



ADMINISTRATIVE SERVICES DEPARTMENT

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AUDIT COMMITTEE STAFF REPORT

Meeting: July 28, 2025

Subject

Discuss Audit Committee Duties, Powers, and Responsibilities

Recommended Action

1. Provide recommendation (if any) to City Council for an Audit Committee municipal code Government Code Section 2.88 update; or
2. Request Baker Tilly to conduct a review and report back to Audit Committee and City Council

Discussion

Background

On May 20, 2025, City Council directed the Audit Committee to consider amending its scope of review for recommendation to the City Council. On April 28, 2025, the Audit Committee requested Baker Tilly, previously Moss Adams, to discuss the Audit Committee's scope based on the Government Finance Officers Association (GFOA) Best Practices, as the Audit Committee wanted to include the review of financial policies into the duties, powers, and responsibilities.

The Audit Committee's duties were last updated in February 2023 following a broader review of City commissions and committees. At that time, City Council approved several refinements, including adjusting the review frequency of the Treasurer's report from monthly to quarterly. Municipal Code Section 2.88.100 defines the powers and functions of the Audit Committee. The current duties (as updated in 2023) are as follows:

- A. To review the annual audit report and management letter;
- B. To recommend appointment of auditors;
- C. To review the Quarterly Treasurer's investment report;
- D. To recommend a budget format;
- E. To review City investment policies and internal controls of such policies;
- F. To recommend appointment of internal auditors;
- G. To review internal audit reports;
- H. To review quarterly Fraud, Waste, and Abuse Program reports.

(Ord. 23-2247, § 1 (part), 2023; Ord. 22-2243, § 1, 2022; Ord. 20- 2208, § 1, 2020; Ord. 1679, § 1 (part), 1995)

These duties give the Audit Committee a broad oversight role spanning external financial reporting, internal controls, investment oversight, budgeting practices, and internal audit activities. Since the February 2023 code update, the Audit Committee has been operating under this structure and meeting quarterly (with special meetings as needed) to carry out its responsibilities. The current composition of the Committee (two Council members and two to three public members) and meeting frequency are designed to support meaningful review and discussion of these oversight areas.

GFOA Best Practices for Audit Committees

[GFOA](#) emphasizes the crucial role of audit committees in public sector financial governance. According to GFOA, an audit committee's core responsibility is to provide independent review and oversight of a government's financial reporting processes, internal controls, and the independent audit function. By effectively carrying out its duties, an audit committee helps ensure that management maintains a sound system of internal controls and reliable financial practices. In other words, the audit committee serves as a practical mechanism for the governing body to monitor financial integrity on behalf of the public.

Best practice guidance from GFOA outline several common functions of an effective audit committee in government, many of which align with the City's current Audit Committee duties. These include: overseeing the external audit process (selection of auditors, review of audit results), monitoring the implementation of audit recommendations, reviewing the effectiveness of internal controls and risk management procedures, and providing a forum for auditors to communicate concerns outside of management channels.

GFOA recommends that every government formally establish an audit committee with a clear charter, and that the committee be directly involved in the oversight of the external auditors (including appointment and compensation) to reinforce auditor independence. The City's practice of having the Audit Committee recommend the hiring of both external and internal auditors is consistent with this guidance.

Notably, GFOA's best practices stress the importance of financial oversight beyond the annual audit. Audit committees are encouraged to monitor and review key financial governance practices on an ongoing basis. This can extend to periodically reviewing the organization's financial policies and procedures to ensure they are comprehensive and being adhered to. For example, one advisory for audit committees highlights the value of reviewing financial policies (such as policies on investments, internal controls, conflicts of interest, whistleblower programs, etc.) as part of the committee's role in ensuring integrity and compliance. Regularly examining financial policy frameworks can help the committee verify that the City's financial management practices remain robust and aligned with best practices. The City currently utilizes Baker Tilly to conduct these reviews and procedures.

In summary, the City's Audit Committee duties as currently defined largely reflect the roles promoted by GFOA, focusing on audit oversight, internal control, and financial reporting accountability.

Sustainability Impact

No sustainability impacts.

Fiscal Impact

No fiscal impact.

City Work Program Item/Description

None

City Council Goal

Fiscal Strategy

California Environmental Quality Act

Not applicable.

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Approved for Submission by: Tina Kapoor, Interim City Manager

Attachments:

A – Audit Committee Work Plan and duties and responsibilities 2025

B – Chapter 2.88 Audit Committee