

ORDINANCE NUMBER O- 19943 (NEW SERIES)

DATE OF FINAL PASSAGE APR 30 2010

AN ORDINANCE AMENDING THE SAN DIEGO MUNICIPAL CODE BY AMENDING CHAPTER 2, ARTICLE 2, DIVISION 1, SECTION 22.0101.5 ENTITLED "PERMANENT RULES OF THE COUNCIL" BY AMENDING RULE 6.1 AND REPEALING RULE 6.11.6, AMENDING CHAPTER 2, ARTICLE 2, DIVISION 43 BY REPEALING DIVISION 43, TITLED "AUDIT COMMITTEE" IN ITS ENTIRETY AND AMENDING CHAPTER 2, ARTICLE 6 BY ADDING NEW DIVISION 17 TITLED "AUDIT COMMITTEE" BY ADDING SECTIONS 26.1701 THROUGH 26.1711, ALL RELATED TO THE AUDIT COMMITTEE CREATED PURSUANT TO CHARTER SECTION 39.1.

WHEREAS, on June 3, 2008, the citizens of the City of San Diego approved Proposition C approving, among other things, an amendment to the City Charter by adding Charter section 39.1, creating an independent Audit Committee, composed of two members of the City Council, one of whom shall serve as Chair of the Audit Committee, and three members of the public possessing the independence, experience and technical expertise necessary to carry out the duties of the Audit Committee; and

WHEREAS, this ordinance amends the San Diego Municipal Code by amending Chapter 2, Article 2, Division 1, section 22.0101.5 by amending Rule 6.1 and repealing 6.11.6, amending Chapter 2, Article 2, Division 43 by repealing Division 43 both of which applied to the Council Audit Committee; and

WHEREAS, this ordinance adds a new Division 17 to Chapter 2, Article 6 of the Municipal Code, which applies to the Audit Committee established by Charter section 39.1; and

WHEREAS, Charter section 39.1 provides that the City Council may specify additional responsibilities and duties of the Audit Committee by ordinance as necessary to carry out the provisions of Charter section 39.1; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 2, of the San Diego Municipal Code is hereby amended by repealing Division 43, titled "Audit Committee" in its entirety.

Section 2. That Chapter 2, Article 6, of the San Diego Municipal Code is hereby amended by adding a new Division 17, titled "Audit Committee", and by adding new sections 26.1701 through 26.1713, to read as follows:

Article 6: Boards and Commissions

Division 17: Audit Committee

§ 26.1701 Audit Committee Duties

- (a) Pursuant to Charter section 39.1, the Audit Committee shall:
- (1) have oversight responsibility over the City's auditing, internal controls and any other financial and business practices required of the Audit Committee by the Charter;
 - (2) have responsibility for directing and reviewing the work of the City Auditor, who shall report directly to the Audit Committee;
 - (3) recommend to the Council the annual compensation of the City Auditor and the annual budget of the Office of the City Auditor;
 - (4) conduct an annual performance review of the City Auditor;
 - (5) recommend to the Council the retention of the City's outside audit firm and, when appropriate, the removal of such firm; and
 - (6) monitor the engagement with the City's outside auditor and resolve any disputes that may arise between the outside auditor and City management with regard to the City's annual financial reports.

- (b) In addition to the duties and responsibilities required by the Charter, the Committee shall have the following duties:
- (1) review the results of significant investigations, examinations or reviews performed by government and regulatory authorities and any management response thereto;
 - (2) acting through the Committee chair, place any item within the scope of the Committee's authority on the Committee's agenda at the request of any Committee member or City Councilmember; and
 - (3) review any issues that come to the Committee's attention which pertain to the accuracy and reliability of the City's financial practices and representations and which could have a negative impact on the ability of the public to reasonably rely upon such financial practices and representations.

§ 26.1702 Removal of Audit Committee Members

Audit Committee members may be removed for cause by a majority vote of the members of the Council.

§ 26.1703 Meetings

The Committee shall meet periodically, as it determines, but not less than once per quarter. The Committee shall conduct its meetings in accordance with the requirements of the Ralph M. Brown Act.

§ 26.1704 Resources

The City Manager, the City Attorney, the Chief Financial Officer and the Independent Budget Analyst shall cooperate with the Committee and provide such assistance and resources as are reasonably necessary to allow the Committee to carry out its responsibilities. The Committee may request the City retain professional consultants it considers necessary to carry out its responsibilities.

§ 26.1705 Subcommittees

The Committee may create ad hoc subcommittees of one or more members of the Committee to accomplish specific tasks within a limited time period.

Subcommittees shall provide a written or oral report to the Committee regarding any activities undertaken. The Committee may terminate such subcommittees at any time.

§ 26.1706 Annual Audit

(a) The Committee shall have direct access to the City's outside auditor in conducting its review of the City's annual audit. In connection with the annual audit of the City's financial statements, the Committee:

- (1) shall review the City's calendar of milestones for the preparation of the annual audit;
- (2) shall request from the outside auditor a formal written statement delineating all relationships between the outside auditor and the City consistent with Independence Standards Board Standard No. 1 and any other applicable auditing requirements, discuss with the outside auditor any such disclosed relationships and their impact

on the outside auditor's objectivity and independence, and take appropriate action to oversee the independence of the outside auditor;

- (3) may appoint up to two members of the Committee, in an ad hoc capacity, to meet with City management and the outside auditor, together or separately, prior to the completion of the audit, to review and discuss the draft financial statements and the conduct of the audit;
- (4) may appoint a Committee member to attend meetings of the Disclosure Practices Working Group at which the audited financial statements of the City are considered;
- (5) shall review with the Chief Financial Officer and the outside auditor:
 - (A) the audited financial statements and the notes to the audited financial statements in the City's Comprehensive Annual Financial Report upon the issuance of the audit opinion and provide to the City Manager and the City Council any comments or recommendations it may have, and review and discuss with the outside auditor the matters required by Statement on Auditing Standards No. 114;
 - (B) significant accounting policies and practices applied in the preparation of the City's financial statements;

- (C) any material financial or other arrangements of the City that do not appear in the City's financial statements; and
 - (D) any transactions or courses of dealing with third parties that are material in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties and which arrangements or transactions are relevant to an understanding of the City's financial statements.
- (6) Shall recommend to the City Council whether the audited financial statements should be received by and filed with the Council.
- (b) The Committee may require certifications from any City employee regarding that employee's role in preparing the City's financial statements that the Committee deems necessary and appropriate to support the Committee's recommendation to the City Council.

§ 26.1707 Accounting Policies

The Committee shall review periodically, not less than annually, with the Chief Financial Officer and the outside auditor the quality and appropriateness of the City's significant accounting policies, as set forth in the notes to the City's audited financial statements. Such review shall include discussion of the following:

- (a) how the City's significant accounting policies compare with those of similar municipalities;

- (b) any alternative treatments of financial information under GAAP that were considered or used by the City;
- (c) the ramifications such alternative treatments would have on the City's financial statements; and
- (d) the treatment preferred by the outside auditor.

§ 26.1708 Internal Controls

The Committee shall review periodically, not less than annually, with the Chief Financial Officer, the City Auditor, the outside auditor, or other appropriate City officials, the City's internal controls over financial reporting and internal auditing procedures. Such review shall include discussion of the following:

- (a) how the City's financial systems, controls and practices compare with similar municipalities;
- (b) any significant deficiencies in the design or operation of internal controls, including material weaknesses in such controls reported by the outside auditor, the City Auditor or management, and any additional audit procedures adopted in light of material control deficiencies, which could adversely affect the City's ability to record, process, summarize or report financial data; and
- (c) any substantiated fraud or impropriety, material or not, that involves any officer of the City or other employees who have a significant role in the City's internal controls over financial reporting, to the extent that such matters may legally be disclosed to the Committee.

§ 26.1709 Audited Financial Statements of City Component Units or Related Entities

- (a) *Related entities* has the same meaning as in Municipal Code section 22.4102.
- (b) The Committee shall review the audited financial statements of the following City component units or *related entities*:
 - (1) Redevelopment Agency
 - (2) Housing Commission
 - (3) Centre City Development Corporation
 - (4) Southeastern Economic Development Corporation
 - (5) San Diego City Employees' Retirement System
 - (6) San Diego Data Processing Corporation
- (c) At its discretion, the Committee may review the audit financial statements of other City component units or *related entities* it deems appropriate.
- (d) In considering component unit or *related entity* audited financial statements, the Committee may require certifications from any City employee, or component unit or *related entity* employee, regarding such employee's involvement in the preparation of a component units or *related entities* audited financial statements, if the Committee deems such certification necessary and appropriate.
- (e) If a component unit or *related entity* issues debt publicly and such component unit or *related entity's* audited financial statements are reviewed by the Disclosure Practices Working Group as a disclosure document, the Committee shall be informed of such review and may:

- (1) require the certification of the Disclosure Practices Working Group, in such form as determined by that body; and
- (2) appoint a Committee member to attend any meetings of the Disclosure Practices Working Group at which such audited financial statements are considered.

§ 26.1710 Oversight and Direction of the City Auditor

The Committee shall oversee and direct the work of the City Auditor as follows:

- (a) review and approve the Annual Audit Plan;
- (b) review the Annual Risk Assessment prepared by the City Auditor in conjunction with the Annual Audit Plan;
- (c) review the Annual Activities and Accomplishments Report of the City Auditor;
- (d) receive the quarterly report on the City's Fraud, Waste, and Abuse Hotline;
- (e) receive quarterly updates on the activities and accomplishments of the City Auditor;
- (f) review with the City Auditor audit plans, budget and staffing needs, and relevant processes and programs of the City's internal audit function;
- (g) provide a mechanism for the City Auditor to discuss confidential audit-related matters with the Committee, provided such mechanism complies with the Brown Act;
- (h) allow the City Auditor to bring any matter before the Committee; and

- (i) notwithstanding the Annual Audit Plan, permit the City Auditor to initiate any audit the City Auditor deems necessary and appropriate, so long as notice is provided to the Committee, with such notice describing the impact, if any, of the new audit on the ability of the City Auditor to complete the audits approved in the Annual Audit Plan.

