

## Article 6: Board and Commissions

### Division 17: Audit Committee

*(Added 3-29-2010 by O-19943 N.S.)*

#### §26.1701 Audit Committee Duties

- (a) Pursuant to Charter sections 39.1 and 39.2, 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 removal for cause of the City Auditor;
  - (6) recommend to the Council the retention of the City's outside audit firm and, when appropriate, the removal of such firm;
  - (7) 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; and
  - (8) consult with the Mayor or his or her designee concerning the appointment of a City Auditor. The Audit Committee may create a subcommittee of the Audit Committee chair and one public member to consult with the Mayor.
- (b) The Audit Committee shall also have the following duties and responsibilities:
- (1) acting through the Audit Committee chair, place any item within the scope of the Audit Committee's authority on the Audit Committee's agenda within 30 days of a request by any Audit Committee member, City Councilmember, or the City Auditor, or at the next Audit Committee meeting if the next meeting falls outside of the 30-day period; and

- (2) review any issues that come to the Audit Committee's attention, which relate to the accuracy and reliability of the City's financial practices and representations and could impact the ability of the public to reasonably rely upon the financial practices and representations.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

*(Amended 12-1-2016 by O-20740 N.S.; effective 12-31-2016.)*

*(Amended 5-22-2025 by O-21958 N.S.; effective 6-21-2025.)*

## **§26.1702 Selection and Removal of Audit Committee Members**

- (a) The Council shall appoint the three public members of the Audit Committee from a pool of at least two qualified candidates for each vacant position. The Independent Budget Analyst shall facilitate the candidate selection process consistent with Charter section 39.1.
- (b) Audit Committee members may be removed for cause by a majority vote of the members of the Council.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

*(Retitled from "Removal of Audit Committee Members" to "Selection and Removal of Audit Committee Members" and amended 12-1-2016 by O-20740 N.S.; effective 12-31-2016.)*

## **§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.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

## **§26.1704 Resources**

- (a) 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.
- (b) Directors and heads of mayoral departments, non-mayoral departments, and City component units shall notify the Committee chair and City Auditor of the results of any significant investigations, examinations, or reviews performed by government and regulatory authorities of all City departments, *related entities*, and City component units within the Committee's purview and any management response thereto.

- (c) The Committee may retain professional consultants it considers necessary to carry out its responsibilities. The Committee chair or designee shall manage any resulting contract.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

*(Amended 12-1-2016 by O-20740 N.S.; effective 12-31-2016.)*

## **§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.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

## **§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.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

## **§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 Generally Accepted Accounting Principles 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.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

*(Amended 12-1-2016 by O-20740 N.S.; effective 12-31-2016.)*

#### **§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.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

#### **§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 be provided and may review the audited financial statements of any City component units or *related entities*.

- (c) 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.
- (d) 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.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

*(Amended 12-1-2016 by O-20740 N.S.; effective 12-31-2016.)*

## **§26.1710 Oversight and Direction of the City Auditor**

The Audit 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 means for the City Auditor to discuss confidential audit-related matters with the Audit Committee, provided the means complies with the Ralph M. Brown Act;
- (h) allow the City Auditor to bring any matter before the Audit Committee;
- (i) designate one of its public members to provide support, as needed, to the City Auditor in the contracting process to procure the services of the independent legal counsel, authorized under San Diego Charter section 40.2 and San Diego Municipal Code section 26.1712; and
- (j) 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 Audit Committee, 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.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

*(Amended 5-22-2025 by O-21958 N.S.; effective 6-21-2025.)*

**§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.

*(Added 3-29-2010 by O-19943 N.S.; effective 4-28-2010.)*

**§26.1712 Retention and Use of Independent Legal Counsel**

- (a) The Office of the City Auditor, acting through the City Auditor, may retain and use legal counsel, independent of the City Attorney, for legal support and advice in audits, investigations, and related activities within the authority and duties of the Office of the City Auditor, subject to the limitations in San Diego Charter section 40.2 and San Diego Municipal Code section 26.1712.
- (b) The Office of the City Auditor must retain independent legal counsel by contract approved by the City Council in a manner consistent with the procurement requirements in the San Diego Charter, the San Diego Municipal Code, and other applicable laws. The Office of the City Auditor must also request City Council approval of any amendments to a contract for independent legal counsel under applicable laws.
- (c) The City Council has discretion to determine and appropriate funding for the Office of the City Auditor's independent legal counsel. The City Council is not mandated to provide any minimum level of funding for the independent legal counsel on an annual or regular basis. The contract cost of the independent legal counsel must not exceed the appropriated funding.
- (d) Before the Office of the City Auditor may use the independent legal counsel, who is under contract, on a specific audit, investigation, or related activity, the City Auditor must request and receive approval for the specific use from the Audit Committee.
  - (1) The City Auditor must present facts to the Audit Committee supporting the proposed use of the independent legal counsel on an audit or investigation. The Audit Committee must consider the facts presented and determine, by a majority vote, whether the proposed use of the independent legal counsel on the matter is within the "public interest," as that term is defined by generally accepted government auditing standards promulgated by the United States Government Accountability Office or successor agency.
  - (2) To satisfy the requirement in section 26.1712(d)(1), the City Auditor is not required to publicly disclose the specific legal advice they seek, but must generally describe the nature of the matter being audited or investigated. This requirement can be satisfied as part of the Audit Committee's regular review of the City Auditor's Annual Audit Plan or other work plan, or as a specific request by the City Auditor.



- (3) The City Auditor may request that the Audit Committee authorize the use of the independent legal counsel to provide legal advice on a fraud hotline investigation without disclosing specific factual allegations. Further, in making the request to the Audit Committee, the City Auditor must comply with applicable laws related to the confidentiality of whistleblower complaints.
- (e) Upon the City Council's approval of a contract and funding for the independent legal counsel, the City Auditor is responsible for review and payment of the independent legal counsel's invoices from the City funds appropriated by the City Council.
- (f) The Audit Committee may also use the independent legal counsel, who is under contract, for legal support and advice related to the Audit Committee's oversight responsibilities. The Audit Committee must comply with the requirements in section 26.1712 before using the independent legal counsel, including determining that the proposed use of the independent legal counsel is within the "public interest," as that term is defined by generally accepted government auditing standards promulgated by the United States Government Accountability Office or successor agency.
- (g) If the Audit Committee's use of the independent legal counsel, who is under contract with the Office of the City Auditor, presents a conflict of interest as defined by applicable laws or the Rules of Professional Conduct of the State Bar of California, the Audit Committee may request that the City Council authorize separate independent legal counsel for the Audit Committee, on a specified matter. This separate independent legal counsel must be retained and used under the process described in section 26.1712.

*("Retention and Use of Independent Legal Counsel" added 5-22-2025 by O-21958 N.S.; effective 6-21-2025.)*