

Proposition C: Positions, Roles & Responsibilities; Audit Committee

**Board Recommendation:**

**SUPPORT**

**Rationale:**

Proposition C reflects the vast majority of recommendations offered in the Kroll Report and by SDCTA. It deviates from the SDCTA recommendations in regards to the appointment of the Chair of the Audit Committee, the term of the City Auditor and the removal of the City Auditor.

**Background:**

On January 22, 2007, Mayor Jerry Sanders commissioned the San Diego Charter Review Committee, with the goal of developing recommendations for the City Council to consider for a 2008 ballot. The Committee focused on “what it determined were the most urgent issues, studied other that for one reason or another were better left for a future ballot, and deferred others which it concluded should be left to a future Charter Review.”<sup>1</sup> The final report issued 11 recommendations to be placed on the ballot in 2008.

On November 7, 2007, the Committee presented its final report to the City of San Diego Rules Committee. The Committee accepted the report and asked that all recommendations be referred to the City Council with a detailed summary of comments made by members of the Rules Committee. The Committee also directed that recommendations related to the Chief Financial Officer, Auditor and Audit Committee be reviewed by the Audit Committee and that the Budget Committee review the recommendation regarding a balanced budget.

On March 3, 2008, the City Council voted to place the following measure on the June 3, 2008 ballot.

**Proposal:**

The question that will be put before voters will read:

“Shall the Charter be amended to establish the positions, roles and responsibilities of Chief Financial Officer, City Auditor, and Independent Budget Analyst; modify the City Treasurer appointment process; and create an Audit committee?”

The roles and responsibilities of the following positions will be established with passage of Proposition C:

*Chief Financial Officer*

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<sup>1</sup> 2007 San Diego Charter Review Committee Final Report. October 4, 2007.

- The Chief Financial Officer shall be appointed by the Mayor and confirmed by the City Council for an indefinite term.
- The Chief Financial Officer shall be responsible for the preparation for the City's annual budget. He or she shall also be responsible for oversight of the City's financial management, treasury, risk management and debt management functions.
- These permanencies of the changes are not contingent upon the approval of the Strong Mayor form of government in 2010.

The Kroll Report outlined the separation of the City Auditor and Comptroller's office and the establishment of a Chief Financial Officer (CFO) as the most pressing needs of the City.<sup>2</sup> The duties and responsibilities of the Auditor & Comptroller originally outlined in the Charter will be separated with the establishment of the CFO and the Audit Committee. The measure is consistent with the recommendations made in the Kroll Report.

#### *Audit Committee*

- The Audit Committee shall be comprised of five members, two of which are member of the City Council and three from the public. The two Council members shall be appointed by the Council, one of whom shall serve as Chair.
- The public members shall be appointed by the City Council from a pool of candidates recommended by a five member screening committee comprised of one Council member, the CFO, the Independent Budget Analyst (IBA) and two financial experts appointed by the Council member, CFO and IBA.

The Kroll Report outlined the absence of an Audit Committee monitoring the fiscal affairs of the city. The interim Audit Committee was unable to replicate the recommendations outlined in the Kroll Report due to conflicts with the City's Charter provisions regarding the delegation of legislative responsibility.<sup>3</sup>

#### *City Auditor*

- The City Auditor shall be appointed by the Mayor, in consultation with the Audit Committee, and confirmed by the Council.
- The City Auditor shall be a Certified Public Accountant or Certified Internal Auditor.
- The City Auditor shall serve a term of ten years.
- The City Auditor shall report to and be accountable to the Audit Committee. Upon the recommendation of the Audit Committee, the City Auditor may be removed for cause by a vote of two-thirds of the members of the Council.

Another recommendation presented in the Kroll Report was the establishment of an independent auditor. The one departure from the Kroll Report recommendation is the title of the position "City Auditor".

#### *Independent Budget Analyst*

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<sup>2</sup> San Diego Charter Review Committee Final Report. p. 15. October 4, 2007.

<sup>3</sup> Ibid.

- Continuation of the role of the IBA is not contingent upon the approval of the Strong Mayor form of government in 2010. The office will be established if the city reverts to the Council-Manager form of government.

Passage of Proposition F created the office of the IBA. Proposition C will authorize the IBA to provide the Council budgetary and policy analysis, rather than merely budgetary analysis. Currently, the responsibilities of the IBA are outlined in the Municipal Code as opposed to the Charter.

#### *City Treasurer*

- The appointment process of the City Treasurer is eliminated.

The appointment of the Treasurer is unnecessary since the Treasurer will report directly to the CFO under the proposed amendments within Proposition C.

#### **Board Adopted Recommendation:**

On September 21, 2007, the San Diego County Taxpayers Association (SDCTA) Board of Directors recommended to the City Council the following composition of the Audit Committee:

- The Audit Committee shall consist of five member composed of two members of the City Council, and three independent and qualified member of the public, one of whom shall serve as Chair.
- The public members shall be appointed by the City Council from a pool of candidates to be recommended by a screening committee comprised of the Chief Financial Officer, the Independent Budget Analyst, the City Attorney or his or her designee, a member of the City Council and two outside financial experts.
- The City Council shall determine the stipend per meeting, if any, for the public members of the Audit Committee.

SDCTA recommended the following qualifications and selection process for the appointment of the City of San Diego's Internal Auditor:

- The Internal Auditor shall be separated from the current audit & comptroller position and named the "City Auditor".
- The City Auditor shall be a Certified Public Accountant or a Certified Internal Auditor.
- The auditor shall be appointed by the Mayor, in consultation with the Audit Committee and subject to the City Council's confirmation.
- There shall be no term for the City Auditor. If a term is established, the term shall be six years.
- The City Auditor shall serve at the pleasure of the Audit Committee and may be dismissed by a 3-2 vote of the Audit Committee without cause, with a right to appeal

to the City Council who can override the Audit Committee's action with a majority vote.

SDCTA did not make recommendations regarding the positions of the Chief Financial Officer, Independent Budget Analyst or City Treasurer.

**Charter Review Committee Recommendation:**

The roles and responsibilities closely follow the recommendations made by the Charter Review Committee, with one exception. The one exception is in regards to the removal of the City Auditor. The Committee recommended that the Audit Committee hold the responsibility of terminating the City Auditor, with the Council possessing the ability to override the removal. The Committee felt the Council should merely be able to prevent a wrongful termination of the City Auditor.

Some members of the Committee felt the only way to grant the City Auditor complete independence would be to either make the office elective or deny the Mayor any role in appointing someone to it.<sup>4</sup>

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<sup>4</sup> San Diego Charter Review Committee Final Report. p. 16. October 4, 2007.