



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** September 11, 2019

**IBA Report Number:** 19-21

**Rules Committee Meeting Date:** September 18, 2019

**Item Number:** 1

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# Evolution of the City's Audit Function/Structure and Comparative Information on Auditor Selection Processes in other Major Cities

## OVERVIEW

On July 31, 2019, Councilmember Sherman requested the Rules Committee consider a ballot measure to amend the City Charter regarding the selection process for the City Auditor. City Charter Section 39.2 currently specifies that "the City Auditor shall be appointed by the Mayor, in consultation with the Audit Committee, and confirmed by the Council." With the objectives of strengthening Auditor independence and increasing the transparency/accountability of the selection process, Councilmember Sherman proposed a Charter amendment that would change the current selection process whereby the Audit Committee would be responsible for screening Auditor applicants and recommending the three most qualified candidates to the City Council for consideration and selection. The proposed ballot measure would make the City Council solely responsible for City Auditor selection and eliminate any mayoral involvement in the selection process.

The Rules Committee unanimously voted to support further development of this proposal by requesting legal analysis of the proposal and draft Charter language from the Office of the City Attorney (City Attorney). This information will be discussed at the Rules Committee meeting scheduled for September 18, 2019. The draft Charter amendment language developed by the City Attorney provides that the Audit Committee may use staff from our Office and "expert consultants" to assist them in soliciting and screening applications for City Council consideration.

Prior to the Rules Committee meeting on July 31<sup>st</sup>, Councilmember Sherman issued a memorandum to our Office (Attachment 1) requesting the IBA provide information related to: (1)

the evolution of the City's audit function/structure since the City Manager form of government that existed prior to 2006; and (2) auditor selection processes used by other large cities in California and the nation. This report provides responses to the questions posed in Councilmember Sherman's memorandum and presents comparative information on auditor selection processes in the seven largest cities in California and ten largest cities in the nation excluding California.

## POLICY DISCUSSION

### Responses to Questions Posed in Councilmember Sherman's Memorandum:

#### ***What was the function and structure of the City Auditor under the City Manager form of government?***

In 2004, City voters approved a Charter amendment to move from a City Manager form of government to a Strong Mayor form of government beginning January 1, 2006. Prior to this change, audit activities were performed by the Audit Division within the City Auditor and Comptroller Department (Department). The City Auditor and Comptroller position served as the Chief Fiscal Officer of the City overseeing the Audit function as well as many of the City's financial operations, and provided fiscal advice to City officials. At that time, the Audit Division performed a broader array of activities compared to the performance audit focus of the current Office of the City Auditor. The Audit Division's activities were detailed in the FY 2005 Budget:

*“The Audit Division performs operational audits, special investigations, performance measure audits, and Citywide audits; determines compliance with City directives and internal controls; ensures the proper accountability of revenues and expenditures of City departments, grant-funded programs and various agreements; ensures revenues due to the City by hotels, lessees, businesses, franchisees, and other organizations are accurate and received in a timely manner; and assists with Mayor and City Council-directed budget reviews.”*

In FY 2005, the Department had approximately 98.00 FTE positions spread over three primary operations: Accounting Services (71.00); Financial Systems Division (4.00); and the Audit Division (23.00). It should be noted that while 23.00 positions in the Department were budgeted for work in the Audit Division, many of these positions were redirected to work in the Accounting Services Division to help the City get current on its annual financial statements (a.k.a., CAFR). In 2005-2006, the City had not been able to issue annual financial statements with a “clean” audit opinion from its independent outside auditor KPMG for fiscal years 2003, 2004 and 2005. The City was three years in arrears on its annual financial statements due in part to a failure to fully disclose the nature/magnitude of its pension and health care liability to bond investors. There was very little internal audit work being performed in FY 2005 and FY 2006 as the focus was on actions related to issuing the delayed financial statements which in turn would help restore the City's ability to borrow by issuing municipal bonds in the public capital markets.

***What did the Kroll Report discover and recommend about the role of the City Auditor?***

The Securities and Exchange Commission (SEC) began investigating the City's failure to make adequate financial disclosure to its bond investors in 2004. In a meeting with SEC officials and the U.S. Attorney's Office in March 2005, City officials were instructed to complete a thorough investigation into its own financial practices and operations and develop a plan for remediation. In response, the City hired Kroll, Inc. (Kroll) to perform the investigation and develop a remediation plan. Kroll issued their report, with numerous findings and a go-forward plan for remediation, on August 8, 2006. The City carefully evaluated the Kroll Report and committed to pursue 121 remediation actions.

