
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: June 19, 2008

IBA Report Number: 08-67

Audit Committee Docket Date: June 23, 2008

Item Number: # 4

Implementing Proposition C: Suggested Process for Appointing New Audit Committee

OVERVIEW

On June 3, 2008, voters approved Proposition C which, in part, provided for City Charter language addressing the responsibilities and composition of the City's Audit Committee. Specifically, the new Charter language 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. The Audit Committee is currently comprised of three Councilmembers. This report reviews the new Charter language requirements for composition of the Audit Committee and makes implementation process suggestions.

FISCAL/POLICY DISCUSSION

Certifying the Election Results

The County Registrar of Voters Office has until July 1st to finalize their canvas and present election results to the Secretary of State. Once this has happened, the City Clerk will send documentation to the Secretary of State requesting that they chapter the new voter approved City Charter amendment language described in Proposition C. The Secretary of State typically requires up to 10 days to chapter the City's Charter amendments. The City Clerk expects this to happen in mid July.

Concurrent with their request to the Secretary of State, the City Clerk will docket a resolution for the City Council to adopt the election results in accordance with Municipal Code Section 27.0411. Although the effective date of the Charter amendments will not

be official until the Secretary of State has chaptered the new Charter amendment language, the Office of the City Attorney has informed the IBA that it would be reasonable for the City Council to initiate preparatory actions for appointing a new Audit Committee in anticipation of final certification of Proposition C.

Appointing Two Councilmembers to the Audit Committee

Proposition C states that two Councilmembers shall be appointed by the Council and one of them shall serve as the Chair of the Audit Committee. The Audit Committee is currently comprised of Councilmembers Faulconer (Chair), Young and Atkins. The Office of the City Attorney has informed the IBA that it will be necessary for two Councilmembers to be officially reappointed to the reconfigured Audit Committee with specification as to who will serve as the Chair.

The Council could elect to follow its normal process for committee appointments, including designation of a Chair, whereby the Council President makes recommendations subject to Council confirmation. The IBA recommends that a Council appointment process be discussed and implemented no later than September 2008 to facilitate a smooth transition and enable implementation of the new Audit Committee by October 2008.

Initiating Process for Appointing Three Public Members to the Audit Committee

Proposition C specifies the following with respect to the new public members of the Audit Committee:

“The three public members of the Audit Committee shall be appointed by the City Council from a pool of at least two candidates for each vacant position, to be recommended by a majority vote of a screening committee comprised of a member of the City Council, the Chief Financial Officer, the Independent Budget Analyst and two outside financial experts appointed by the other three members of the screening committee and confirmed by the City Council.”

The first step in complying with this language will be for the City Council to select a representative to serve on the screening committee. The Office of the City Attorney has indicated that the City Council will need to adopt a resolution naming the Councilmember to serve on the screening committee. The IBA recommends this item be immediately docketed for City Council discussion and action to initiate the public member selection process.

The next step will be for the three City Charter stipulated screening panel members (designated Councilmember, CFO and IBA) to appoint two outside financial experts to serve on the screening panel, subject to City Council confirmation. The City Council will

need to adopt another resolution to confirm the two outside financial experts. If the two required resolutions can be adopted in July, the screening committee would be established in late July and before the legislative summer recess.

The IBA believes the screening committee should be established as soon as possible to facilitate candidate solicitation, review of qualifications and a final recommendation of public Audit Committee candidates for City Council consideration in September 2008.

Identifying Qualified Candidates for Consideration

The City Charter will be amended to include the following language regarding public members of the Audit Committee:

“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. The public members of the Audit Committee shall serve for terms of four years and until their successors have been appointed and qualified. Public members of the Audit Committee are limited to two full consecutive terms, with one term intervening before they become eligible for reappointment. Notwithstanding any other provision of this section, appointments shall be made so that not more than one term of office shall expire in any one year.”

As the Charter requires that public member appointments be made from a pool of at least two candidates for each vacant position, the screening committee will need to review candidate qualifications and identify a minimum of six qualified candidates for City Council consideration. From this pool of at least six candidates, the City Council will appoint the three public members of the Audit Committee. If a sufficient number of qualified candidates can be identified by the screening committee over the next few months, both City Council and public member appointments to the Audit Committee could be made in September 2008.

The IBA recommends that a multi-faceted approach be utilized for identifying qualified public candidates. We suggest soliciting candidate interest in the following ways:

- Public service announcements on television and radio
- CityTV 24 announcements
- Ads in the local newspapers and financial publications
- Solicit interest from professional financial and audit organizations (via letters, website postings, etc.)

- Recommendations from industry experts (i.e., professional audit consultant)
- Recruiting firms

Other Considerations

In discussing the implementation of Proposition C with the Office of the City Attorney, a number of Audit Committee implementation questions and considerations were raised. The Office of the City Attorney is currently reviewing these issues and will report back to the Audit Committee at its next scheduled meeting in July. The main issues under review are provided below:

- How will public Audit Committee terms be structured to comply with the Charter requirement that “not more than one term of office expire in any one year”?
- Will screening committee meetings be subject to the Brown Act?
- Should the City Council adopt a Conflict of Interest Code for Audit Committee members?

CONCLUSION

With the passage of Proposition C on June 3, 2008, the City Charter will be amended to require a new configuration of the City’s Audit Committee that includes three public members and two Councilmembers. In anticipation of the Secretary of State chaptering the new City Charter amendment language, the IBA recommends that the City Council take action to initiate the process for new Audit Committee appointments. The Office of the City Attorney concurs that it would be reasonable for the City Council to initiate actions to facilitate establishment of the new Audit Committee.

The IBA recommends that the City Council take the following actions before the legislative summer recess. We have included possible dates for consideration:

- Receive feedback on implementation issues from the Office of the City Attorney (July 7th at Audit Committee and/or City Council).
- Appoint City Council representative to the Screening Committee (July 7th).
- Appoint two outside financial experts to the Screening Committee (July 28th).
- Direct the IBA to develop and initiate public member solicitation efforts in consultation with the screening committee (immediately).

If the above actions are taken prior to the legislative summer recess, the City Council should be able to take the following actions in September 2008:

- Appoint two Councilmembers (one as Chair) to the new Audit Committee (September 15th).

- Appoint the three public members of the new Audit Committee from the qualified pool of candidates (September 15th).
- Establish October 6, 2008 as a target date for the first meeting of the reconfigured Audit Committee (September 15th).
- Direct the IBA to work with Jefferson Wells and the Office of City Attorney to provide new Audit Committee member orientation and an overview of responsibilities (September 15th).

This is an ambitious schedule that assumes all of the above referenced actions and target dates can be achieved. The IBA recommends that the Audit Committee and the City Council discuss necessary actions for implementing new City Charter language related to the composition of the Audit Committee. The IBA stands prepared to receive direction and assist with the implementation of Proposition C as it relates to the Audit Committee.

[SIGNED]

Jeff Kavar
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst