



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: MAY 21, 2019**
FROM: CITY MANAGER'S OFFICE **WARDS: ALL**
SUBJECT: CLARIFICATION ON INTERNAL AUDIT DIVISION REPORTING TO CITY COUNCIL

ISSUE:

Receive information and provide clarification on Internal Audit Division reporting to the City Council.

RECOMMENDATION:

That the City Council receive information and provide clarification on Internal Audit Division reporting to the City Council.

LEGISLATIVE HISTORY:

City Charter, Section 701 - Organization of City operations and activities

“...The Council may, by ordinance, abolish, consolidate, modify or separate any department, office, agency, board, commission or committee, and may assign, reassign, or modify any functions, powers, or duties.

No office provided in this Charter to be filled by appointment by the City Manager may be consolidated with an office to be filled by appointment by the City Council. The City Council, subject to the provisions of this Charter, shall provide for the number, titles, qualifications, powers, duties and compensation of all officers and employees.”

2012 Charter Review Ballot Proposal (Measure E)

During the previous City Charter Review in 2012, the Charter Review Commission voted to place an amendment (Measure E) on the June 5, 2012 voter ballot. Measure E sought to amend the Charter by including a new Charter officer, the City Auditor, appointed by the City Council (with the powers and duties of the City Auditor set by ordinance of the City Council). The final official results of the June 5, 2012, Presidential Primary Election showed a majority of residents voted against the measure (16,399 or 54%), versus those that voted in support of the measure (13,947 or 46%).

BACKGROUND:

On February 6, 2019, the Governmental Affairs Committee unanimously recommended that the report on creation of an Internal Audit Division to report to the City Council be forwarded to City Council for further discussion.

On March 12, 2019, following discussion, the City Council directed the City Attorney to prepare the appropriate ordinance to provide that the Internal Audit Division reports to the City Council operationally and to the Mayor Pro Tem administratively.

DISCUSSION:

The City Council may elect to use their authority under Section 701 of the City Charter, to establish, by ordinance, a new Internal Audit office to be filled by City Council-appointed employees, who report directly to the City Council.

City staff have been preparing a plan responsive to transitioning the City Manager’s Office Internal Audit Division to operationally report to the City Council and administratively report to the Mayor Pro Tem and have determined that additional City Council direction is needed.

Staffing

The Internal Audit Division includes 3 full time equivalent positions:

Position	Status
Internal Audit Manager (Non Classified)	Vacated 12/31/2018
Senior Internal Auditor (Classified)	Staffed
Principal Management Analyst (Classified)	Vacated 12/31/2017

Staff reporting directly to the City Council are non-classified. Currently, only the Internal Audit Manager position is non-classified. All of the above positions, if decided to report directly to City Council, will require the adoption of a resolution to the Fringe Benefits and Salary Plan to approve changes to the job descriptions and make each position non-classified.

The incumbent in the Senior Internal Auditor position would be grandfathered in as a classified employee. He would remain a classified employee until such time the position is vacated.

Budget

The current budget for the City Manager’s Office Internal Audit Division and the City Manager’s Office Financial and Performance Audits for Fiscal Year 2018/19 and 2019/20 is detailed in the below table:

DESCRIPTION	FY 2018/19	FY2019/20
Personnel	\$577,985	\$628,290
Non-Personnel	13,961	13,658
Division Total	\$591,946	\$641,948
City Manager’s Office Financial and Performance Audits	\$245,000	\$245,000
City’s Audit Budget	\$836,946	\$886,948

The City Council may elect to retain or provide an alternate direction regarding the personnel and the operational budgets of Internal Audit.

Reporting structure

Adopted April 12, 2016, Resolution No. 22988 Adopting Internal Audit Governing Rules (Attachment 1), improved the operations of internal audits and adopted the Internal Audit Governing Rules to ensure industry standards. The Governing Rules include the Internal Audit Division's reporting structure as:

Administratively to the City Manager or his/her designee, typically including:

1. Budget and management accounting;
2. Human Resource administration including personnel matters; and
3. Internal communication and information flows.

Functionally to the City Council through the Governmental Affairs Committee, typically including:

1. Approval of the Internal Audit Governing rules and any updates;
2. Approval of the Internal Audit Work Plan;
3. Receive communications from Internal Audit on the performance relative to the Work Plan; significant risk exposures and control issues, including fraud risks, governance issues; and other matters requested by the elected officials and/or executive management.

The City Council may elect to adopt a resolution to update the Internal Audit Governing Rules to add additional clarification language respective to the Internal Audit's reporting structure.

FISCAL IMPACT:

There is no fiscal impact at this time for direction related to the creation of an Internal Audit Division that reports to the City Council.

Prepared by: Carlie Myers, Deputy City Manager
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer
Approved by: Al Zelinka, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Resolution No. 22988 Adopting Internal Audit Governing Rules
2. Presentation