§ 26.1711 Retention of the Outside Auditor

- (a) In order to fulfill its responsibility to recommend to the Council the retention of the City's outside auditor, the Committee shall:
 - (1) designate a member of the Committee to work with the City Auditor in the preparation of a Request for Proposals for the retention of the outside auditor not less than once every five years and the Committee shall approve the form of the Request for Proposals before it is disseminated to prospective outside audit firms; and
 - (2) ensure that the City Auditor, in cooperation with the Chief Financial Officer and the Independent Budget Analyst, has undertaken a full review of the all responsive proposals.
- (b) The City Auditor, or such other designee specified by the Committee, shall be responsible for administering the contract with the outside auditor and approving payments for services rendered.
- (c) The Committee shall establish procedures to approve, in advance, all audit services and all permitted non-audit services to be provided to the City by

the outside auditor in order to ensure the independence of the outside auditor.

Section 3. That Chapter 2, Article 2, Division 1, of the San Diego Municipal Code is hereby amended by amending section 22.0101.5, Rule 6.1, by repealing Rule 6.11.6, titled "Audit Committee" to read as follows:

Article 2: Administrative Code

Division 1: The Council

§ 22.0101.5 Permanent Rules of the Council

Rule 1 through Rule 5.2. [No change in text.]

Rule 6: STANDING AND SPECIAL COMMITTEES

6.1 Creation of Standing Committees (Former Rule 10)

The Council hereby creates five standing committees as follows:

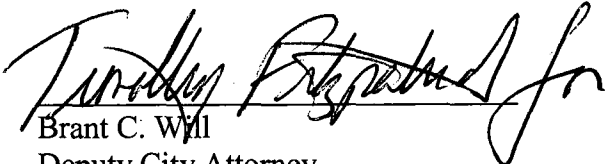
(a) through (e) [No change in text.]

Rule 6.2 through Rule 6.11.5 [No change in text.]

Section 4. That a full reading of this ordinance is dispensed with prior to its passage, a written or printed copy having been available to the City Council and the public prior to the day of its passage.

Section 5. That this ordinance shall take effect and be in force on the thirtieth day from and after its final passage.


APPROVED: JAN I. GOLDSMITH, City Attorney

By 
Brant C. Will
Deputy City Attorney

BCW:jdf
10/14/2009
12/04/2009.COR.COPY
01/20/2010.COR.COPY.2
04/22/2010.COR.COPY.3
Or.Dept:Audit
O-2010-7

I hereby certify that the foregoing Ordinance was passed by the Council of the City of San Diego, at this meeting of MAR 23 2010.

ELIZABETH S. MALAND
City Clerk

By 
Deputy City Clerk

Approved: 4-30-10
(date)


JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor

Passed by the Council of The City of San Diego on MAR 23 2010, by the following vote:

Council Members	Yeas	Nays	Not Present	Recused
Sherrri Lightner	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kevin Faulconer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Todd Gloria	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Anthony Young	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carl DeMaio	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Donna Frye	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marti Emerald	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ben Hueso	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Date of final passage APR 30 2010

AUTHENTICATED BY:

JERRY SANDERS
Mayor of The City of San Diego, California.

(Seal)

ELIZABETH S. MALAND
City Clerk of The City of San Diego, California.

By [Signature], Deputy

I HEREBY CERTIFY that the foregoing ordinance was not finally passed until twelve calendar days had elapsed between the day of its introduction and the day of its final passage, to wit, on

MAR 09 2010

APR 30 2010

, and on

~~I FURTHER CERTIFY that said ordinance was read in full prior to its final passage.~~

I FURTHER CERIFY that the reading of said ordinance in full was dispensed with by a vote of not less than a majority of the members elected to the Council, and that there was available for the consideration of each member of the Council and the public prior to the day of its passage a written or printed copy of said ordinance.

(Seal)

ELIZABETH S. MALAND
City Clerk of The City of San Diego, California.

