

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 Committee may create a subcommittee comprised of the Committee chair and one public member to consult with the Mayor.
- (b) The Committee shall also have the following duties and responsibilities:
- (1) 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

- (2) 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.

*(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.)*

§26.1702 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 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.

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

§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.)