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REPORT TO THE HONORABLE
MAYOR AND CITY COUNCIL

PROPOSED REVISIONS TO THE AUDIT COMMITTEE ORDINANCE

INTRODUCTION

In 2008, the voters added an independent City Auditor and an Audit Committee to the San Diego City Charter by creating sections 39.1 and 39.2. The City Auditor reports to the Audit Committee, providing the City of San Diego with “the requisite level of independence widely viewed as essential for a sound financial reporting system.” Arthur Levitt, Jr. et al., Report of the Audit Committee of the City of San Diego (Kroll Report) at 250; 246 n. 1273 (Willkie Farr & Gallagher LLP 2006). The City Auditor audits City departments and offices to provide an objective and impartial analysis of City operations.¹

Charter section 39.1 describes the composition of the Audit Committee, as well as its oversight responsibilities regarding the City’s auditing, internal controls, and other financials and business practices. The City Council may “specify additional responsibilities and duties of the Audit Committee by ordinance as necessary to carry into effect the provisions of this section.”

In 2010, the City Council approved Article 6, Division 17, Chapter 2, commonly referred to as the “Audit Committee Ordinance,” to better describe the responsibilities and duties of the City Auditor, the Audit Committee, the City Council, City departments, and related entities. The Audit Committee Ordinance is being amended to address outdated provisions and to provide additional clarification.

DISCUSSION

The Audit Committee approved a number of revisions to the Audit Committee Ordinance. Each is briefly described below.

PROPOSED REVISIONS TO THE AUDIT COMMITTEE ORDINANCE

A. Section 26.1701 Relating to the Duties of the Audit Committee.

Consistent with the language in Charter section 39.2, subdivision (a)(5) is added to state that the Audit Committee shall “recommend to the Council the removal for cause of the City Auditor.”

¹ A more comprehensive history and description of the City Auditor’s responsibilities is described in 2010 City Att’y MOL 312 (2010-12; June 10, 2010).

Subdivision (a)(8) is added to provide that the Mayor or the Mayor's designee must consult with the Audit Committee when appointing a City Auditor. This, too, is consistent with the language in Charter section 39.2.

This new subdivision formalizes the manner in which consultation occurs: the Audit Committee may create a subcommittee of its members to participate in the hiring process with the Mayor or the Mayor's designee.

B. Section 26.1702 Relating to the Selection and Removal of Audit Committee Members.

This section is amended to add new language that solidifies the Independent Budget Analyst's long-standing practice of facilitating the recruitment and selection of new public Audit Committee members. The section also adds Audit Committee public member qualifications consistent with Charter section 39.1.

C. Section 26.1704 Concerning Resources.

Subdivision (b) is added to require directors and heads of all City departments and component units to report the results of any significant investigations, examinations, or reviews performed by government and regulatory authorities, and any resulting management response, to the Audit Committee chair. The new subdivision (b) incorporates the current reporting mechanism in section 26.1701(b)(1), and better explains the process.

D. Section 26.1707 Concerning Accounting Policies.

The acronym, GAAP, is replaced with "Generally Accepted Accounting Principles," for clarity and transparency.

E. Section 26.1709 Regarding Audited Financial Statements of City Component Units or Related Entities.

Subdivision (b) is updated to provide that the Audit Committee "shall be provided and may review the audited financial statements of any City component units or related entities."

In addition, this section is updated to delete entities that no longer exist, such as the Redevelopment Agency, Centre City Development Corporation, and San Diego Data Processing Corporation.

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By /s/ Mara W. Elliott
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