By [Signature], Deputy

Office of the City Clerk, San Diego, California

Ordinance Number O-

19943

ORDINANCE NUMBER O-_____ (NEW SERIES)

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AN ORDINANCE AMENDING THE SAN DIEGO MUNICIPAL CODE BY AMENDING CHAPTER 2, ARTICLE 2, DIVISION 1, SECTION 22.0101.5 ENTITLED "PERMANENT RULES OF THE COUNCIL" BY AMENDING RULE 6.1 AND REPEALING RULE 6.11.6, AMENDING CHAPTER 2, ARTICLE 2, DIVISION 43 BY REPEALING DIVISION 43, TITLED "AUDIT COMMITTEE" IN ITS ENTIRETY AND AMENDING CHAPTER 2, ARTICLE 6 BY ADDING NEW DIVISION 17 TITLED "AUDIT COMMITTEE" BY ADDING SECTIONS 26.1701 THROUGH 26.1711, ALL RELATED TO THE AUDIT COMMITTEE CREATED PURSUANT TO CHARTER SECTION 39.1

Article 2: Administrative Code

~~Division 43: Audit Committee~~

~~§ 22.4301 Purpose and Intent~~

~~The purpose of the Audit Committee of the City Council of the City of San Diego is to:~~

- ~~(a) Provide independent, legislative oversight of the City's accounting and financial reporting processes, financial internal controls, internal financial audit function and audits of the City's financial statements;~~
- ~~(b) Assist the Council in performing its legislative oversight function in those areas;~~
- ~~(c) Review the financial reports and other financial information provided by the City, the City's disclosure controls and procedures, and its internal financial controls;~~

- ~~(d) — Consider the reports of and interact with the City’s internal auditor in connection with the internal auditor’s performance of an independent internal financial audit function;~~
- ~~(e) — Assume direct responsibility, with appropriate consultation with the Mayor or his designee, for the appointment, compensation, retention and where appropriate, replacement of the outside auditor to the City in preparing or issuing an audit report or related work;~~
- ~~(f) — Oversee the work and independence of the outside auditor, approve all auditing services and permitted non-audit services provided by the outside auditor, and resolve any disagreements between the Mayor and the outside auditor regarding financial reporting; and~~
- ~~(g) — Carry out the specific responsibilities set forth below in furtherance of this stated purpose.~~

~~§ 22.4302 — Committee Membership and Procedures~~

- ~~(a) — Committee members shall be appointed in accordance with the Council Permanent Rules.~~
- ~~(b) — The Committee shall be comprised of three voting Council members. The terms of the members, whenever possible, shall be arranged to ensure that there is always at least one experienced member of the Committee.~~
- ~~(e) — The Committee shall meet periodically as it determines. It shall conduct its meetings in accordance with this Charter, the procedures of the Council, the requirements of California law and such other lawful procedures as the Committee may adopt. The Committee may, consistent~~

~~with California law, meet in closed session when determined necessary,
including for personnel matters.~~

~~§ 22.4303~~ **Resources**

~~(a) The Committee shall be advised, from time to time, by an ad hoc advisory committee, created and established only for the purpose of advising on questions with clearly defined objectives, and shall be temporary in nature, and shall be dissolved upon the completion of the objectives for which the advisory committee was created. The advisory committee shall consist of three members, one member who shall be appointed by the Mayor, and two members who shall be appointed by the Committee. The advisory committee members shall be citizens selected for their accounting or audit expertise or financial management expertise. Each of the members shall serve without compensation.~~

~~(b) The Committee may, from time to time, retain professional consultants as it considers necessary to carry out its functions. The Committee shall be provided with appropriate funding, as determined by the Committee and approved by the City Council, for payment of compensation to any such consultants and advisors and any outside auditor, as well as for any ordinary administrative expenses of the Committee that it determines are necessary or appropriate in carrying out its responsibilities.~~

~~§ 22.4304 — Complaint Procedures~~

~~Any issue of significant financial misconduct shall be brought to the attention of the Committee for its consideration. In this connection, the Committee shall establish procedures for:~~

- ~~(a) — the receipt, retention and treatment of complaints received by the City regarding internal financial controls or financial auditing matters and~~
- ~~(b) — the confidential, anonymous submission by employees of the City of concerns regarding questionable financial or auditing matters.~~

~~§ 22.4305 — Key Responsibilities~~

~~(a) — The Committee's role is one of oversight, and it is recognized that the Mayor is responsible for preparing the City's financial statements and that the outside auditor, which is ultimately accountable to the Committee, is responsible for auditing those financial statements.~~

~~(b) — The following functions shall be the common recurring activities of the Committee in carrying out its oversight role. The functions are set forth as a guide and may be varied and supplemented from time to time as appropriate under the circumstances.~~

- ~~(1) — Appointment of Outside Auditor. The Committee shall have direct responsibility, with appropriate consultation with the Mayor, for the appointment, compensation, retention and where appropriate, replacement of any registered public accounting firm selected to be the City's outside auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for~~

~~the City. The Committee shall provide oversight of the work of the outside auditor and, consistent with the requirements of the City Charter and California law, may meet with the outside auditor outside the presence of the Mayor to discuss the audit and the City's fiscal affairs.~~

