

Memo

TO: Burlington City Council
FROM: George C. Cross
DATE: June 23, 2010



COMMUNICATION
DATE 6/20/10
AGENDA ITEM # 40
EXAMINATION CLERK
TREASURER'S OFFICE

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RE: **Final Report**

Introduction

We entered into this relationship as somewhat of an experiment. The Burlington City Council was seeking an independent review of the budget and the budget development process. The decision to retain the services of an "outside" consultant went through a variety of iterations. In the end, the decision to hire was rather quick; and, was controlled to some degree by the funds available for the task. However, if all parties accept the "experimental" aspects of the effort, there have been lessons learned. It provides the council with a framework for the future. This should help to determine how to proceed in another year and beyond.

Having attended 14 meetings of the Board of Finance and various other meetings with individual and small groups of councilors, this consultant has learned a great deal about the Queen City. Burlington has a complex budgeting process that is complicated by enterprise funds, special revenue funds, public utilities and even a municipally owned airport. Further, Burlington serves as the social, recreational, educational and entertainment hub for many other communities. While this larger service entity offers great economic benefit to the many business and commercial enterprises within the city, it also has related costs borne to some degree by the taxpayers of Burlington. It is finding the balance in the cost-vs-benefit equation that adds to the complications and complexities of preparing an annual budget for Burlington.

Recent financial problems related to the creation and implementation of a city owned telecommunications system has added to the normal stress of budget preparation. Many are concerned about the "whats, whys and hows" of the Burlington Telecom issues. Unfortunately, there are no easy answers to many of the questions. However, there are sound efforts underway to solve the problems. In developing the annual budget, it is suggested here that the BT issues should not play a major role in the decision making process. There will one day be a resolution to all BT issues. That resolution may, or may not, impact future budgets, but it seems doubtful that it will have any impact on the FY'11 budget. Any specific recommendations about BT are well outside of the ability of this consultant.

At their meeting on 6/20/10
the Burlington City Council has
waive the reading, accept this communication
and place it on file.

Attest: Jac Obberg - 1
Wesley Volmer Records Coordinator

There is another troubling matter appearing to influence thinking and perhaps decision-making around the budget process. That is the most important **matter of trust**. Without a basic level of trust, it is very difficult to move ahead in a cooperative way. This observer has found nothing that suggests that the budget presentations have included any financial shenanigans. Questions were answered directly, albeit at times perhaps with a more complicated response than might be necessary. It is the opinion of this writer that the taxpayers and citizens will be best served by spending time to develop a clear and concise budget development plan for the future. (There will be more about this later.) When the parties cooperatively discuss and agree to a reinvigorated budget preparation process, the matter of trust should be resolved. It is also possible that this trust issue is an occasional by-product of a "strong mayor" form of government.

What follows is a set of specific suggestions and recommendations. They are for your consideration. In many cases, they simply point out areas for exploration. The council needs to decide on specific implementations.

Act 68 Issues – City Payment for School District Services

As has been mentioned several times, there are Act 68 issues related to the city budget, including: expenditures for FICA and retirement fund contributions for a class of school district employees. Paying school crossing guards out of the city budget is another cost that can legitimately be in the school district budget.

The legal basis for this issue is found in:

Title 16, Chapter 133, Sec. 4029 (b) states in full:

"Funds received by a municipality other than a school district may not be used directly or indirectly for education expenses."

The reason for this language is to ensure that "gold towns" will not simply shift expenses from school budgets to town/city budgets to lower the school tax rates. In the case of Burlington, such a shift has a different impact than it would in Stowe, Killington or Manchester.

We are talking about three substantial expenditures in the city budget. Here are the amounts in the FY '11 budget as provided:

a. FICA for a class of school employees	\$550,000
b. Retirement fund contribution for the same class	\$792,000
c. Labor costs for school crossing guards	\$216,000
TOTAL	\$1,558,000

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One can make an argument to keep the crossing guards in the city budget; however, the great majority of city taxpayers will benefit from this expenditure being included in any transfer. Transferring the cost to the district budget does not require transferring the administration and supervision of the program. It would be possible to operate the program under contract or agreement between the city and the district.

The computations that follow will use the full \$1,558,000 as a possible transfer from the city budget to the school district budget. **Attachment A** spells out the assumptions used to compute the impact of such a transfer of expenses from the city to the school district. The impact on the "statewide education property tax rate" (This term is used as there is no such thing as a local education property tax in Vermont.) come from recalculating said rates on the Department of Education sheet titled, "Proposed FY '2010 Education Tax Information." The pertinent data was checked with both the Burlington School District and the Department of Education.

