

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 6, 2013

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER /s/

DOCKET TITLE:

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Consideration of A Resolution Creating an Audit Subcommittee of City Council

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ISSUE: Consideration of a resolution creating an audit subcommittee of City Council.

RECOMMENDATION: That City Council:

1. Introduce the attached resolution (Attachment I) for discussion on March 12, 2013; and
2. Schedule the resolution for adoption on March 27, 2013.

BACKGROUND: The Government Finance Officers Association (GFOA) recommends that all state and local governments establish audit committees or the equivalent to provide review and oversight of internal controls, financial reporting, and independent auditors and to provide a forum through which interested parties can discuss and debate matters relating to these issues. Municipal government audit committees can assist in identifying risk and ensuring accountability in the government. Common tasks of audit committees include reviewing the annual financial audit and reviewing the overall internal control environment with the internal auditor.

A variety of Virginia jurisdictions currently have audit committees or the equivalent, including the Counties of Fairfax, Stafford, Henrico, Chesterfield, Albemarle, and Goochland.

DISCUSSION: Staff recommends that City Council create an audit subcommittee to serve the purposes described in the GFOA best practice recommendations (Attachment II).

Responsibilities

Based on GFOA recommendations and the City's needs:

1. The subcommittee “should be (...) made directly responsible for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services. Likewise, the audit [subcommittee] should be established in such a manner that all accountants thus engaged report directly to the audit [subcommittee].”
2. The subcommittee should be empowered “to provide independent review and oversight of [the City’s] financial reporting processes, internal controls and independent auditors”.
3. The subcommittee “should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by [City employees] of concerns regarding questionable accounting or auditing matters. The audit [subcommittee] also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls.”
4. The subcommittee shall present to City Council an annual “written report of how it has discharged its duties and met its responsibilities.”

These responsibilities do not duplicate or conflict with the duties of any other existing committee or subcommittee. Staff believes that a subcommittee format is appropriate to the issues involved and will improve the general functioning of the City’s financial reporting, financial control, and auditing processes.

Committee Structure

Staff recommends that the City Council appoint two members to the audit subcommittee and that the subcommittee regularly meet with the Chief Financial Officer, Internal Auditor, and external auditors to review the City’s internal controls and financial reporting. The subcommittee members’ terms will coincide with their City Council terms.

Based on GFOA recommendations, members should:

1. “[P]ossess or obtain a basic understanding of governmental financial reporting and auditing”; and
2. “[B]e educated regarding both the role of the audit [subcommittee] and their personal responsibility as members.”

The City may be required to provide additional training for subcommittee members to ensure that these requirements are met.

Staffing and Advisors

Staffing for the subcommittee can be provided by the City’s Finance Department using existing staff. The subcommittee should be empowered to hire legal, financial, and other subject matter experts as required to perform its duties.

Reporting

The subcommittee should be required to complete an annual report to City Council describing its work and findings. This report should be made public on the City's website in the same manner as the City's monthly and annual financial reports and the reports of City committees and boards. In accordance with GFOA best practices, this report should, at minimum, state that the audit subcommittee "has discussed the financial statements with management, with the independent auditors in private [to the extent permitted by law], and privately among [subcommittee] members [to the extent permitted by law], and believes that they are fairly presented, to the extent that such a determination can be made solely on the basis of such conversations."

Funding

Some funding may be requested for initial member training and for the preparation and presentation of the annual report.

Establishment:

A City audit subcommittee would be established in accordance with the Alexandria City Code and GFOA guidelines and standards, as summarized and applied above. GFOA's Best Practice: Audit Committees (1997, 2002, 2006, and 2008) is provided as Attachment II.

FISCAL IMPACT: Any funding needs above those already included for the City financial audit would need to be considered as a specific need arises.

ATTACHMENTS: Attachment I: Resolution
Attachment II: Best Practice: Audit Committees

STAFF:

Laura B. Triggs, Chief Financial Officer
Ray Welch, Comptroller