

Item # 8A

City of Carson City
Agenda Report

Date Submitted: January 25, 2008

Agenda Date Requested: February 7, 2008

Time Requested: 10 Minutes

To: Mayor and Supervisors

From: Sue Johnson
City Auditor

Subject Title: Action to approve the establishment of an Audit Committee to provide oversight to the City's Internal and External Audit Function.

Staff Summary:

The independence and objectivity between the Audit Committee and the City's management team ensures that internal controls are a key objective of the City's operations. The role of the Audit Committee is to maintain oversight of the auditing function, both internal and external resulting in increased integrity and efficiency of the audit processes for the City and the City's system of internal controls and financial reporting as well as ensure that those responsible for financial management of the City (governing boards, management, auditors) meet the respective responsibilities for internal compliance and financial management. Additionally, the Audit Committee will provide a vehicle for open communications between the Board of Supervisors, the City's Management Team, Internal Audit and the Independent External Auditors.

Type of Action Requested: (check one)

Resolution

Ordinance

Formal Action/Motion

Other (Status Report)

Does this action require a Business Impact Statement: () Yes (X) No

Recommended Board Action: I move to approve the establishment of an Audit Committee to provide oversight to the City's Internal and External Audit Function.

Explanation for Recommended Board Action: As the demand for enhanced accountability and the increased examination of an adequate system of internal controls occurs in the public sector due to the Sarbanes-Oxley Act of 2006, so does the significance and importance of an Audit Committee. In 1997, the GFOA first issued a recommended practice on Audit Committees. Since that time and in the wake of the Sarbanes-Oxley Act in 2006, the GFOA expanded their recommended practice. An Audit Committee is an invaluable tool for ensuring that those responsible for financial management (management, independent auditors, and the governing boards) meet the respective responsibilities for internal control compliance and financial reporting. To be effective, the Audit Committee should be formally established by the governing body.

Applicable Statute, Code, Policy, Rule or Regulation:

Fiscal Impact: Fiscal impact will be budgeted through the Internal Audit Department.

Explanation of Impact: N/A

Funding Source: N/A

Alternatives: Modify or Deny Approval

Supporting Material: Audit Committee Framework

Prepared by: Sue Johnson

Reviewed by: _____

(Department Head)

[Signature]

(City Manager)

[Signature]

(District Attorney)

[Signature]

(Director of Finance)

Date: _____

Date: 1-29-08

Date: 1-29-08

Date: 1-29-08

Board Action Taken:

Motion: _____

1) _____ Aye/Nay

2) _____

(Vote Recorded By)

AUDIT COMMITTEE OF THE BOARD OF SUPERVISORS OPERATING FRAMEWORK

INTRODUCTION

As the demand for enhanced accountability and the increased examination of an adequate system of internal controls occurs in the public sector due to the Sarbanes-Oxley Act, so does the significance and importance of an Audit Committee.

The independence and objectivity between the Audit Committee and the City's management team ensures that internal controls are a key management objective of the City's operation. The Government Finance Officers Association and the Institute of Internal Auditors encourage the effective use of an Audit Committee in the public sector and consider this Committee an integral element of public accountability and governance. The Audit Committee plays a key role with respect to integrity of the entity's financial information; its systems of internal controls, the legal and ethical conduct of management and employees, and is an invaluable tool for ensuring that those responsible for financial management (management, auditors, and governing boards) meet the respective responsibilities for internal control compliance and financial reporting. Additionally, the Audit Committee provides a vehicle for open communications between the Board of Supervisors, the City Management Team, Internal Audit, and the Independent External Auditors.

ROLE OF THE AUDIT COMMITTEE

The role of the Audit Committee is to maintain oversight of the auditing function, both internal and external resulting in increased integrity and efficiency of the audit processes for the City and the City's system of internal controls and financial reporting. The committee has three primary characteristics for it to successfully fill its obligations:

1. **Independence**
The Audit Committee will be independent both in fact and in appearance and requires processes to be in place to ensure such independence is maintained at all times.
2. **Communication**
The Audit Committee will maintain an open line of communication with the Board of Supervisors, City management, internal and external auditors; providing direction for the City's audit function and a framework of accountability.
3. **Accountability**
The Audit Committee contributes to the integrity of the financial reporting process and reinforces the culture of a strong system of internal controls throughout the City.

The Audit Committee shall provide oversight to the City's internal controls by assuring that the system of internal controls established by management are reviewed on a regular and systematic basis for functionality and effectiveness. The Audit Committee's duties shall include, but is not limited to, development of the risk assessment and annual work plan, review of all individual audit reports, review of the annual report of audits completed, review the status of corrective actions, the annual budget, and the performance of the Internal Auditor. Upon completion of these reviews, the Audit Committee will make appropriate recommendations to the Board of Supervisors.

**AUDIT COMMITTEE OF THE BOARD OF SUPERVISORS
OPERATING FRAMEWORK**

AUDIT COMMITTEE COMPOSITION

The Audit Committee will be independent and objective in its collective mindset individually and as a group. The Committee will reflect the following attributes:

- o Excellent communication skills with each other and with others
- o A willingness to fully participate in complex and sensitive matters that require resolution
- o Public accounting, governmental accounting and auditing experience

The Audit Committee shall be comprised of five (5) members; two (2) members from the Board of Supervisors and three (3) members from the public at-large.