With respect to the work of the City Auditor and Comptroller Department, the Kroll Report found the Department to be largely responsible for the City's financial disclosure deficiencies. Among many other findings, the Kroll Report highlighted the following statement made by the Department in their "City Auditor 2006 Report" issued on January 1, 2006:

*"As of our report date, we are unable to conclude that the City's internal controls over financial reporting are adequate to assure timely and accurate financial reporting."*

In the Remediation Plan for the City, Kroll made the following statements and recommendations:

- *"Currently, the functions of accounting and internal reporting are combined with the function of internal auditing in the Office of the City Auditor and comptroller; in substance, the auditor audits his own work. Such a structure lacks the requisite level of independence widely viewed as essential for a sound financial reporting system."*
- The City should create an independent internal auditing function to address deficiencies that have been identified with respect to the independence and oversight of the internal and external reporting process.
- The City should create a new position of Auditor General (City Auditor) with responsibility for internal audits of the City's: (1) internal controls; (2) financial accounting, reporting and disclosure; (3) operations; and (4) fraud, waste and abuse. The Auditor should be nominated by the Mayor and appointed upon the consent of a majority of the City Council.
- *"The Auditor should have experience with government accounting standards, government generally accepted auditing standards, preparation of government annual financial statements, and operational audits. The Auditor should have a professional certification such as a Certified Public Accountant or a Certified Fraud Examiner."*
- *"The Auditor should report to an Audit Committee no less than on a quarterly basis and periodically to the City Council. In addition, the Auditor should submit annually to the City Council a public report of his activities."*
- *"The Auditor should serve a term of 10 years, and could be removed from office for cause by the Audit Committee or upon an affirmative vote of three-quarters of the City Council."*

***What questions were considered by the Citizens Charter Review Committee with regard to the City Auditor, and what were there recommendations?***

A 15-member Charter Review Committee (CRC) was organized and appointed by the Mayor early in 2007. The CRC was comprised of seven members appointed by the Mayor and eight additional members appointed by the Mayor from nominees submitted by each of the eight Councilmembers. The Mayor's stated intent for the CRC was to consider possible City Charter reforms for effective long-term implementation of the Strong Mayor form of government and to implement Kroll recommended financial reforms.

The Mayor organized three subcommittees to evaluate different topical areas he identified for consideration. The Financial Reform Subcommittee (Subcommittee) focused on Charter amendments related to the Chief Financial Officer, Audit Committee, City Auditor, and a Balanced Budget. The CRC met for 6 months in 2007 to receive testimony, discuss, and make recommendations about possible City Charter reform. The CRC issued their final report in October 2007 and the report was discussed by the City Council at a special meeting on January 14, 2008. The City Council decided to place two propositions on the June 2008 ballot (Propositions B and C) and voters approved both.

In addition to making other significant financial reforms, Proposition C resulted in the addition of Charter Sections 39.1 (Audit Committee) and 39.2 (Office of the City Auditor). Kroll recommended the Mayor appoint the public members of the Audit Committee subject to City Council confirmation. Despite the Kroll recommendation, our Office recommended and the City Council requested that Proposition C be written to require that public members be appointed solely by the City Council from a qualified pool of applicants as determined by a knowledgeable Screening Committee (no mayoral involvement in the appointment). This decision was made to strengthen the independence of the Audit Committee and supported by the Subcommittee, representatives of the Association of Local Government Auditors (ALGA), our Office, and several commenting members of the public. Strong Audit Committee independence was considered to be particularly important because the new City Auditor would report to and be accountable to the Audit Committee.

With respect to the process for appointing the City Auditor, Kroll recommended the City Auditor "be nominated by the Mayor and appointed upon the consent of a majority of the City Council." There was considerable discussion by the Subcommittee, our Office, and members of the public about what role, if any, the Mayor should have in nominating and/or appointing the City Auditor. The question that was debated was whether the City Auditor would be sufficiently independent and free from organizational impairments using the process recommended by Kroll.

