
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: October 31, 2007

IBA Report Number: 07-104

Kroll Remediation Plan: Status Update

OVERVIEW

On August 8, 2006, the firms of Kroll and Willkie, Farr & Gallagher issued a report entitled Report of the Audit Committee of the City of San Diego (typically referred to as the “Kroll Report”). The Kroll Report recommended a Remediation Plan designed to achieve the following four principal compliance objectives: enhanced accountability; greater transparency; increased fiscal responsibility; and independent oversight.

Kroll’s recommended Remediation Plan was designed to achieve four principal compliance objectives: enhanced accountability; greater transparency; increased fiscal responsibility; and independent oversight.

In a memorandum dated August 24, 2006, the Mayor identified 121 recommendations from within the Kroll Remediation Plan and provided a preliminary response to each item. On September 6, 2006, the City Council adopted Resolution R-301858 to accept and adopt in principle the Mayor’s initial responses to the Kroll Remediation Plan knowing that any changes in appropriations, Municipal Code, Council Policy or City Charter, would come to the City Council for further review and discussion as the Plan was being implemented. The Mayor has issued six status update memoranda since his August 24, 2006 memorandum. This report, with its attached matrix, (see attached IBA Matrix of Kroll Recommendations), consolidates and updates the status of all identified recommendations, drawing from the Mayor’s status update memoranda and other sources of information.

FISCAL/POLICY DISCUSSION

The Mayor has issued the following Kroll Remediation Status Reports since his initial response memorandum dated August 24, 2006:

<u>Report</u>	<u>Issue Date</u>	<u>Targeted Council Meeting</u>
Status Report # 1	October 5, 2006	October 16, 2006
Status Report # 2	October 30, 2006	November 16, 2006
Status Report # 3A	November 22, 2006	December 6, 2006
Status Report # 3B	February 21, 2007	Supplements 3A (from CFO)
Status Report # 4	February 21, 2007	March 5, 2007
Status Report # 5	April 9, 2007	April 23, 2007

The IBA understands that the Mayor is in the process of developing Status Report #6 which is targeted for release in November 2007.

The attached IBA matrix lists the 129 Kroll recommendations identified by the Mayor. The Mayor originally identified 121 recommendations and subsequently added eight others in Status Report #1 (item #'s 4.1, 20.1, 52.1, 52.2, 57.1, 107.1, 118.1 and 120.1). The IBA matrix lists each item number and the corresponding Kroll recommendation in the left hand columns. The Update Status & Comments column provides the Mayor's response to the item to date and/or IBA comments related to the status of the recommendation.

The Authority column in the IBA matrix attempts to define who has the ultimate authority to implement or consummate the recommendation. The next column, entitled Related Document or Public Meeting Date, links the status of each recommendation to a relevant document release date (i.e., a Status Report from the Mayor addressing the item) or a public meeting date (i.e., a City Council meeting where an action was taken, a report made or a training held). The Status column on the right characterizes the status of each item as one of the following: completed, substantially complete, partially complete, ongoing, in-process or incomplete.

The IBA matrix agrees with the Mayor's most recent characterization of status for many of the items; however, we have changed the reported status on a few based upon our review of the item. For example, we have changed the status of certain items to "ongoing" to reflect that while these recommendations have been implemented to date, continued implementation is required. In reviewing the 129 Kroll items within our status matrix, 43 recommendations have been characterized as completed or substantially complete (33%), 64 recommendations have been characterized as partially complete, ongoing, or in-process (50%) and 22 recommendations have been characterized as incomplete (17%).

CONCLUSION

“In reviewing the 129 Kroll items within our status matrix, 43 recommendations have been characterized as completed or substantially complete (33%), 64 recommendations have been characterized as partially complete, ongoing, or in-process (50%) and 22 recommendations have been characterized as incomplete (17%).”

In developing their Remediation Plan, Kroll reviewed recommendations made in previous reports; made inquiry of interviewees with relevant experience, and with representatives of the City and SDCERS for suggested recommendations; and considered usual and best practices in financial reporting, management and governance. In the area of financial

reporting and control processes, significant elements of the Remediation Plan were derived from the recommendations and formal pronouncements of widely-respected bodies, such as the Government Finance Officers Association, the Institute of Internal Auditors, and the American Institute of Certified Public Accountants. Although we may have a few minor disagreements over how to implement a particular recommendation, the IBA generally supports and agrees with the Remediation Plan.

Over the past year, the City has made significant progress in beginning to implement the Kroll Remediation Plan. Most of the recommendations have either been completed or are in the process of being addressed. By implementing these recommendations, the City will develop an organizational framework that is reflective of best financial practices and positioned for fiscal success. The IBA urges the Mayor and City Council to continue to monitor, implement and maintain these recommendations. The IBA will continue to review the Mayor’s reported progress and update the attached matrix going forward.

[SIGNED]

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[SIGNED]

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Attachment