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**JERRY SANDERS**  
MAYOR

September 4, 2007

Mr. Kelly C. Bowers  
Senior Assistant Regional Director  
Securities and Exchange Commission  
Los Angeles Regional Office  
5670 Wilshire Boulevard, 11<sup>th</sup> Floor  
Los Angeles, CA 90036-3648

Dear Mr. Bowers:

This is in response to your July 23, 2007 letter to Messrs. John Hartigan and Stanley Keller regarding Mr. Keller's "Initial Report of Independent Consultant" dated June 7, 2007.

Let me first assure the Securities and Exchange Commission (SEC) that I take the need to reform City government very seriously and this has been a top priority of mine ever since taking office nearly 20 months ago. To this end, there have been a number of initiatives I have already taken forward and that have been approved by the City Council. Many more are underway and will be brought forward as they are completed. Attachments 1 through 5 discuss the City's progress on implementing the recommendations found in the "Report of the Audit Committee" (Kroll Report) dated August 8, 2006.

Speaking specifically to the recommendations in Mr. Keller's report and noted in your letter:

- 1. The City must finalize the internal audit function and hire as soon as possible a qualified internal auditor.**

The City concurs with this recommendation and is in the final stages of filling the internal auditor position. Interviews of seven finalists were held on July 26, 2007 and the top two candidates have been interviewed. A final decision and offer will be made shortly and an announcement made once an agreement for employment is reached. In the meantime, in May of this year I appointed a well-qualified Interim Internal Auditor who has re-activated the Internal Audit Unit, including the development of a City-wide risk assessment.

- 2. The Audit Committee should complete its organization as quickly as possible by selecting citizen advisers and professional consultants, as necessary, to assist the Audit Committee in discharging its responsibilities.**

While Kroll recommended the establishment of an Audit Committee comprised of two "public" members and one City Council Member, the City Attorney has opined that this structure of an Audit Committee could not be implemented without a change to the City's Charter. As such, the City Council established an Audit Committee comprised of three City Council Members.

Attachments 6 through 8 are the charter, ordinance establishing the Audit Committee, and statement of operating principles relating to the Audit Committee and its relationship with the Internal Auditor. In addition to the three City Council voting members, there are three ad hoc advisers confirmed at the July 30, 2007 Audit Committee meeting who will bring technical expertise to the Committee. The Audit Committee is also in the process of retaining a consultant with professional auditing and accounting expertise to assist the Audit Committee perform its oversight function.

On a parallel track, I established a 15 member City Charter Review Committee comprised of one member nominated by each Council Member and seven appointed by me. The charge of the Committee is to review a number of Charter related issues and ultimately submit recommended Charter amendments to the City Council. This is to be completed by September 2007 for consideration for inclusion on the June 2008 ballot. One of the items being discussed is to amend the Charter to establish a permanent Audit Committee, as well as suggesting the permanent make-up of the Committee.

- 3. The City should upgrade to a more modern and reliable financial accounting system so as to ultimately improve financial reporting.**

The City concurs with this recommendation and has already selected a new software vendor. The current schedule calls for the implementation of a new core financial system by July 2008 and the human resources/payroll system by January 2009. This is moving as fast as can reasonably be expected.

- 4. The City should re-evaluate the role and accountability of its Chief Financial Officer and consider having the same person serve as the Chief Financial Officer and Auditor and Comptroller.**

Upon taking office, I established the City's first ever Chief Financial Officer (CFO) position. As part of this action, I consolidated all financial related activities and responsibilities under this position. About one year after the establishment of this position, the City's Auditor and Comptroller left the City, providing the City with an opportunity to take those responsibilities and assign them specifically to the CFO. This is the first step in separating the internal audit responsibilities from the comptroller duties and is consistent with a recommendation made by Kroll. Again, because of an opinion by the City Attorney, this Kroll recommendation cannot be fully implemented without a Charter amendment and is also an item of discussion by the Charter Review Committee.

- 5. The City should continue evaluating the disclosure process and consider whether moving toward a shelf-like disclosure system would be appropriate.**

The Independent Consultant's Report stated that "it will be desirable for the City to consider whether to move toward a more shelf-like disclosure system, similar to that used by private issuers, as a way to permit accessing the capital markets in a timely and efficient manner in order to achieve savings for taxpayers and ratepayers." The Independent Consultant made this suggestion in light of the comprehensive disclosure processes of the City's, including the Disclosure Controls and Procedures of the City's Disclosure Practices Working Group (the "DPWG") (Attachment 9). The City's current disclosure processes and procedures were enacted by Ordinance No. 0-19320 (Ordinance), adopted by the City Council on October 11, 2004. The

formation of the DPWG was in response to recommendations made by the law firm Vinson & Elkins L.L.P. in its report of September 16, 2004, regarding deficiencies in the processes and practices of the City with respect to the disclosure of financial information to the financial markets.

The DPWG is a cross-disciplinary internal working group of the City (currently composed of the City Attorney, the Chief Deputy City Attorney for Finance and Disclosure, City's Chief Financial Officer, the Debt Management Administrator, and the City's outside Disclosure Counsel, along with the City Council's Independent Budget Analyst as an ex-officio member)<sup>1</sup> designed to ensure communication between City departments, to create a clearinghouse to discuss and debate best practices with respect to disclosure controls and procedures, and to directly address the deficiencies cited in the Vinson & Elkins report. The objectives of the DPWG are twofold: to ensure the compliance of the City (and the City Council, City officers, and staff in the exercise of their official duties) with federal and state securities laws and to promote the highest standards of accuracy in disclosures relating to securities issued by the City.

The City is carefully reviewing the suggestion of the Independent Consultant, including the evaluation of so-called shelf-registration models currently in use by a limited number of public agencies that frequently access the public markets, especially if the current model is too cumbersome to ensure the timely process of documents as the City regains access to the public markets. The City has adopted improved procedures for the review of its Comprehensive Annual Financial Reports which can serve as the basis for such a shelf-registration process should it proceed in that direction. The City is mindful, however, that its current disclosure regime has made significant improvements to the City's controls regarding the release of financial information to the public capital markets. Accordingly, any shelf-registration model would take into consideration procedures currently in place which were designed to ensure that the City would not make misleading statements or omissions to the market place in the future.

In addition to the above, the City is moving forward on many fronts, including having issued its fiscal year 2003 and 2004 Comprehensive Annual Financial Reports, implementing additional Kroll remediation recommendations, working on strengthening its internal controls and filling key positions.

Sincerely,

Mayor Jerry Sanders

Enclosure: Attachments 1-9

Cc: Audit Committee/City Council  
City Attorney  
Chief Financial Officer  
Independent Budget Analyst

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<sup>1</sup> The current composition of the City's Disclosure Practices Working Group reflects the evaluation by the Independent Consultant. See the memorandum of the Independent Consultant, dated April 20, 2007 entitled "Memo of the Independent Consultant on the Disclosure Practices Working Group" attached hereto as Attachment 9. The City adopted the Independent Consultant's recommendation on April 30, 2007. The City expects to adopt an ordinance implementing changes to the DPWG in September 2007.