

**San Diego City Employees' Retirement System
Legal Services Division**

MEMORANDUM

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DATE: September 21, 2005

TO: The Board of Administration, San Diego City Employees' Retirement System

FROM: Loraine E. Chapin, General Counsel

SUBJ: City Attorney Press Conference today (September 21, 2005)

On September 21, 2005, the City Attorney held a press conference regarding a draft "Communication of Reportable Conditions to the Retirement Board and Management" dated February 22, 2005 issued by the SDCERS independent external auditor Brown Armstrong Paulden McCown Starbuck & Keeter. Citing this February report, the City Attorney suggests there are numerous deficiencies which have not been addressed by SDCERS or released to the public. This is not accurate. The City Attorney failed to mention the Brown Armstrong report presented to the SDCERS Audit Committee at its open and public meeting on May 20, 2005. Unlike the February report cited by the City Attorney, the May report sets forth Management's response to all of the findings made by Brown Armstrong.

As background, SDCERS hired the accounting firm of Brown Armstrong in June 2004 to conduct an independent financial audit of SDCERS. This was the first time SDCERS engaged an independent auditor, separate from the City, to conduct an audit of its financial statements. In prior years, SDCERS used the City's independent auditor. Andy Paulden, the primary auditor assigned to the SDCERS account presented his Draft Findings of Reportable Conditions at the regularly scheduled public meeting of the SDCERS Audit Committee on May 20, 2005. The May draft included Management's response to the findings which indicated Management was in general agreement with all of the findings. This is one of several steps in any audit process for financial statements. Since it was recognized by all that there would be a delay in the completion of the 2004 audit, a draft of the reportable conditions was presented in May to give SDCERS the opportunity to initiate corrective action earlier rather than later.

As noted in the cover Memo to the SDCERS Audit Committee in May, 2005, SDCERS currently relies on the City Auditor's Office to provide financial accounting to the System. Because the City has been trying to complete their financial audit for both 2003 and 2004, there have been delays from the City in responding to requests from Brown Armstrong for financial information on SDCERS. In addition, because of all of the investigations currently underway regarding the City's disclosures of its pension

fund and the higher auditing standards created by the Sarbannes-Oxley legislation, additional questions had to be addressed in this year's financial audit. Since the release of the May report, Retirement Staff has been working with the City Auditor to address these issues.

Upon completion of the 2004 CAFR, this draft will be finalized. A copy of the May Staff Report which included the May Brown Armstrong Report and information on the firm is attached.

Please call me if you have any questions.

LEC:dm

CC: Lawrence B. Grissom, Retirement Administrator