~~(2) Disclosure Controls and Procedures. The Committee shall review periodically with the Disclosure Practices Working Group and the Mayor the City's disclosure controls and procedures, and shall review and evaluate the annual report on the City's disclosure controls and procedures made by the Disclosure Practices Working Group and provide to the Disclosure Practices Working Group, the Mayor, and the City Council any comments or recommendations it may have.~~

~~(3) Internal Controls. The Committee shall discuss periodically with the Mayor and the outside auditor the quality and adequacy of the City's internal controls over financial reporting and internal financial auditing procedures, including any significant deficiencies or material weaknesses in the design or operation of those controls which could adversely affect the City's ability to record, process, summarize or report financial data and any fraud, whether or not material, that involves the Mayor or other employees who have a significant role in the City's financial internal controls, and discuss with the outside auditor how the~~

~~City's financial systems and controls compare with practices in the municipal sector.~~

- ~~(4) Internal Auditing. The Committee shall, in a manner consistent with paragraph 2 of the Statement of Operating Principles issued by the Mayor, make recommendations, along with the City Council, the Mayor, and the City Attorney, for matters to be included in the Annual Audit Work Plan developed by the internal auditor as part of the internal audit function, recognizing the need to prioritize workload according to available resources, budget and critical needs. The Committee shall review and comment on the Annual Audit Work Plan and monitor its progress on at least a quarterly basis. The Committee shall review the results of internal financial audits and monitor the follow-up on recommendations. Consistent with the requirements of the City Charter and California law, the Committee may meet with the internal auditor outside the presence of the Mayor to discuss the internal financial audit.~~
- ~~(5) Accounting Policies. The Committee shall review periodically with the Mayor and the outside auditor the quality, as well as acceptability, of the City's accounting policies, and discuss with the outside auditor how the City's accounting policies compare with those in the municipal sector and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Mayor, the~~

~~ramifications of use of such alternative disclosures and treatments and the treatment preferred by the outside auditor.~~

~~(6) — Pre-approval of All Audit Services and Permitted Non-Audit Services. The Committee shall approve, or establish procedures for representatives of the Committee to approve, in advance, all audit services and all permitted non-audit services to be provided to the City by the outside auditor in order to ensure the outside auditor's independence.~~

~~(7) — Annual Audit. In connection with the annual audit of the City's financial statements, the Committee shall:~~

~~(A) — Request from the outside auditor a formal written statement delineating all relationships between the outside auditor and the City consistent with Independence Standards Board Standard No. 1 and any other applicable auditing requirements, discuss with the outside auditor any such disclosed relationships and their impact on the outside auditor's objectivity and independence, and take appropriate action to oversee the independence of the outside auditor.~~

~~(B) — Approve, after appropriate consultation with the Mayor, the selection and the terms of the engagement of the outside auditor.~~

- ~~(C) — Review with the Mayor and the outside auditor the audited financial statements to be included in the City’s Comprehensive Annual Financial Report, and provide to the Mayor any comments or recommendations it may have, and review and consider with the outside auditor the matters required to be discussed by Statement on Auditing Standards No. 61.~~
- ~~(D) — Perform the procedures set forth below in “Financial Reporting Procedures” with respect to the annual financial statements to be reported.~~
- ~~(E) — Review with the Mayor and the outside auditor the City’s critical accounting policies and practices.~~
- ~~(F) — Recommend to the Council whether, based on the reviews and discussions referred to above, the annual financial statements should be issued by the City.~~
- ~~(8) — Continuing Reporting. In connection with the City’s preparation of its continuing reporting of financial information, the Committee shall:~~
- ~~(A) — Review the City’s financial information to be included in the City’s continuing reports, and discuss them with the Mayor and, to the extent appropriate, the outside auditor.~~

- ~~(B) — Perform the procedures set forth below in “Financial Reporting Procedures” with respect to the financial information to be included in the continuing reports.~~
- ~~(9) — Financial Reporting Procedures. In connection with the Committee’s review of each reporting of the City’s annual or continuing financial information, the Committee shall:~~
- ~~(A) — Discuss with the outside auditor, to the extent appropriate, whether all material correcting adjustments identified by the outside auditor in accordance with generally accepted accounting principles are reflected in the City’s financial statements.~~
- ~~(B) — Review with the outside auditor all material communications between the outside auditor and the Mayor, such as any letter or schedule of unadjusted differences.~~
- ~~(C) — Review with the Mayor and the outside auditor any material financial or other arrangements of the City which do not appear on the City’s financial statements and any transactions or courses of dealing with third parties that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and which arrangements or~~

~~transactions are relevant to an understanding of the City's financial statements.~~

~~(D) Resolve any disagreements between the Mayor and the outside auditor regarding financial reporting.~~

~~(10) Securities Law Compliance. The Committee shall review and evaluate the City's compliance with its obligations under federal and state securities laws with respect to securities issued by the City and by the "related entities," as defined in San Diego Municipal Code section 22.1702, and provide to the Disclosure Practices Working Group, the Mayor, and the City Council any comments or recommendations it may have.~~