Nationally recognized audit associations (i.e., ALGA or the United States General Accountability Office - GAO) agreed there could be different approaches for creating an independent audit organization that is free from organizational impairment. The GAO indicated that it was acceptable to have the Mayor appoint the Auditor provided that the Auditor is: 1) confirmed by the City Council; 2) can only be removed from office by the City Council; and 3) presents audits to and is accountable to the City Council (in the City's case, to an independent Audit Committee appointed by the City Council that includes two City Councilmembers, one acting as the chair). ALGA stated that their best practice and model legislation called for an elected City Auditor or to have a City

Auditor appointed by the City Council but acknowledged the acceptability of the hybrid approach described by the GAO. It should also be noted that the approach recommended in Proposition C called for the Mayor to appoint the City Auditor in consultation with the independent Audit Committee, subject to City Council confirmation.

Ultimately, the Subcommittee recommended this hybrid approach although some members preferred the elected or City Council appointed approach. Given the Council's direction that the public members of the Audit Committee would be appointed solely by the Council, our Office supported the Kroll recommendation for the Auditor appointment process. This hybrid approach was deemed to be an acceptable means of creating an independent audit organization by the GAO and satisfied all of their conditions to ensure auditor independence. It should be noted that at that time, there was strong interest in quickly complying with all of the Kroll recommended financial reforms. Having acknowledged that history, our Office supports the current recommendation to amend the City Charter to eliminate all mayoral involvement from the auditor appointment process as it better comports with identified best practices for creating auditor independence.

***What were the ballot arguments for and against Proposition C on the June 2008 ballot?***

The arguments for and against Proposition C are presented in Attachment 2. With respect to the processes for Audit Committee and City Auditor appointments, many of the key arguments have been discussed above. Perhaps the most notable argument against mayoral involvement was to "keep the fox out of the henhouse". Said differently, the Mayor should not have any role in appointment processes related to the independent audit organization charged with auditing the organization the Mayor administers and directs. It was also argued that strong audit organization independence, free from the possibility of management interference, was critical for the City to restore its credit ratings and regain access to the public capital lending markets.

***How was the first Auditor selected after the passage of Proposition C in 2008?***

The first City Auditor (Eduardo Luna) was hired in 2007 by a panel comprised of the CFO, a City Councilmember, and the IBA prior to the adoption of Proposition C on June 3, 2008. The CFO hired a recruiter to solicit qualified applicants for consideration. Once selected by the panel, the City Auditor was hired by, and reported to, the CFO until Proposition C was adopted by the voters. Proposition C resulted in separating the audit organization away from City Auditor and Comptroller Department. Beginning with the Fiscal Year 2009 Budget (which began on July 1, 2008), the City Auditor and Comptroller Department became the City Comptroller Department and a new independent Office of the City Auditor was created. The City Auditor transitioned from CFO oversight to become truly independent, reporting and being accountable to a reconfigured independent Audit Committee and the City Council. With the support of the Audit Committee, the Office of the City Auditor received an initial budget appropriation for 11.00 FTE positions. The Office has continued to grow to its current structure with 22.00 budgeted FTE positions in Fiscal Year 2020.

**Auditor Selection Processes in Other Major Cities**

Councilmember Sherman requested information on city auditor organizations in other large cities. Attachment 3 provides key characteristics of city audit operations in the seven largest cities in

California and ten largest cities in the nation excluding California. Attachment 3 details: the form of government; process for auditor selection, title of the senior audit official; appointment term if specified; and how qualified candidates are recruited.

Three of the seven largest California cities do not have internal auditor selection processes because they have elected City Auditors (in Los Angeles, an elected City Controller is responsible for the audit function). Three of the ten largest cities outside of California also have elected officials (Comptroller/Controllers) who are responsible for the audit function. Six of the cities have auditors appointed by the Council, three cities require the Mayor to appoint and the legislative body to confirm, and two cities have the Finance Director or City Manager hire the lead auditor.

With respect to the City Auditor appointment term, 10 of the 17 cities presented in Attachment 3 have specified terms of four years or less. Some of these cities have term limits and others do not. The other seven cities do not specify a term (indefinite). In these cities, city auditors typically serve at the pleasure of the appointing or hiring authority.

The processes cities use to recruit a qualified auditor varies. Most cities will work with their Human Resources Department to post the position on their job opportunities website for internal and external candidate consideration. Some cities will additionally post auditor openings on job search websites or audit industry websites or newsletters. Several cities will supplement these efforts by using a professional recruiter to find qualified candidates. Recruiters will often know or contact individuals who are working elsewhere in similar capacities. In fewer instances, elected officials may opt to use other informal means (i.e., contacts and/or professional acquaintances) to identify qualified candidates.

