



Legislation Text

File #: 2023-0464, Version: 1

Report to Mayor and City Council

Tuesday, June 20, 2023

Consent

SUBJECT:

CONSIDER THE ESTABLISHMENT OF THE CARSON FINANCE AND AUDIT COMMITTEE AND TO SET RULES AND PROCEDURES FOR THE COMMITTEE AS RECOMMENDED BY THE STATE CONTROLLER'S OFFICE (SCO)

I. SUMMARY

The State Controller's Office (SCO) had reviewed the City of Carson's internal control system for the fiscal periods of July 1, 2018, through June 30, 2020, to determine the adequacy of the City's controls for conducting operations, preparing financial reports, safeguarding assets, and ensuring proper use of public funds.

The SCO's Report of February 8, 2023 noted that deficiencies were found in the City's internal control system. The Report also found that the City does not have an established audit committee to address these deficiencies and further recommended that the audit committee should be formally established through a City resolution.

As stated in the SCO's report, "The purpose of an audit committee is to oversee all aspects of the financial reporting process, including preparation and filing of financial statements, internal control over financial reporting, and related risks. An audit committee's major areas of responsibility include oversight of the internal control system, oversight of the internal audit function and external auditors, review of financial filings, and establishment and oversight of a 'whistleblower' process."

The proposed action would accept this recommendation of the SCO and adopt a resolution to implement it by formally establishing a standing Finance and Audit Committee.

II. RECOMMENDATION

ACCEPT the SCO's recommendation to establish a standing audit committee and ADOPT Resolution No. 23-105, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, ESTABLISHING A STANDING FINANCE AND AUDIT

COMMITTEE.”

III. ALTERNATIVES

TAKE another action as deemed appropriate by the City Council.

IV. BACKGROUND

According to the SCO report:

“On June 28, 2013, the Los Angeles County Civil Grand Jury (Grand Jury) issued a final report of its findings and recommendations pertaining to county government matters during FY 2012-13. In this report, the Grand Jury recommended that the city formally establish an audit committee to provide independent review and oversight of the city’s financial reporting processes, internal control system, and independent auditors.

In May 2013, the City approved the formation of a two-member ad hoc Audit Committee. The Mayor Pro Tem and another City Council member were appointed to serve for the FY 2012-13 term. It proposed that all five (5) City Council members would take turns serving an annual term. The current committee members were appointed on May 3, 2016. No meetings have been held since May 3, 2017.

The purpose of an audit committee is to oversee all aspects of the financial reporting process, including preparation and filing of financial statements, internal control over financial reporting, and related risks. An audit committee’s major areas of responsibility include oversight of the internal control system, oversight of the internal audit function and external auditors, review of financial filings, and establishment and oversight of a “whistleblower” process.”

Based on the foregoing finding, the SCO report recommended “that the city formally establish a standing audit committee to provide independent review and oversight to the city’s financial reporting processes, internal control system, and independent auditors. The audit committee should be formally established through a city resolution.”

The City previously had a Controller position on staff and an ad hoc Audit Committee but their roles and functions have not been active since May 3, 2017. The proposed resolution would dissolve the prior ad hoc committee (to the extent it remains in existence) and would establish a new standing Finance and Audit Committee (the “Committee”).

The stated purpose of the Committee would be to provide independent review and oversight to the City’s financial reporting processes, internal control system, and independent auditors.

As stated in the proposed resolution, the Committee would have the following duties and responsibilities on an ongoing basis:

- Provide independent oversight of the City’s internal control system. Monitor the

adequacy of the internal control structure on an ongoing basis, such as cash disbursements, cash receipting, treasury transactions, etc., as examined by the internal audit function and the independent financial auditor. Ensure that any control weaknesses and legal compliance violations identified in the course of the financial statement audit are promptly and effectively remedied;

- Provide independent oversight of the internal audit function and external auditors. Recommend the selection of the independent financial auditors for financial statement audits. Serve as a direct communications link between the City Council and the independent auditors. Participate in meetings with the City's independent auditors and various County, State and Federal auditors as needed. Monitor the progress of, and evaluate the results of, the financial statement audits;
- Review City's financial filings. Monitor the City's monthly financial reports and comprehensive annual financial reports for the purpose of reporting potential issues, and make periodic reports thereon to the City Council;
- Provide recommendations to the City Council regarding establishment of, and provide oversight of, a 'whistleblower' process related to reporting of weaknesses or legal compliance violations associated with the City's internal control system.

The membership of the Committee would consist of two City Council members (which may include the Mayor). Committee members would be appointed by the Mayor with approval of a majority of the City Council. However, no Councilmember may be appointed to the Committee for more than one consecutive term.

Terms of Committee members would be for one year, corresponding to the fiscal year, with appointments occurring each April or May. However, for the first fiscal year of the Committee's existence (FY 23-24), because the April-May appointment timeframe already passed, appointments would occur later, and terms would be from the date of the appointment or July 1, 2023, whichever is later, through June 30, 2024.

The City's Deputy City Manager, who oversees the Finance Department, would be the staff liaison to the Committee and would attend all Committee meetings. The City Treasurer would also attend Committee meetings to provide information when requested by the Committee.

The resolution provides for regular meetings of the Committee to be held on the first Wednesday of each quarter (July, October, January, and April) at 6:30 p.m. in the Helen Kawagoe Council Chambers at City Hall, unless otherwise provided in rules of proceeding promulgated by the Committee. The Committee will be subject to the Ralph M. Brown Act and its open meeting requirements, so all Committee meetings will require publicly posted

agendas and will in all respects be held in accordance with the Brown Act.

The resolution also provides that all Committee members are subject to the requirements of the City's Conflicts of Interest Code and all applicable conflict of interest-related laws of the State of California.

V. FISCAL IMPACT

NONE

VI. EXHIBITS

- | 1. | Resolution | No. | 23- |
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| | 105 - "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, ESTABLISHING A STANDING FINANCE AND AUDIT COMMITTEE." (pgs. 5-8) | | |

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