

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

**Date Issued:** February 22, 2007

**IBA Report Number:** 07-24

**Audit Committee Agenda Date:** February 26, 2007

**Item Numbers:** 2 and 3

**Item:** Discussion and proposed adoption of: 1) the Permanent Rules of Council to Establish an Audit Committee, 2) an Audit Committee Charter and 3) a Statement of Operating Principles

Over the last several weeks, the IBA has worked with members of the Audit Committee, the City's Independent Consultant (Stan Keller), the City Attorney and the Mayor's Office to develop a guiding set of Rules and a Charter for the City Council's new Audit Committee. Additionally, a Statement of Operating Principles has been developed to direct City Auditor activities during the interim period prior to a proposed revision of the City Charter.

Throughout these discussions, as well as over the past several months, the IBA has strongly advocated for an independent Audit Committee and an independent Auditor as recommended by numerous reputable advisory organizations, including the Government Finance Officers Association, the Association of Local Government Auditors and the American Institute of Certified Public Accountants; best practices across the country; and the California Government Code. An independent Audit Committee, made up of three members of the legislative branch, was established by Council Resolutions R-302279, R-302280, and R-302281 on January 9, 2007 and has been successfully implemented. However, the City Attorney has opined that City Charter changes are necessary to address key issues relative to the increased independence of the Auditor.

The earliest that amendments to the City Charter in this regard are likely to be considered is the next scheduled election in June of 2008. Until required City Charter changes can be effectuated, interim guidelines have been developed which seek to preliminarily address established best practices while working within the constraints of the City Charter. The Statement of Operating Principles, which directs the Auditor's activities during the interim period, is such an example. As advocated for by the City's Independent Consultant and supported by the City Attorney, this Statement establishes a dual reporting model whereby the Auditor reports to the Mayor, as required by the City Charter, while also having a direct reporting line to the Audit Committee for this interim period.

The IBA believes that the Permanent Rules of Council to Establish an Audit Committee and the Audit Committee Charter coupled with the Mayor's Statement of Operating Principles are adequate for an effective Audit Committee in the interim period prior to the June 2008 election.

The IBA looks forward to assisting the Audit Committee in the development of new language for the City Charter that will ultimately facilitate best financial practices and ensure longstanding Auditor independence for the City.

**[SIGNED]**

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