#### Best Practices and Commentary related to selecting a City Auditor

Our Office was asked to comment on the benefits and drawbacks of different systems for selecting and appointing the City Auditor. The Association of Local Government Auditors (ALGA) provides advice, best practices, and presentations to assist auditors and local government in developing effective audit organizations. The commentary below is largely derived from ALGA publications and a conversation with the Chair of the ALGA Advocacy Committee.

**Elected versus Council Appointed City Auditors:** Both methods for auditor selection are considered to be acceptable and are included in ALGA's Model Legislative Guidelines. Some of the benefits that are often attributed to an elected City Auditor are: more directly accountable to the public; ability to potentially adjust audit schedules or workplans more quickly to address emerging issues; and a better sense of what the public is concerned about through campaigning. Some of the potential drawbacks associated with an elected City Auditor approach include: audits may be politically motivated; the influence of money on political outcomes; and auditor qualifications/credentials may be less thoroughly scrutinized. These potential drawbacks are less likely to result from a Council appointed City Auditor selection process.

**Types of Appointment Processes:** ALGA's Model Legislative Guidelines do not include a role for management involvement in the City Auditor appointment process. Auditor independence is maximized in form and appearance when management is excluded from the City Auditor appointment process by using either an elected or legislatively run process. Councilmember

Sherman’s proposal would be in keeping with ALGA’s Model Legislative Guidelines because it would require the City Council to be solely responsible for the appointment process with support from a knowledgeable/independent Audit Committee. In discussing appropriate support roles for government audit committees, ALGA states that “the audit committee may be directly responsible for recruiting, appointing, overseeing, and removing (if needed) the auditor.”


**Term lengths for appointments and elected positions:** There is no recommended term for appointed City Auditors – ALGA believes this is a discretionary decision to be made by the legislative body. Most elected City Auditors serve a 4-year term and may serve more than one term. As shown in Attachment 3, none of the 17 cities we reviewed had auditor terms exceeding four years although many appointments were for an indefinite term. Given this comparative data, a term of more than four years could potentially result in a recruiting benefit. Alternatively, a longer term provides the legislative body or the public with less ability to make a change if needed or desired.


**Advertising and Recruitment Process:** There isn’t a best practice for advertising/recruiting for a City Auditor. We generally discuss the recruitment processes utilized by cities presented in Attachment 3 in the previous section of this report. If Councilmember Sherman’s recommendation is ultimately advanced and supported by the voters, our Office stands ready to assist the Audit Committee as needed in advertising, recruiting, or working with a recruiter, to attract the best City Auditor candidates. Additionally, ALGA provides a publication entitled “Guide to Selecting a Chief Performance Auditor” (Attachment 4) which may be helpful to the Audit Committee in developing a recruitment bulletin and/or candidate review criteria.

## CONCLUSION

This report provides information requested in Councilmember Sherman’s memorandum to our Office dated July 19, 2019. At the Rules Committee meeting on July 31, 2019, Councilmember Sherman presented a ballot proposal to amend Charter Section 39.2 regarding the selection process for a City Auditor. His proposal would ask voters to make the Audit Committee responsible for soliciting/screening City Auditor applicants and recommending the three most qualified candidates to the City Council for consideration and selection. The Rules Committee unanimously voted to support further development of the proposal and requested the City Attorney develop draft City Charter language for consideration at their next meeting.

Our Office supports the proposed ballot measure as we believe it would further strengthen City Auditor independence and comport with best practices for government audit organizations. ALGA supports the proposed role of the Audit Committee in soliciting/screening Auditor applications and recommending the top three for Council consideration. The draft City Charter language developed by the City Attorney’s Office states that the Audit Committee may utilize staff from our Office to assist them in that role. If this ballot proposal is advanced and supported by the voters, our Office stands ready to assist the Audit Committee as needed with advertising, recruiting, and/or working with a recruiter, to attract the best City Auditor candidates.