~~(11) Coordination. The Committee shall work to assure maximum coordination between the work of the internal auditor, the Council as legislative body and the outside auditor.~~

~~(12) Charter. The Committee shall review and reassess at least annually the adequacy of this Charter and recommend any proposed changes to the Council for approval.~~

Article 6: Boards and Commissions

Division 17: Audit Committee

§ 26.1701 Audit Committee Duties

- (a) Pursuant to Charter section 39.1, the Audit Committee shall:
 - (1) have oversight responsibility over the City's auditing, internal controls and any other financial and business practices required of the Audit Committee by the Charter;

- (2) have responsibility for directing and reviewing the work of the City Auditor, who shall report directly to the Audit Committee;
 - (3) recommend to the Council the annual compensation of the City Auditor and the annual budget of the Office of the City Auditor;
 - (4) conduct an annual performance review of the City Auditor;
 - (5) recommend to the Council the retention of the City's outside audit firm and, when appropriate, the removal of such firm; and
 - (6) monitor the engagement with the City's outside auditor and resolve any disputes that may arise between the outside auditor and City management with regard to the City's annual financial report.
- (b) In addition to the duties and responsibilities required by the Charter, the Committee shall have the following duties:
- (1) review the results of significant investigations, examinations or reviews performed by government and regulatory authorities and any management response thereto;
 - (2) acting through the Committee chair, place any item within the scope of the Committee's authority on the Committee's agenda at the request of any Committee member or City Councilmember;
and
 - (3) review any issues that come to the Committee's attention which pertain to the accuracy and reliability of the City's financial practices and representations and which could have a negative

impact on the ability of the public to reasonably rely upon such financial practices and representations.

§ 26.1702 **Removal of Audit Committee Members**

Audit Committee members may be removed for cause by a majority vote of the members of the Council.

§ 26.1703 **Meetings**

The Committee shall meet periodically, as it determines, but not less than once per quarter. The Committee shall conduct its meetings in accordance with the requirements of the Ralph M. Brown Act.

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The City Manager, the City Attorney, the Chief Financial Officer and the Independent Budget Analyst shall cooperate with the Committee and provide such assistance and resources as are reasonably necessary to allow the Committee to carry out its responsibilities. The Committee may request that the City retain professional consultants it considers necessary to carry out its responsibilities.

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The Committee may create ad hoc subcommittees of one or more members of the Committee to accomplish specific tasks within a limited time period.
Subcommittees shall provide a written or oral report to the Committee regarding any activities undertaken. The Committee may terminate such subcommittees at any time.

§ 26.1706 Annual Audit

- (a) The Committee shall have direct access to the City's outside auditor in conducting its review of the City's annual audit. In connection with the annual audit of the City's financial statements, the Committee:
- (1) shall review the City's calendar of milestones for the preparation of the annual audit;
 - (2) shall request from the outside auditor a formal written statement delineating all relationships between the outside auditor and the City consistent with Independence Standards Board Standard No. 1 and any other applicable auditing requirements, discuss with the outside auditor any such disclosed relationships and their impact on the outside auditor's objectivity and independence, and take appropriate action to oversee the independence of the outside auditor;
 - (3) may appoint up to two members of the Committee, in an ad hoc capacity, to meet with City management and the outside auditor, together or separately, prior to the completion of the audit, to review and discuss the draft financial statements and the conduct of the audit;
 - (4) may appoint a Committee member to attend meetings of the Disclosure Practices Working Group at which the audited financial statements of the City are considered;

- (5) shall review with the Chief Financial Officer and the outside auditor:
- (A) the audited financial statements and the notes to the audited financial statements in the City's Comprehensive Annual Financial Report upon the issuance of the audit opinion and provide to the City Manager and the City Council any comments or recommendations it may have, and review and discuss with the outside auditor the matters required by Statement on Auditing Standards No. 114;
 - (B) significant accounting policies and practices applied in the preparation of the City's financial statements;
 - (C) any material financial or other arrangements of the City that do not appear in the City's financial statements; and
 - (D) any transactions or courses of dealing with third parties that are material in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties and which arrangements or transactions are relevant to an understanding of the City's financial statements.
- (6) shall recommend to the City Council whether the audited financial statements should be received by and filed with the Council.
- (b) The Committee may require certifications from any City employee regarding that employee's role in preparing the City's financial statements

that the Committee deems necessary and appropriate to support the
Committee's recommendation to the City Council.

§ 26.1707 Accounting Policies

The Committee shall review periodically, not less than annually, with the Chief
Financial Officer and the outside auditor the quality and appropriateness of the
City's significant accounting policies, as set forth in the notes to the City's
audited financial statements. Such review shall include discussion of the
following:

- (a) how the City's significant accounting policies compare with those of
similar municipalities;
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considered or used by the City;
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financial statements; and
- (d) the treatment preferred by the outside auditor.