Attachment B provides specific information at different household income levels and assessed values of the property. Given that no property exactly fits the levels shown, the actual differences for a specific property will depend on the details of the variables. Those presented are only for comparison purposes. As total household income reaches \$90,000, there would be an increase in the taxpayers overall property tax bill. In all other cases, both homestead and non-residential, there will be a savings for Burlington property taxpayers.

This condition has come about over a period of years. When the decision to carry these costs in the city budget was made, the world of school finance in Vermont was very different. Act 60 and the following Act 68 changed the landscape. It is surprising that the auditors have not dealt with this problem prior to this date. Now, the issue is both political and financial. Failure to correct the situation leaves Burlington at risk for further criticism from several quarters.

Since the school district voters have approved the FY '11 budget excluding these potential expenditures, there may be no way to make the transfer immediately. However, it is suggested that the city open discussions with the school district as soon as possible about this problem and find agreement to have these expenses properly budgeted for FY'12. At the same time, the city needs to make both the Vermont Tax Department and the Vermont Department of Education aware of the issue and the plan to resolve it.

A second related issue is that the retirement fund that includes both school district and city employees should be separated into two parts – one for city employees and one for school district employees. Thus, the asset and the liability for each group can be properly booked in terms of GASP. The details on this one are beyond my capabilities. The division of the fund should be collaboratively determined by the district, city, auditors and retirement fund consultants.

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Composition of Board of Finance

The Burlington City Charter is somewhat inconsistent regarding the membership of the Board of Finance. In Article 56 Finance Department, section 154, related to the role of the CAO on the Board of Finance the first sentence **names the CAO as a member of the board**. However, the last sentence of the same section states that the CAO is only a member **"In the absence or disability of the mayor or president of the city council..."** Given the CAO is the primary presenter of information, data, recommendations and more to the board; it seems strange that this position also has a seat on the board. Typically, the chief executive/administrative officer in governmental operations is not a voting member of any subset of the governing body.

Thus, it is recommended that the city council review the composition of the Board of Finance. It might make more sense to fill the fifth seat on the board with a citizen with a strong financial background appointed by the mayor or other. Such an appointment should be for a multi-year term. A highly knowledgeable individual who is "outside of government" would bring an added degree of transparency and credibility to the board's decisions and provide the other members with an independent opinion.

Such a change in the Board of Finance would need a charter change. Thus, consideration of this recommendation should be under the direction of the charter change committee.

Stand-alone Audit Committee

A related recommendation is the creation of a stand-alone Audit Committee. **Appendix C** includes information about audit committees from six very different cities. These six were selected after reviewing 15 or 20 audit committees from across the country. The six cities are:

- Cleveland, Ohio – population 433,000 (about half of what it was 10 years ago!)
- Orange, CA – population 138,000
- Carson City, NV – population 55,000
- Bowling Green, KY – population 55,000
- Tybee Island, NC – population 28,000
- Windsor, CA – population 26,000

These six cities were chosen because of their diversity of size, location and the composition of the audit committees. Each of these committees includes representation from the professional financial community within the city. Most also include the mayor, city manager or similar position and representation from the internal audit team. City councilors are on most, but not all, of the committees.

A stand-alone audit committee places a high degree of importance on the audit process and reports. It also is consistent with a regular program of checks and balances, thus maintaining a high level of accountability and a strong public posture of open government. The inclusion of professionals from the community provides the council and administration with important sets of eyes and brains as you work together to steer

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the city through the many budgetary and financial issues of local government in the 21st century. The professionals should also help the council understand the many complexities of the world of auditing.

Again, implementation of this recommendation would require a charter change. Thus, consideration of this idea needs to be placed with the charter change committee.

IT – Budget and Accounting Issues

During the budget discussions, the topic of the limitations of the technology in use came up several times. A partial list of the issues include: incompatible computer operating systems that can not be interconnected, the use of several different software programs that are not all compatible, doing half of the payroll in-house and the remainder contracted out, and more. Burlington needs to establish improved, up-to-date technology as a priority and to put in place a plan to bring all the computer operations, including accounting, billing, payroll, record keeping, email and so-on up to currently accepted best practices.

One way to accomplish this goal is to establish a “committee,” by whatever name, to develop a specific plan with recommendations to the council and administration on both timing and funding. The plan should include how decisions will be made; and, be based on the best practices of other small cities. Burlington has a wealth of expertise within its citizens and businesses. Thus, organizing such a group should not be difficult. The main criteria for membership on such a committee should be strong knowledge about technology in complex organizations, governmental operations and/or finance.

