

**AUDIT COMMITTEE  
OF THE CITY OF SAN DIEGO**

**Council President Pro Tem Kevin Faulconer, Chair  
Councilmember Carl DeMaio, Vice Chair  
Committee Member Wade McKnight  
Committee Member Charles Sellers  
Committee Member Steve Grant**

**ACTIONS FOR  
MONDAY, MARCH 23, 2009, AT 9:00 A.M.**

**COUNCIL COMMITTEE ROOM (12TH FLOOR),  
CITY ADMINISTRATION BUILDING  
202 C STREET, SAN DIEGO, CALIFORNIA**

For information, contact Steve McNally, Acting Committee Consultant  
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(619) 235-5281

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All Committee members present.

NON-AGENDA PUBLIC COMMENT: Mel Shapiro commented that the Audit Committee should not have accepted the Hotline Report because of illegal reclassifications.

COMMITTEE COMMENT: Chair Faulconer asked the Internal Auditor and the City Attorney to address Mr. Shapiro's concerns at the next Audit Committee Meeting.

CITY ATTORNEY, IBA, AND MAYORAL STAFF COMMENT: Deputy City Attorney Tim Fitzpatrick commented on a letter written by the City's outside disclosure counsel, John McNally, regarding the filing or posting of the City's 2008 CAFR.

ADOPTION AGENDA

Approval of the Record of Action Items for February 23, 2009 and March 9, 2009

ACTION: Motion by Councilmember DeMaio, second by Chair Faulconer, to approve.

VOTE: 5-0; Faulconer-yea, DeMaio-yea, Grant-yea, McKnight-yea, Sellers-yea

ITEM-1: Update from Macias Gini & O'Connell and the City Comptroller regarding the STATUS OF THE CITY OF SAN DIEGO 2008

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**FINANCIAL STATEMENT AUDIT**

(See Macias Gini's March 23, 2009, letter; Hawkins Delafield's March 21, 2009, memorandum)

**ACTION:** Information only. No action taken.

**ITEM-2: Consideration of the MAYOR'S NOMINEE FOR CITY AUDITOR**

(See Independent Budget Analyst's Report No. 09-15; Mayor's March 9, 2009, memorandum; City Attorney's March 4, 2009, memorandum; Chief Operating Officer's March 3, 2009, memorandum; Proposed Charter Amendment; Amendment A; AICPA Audit Committee Toolkit: Government Organizations; Attachment B)

**ACTION:** Motion by Councilmember DeMaio, second by Committee Member McKnight, that the Audit Committee, having been consulted by the Mayor, concurs with the appointment of Mr. Eduardo Luna as City Auditor and forwards the item to the City Council.

**VOTE:** 5-0; Faulconer-yea, DeMaio-yea, Grant-yea, McKnight-yea, Sellers-yea

**ITEM-3: Separate reports from the Independent Budget Analyst and Mayor regarding the CENTRE CITY DEVELOPMENT CORPORATION (CCDC) AND SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION (SEDC) OPERATING AGREEMENTS**

(See Independent Budget Analyst's Report No. 09-20; Independent Budget Analyst's Report No. 09-14; Independent Budget Analyst's Report No. 09-01; Mayor's March 20, 2009, memorandum; City Attorney's March 3, 2009, memorandum; SEDC's Performance Audit of Operations; Attachment 1; Recommended Changes to SEDC's Operation Agreement; Attachment 2)

**ACTION:** Motion by Councilmember DeMaio, second by Chair Faulconer, to approve the Mayor's recommendations with the following changes:

1. Include IBA's Item B – Recommend SEDC bylaws be changed

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- to require 2-3 SEDC Board members to have specific expertise e.g. Finance, Real Estate, Law.
2. Amend Mayor's Item 9 to include IBA Item D - Require the development of policies/procedures for personnel, finance, budget, expenditure allowances, purchasing, ethics, recordkeeping; and adherence to them. If no policy, City policy will apply. Require systematic review and update to remain current with best practices. Require Board to approve all such policies. Those impacting the Agency's authority shall be approved by the Agency upon recommendation by the Board.
  3. Include IBA's Item I - Require Corporations to provide certain key documents and information to the public via their website including Board agendas and related backup reports and documents; current adopted budget; annual financial reports, Corporation bylaws and policies – and Item K – requiring SEDC to create an Audit Committee. Include requirements that the boards follow closed session policies identical to the City Council's closed session policies.
  4. Include IBA's Item J – Require Corporations to develop a five-year strategic plan that reflects the needs of the community as determined through extensive community outreach and lines up with the vision of the City. The strategic plan should be approved by the Council and reviewed by LU&H on an annual basis.
  5. Amend Mayor's Item 1 to provide the Mayor with authority to suspend and terminate the executive officer subject to appeal to the City Council which must be supported with a two-thirds vote. Provide the Mayor with authority to replace the CEO with an interim officer during the appeal process.
  6. Amend Mayor's Item 1 to have a candidate selection committee comprised of one representative from the Mayor, one from the City Council, one from the Corporation Board. The selection committee shall provide no less than 3 candidates to the Mayor who shall appoint the CEO subject to confirmation by the City Council which must be supported with a two-thirds vote.
  7. Amend San Diego Municipal Code to prohibit the Comptroller from expending any tax payer funds on either agency when the boards of that agency has less than two-thirds valid current appointments.
  8. Amend Mayor's Item 2 to expand Corporation Boards with a mayoral appointee but not a City Council appointee.

