being proposed. Unless Council demands a hearing on each BPR, approval will be *de facto* and will not require a conscientious and affirmative vote. In light of the conclusions reached by the Kroll Report and the current atmosphere at City Hall, we feel that this process moves the City in the wrong direction. The IBA believes that it is not only appropriate but mandatory that the City Council become fully educated on, and cast an affirmative vote to approve or reject, each BPR proposal.

We recommend that the BPR Ordinance be amended to require that each BPR proposal involving changes to the budget, including the restructuring of City departments or the transfer of funds, positions or appropriations between departments, be docketed for Council consideration. To promote expediency yet still allow for docketing flexibility, all BPR proposals should be docketed as soon as possible, but no later than five Council meetings or 60 days from the time that BPR reports are released.

This proposed amendment would do nothing to slow down the implementation process (and in fact may actually speed it up since non-controversial BPRs could be placed on the consent agenda and would not necessarily have to wait for the full review period, as is the case under the current process), and would provide greater oversight and accountability

for the City Council. We believe that this amended process is more in line with the reforms prescribed by the Kroll Report, and moves the City in the right direction by providing enhanced transparency and a higher degree of accountability.

City Council Review Period

The Kroll Report reminds us that the City Council is the governing body that authorizes the City to borrow funds. The investigation showed that the City Council's review of disclosure documents has at times been rushed and perfunctory. Citing the critical importance of the City Council's oversight role, Kroll recommends that the City Council be provided 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. The Kroll Report states "if the City Council is to share responsibility for the accuracy of the City's disclosure documents, it is absolutely essential that the Council be given a reasonable opportunity to examine and ask questions about the disclosure documents it is authorizing to be disseminated to the public".

The IBA strongly supports Kroll's recommendation for a 14-day review period for offering statements and the City's CAFR. Acknowledging Kroll's comment that effective oversight cannot be performed without sufficient time for document review, the IBA would further recommend that a 14-day review period be considered for all items scheduled to be heard by the City Council. IBA Report 06-5, issued on January 30, 2006, established policies and procedures for a two week document review period tied to the current requirements established by the City Council docket coordinator. However, current docketing practices regarding the release of information by the City Clerk only provide Council members and their staff with 1 to 3 business days to review items that require City Council action.

It has been our observation that the inevitable pressure to expedite items to the City Council often forces current docketing requirements to be relaxed which in turn compromises an already short review time for elected officials. It should be noted that management and City Attorney review time prior to docketing typically requires three to six weeks. The IBA believes that elected officials require more than 1 to 3 business days to effectively review complex documents and fulfill their oversight responsibility. When the time available does not allow for the normal review process, the period for City Council review should be the last place to cut corners. In light of Kroll's comments and in accordance with the procedural requests made in IBA Report 06-5, we recommend that the Mayor's Office, Council President's Office, City Clerk, and City Attorney work together to develop a plan that would increase the length of the City Council review period for all legislation. We recommend that the procedure be reviewed in six months, and if it hasn't been successful, City Council should consider legislation that would legally require a longer review period.

Internal Hotline

The IBA agrees with the recommendation regarding the establishment of an internal hotline and effective procedures and policies for dealing with whistleblower complaints. We support the Mayor's proposal to establish these policies and procedures by October 2006. The IBA strongly recommends that those procedures should include the Auditor General as a member of the Hotline Committee and that s/he be a designated recipient of a copy of each and every complaint. This would ensure that there is no opportunity for management to prevent proper investigation of any complaint. Therefore, the Auditor-General should be a part of the decision-making process for which complaints are referred to the audit organization and that decision should not be made by management alone.

Oversight Monitor

In assessing the City's ability to implement a remediation plan, the Kroll Report recounts a history of repeated government failures and expresses a lack of confidence that the City can independently follow through with their Remediation Plan. The Kroll Report recommends the appointment of a Monitor to oversee the implementation of and compliance with the remediation plan. It is further recommended that a City Monitor be selected by the Mayor in consultation with the City Council and subject to the approval of the SEC. The Kroll Report provides the following prescription for a City Monitor:

- An independent person of suitable standing, independence and experience
- Complete and unfettered access to all City/SDCERS personnel and records
- Make quarterly reports to the City and the SEC on the City's progress
- Serve a term of no less than three years and be provided with adequate resources
- Provide the SEC with the right, upon request, to expand the scope of the Monitor's duties following consultation with the City.

The Mayor has expressed support for these recommendations and indicated that he is in the process of identifying a Monitor to oversee implementation of the Remediation Plan. In his August 24th memorandum, the Mayor states that the specific scope and duties will be worked out once a City Monitor has been identified. Citing similar unspecified situations in the private sector, the Mayor estimates the cost to be \$3 to \$4 million over the three year period.

Given the considerable estimated expense for a monitor to oversee the City in complying with the SEC and implementing a well defined remediation plan, the IBA recommends that there be more discussion about the specific scope of work and associated costs as soon as possible, and prior to selecting a Monitor. This will enhance the City Council and the public's understanding of the work of an Oversight Monitor and justify the estimated cost associated with it.

Once a comprehensive scope of work for the Monitor has been developed, staff should ensure that a provider is selected in conformance with Charter and Municipal Code requirements for competitive bidding and contracting for services. The contract for a City Monitor should be discussed at a meeting of the City Council or Rules Committee prior to approval. The IBA believes that these recommendations can be expeditiously completed to the satisfaction of the SEC, elected officials and the public.

CONCLUSION

The IBA strongly supports the implementation of the suggested remediations in the Audit Committee report as necessary steps to achieve financial accountability and operational success. The Mayor's proposal for implementation is sound and the IBA endorses the aggressive timeline as established by the Mayor. The IBA recommends adoption of that plan, with the modifications described:

1. **Audit organization:** Adopt the Kroll Report's recommendation for the appointment of the Auditor General, but require the legislative body to make the two citizen appointments to the Audit Committee.
2. **City Council Approval of Interdepartmental Transfers:** Amend the BPR Ordinance to require an affirmative action by the City Council on each proposal that includes any departmental or budgetary changes.
3. **City Council Review Period:** Direct the Mayor's Office, Council President's Office, City Clerk, and City Attorney work together to develop a plan that would increase the length of the City Council review period for all legislation and review effectiveness in six months.
4. **Internal Hotline:** Require the Auditor General to sit on the Hotline Committee and be a designated recipients of each complaint submitted in order to ensure all complaints are investigated properly.
5. **Oversight Monitor:** Have a public discussion on the necessity, scope of work and funding requirements in order to enhance public and City official's understanding of this function.

[SIGNED]

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