- o Two (2) members of the Audit Committee will be selected from the Board of Supervisors. The Board members shall be selected each January when the Board of Supervisors address Board and Commission assignments; these two (2) positions will have staggered two (2) year terms.
- o Three (3) members at-large of the Audit Committee will be interviewed and selected by the Board of Supervisors. These members must be from the private sector with no less than five (5) years of experience in financial services, public accounting, and/or governmental auditing, and current knowledge of public laws and regulations governing an audit committee. The terms shall be for staggered two (2) years. Two of the members at-large will have terms that expire on the same date. The other member at-large will have a staggered term expiring on an alternate year.

The members at-large shall not accept any consulting, advisory, or other compensatory fees from the City and may not be an affiliated person with the City or any subsidiary thereof.

Should a vacancy occur in any position on the Audit Committee, the Board of Supervisors must follow the procedure set forth above to select a new member to the Committee. The selection must occur within one month of the vacancy occurring.

When deemed necessary, the Audit Committee may request that the City Manager, Director of Finance, or any other management employee attend an Audit Committee meeting in an advisory capacity. This individual may be requested to provide necessary information relative to internal controls, data, and analysis related to the specific objectives of the Audit Committee.

AUDIT COMMITTEE OF THE BOARD OF SUPERVISORS OPERATING FRAMEWORK

GENERAL RESPONSIBILITIES

The Audit Committee will review and make recommendations to the Board of Supervisors regarding the annual financial audit, performance, compliance and efficiency audits, including specific issues of concern providing a higher level of accountability over the use of public funds. As appropriate, background documents related to specific audit issues will be sent to the Committee during the course of each year.

- Provide input into the annual risk assessment plan developed by the City Auditor to identify areas of risk or exposure facing the City's organization; review and assess the steps necessary to minimize such risks in the future and improve operating efficiencies.
- Establish with key Directors significant risks or exposures facing their organizations/operations to develop a "Risk Plan" and "Audit Work plan" to prioritize the City Auditors work load and assess the need for professional services.
- Annually review the audit scope and work plan of the City Auditor in conjunction with the external auditors plan to address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts and effective use of audit resources.
- Discuss the fiscal health of the City in relation to the adopted budget with the City Manager and the Director of Finance.
- Consider matters related to the systems of internal controls, including overseeing compliance by management with applicable policies and procedures.
- Review and make recommendations to the Board of Supervisors regarding audit findings including the status and implementation of recommendations for both internal and external audits.
- Review and make recommendations to the Board of Supervisors pertaining to the Internal Audit Budget for operating expenses and capital expenditures.
- Oversee the appointment of the Independent Auditors to be engaged by the Board of Supervisors for external reporting and establish the related audit fees.
- Recommend to the Board of Supervisors to engage in outside Professional Services when deemed appropriate for audit issues.
- Review the Internal Audit Charter and make recommendations to the Board of Supervisors when changes are deemed necessary.
- Review and make recommendations to the Board of Supervisors for special requests for audit projects and have the authority to perform other duties as may be delegated to it by the Board of Supervisors.

**AUDIT COMMITTEE OF THE BOARD OF SUPERVISORS
OPERATING FRAMEWORK**

ROLE WITH EXTERNAL AUDITORS

Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards require an independent auditor to evaluate the City's internal controls in connection with determining the extent of their audit procedures. The external auditors are required to alert the Audit Committee and the governing body regarding material matters.

- Review and make recommendations to the Board of Supervisors pertaining to the external auditors annual audit plan and inquire into external audit matters as deemed appropriate.

- Oversee the appointment of the independent auditors to be engaged by the Board of Supervisors for external reporting and establish the related audit fees; review and evaluate the performance of the independent auditors and establish a regular schedule for periodically re-bidding the annual audit.

- Review and make recommendations to the Board of Supervisors regarding all significant written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

