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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** December 18, 2008

**IBA Report Number:** 08-122

**City Council Docket Date:** January 5, 2009

**Item Number:** 201

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# Appointment Process for New Public Audit Committee Members

## OVERVIEW

On June 3, 2008, voters approved Proposition C changing the City Charter with respect to the composition of the Audit Committee. The new language in City Charter section 39.1 calls for a reconfigured Audit Committee comprised of two members of the City Council (one to serve as Chair of the Committee) and three public members. On December 16, 2008, the City Council appointed Councilmember Faulconer to continue as the Chair of the Audit Committee and Councilmember DeMaio to serve as the other councilmember assigned to this Committee.

This report reviews the process for soliciting applications for the three public Audit Committee positions. The report further describes the process the City Council will utilize to select three Committee members from the six qualified public candidates that will be before them on January 5, 2009.

## FISCAL/POLICY DISCUSSION

### Soliciting Public Member Applications

On July 28, 2008, the City Council adopted Resolution R-303970 appointing two outside financial experts to the Screening Committee and directing the IBA to initiate solicitation efforts for public Audit Committee member candidates in consultation with the appointed Screening Committee. In keeping with recommendations provided in IBA Report 08-67, the IBA used a multi-faceted approach for soliciting public candidate interest that included:

- City website postings
- CityTV 24 ads
- Ads in local newspapers and online publications
- Website postings with professional financial and audit organizations
- Directly soliciting candidate identification assistance from major accounting firms
- Soliciting candidate identification assistance from the City's professional audit consultant, City Councilmembers, and other professional contacts

Application periods were opened and closed several times beginning in August 2008 to allow the Screening Committee time to review candidate qualifications and the Office of the City Attorney time to conduct candidate background checks. The Screening Committee met five times beginning in August 2008 and reviewed 16 public member applications. At their final meeting on December 8, 2008, the Screening Committee determined that six of the 16 candidate applications received were qualified and recommended that they be forwarded to the City Council for consideration.

#### Screening Committee Composition and Applied Criteria

In accordance with City Charter section 39.1, and following City Council appointment actions on July 7<sup>th</sup> and July 28<sup>th</sup>, the Screening Committee was comprised of the following representatives:

- Kevin Faulconer (City Councilmember for District 2)
- Andrea Tevlin (City's Independent Budget Analyst)
- Mary Lewis (City's Chief Financial Officer)
- Tracy Sandoval (Auditor & Controller / Assistant CFO for County of San Diego)
- Ed Kitrosser (CPA and Audit Partner for Moss Adams LLP San Diego)

The Screening Committee was charged with vetting the qualifications of public Audit Committee candidates and recommending a pool of at least two candidates for each of the three new public member positions. The City Council would then consider these candidates for appointment. Candidates were evaluated based on the criteria set forth in City Charter section 39.1 which provides:

“Public members of the Audit Committee shall possess the independence, experience and technical expertise necessary to carry out the duties of the Audit Committee. This expertise includes but is not limited to knowledge of accounting, auditing and financial reporting. The minimum professional standards for public members shall include at least 10 years of experience as a certified public accountant or as a certified internal auditor, or 10 years of other professional financial or legal experience in audit management.”

In instances where a candidate did not possess 10 years of experience as either a CPA or CIA, the Screening Committee further evaluated candidate experience by using guidelines developed by American Institute of Certified Public Accountants (AICPA) for evaluating the qualifications of audit committee members. The Screening Committee

asked several candidates to submit additional information regarding their qualifications after providing them with the AICPA's list of experience attributes for financial expertise as it relates to the work of audit committees. This additional information from some of the candidates helped the Screening Committee determine whether certain candidates met the required qualifications as set forth in the City Charter.

#### Recommended Public Member Candidates

The Screening Committee determined that the six candidates listed below were qualified and recommended that the City Council consider them for the three open public Audit Committee member positions. The Office of the City Attorney has reviewed the backgrounds and cited experience of each candidate. Candidate application forms and resumes are attached to this report.

- Robert Campbell
- Stephen Grant
- Wade McKnight
- Merice Nelles
- Peter Parmenter
- Charles Sellers

#### Council Process for Appointing Three Public Members to the Audit Committee

City Council Policy 000-13 sets forth a procedure for Council appointments. The IBA reviewed this Council Policy with the City Clerk to better understand the established process. When there are multiple candidates for multiple appointments, the established process is as follows:

1. The Council President calls on each candidate whose name appears on the docket as a nominee to make a presentation to the Council in support of their candidacy for appointment. Presentations should not exceed three minutes.
2. The Council President calls on members of the Council to ask brief questions of any of the candidates concerning either their presentation or matters contained in their application filed with the City.
3. The City Clerk provides ballots to the Council and each Councilmember votes for the candidates he/she feels to be most qualified and returns the ballots to the City Clerk. Each Councilmember has one vote for each of the three public Audit Committee positions, or three votes to assign to three of the six candidates.
4. The three candidates receiving the highest number of votes (minimum of five) shall be appointed to the three vacancies. In the event that no candidate receives a minimum of five votes or a tie between candidates for the final vacancy, additional rounds of voting would take place until the minimum vote requirement is achieved or the tie is broken.

City Charter section 39.1 specifies 1) that public members of the Audit Committee shall serve for four-year terms (limited to two full consecutive terms) and 2) appointments be made so that not more than one term of office shall expire in any one year. In order to accomplish this latter provision, the Office of the City Attorney recommends initial appointments of two, three and four year terms.

It should also be noted that all but one of the candidates resides in the City. Robert Campbell resides in the County of San Diego (Encinitas). Although Council Policy 000-13 indicates that it is the intent of the City Council to appoint residents of the City, it explicitly provides that an exception can be made for qualified applicants who reside within the County. The IBA recommends that the City Council grant this exception for Mr. Campbell and consider him as a candidate for the public Audit Committee member positions.

## CONCLUSION

An extensive public candidate solicitation and evaluation process has been undertaken since voters adopted Proposition C on June 3, 2008. In accordance with the City Charter, the required Screening Committee has reviewed sixteen candidate applications and forwarded six to the City Council for consideration for three public Audit Committee member positions. If the City Council makes the three public member appointments on January 5, 2009, a reconfigured Audit Committee will be seated for the first scheduled meeting of the new year, on January 12, 2009.

The IBA recommends that the City Council make the three public member appointments at their meeting on January 5, 2009. The Audit Committee has already requested their professional audit consultant, Jefferson Wells, to prepare a useful Audit Committee member handbook and an orientation presentation in anticipation of seating the new Committee at their January 12<sup>th</sup> meeting. It is also important to note that seating the new Audit Committee will enable the City Council to confirm a City Auditor appointment. The Office of the City Attorney previously opined that the Mayor must appoint a City Auditor in consultation with the new Audit Committee before the City Council can confirm the proposed appointment. Following this appointment, the City Auditor will report directly to the City Council rather than the Mayor.

Although the timeline for identifying qualified public candidates for these important Audit Committee appointments took longer than originally anticipated, the IBA believes that a thoughtful process was undertaken. The IBA appreciates and acknowledges the assistance of the Screening Committee, particularly the time provided by outside financial experts Tracy Sandoval and Ed Kitrosser.

**[SIGNED]**

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Jeff Kawar  
Fiscal & Policy Analyst

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APPROVED: Andrea Tevlin  
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