This task might best be assigned to the Board of Finance for initial discussion and the organization of said committee. This will unquestionably be a multi-year project with a substantial price tag.

Format of Budget Documents and Schedule of Presentations

It appears that the budget documents come to the Board of Finance in an array of formats. It also appears that there are differing degrees of discussion between department heads and central administration prior to the presentations. There does not seem to be a clear understanding by all of how the total budget process is suppose to work. There were times when department heads did not seem to know why a particular number was in his or her budget. All department budgets are incomplete as none, with a couple of exceptions, included FICA, retirement fund contributions, health benefit costs and more. For instance, there is no way to tell in the budget documents what the total cost of the police department is, or any other department for that matter.

Some departments are broken down into subparts and some seem not to be. Some provided detailed program descriptions, and some did not. Some departments explained possible new programs or the rationale for new positions, and others did not. There does not seem to be a consistent budget plan used by all departments. Some of the

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inconsistency might be caused by other needs within a particular department, as they need to report to state or federal agencies in a manner different from local needs. However, a common budget presentation format should be able to be worked out that fulfills both local and external needs.

The budget presentations are in increasingly more detailed plans, department by department. Most of the presentations dealt with the most detailed of the group, i.e.: that found in Tab 8. However, as stated above, few budgets are actually complete, as the employees' benefits and a few other items are not budgeted by department. There also is no breakdown by objects. For instance, it is impossible to find without clumsy side calculations the total budget for office supplies, postage, FICA, auditing services and so on. Typically, many municipal budget presentations are by object within departments and by departments within objects. This provides the ability to cross-reference items and to help identify potential issues.

There was little discussion at the Board of Finance meetings related to the need for a service, the possible reduction of a service, or programmatic issues of any sort. Most of the discussion focused on the percentage of, or dollar value of, the increase or decrease in a department's budget. Basically, the discussion revolved around, this is what we need to keep doing what we are doing. Little, if any discussion, related to: Why are we doing this? Could we do it differently? Is there a more cost effective way? Who is using this service? The terms effective and efficient were seldom in play. This, by the way, is not necessarily out of the ordinary for municipal budgeting.

There is need to stop, to think about the future. The budget process needs to include the ability to examine periodically the needs, the available resources and the best way to do things. To start this process, the council via some representative group, should sit down with the administration and a few department heads to create a plan for the development of the FY '12 budget. The plan should include a standardization of the budget development process across all departments. It also needs a specific timetable. Clearly, this year the development process was tardy by weeks, if not months. This planning for FY '12 needs to take place now.

The charter provisions related to the budget, in particular that the budget the council gets to act on is the "Mayor's recommended" budget; complicates the process. All of the preliminary budget work is of little value unless there is a strong working relationship between the Mayor's office and the council. Thus, it is most important that the parties, the mayor and the councilors, expend considerable time and energy making sure that the relationship will in fact allow for creative and constructive "give and take" so as to develop the best budget possible for the city. This relationship is probably more important than the budget itself.

A review of the budget development process and format should probably be assigned to the Board of Finance. The board includes both administration and councilors, thus it has the participants needed for a comprehensive review. It might be helpful to add one or two citizens-at-large who have deep financial backgrounds. Such a study ought to review

the charter language related to the budget, format of documents and presentations, calendar and more.

Any review should also consider the proper place for special revenue and enterprise funds in the budget development and adoption process. The enterprise funds are rather straight forward and clearly within the jurisdiction of city government. Special funds such as the MarketPlace and CEDO are different and may need special treatment.

Communications

Observations over the last couple of months have left me perplexed as to how the councilors communicate with each other and with the administration. On one level, it seems the communication is via emails and responses. On another, it looks more as if you talk and discuss via resolutions. It may even be through the media and the blogs. The point is, is it communication?

The request, to avoid interaction with 14 different councilors included an expectation that the "contact group" would be the go-between. That did not happen. Thus, this memo is the first general communication between the full council and this consultant.

There also seems to be little communication between the Board of Finance and the council as a whole, except for those items that turn into resolutions. This makes one wonder, how does the average councilor prepare for a vote on the budget?

When a councilor asks questions about the budget via email, it appears that the response simply goes back to the questioner. This happens regardless of the responder. While that is good for the questioner, it provides nothing to the rest of the council.