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And forward the recommendations to Rules Committee.

[The Mayor's recommendations with the amendments read as follows:

- The City Council and Redevelopment Agency direct the City Attorney's office to work with Redevelopment staff to amend the Operating Agreements, bylaws, and Articles of Incorporation for both CCDC and SEDC to incorporate the following:
1. Designate the Mayor as the appointing authority of each corporation's CEO, subject to City Council confirmation which must be supported by a two-thirds vote. The Mayor shall have the authority to suspend and terminate the CEO, subject to a right of appeal to the City Council which must be supported with a two-thirds vote. During the appeal process, the Mayor may appoint an interim CEO. Include the creation of candidate selection committees for each CEO search to be comprised of 1 Mayoral representative, 1 member of the City Council, and 1 board member of the Corporation. The selection committee shall screen potential candidates and provide the Mayor with not less than 3 candidates to select from. The Mayor may select one of the forwarded candidates, or may reject the applicants and require a new recruitment process
  2. Expand the corporation Boards of Directors to include a voting member appointed as a Mayoral appointee
  3. Corporation boards shall adopt purchasing and contracting policies that establish limits for staff level approval of contracts and provide for timely public disclosure of such executed contracts
  4. City has the right to inspect all documents and records, including but not limited to, financial records and personnel records, at a reasonable time to be established but no later than 10 days after written request by the City
  5. City has right to order a performance audit, to be paid for in full by corporation, no more than once per year
  6. Corporations shall perform annual financial audits and submit them to the City
  7. Corporations must follow City administrative budget policies in any administrative budget submissions. Any submission must first be submitted to the City CFO for review prior to submission to Redevelopment Agency
  8. Mayor has right to suspend and recommend removal by the City Council of any corporation board members, based upon any

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- breach of operating agreement
9. Require the development of policies/procedures for personnel, finance, budget, expenditure allowances, purchasing, ethics, recordkeeping; and adherence to them. If no policy, City policy will apply. Require systematic review and update to remain current with best practices. Require Board to approve all such policies. Those impacting the Agency's authority shall be approved by the Agency upon recommendation by the Board. Any violation of City policies constitutes breach of the Operating Agreements
  10. Corporation Board member training in ethics, fiduciary duties and governance shall occur every 2 years with submission to City CFO of training certificate
  11. Corporation Board must approve all internal contracts and fiscal policies before submission to City CFO for approval
  12. Any line item transfers of budgeted funds must be approved by corporation board on a monthly basis
  13. Corporation board must approve total compensation to senior officers annually, including salary, benefits, and performance pay
  14. Corporation board must develop and approve a Personnel Manual that is updated annually
  15. Corporation board is required to review financial statements and verify with certification by board, CFO, and CEO
  16. Corporation board is to review and approve monthly financial statements, presented by the Corporation CFO, comparing actual to budget with any variance fully disclosed and explained. These statements are to be submitted to the City CFO
  17. Corporation Boards of Directors must follow redevelopment law

The City Council and Redevelopment Agency direct SEDC to:

18. Immediately initiate and complete changes to SEDC-controlled policies and procedures recommended by the Macias Consulting Performance Audit
19. Implement the recommendations included in the Macias Consulting Performance Audit of SEDC, except the recommendation that the CFO report to the corporation board directly

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Additional recommendations:

20. Recommend SEDC bylaws be changed to require 2-3 SEDC Board members to have specific expertise e.g. Finance, Real Estate, Law.
21. Require Corporation to provide certain key documents and information to the public via their website including Board agendas and related backup reports and documents; current adopted budget; annual financial reports, Corporation bylaws and policies.
22. Require SEDC to create an Audit Committee.
23. Require Corporation board to follow closed session policies that are identical to the City Council's closed session policies.
24. Require Corporation to develop a five-year strategic plan that reflects the needs of the community as determined through extensive community outreach and lines up with the vision of the City. The strategic plan should be approved by the Council and reviewed by LU&H on an annual basis.
25. Amend San Diego Municipal Code to prohibit the Comptroller from expending any tax payer funds for either agency when the boards of that agency has less than two-thirds valid current appointments]

VOTE: 5-0; Faulconer-yea, DeMaio-yea, Grant-yea,  
McKnight-yea, Sellers-yea

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ITEM-4:       Update regarding the PROCESS FOR SELECTING THE CITY'S  
OUTSIDE AUDITOR, Selection of an AUDIT COMMITTEE  
MEMBER FOR THE TECHNICAL EVALUATION COMMITTEE,  
and Discussion of the CHIEF OPERATING OFFICER'S  
SUGGESTION TO EXTEND THE CURRENT OUTSIDE AUDITOR  
FOR ONE YEAR

(See Chief Operating Officer's March 3, 2009, memorandum; City  
Attorney's February 26, 2009, memorandum; Stanley Keller's February  
26, 2009, letter; Stanley Keller's March 20, 2009, letter)

ACTION:       Motion by Committee Member Sellers, second by  
Councilmember DeMaio, to nominate Committee Member McKnight  
to serve on the Technical Evaluation Committee.

VOTE:         5-0;   Faulconer-yea, DeMaio-yea, Grant-yea,  
McKnight-yea, Sellers-yea

Kevin Faulconer  
Council President Pro Tem