§ 26.1708 Internal Controls

The Committee shall review periodically, not less than annually, with the Chief
Financial Officer, the City Auditor, the outside auditor, or other appropriate City
officials, the City's internal controls over financial reporting and internal auditing
procedures. Such review shall include discussion of the following:

- a) how the City's financial systems, controls and practices compare with
similar municipalities;

- b) any significant deficiencies in the design or operation of internal controls, including material weaknesses in such controls reported by the outside auditor, the City Auditor or management, and any additional audit procedures adopted in light of material control deficiencies, which could adversely affect the City's ability to record, process, summarize or report financial data; and
- c) any substantiated fraud or impropriety, material or not, that involves any officer of the City or other employees who have a significant role in the City's internal controls over financial reporting, to the extent that such matters may legally be disclosed to the Committee.

§ 26.1709 Audited Financial Statements of City Component Units or Related Entities

- (a) Related Entities has the same meaning as in Municipal Code section 22.4102
- (b) The Committee shall review the audited financial statements of the following City component units or related entities:
 - (1) Redevelopment Agency
 - (2) Housing Commission
 - (3) Centre City Development Corporation
 - (4) Southeastern Economic Development Corporation
 - (5) San Diego City Employees' Retirement System
 - (6) San Diego Data Processing Corporation
- (c) At its discretion, the Committee may review the audit financial statements of other City component units or related entities it deems appropriate.

- (d) In considering component unit or *related entity* audited financial statements, the Committee may require certifications from any City employee, or component unit or *related entity* employee, regarding such employee's involvement in the preparation of a component units or *related entities* audited financial statements, if the Committee deems such certification necessary and appropriate.
- (e) If a component unit or *related entity* issues debt publicly and such component unit or *related entity's* audited financial statements are reviewed by the Disclosure Practices Working Group as a disclosure document, the Committee shall be informed of such review and may:
 - (1) require the certification of the Disclosure Practices Working Group, in such form as determined by that body; and
 - (2) appoint a Committee member to attend any meetings of the Disclosure Practices Working Group at which such audited financial statements are considered.

§ 26.1710 Oversight and Direction of the City Auditor

The Committee shall oversee and direct the work of the City Auditor as follows:

- a) review and approve the Annual Audit Plan;
- b) review the Annual Risk Assessment prepared by the City Auditor in conjunction with the Annual Audit Plan;
- c) review the Annual Activities and Accomplishments Report of the City Auditor;

- d) receive the quarterly report on the City's Fraud, Waste, and Abuse Hotline;
- e) receive quarterly updates on the activities and accomplishments of the City Auditor;
- f) review with the City Auditor audit plans, budget and staffing needs, and relevant processes and programs of the City's internal audit function;
- g) provide a mechanism for the City Auditor to discuss confidential audit-related matters with the Committee, provided such mechanism complies with the Brown Act;
- h) allow the City Auditor to bring any matter before the Committee; and
- i) notwithstanding the Annual Audit Plan, permit the City Auditor to initiate any audit the City Auditor deems necessary and appropriate, so long as notice is provided to the Committee, with such notice describing the impact, if any, of the new audit on the ability of the City Auditor to complete the audits approved in the Annual Audit Plan.

§26.1711 Retention of the Outside Auditor

- (a) In order to fulfill its responsibility to recommend to the Council the retention of the City's outside auditor, the Committee shall:
 - (1) designate a member of the Committee to work with the City Auditor in the preparation of a Request for Proposals for the retention of the outside auditor not less than once every five years and the Committee shall approve the form of the Request for

- Proposals before it is disseminated to prospective outside audit firms; and
- (2) ensure that the City Auditor, in cooperation with the Chief Financial Officer and the Independent Budget Analyst, has undertaken a full review of the all responsive proposals.
- (b) The City Auditor, or such other designee specified by the Committee, shall be responsible for administering the contract with the outside auditor and approving payments for services rendered.
- (c) The Committee shall establish procedures to approve, in advance, all audit services and all permitted non-audit services to be provided to the City by the outside auditor in order to ensure the independence of the outside auditor.

§ 22.0101.5 – Permanent Rules of the Council

Rule 1 through Rule 5.2. [No change in text.]

Rule 6: STANDING AND SPECIAL COMMITTEES

6.1 Creation of Standing Committees (former Rule 10)

The Council hereby creates ~~six~~ five standing committees as follows:

(a) through (e) [No change to text.]

~~(f) Audit Committee~~

Rule 6.2 through Rule 6.11.5 [No change to text.]