  
Jeff Kavar  
Deputy Director

  
APPROVED: Andrea Tevlin  
Independent Budget Analyst

Attachments:

1. Councilmember Sherman memorandum to IBA dated July 19, 2019
2. Ballot Arguments for and against Proposition C – June 2008
3. Information on City Auditors in other Major Cities
4. ALGA Guide to Selecting a Chief Performance Auditor



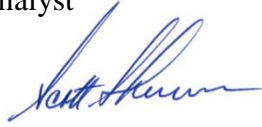


City of San Diego  
Councilmember Scott Sherman  
Seventh District

### MEMORANDUM

DATE: July 19, 2019

TO: Andrea Tevlin, Independent Budget Analyst

FROM: Councilmember Scott Sherman 

RE: Request for Analysis of City Auditor Selection Process

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After the numerous financial scandals that rocked the City to its foundation, voters overwhelmingly passed Proposition C in 2008 by 63% to establish the independent Office of the City Auditor. City Charter Section 39.2 lays out the process in which the Mayor appoints the City Auditor. It is my understanding that this current selection process we are undertaking in 2019, is the first time in which the City has actually gone through the process as defined in the Charter to replace a City Auditor.

You and members of your team possess the institutional knowledge and memory of the circumstances that led up to the passage of Prop. C and the subsequent actions to establish the independent Office of the Auditor and the Audit Committee. It would be beneficial for the current Audit Committee members, and the Council, to receive a brief report on the history that brought us to this current point in time. The following points, in addition to anything else you think would provide useful context, would be of particular interest to me:

- What was the function and structure of the City Auditor under the City Manager form of Government?
- What did the Kroll report discover and recommend about the role of the City Auditor?
- What questions were considered by the Citizens Charter Review committee with regard to the City Auditor, and what were their recommendations?
- What were the ballot arguments for and against Prop. C?
- How was the first Auditor selected after the passage of Prop. C?

Second, having served on the selection committee for the next City Auditor this year, it has opened my eyes to some fundamental flaws in the process. It would be very valuable to the Audit Committee and the Council if you could provide an analysis of other cities' office of the City Auditor, as well as views on best practices within the government auditing profession. Some points I would be interested in seeing covered in this analysis include:

- Comparison of the top five largest California cities and top ten or twenty cities nationally.
- The benefits and drawbacks of different systems for a City Auditor including:
  - Elected vs. appointed
  - Types of appointment processes
  - Term lengths for appointments and elected positions
  - Advertising and Recruitment process

Thank you for your timely attention to this matter, and if you have any questions please contact my Audit Committee Consultant Dan Manley at (619) 533-5997.

cc: Councilmember Jennifer Campell

## **ARGUMENTS FOR PROPOSITION C**

### **LACK OF CHECKS AND BALANCES CREATED OUR PROBLEMS**

The \$1.2 Billion pension deficit that threatened San Diego's fiscal stability years ago was the result of a system that failed to provide adequate checks, balances and transparency.

### **PROPOSITION "C" ESTABLISHES PROTECTIONS AND SAFEGUARDS**

Proposition "C" puts needed checks and balances into the City Charter:

- Prop "C" ensures independent financial experts + not city employees or politicians + make up the majority of the Audit Committee that reviews City finances.
- Prop "C" strengthens the independence of the City Auditor, who acts as the watchdog over City finances. The Auditor is insulated from political pressure by a 10 year term, reports directly to the Audit Committee, and can only be terminated by request of the Audit Committee.
- Under this system, responsibility for reform is shared by independent financial experts, the mayor and the council + each providing a check and balance to the other.

### **EXPERTS AGREE ON THIS APPROACH**

These changes are consistent with the recommendations of the Securities and Exchange Commission's independent financial monitor, the Independent Budget Analyst and the Charter Review Committee.

### **CITY'S FINANCIAL STABILITY DEPENDS ON IT**

Restoration of San Diego's credit rating, reputation with investors, and ability to afford vital water, sewer, road and other public facility improvements all depend on establishing these safeguards.

### **OPPONENTS' REAL AGENDA: PROTECT THE STATUS QUO**

Opponents' real agenda is to maintain the status quo where one branch of government has near total control over - and the ability to cover up - City finances. That's what put our City in jeopardy to begin with and now threatens our City's future progress.

**Please join us in voting YES on "C" to safeguard your taxes and keep our city on the path to financial stability.**

JAMES R. MILLIKEN  
Superior Court Judge (Retired)/  
Vice Chair City Charter Review Committee

JERRY SANDERS  
Mayor

JOHN G. DAVIES  
Chair City Charter Review Committee/  
Former Judicial Appointments Advisor to  
Gov. Schwarzenegger

HON. KEVIN FAULCONER  
Chair City Audit Committee

## **ARGUMENTS AGAINST PROPOSITION C**

### **KEEP THE FOX OUT OF THE HENHOUSE**

Prop C allows the mayor to choose the person who audits all city management and all city departments. The mayor is the city manager in charge of all city departments; allowing any mayor to appoint the person who will audit the city departments is like having the fox guard the henhouse.

