

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 10, 2007

IBA Report Number: 07-49

Audit Committee Docket Date: May 14, 2007

Item Number: 3

Subject: Professional Auditing Consultant for the Audit Committee

OVERVIEW

Audit Committee members have repeatedly discussed their desire for a qualified audit professional to directly assist the Committee in providing independent, legislative oversight of the audit work performed by and for the City. As stated in the Audit Committee Charter and the City's Municipal Code, 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." On March 26, 2007, the City Council approved a mid-year budget adjustment to allocate funds in FY 07 for professional auditor support to the Audit Committee. The IBA has recommended that \$225,000 be appropriated in FY 08 to retain needed audit expertise for the Audit Committee. This report briefly addresses the need for a professional consultant to support the Audit Committee and provides a list of consultant qualifications for utilization in a recruitment process.

FISCAL/POLICY DISCUSSION

The need for a professional audit consultant to support the Audit Committee has been discussed at several Audit Committee meetings and at a meeting of the Budget and Finance Committee. Section 22.4303 (b) of the City's Municipal Code mirrors Audit Committee Charter language in providing that the Committee may retain professional consultants it considers necessary to carry out its functions. It further provides that "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."

In IBA Report Number 07-39, the IBA supports the Audit Committee's desire to retain a professional consultant to support the Committee in its independent, legislative oversight

role. The Audit Committee and the City Council are in need of dedicated and specific governmental auditing expertise and advice. This type of expertise is not currently available in the IBA and our office expects to also benefit from the availability of a professional audit consultant.

In addition to the routine work of the Audit Committee, IBA Report Number 07-39 lists the following examples of efforts that are either underway or pending where a professional audit consultant would be beneficial to the Committee and the City Council:

- Assisting the Audit Committee and City Council with developing ballot language for the City Charter to achieve permanent Audit Committee and Auditor independence;
- Providing research and developing support documents for the Council and the Mayor's Charter Commission regarding Auditor and Audit Committee Charter matters;
- Assisting and advising the Council regarding recruitment and selection of a new Internal Auditor;
- Assisting and advising the Council regarding the establishment of the City's internal auditing function;
- Reviewing audit results and providing independent advice to the Audit Committee and City Council regarding these audits;
- Coordinating and advising the Audit Committee on the retention of outside auditors;
- Analyzing all audit-related legislative actions on the Council docket and advising the Council on these matters;
- Evaluating City procedures and fiscal practices for efficiency and effectiveness;
- Provide ongoing analysis and independent advice for Council regarding implementation of the Kroll remediations;
- Ongoing coordination and facilitation with City's SEC Independent Consultant on behalf of the City Council.

In response to direction received from the Audit Committee Chair, the IBA has developed a list of desired qualifications for a professional audit consultant to assist the Audit Committee. In developing this list, we solicited input from the Independent

Consultant, the Office of the City Attorney and outside accounting professionals. If it is the Audit Committee's desire, these qualifications can be quickly incorporated into a Request for Proposal or other recruiting document to facilitate a selection process for needed consultant expertise.

CONCLUSION

This report, and the desired consultant qualification/experience attachment, is provided to further discussion and possible action to acquire needed professional expertise in support of the Audit Committee and the City Council. As noted above, the IBA believes that the Audit Committee, the City Council and our office would benefit from the availability of independent governmental auditing expertise and advice. Upon further direction from the Audit Committee, the IBA is prepared to work with the Mayor's staff as may be necessary to expeditiously initiate a consultant selection process.

[SIGNED]

Jeff Kowar
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst

Audit Committee Consultant

Desired Professional Qualifications/Experience:

- Office or practice in the San Diego area is highly desirable with ability to attend meetings at the City Administration building on a regular basis. An individual or a firm with a qualified staff person to be available as a back-up if needed is preferred.
- An individual with experience providing advice or service to an independent local government audit committee. Alternatively, experience with internal and/or external audit work, preferably for local government and subject to a peer review every three years.
- Demonstrated familiarity with the five essential elements of a comprehensive integrated framework of internal control as identified by The Council of Sponsoring Organizations (COSO) of the Treadway Commission.
- Understanding and/or experience applying elements of the Sarbanes-Oxley Act of 2002. Ability to extrapolate and incorporate useful elements of this Act for utilization in local government.
- Bachelor degree from an accredited college or university with a major in accounting, finance, public administration or a closely related field. A Master's degree is preferred.
- Professional certification such as a Certified Public Accountant, Certified Internal Auditor and/or Certified Information System Auditor.
- Significant experience with government accounting standards, government generally accepted auditing standards; knowledge of municipal finance administration; principles and practices of municipal finance administration; principles and practices of municipal accounting systems and controls, budgeting, procurement, and investments; modern techniques of accounting; integrated computer based accounting systems; municipal regulations; and practices of internal and administrative controls.
- Experience working with elected officials, local government audit professionals and/or outside audit firms.
- Ability to help Audit Committee members evaluate and understand audit-related issues and to assist them in performing their oversight role over financial reporting and disclosure.