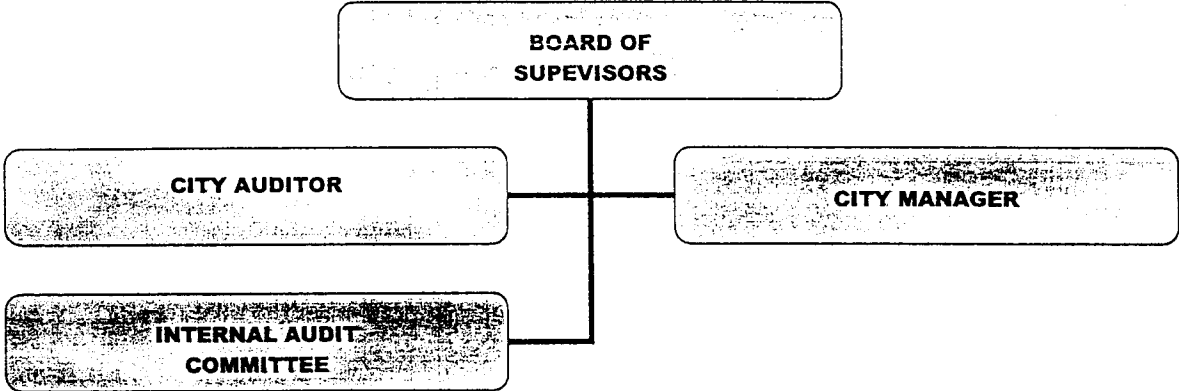
MEETING STRUCTURE

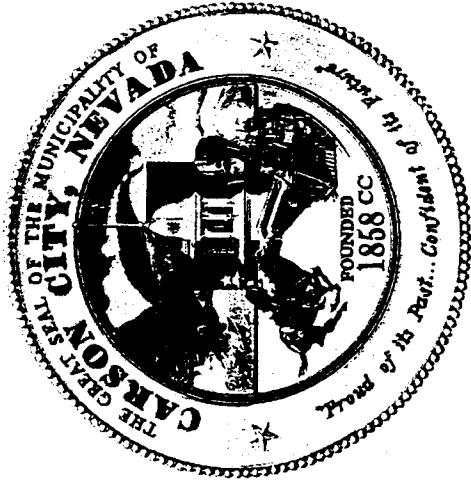
The Audit Committee will meet once a month, on the second Tuesday of each month for the first six months and then quarterly thereafter. All members are expected to attend on a regular basis. The Audit Committee may ask members of management or others to attend meetings and to provide pertinent information when necessary. Meetings are scheduled in accordance with the State's open meeting laws.

The City Auditor shall establish the agenda for meetings and will provide to members in advance, all appropriate briefing material.

**AUDIT COMMITTEE OF THE BOARD OF SUPERVISORS
OPERATING FRAMEWORK**

ORGANIZATIONAL CHART





AUDIT COMMITTEE PRESENTATION

Board of Supervisors

February 7, 2008

AUDIT COMMITTEE

Framework

- **Why Establish an Audit Committee**
- **Role**
- **Composition**
- **General Responsibilities**
- **Role with External Auditors**
- **Meeting Structure**
- **Organizational Chart**

AUDIT COMMITTEE

“Why Establish an Audit Committee”

- **Enhanced demand for accountability over the use of public funds**
 - Sarbanes – Oxley Act**
 - Recommended by GFOA**
 - Recommended by Institute of Internal Auditors**
- **Creates a framework ensuring Internal Controls are a key objective of the City’s**
- **Provide oversight to the City’s Audit function; both the internal auditor and independent auditors**

AUDIT COMMITTEE

“Role”

- **Maintain oversight of the City’s audit function**
 - Internal**
 - External**
- **Three primary characteristics for success**
 - Independence**
 - Communication**
 - Accountability**
- **Scope of Review**
- **Recommendations forwarded to BOS for ultimate approval**

AUDIT COMMITTEE

“Composition”

- **Members will be independent and objective**
- **Comprised of Five (5) Members**
 - **Two (2) Members from the Board of Supervisors**
 - **Staggered two (2) year terms**
 - **Three (3) Members At-Large**
 - **Interviewed and Selected by Board of Supervisors**
 - **Staggered two (2) year terms**
 - **Public Notice pending approval of Audit Committee**
- **City Manager, Director of Finance and other members of management may be requested to meet with the Audit Committee in an advisory capacity**

AUDIT COMMITTEE

“General Responsibilities”

- **Committee will REVIEW and make RECOMMENDATIONS to the Board of Supervisors regarding:**
 - **Annual Financial Audit performed by the External Auditors**
 - **Performance, Compliance, and Efficiency Audits performed by the Internal Auditor**
 - **Development of an Annual risk assessment plan**
 - **Established with key Directors**
 - **Identifies potential risk facing the organization/operations**
 - **Audit findings**
 - **Status and implementation of audit recommendations**
 - **Annual capital and fiscal budget of Internal Audit Department**
 - **Special requests for audit projects**

AUDIT COMMITTEE

“Role with External ‘Auditors’”

- **Committee will REVIEW and make RECOMMENDATIONS to the Board of Supervisors regarding:**
 - Annual Audit Plan
 - Appointment of the Independent Auditors
 - Performance of the Independent Auditors
 - Schedule for re-bidding the Annual Audit

- **External Auditors are required to alert the Governing Body and the Audit Committee regarding the following:**
 - Annual Management Letter
 - Annual Schedule of unadjusted differences
 - Material matters

AUDIT COMMITTEE

“Meeting Structure”

- **Conducted in accordance with State’s open meeting laws**
- **First six months - Feb. 2008 – July 2008**
 - **Monthly meetings**
 - **Second Tuesday of each month**
- **Thereafter, quarterly meetings will be held**
 - **October, January, April, and July**
 - **Second Tuesday of each month.**
- **Attendance**
 - **All voting and non-voting members are expected to attend**
 - **Other individuals maybe requested to attend periodically**

AUDIT COMMITTEE

“Organizational Chart”