### **HONEST GOVERNMENT NEEDS AN INDEPENDENT CITY AUDITOR**

Public confidence in the city's finances begins with the auditor. An independent auditor ensures trustworthy, timely and accurate financial reporting and increases taxpayer confidence in how tax dollars are spent.

### **SAN DIEGO LOST ITS CREDIT RATING BECAUSE OF MANAGEMENT INTERFERENCE**

In 2004, the city auditor left in disgrace when it was found that false and misleading financial statements were issued under pressure from management. Prop C allows this behavior to continue.

### **PROP C PROTECTS POLITICAL INTERESTS, NOT THE TAXPAYERS**

The auditor's job is to protect the taxpayers by being an objective and independent check on the city's financial controls and performance. The auditor must not be a political rubber stamp.

### **PROP C IS A SMOKESCREEN**

Prop C bundles together a confusing mix of City Charter changes. Voters do not have a real choice about which items to support and which to reject.

### **PROTECT YOUR TAX DOLLARS**

National auditing standards require auditors to be independent from the entity they examine. Prop C violates those requirements by having the fox guard the henhouse.

**"Lack of independence negatively impacts the auditor's ability to be objective. The citizens of San Diego deserve better."** - John Torell, San Diego City Auditor, 2005-2007

VOTE NO ON PROPOSITION C

For more information: <http://www.auditsandiego.com>

DONNA FRYE  
San Diego City Councilmember

JOHN A. GORDON  
Member, 2007 San Diego City Charter  
Review Committee

CARL DE MAIO  
Chairman, San Diego Citizens for  
Accountable Government

THERESA QUIROZ  
Secretary/Treasurer,  
Neighborhoods for Honest Government

JOHN TORELL  
Certified Public Accountant

CALIFORNIA CITIES					
Largest California Cities	Form of Government	Process for Auditor Selection	Title of Senior Audit Official	Appointment Term	How are Qualified Candidates Recruited
Los Angeles	Strong Mayor	Elected	City Controller	4 years	N/A
San Jose	Council-Manager	Appointed by Council	City Auditor	4 years	HR/CC use Recruiter, panel then full CC interviews
San Francisco	Strong Mayor	Mayor Appoints, BoS Confirms	City Controller	Indefinite	Controller hires Auditor / Uses HR & Recruiter
Fresno	Hybrid	Finance Director/Controller Hires	Principal Auditor	Indefinite	HR leads Open Recruitment / Solicitation
Sacramento	Council-Manager	Appointed by Council	City Auditor	Indefinite	Recruiter, then AC review, top 3 to Council
Long Beach	Council-Manager	Elected	City Auditor	4 years	N/A
Oakland	Hybrid	Elected	City Auditor	4 years	N/A

10 LARGEST CITIES (EXCLUDING CALIFORNIA)					
Largest U. S. Cities excluding CA	Form of Government	Process for Auditor Selection	Title of Senior Audit Official	Appointment Term	How are Qualified Candidates Recruited
New York	Strong Mayor	Elected	Comptroller	4 years	N/A
Chicago	Strong Mayor	Mayor Appoints, Council Approves	Inspector General	4 years	Mayor & CC Appointed Selection Committee
Houston	Strong Mayor	Elected	Controller	2 years	N/A
Philadelphia	Strong Mayor	Elected	Controller	4 years	N/A
Phoenix	Council-Manager	Hired by City Manager	City Auditor	Indefinite	HR leads Open Recruitment / Solicitation
San Antonio	Council-Manager	Appointed by Council	Internal City Auditor	Indefinite	HR looks for qualified internal candidates first
Dallas	Council-Manager	Appointed by Council	City Auditor	Indefinite	Council Nominating Commission
Austin	Council-Manager	Appointed by Council	City Auditor	4 years	Council Nominating Committee
Indianapolis	Strong Mayor	Mayor Appoints, Council Approves	Director	1 year	Mayor Oversees Recruitment/Reappointment
Jacksonville	Strong Mayor	Appointed by Council	Council Auditor	Indefinite	Open Recruitment / Solicitation



# ALGA

Association of Local Government Auditors

## Guide to Selecting a Chief Performance Auditor

### ALGA Advocacy Committee

The committee works to promote the value of independent performance auditing throughout the local government community.

