

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To:	Matt Fertal	From:	Kingsley Okereke
Dept:	City Manager	Dept:	Finance
Subject:	ESTABLISHMENT OF CITY COUNCIL AUDIT COMMITTEE	Date:	July 22, 2008

OBJECTIVE

To establish a City of Garden Grove City Council Audit Committee consistent with the requirements of Statement on Auditing Standards (SAS) No. 114, "The Auditors Communication with those charged with Governance".

BACKGROUND

SAS No. 114 was issued to address past audit shortcomings, and to foster proper communications between auditors and governing officials. It was designed to address emerging practices in corporate governance, and the new expectations with regards to more open and candid communications about audit findings and issues. The new standard applies to all industries including governmental entities, and is effective for the City of Garden Grove in the fiscal year ended June 30, 2008 audit.

SAS No. 114 is intended to both expand communications and to stress the importance of effective two-way communication between those governing organizations (those charged with governance) and auditors. Management cannot be the conduit for this essential communication.

- Those charged with governance means the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. For the City of Garden Grove, the City Council serves that role.

DISCUSSION

An expanded and effective two-way communication with the City Council can be established by either; (a) Auditors' meeting with the entire City Council whenever a meeting need arises, or (b) Auditors' meeting with an Audit Committee of the City Council, which will then take essential matters to the whole City Council, or (c) via another Certified Public Accountant hired by the City Council to act as the conduit between the financial auditors and City Council. It should be noted that an Audit Committee of the City Council is typically made up of two City Council members, but one City member is sufficient.

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The Auditors anticipate a minimum of three meetings each year. The first meeting will be part of the audit planning process in the spring to discuss the scope of the audit and any concerns the City Council may have. The second meeting would occur in late September after the completion of audit fieldwork to report and discuss observations and findings from the audit. The final meeting would take place in December to present the completed financial statements and reports.

Staff suggests a combination strategy that entails establishing a Council Audit Committee, and a meeting with the entire Council in open session once a year. The audit committee of the City Council would meet with the auditors as much as necessary during the fiscal year to plan and execute the annual financial audit. The committee members would report any significant issues to the City Council as necessary. In addition, once a year following the completion of the annual audit, the entire City Council would meet with the auditors to receive the financial reports and any findings requiring some follow-up actions.

FINANCIAL IMPACT

The implementation of SAS 114 and creation of the Council Audit Committee does not have any known financial impact.

COMMUNITY VISION IMPLEMENTATION (where appropriate)

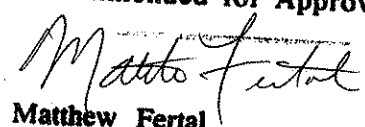
The implementation of SAS 114 and creation of the Council Audit Committee is consistent with the vision of Garden Grove as a well-administered City with an informed Community.

RECOMMENDATION

Staff recommends that the City Council approve the following:

- 1) Establish an Audit Committee of the City Council of the City of Garden Grove, consisting of two members of the City Council.


KINGSLEY OKEREKE
Finance Director

Recommended for Approval

Matthew Fertal
City Manager