~~Rule 6.11.6 Audit Committee~~

~~(a) — The Audit Committee shall be composed of three voting~~

~~Council members. Whenever possible, on a going forward basis, the terms of Audit Committee members should be arranged to ensure that there is always at least one experienced member of the Committee.~~

- ~~(b) The Committee shall provide independent, legislative oversight for audit work performed by and for the City. This oversight shall extend to the City's internal controls over financial reporting; the City's financial disclosures; internal financial audits; and the selection, with appropriate consultation with the Mayor, and monitoring of independent audit firms.~~
- ~~(c) The Committee may hold hearings on matters referred to it and as it deems necessary for the performance of its functions.~~
- ~~(d) The Committee shall also have the responsibility to develop a permanent Audit Committee Charter, review the Charter annually and recommend any proposed changes to the Charter to the governing body.~~

Rule 6.12 through Rule 11 [No change to text.]

BCW:jdf
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03/09/10.COR.COPY3
Or.Dept:Audit
O-2010-7

CERTIFICATE OF PUBLICATION

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3/23/10

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City of San Diego/Clerk's Office
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SAN DIEGO CA 92101



IN THE MATTER OF

CASE NO.

Ord No. O-19943 (New Series)

CITY OF SAN DIEGO
ORDINANCE NUMBER O-19943 (NEW SERIES)

AN ORDINANCE AMENDING THE SAN DIEGO MUNICIPAL CODE BY AMENDING CHAPTER 2, ARTICLE 2, DIVISION 1, SECTION 22.0101.5 ENTITLED "PERMANENT RULES OF THE COUNCIL" BY AMENDING RULE 6.1 AND REPEALING RULE 6.11.6; AMENDING CHAPTER 2, ARTICLE 2, DIVISION 43 BY REPEALING DIVISION 43, TITLED "AUDIT COMMITTEE" IN ITS ENTIRETY; AND AMENDING CHAPTER 2, ARTICLE 6 BY ADDING NEW DIVISION 17 TITLED "AUDIT COMMITTEE" BY ADDING SECTIONS 26.1701 THROUGH 26.1711, ALL RELATED TO THE AUDIT COMMITTEE CREATED PURSUANT TO CHARTER SECTION 39.1.

This ordinance amends the San Diego Municipal Code to remove provisions related to the former City Council Audit Committee and add provisions to codify the responsibilities of the new Audit Committee created by section 39.1 of the City Charter.

This ordinance restates the Audit Committee's responsibilities under the City Charter. The ordinance includes provisions for the removal of Audit Committee members, meetings, resources, and the creation of subcommittees. The ordinance contains a detailed provision on the Audit Committee review process for the City's Comprehensive Annual Financial Report ("CAFR"), including attendance by an Audit Committee member at meetings of the Disclosure Practices Working Group at which the CAFR is considered. The ordinance requires the Audit Committee to review annually the City's accounting policies and internal control over financial reporting. The Audit Committee is required to review the audited financial statements of certain City related entities and may review the audited financial statements of all City related entities. The Audit Committee is required to review and approve the City Auditor's annual audit plan. Finally, the Audit Committee is required to review the Request for Proposal used to solicit independent auditors for the City and oversee the selection process.

This ordinance contains a notice that a full reading of this ordinance is dispensed with prior to its passage, since a written or printed copy will be available to the City Council and the public prior to the day of its passage.

This ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

A complete copy of the Ordinance is available for inspection in the Office of the City Clerk of the City of San Diego, 2nd Floor, City Administration Building, 202 C Street, San Diego, CA 92101.
Introduced on March 9, 2010.

Passed by the Council of the City of San Diego on March 23, 2010.

Date of Final Passage is March 29, 2010.

AUTHENTICATED BY:

JERRY SANDERS

Mayor of The City of San Diego, California

ELIZABETH S. MALAND

City Clerk of The City of San Diego, California

By: Gil Sanchez, Deputy

Pub. April 22-00073109

I, Jacqueline R. Burnett, am a citizen of the United States and a resident of the county aforesaid; I am over the age of eighteen years, and not party to or interested in the above entitled matter. I am the principal clerk of the San Diego Transcript, a newspaper of general circulation, printed and published daily, except on Saturdays and Sundays, in the City of San Diego, County of San Diego and which newspaper has been adjudged a newspaper of general circulation by the Superior Court of the County of San Diego, State of California, under the date of January 23, 1909, Decree No. 14894; and the

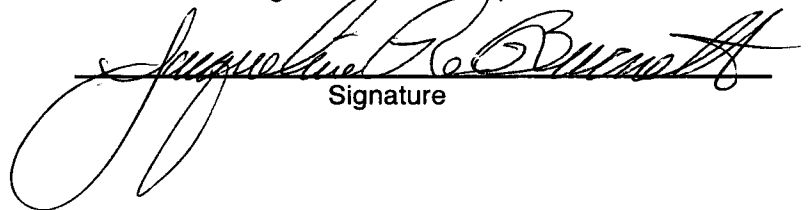
Ordinance

is a true and correct copy of which the annexed is a printed copy and was published in said newspaper on the following date(s), to wit:

April 22

I certify under penalty of perjury that the forgoing is true and correct.

Dated at San Diego, California this April 22, 2010


Signature

5 x 3 1/4 x 1 = 47.00