The committee provides professional resources and support to those in local government communities without audit functions, with new audit functions and with established audit functions.

The committee also provides support for local government communities that are considering diminishing the capacity of the audit function.

### ALGA's Mission

ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics.

### ALGA Member Services



449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503



(859) 276-0686



www.algaonline.org



This guide provides organizations hiring a Chief Performance Auditor with advice on identifying the best leader for this position.

### What is Performance Auditing?

Your Chief Performance Auditor will be responsible for implementing a performance audit function that effectively assesses how well government programs are operating. Performance auditing is a powerful and widely accepted tool for independently evaluating a broad range of government activities. Your Chief Performance Auditor is responsible for evaluating various performance aspects of government activities, including the extent to which the audited functions are:

- **Effective** – achieve objectives and accomplish results;
- **Efficient** – maximize outputs in relation to inputs (e.g., productivity, cost/unit);
- **Economical** – minimize inputs (e.g., financial, human) to align with program goals;
- **Equitable** – fair and impartial in providing services and applying regulations;
- **Compliant** – adhere to established laws, contract terms, or policies and procedures;
- **Ethical** – exercise integrity in using public resources to achieve public benefits; and
- **Utilizing reliable data** – maintain and report reliable and complete information.

### What should you look for in a Chief Performance Auditor?

Performance audits can cover a wide variety of government operations. For example, street maintenance, compliance with election laws, criminal rehabilitation programs, governance, and school effectiveness. The best Chief Performance Auditors are able to support their staff in applying fundamental principles of good management to analyze a wide variety of scenarios. In addition, they should select a staff with a range of technical backgrounds, strong curiosity, and enthusiasm for continuous learning. Some audit functions supplement their work with technical consultants; however, a performance audit office does not require subject matter expertise in every area it audits.

The following lists summarize key executive qualifications, personal characteristics, and technical qualifications that should be expected from or acquired or developed by a performance audit function. Most of these should be found in the Chief Performance Auditor, but they can also be supplemented by the combined abilities of the performance audit staff.

#### Executive Qualifications and Personal Characteristics

- **Integrity** – reputation for honesty, credibility, and ethics beyond reproach
- **Manager** – effectively direct an audit function and staff
- **Strategic** – set and maintain an effective organizational vision and objectives

- **Collegial** – build consensus between diverse stakeholders
- **Responsive** – ability to align audit efforts to further organizational needs
- **Unbiased** – reputation for candid, fair statement of facts to decision-makers
- **Diplomatic** – ability to handle delicate situations with tact and respect
- **Motivator** – ability to inspire positive change
- **Critical Thinker** – skillful application, analysis, and synthesis of information
- **Innovative** – ability to approach problems in new and different ways

#### Technical Qualifications

- **Standards** – proficient in interpreting, applying, and coaching staff to conform with professional audit standards
- **Governance** – understanding of the principles of effective governance (e.g., planning, oversight, and accountability reporting)
- **Analysis** – understanding of quantitative and qualitative analytical methods (e.g., statistics, surveys, and modeling)
- **Performance Management** – understanding of performance measurement techniques and elements of performance (e.g., input economy, process efficiency, and output/outcome effectiveness)
- **Communications** – effective oral and written expression (e.g., articulate, clear and concise, and ability to explain complex information in non-technical terms)
- **Project Management** – demonstrated ability to apply the principles of project management, delivering projects on time and within resource constraints
- **Research** – familiarity with research techniques and a broad range of sources for audit criteria
- **Information Systems** – grasp of information systems and data management

#### How can you ensure accountability of your Chief Performance Auditor?

Before you hire a Chief Performance Auditor, make sure your expectations are clear. You can monitor the audit function's impact and performance by:

- Instituting performance measures for the audit function, such as “percent of audit recommendations addressed by management,” “percent of auditor time on direct (audit) work,” or “audit client satisfaction with auditor professionalism.”
- Ensuring the audit function obtains peer reviews in accordance with professional standards.
- If you have an audit committee, providing for inclusion of outside audit expertise.

Other useful ALGA publications for public officials seeking to create a performance audit function are the [Model Legislation](#) (providing example language for either an appointed or elected audit function); and [Guidance on Outsourcing](#), which discusses the benefits and risks of outsourcing the audit function.

#### More Information

To find additional resources from the Advocacy Committee, visit the committee page at [www.algaonline.org](http://www.algaonline.org).