Thus, it is urged that during the discussion of these suggestions, in whatever setting, you consider how information gets shared across all councilors, and the administration when appropriate, at the same time. This would not only increase the knowledge base of all, but would be more effective and efficient in terms of time and resources.

Conclusions

A couple of the recommendations in this memo will require charter or ordinance changes in order to implement. The council or cooperative actions of the council and Mayor's office can put others in place. They all need careful consideration and open debate. I am willing to discuss these suggestions and recommendations with the council, the administration, or whatever subcommittee. I believe that the implementation of these suggestions would strengthen Burlington's budget and audit processes. Importantly, they would bring greater community participation and consequently stronger connections between citizens and government. Lastly, at least a bit of the above is directed at the relationship between the council and administration. It is most important that this relationship be strong and constructive for the city to move forward.

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Burlington City Council Memo of June 23, 2010

ASSUMPTIONS:

A. Related to the City of Burlington proposed FY '11 budget:

- 1. The propose City Council budget includes \$1,558,000 that should or could be in the School District budget.
- 2. One cent on the Burlington municipal property tax rate raises \$359,400
- 3. **Reducing the City proposed budget by \$1,558,000 would reduce the City tax rate by \$0.0434.**

B. Related to the Burlington School District approved FY '11 budget:

- 1. \$1,558,000 could be transferred from the proposed City budget to the proposed School budget.
- (*) 2. If the above transfer was made, the total School budget would be, \$74,213,842.
- (*) 3. Local revenues applied to the the School budget total \$28,765,427.
- (*) 4. "Education Spending" in the proposed School budget would equal \$45,448,415.
- (*) 5. Equalized pupils in the proposed school budget equal 3928.23.
- (*) 6. Education Spending per equalized pupil would be \$11,570
- (*) 7. Legislature established base statewide homestead education property tax rate, \$0.86.
- (*) 8. Statewide homestead education property tax rate adjusted for Burlington, \$1.3276.
- (*) 9. Legislature established statewide non-residential education property tax rate, \$1.35.
- 10. Statewide non-residential education property tax rate adjusted for Burlington, \$1.539.
- (*) 11. **Adding \$1,558,000 to the School adopted budget would increase the statewide homestead education property tax rate by \$0.0456; from \$1.2820 to \$1.3276.**
- (*) 12. **Adding \$1,588,000 would have no impact on the statewide non-residential education property tax rate;.**

(*) All of the above recalculated from the Department of Education's "Proposed FY '2010 Education Tax Information" sheet.

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Burlington City Council Memo of June 23, 2010

IMPACT OF THE TRANSFER OF \$1,558,000 FROM CITY TO SCHOOL BUDGET:

A. Direct Impact:

1. Decrease in City tax rate of \$0.0434.
2. Increase in statewide homestead education property tax rate - \$0.0456.
3. Increase in statewide non-residential education property tax rate - 0.
4. Increases income-based cap from 2.35% to 2.44%.

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B. Impact on selected properties and income levels:

1. Homesteads:

Income Level:	Assessed Value:	Decrease City:	Increase School: (**)	Savings:
(*) \$ 40,000	\$ 200,000	\$ 87	\$ 36	\$ 51
\$ 50,000	\$ 225,000	\$ 98	\$ 45	\$ 44
\$ 60,000	\$ 250,000	\$ 109	\$ 54	\$ 55
\$ 70,000	\$ 250,000	\$ 109	\$ 63	\$ 46
\$ 80,000	\$ 250,000	\$ 109	\$ 72	\$ 37
\$ 80,000	\$ 300,000	\$ 130	\$ 72	\$ 58
\$ 90000(+)	\$ 300,000	\$ 130	\$ 137	\$ (7)
\$ 90000(+)	\$ 500,000	\$ 217	\$ 228	\$ (11)

- (*) The general "circuit breaker" for households with incomes under \$47,000 probably modifies this equation to some degree.
- (**) This increase is computed based on "income sensitivity."

2. Non-Residential (Commercial, Business, Industrial and Apartments):

Assessed Value: (*)	Decrease City:	Increase School:	Savings:
\$ 500,000	\$ 217	0	\$ 217
\$ 1,000,000	\$ 434	0	\$ 434
\$ 1,500,000	\$ 651	0	\$ 651
\$ 3,000,000	\$ 1,302	0	\$ 1,302
\$ 5,000,000	\$ 2,170	0	\$ 2,170

- (*) Assumes any 20% premium is included in the value stated.

Burlington City Council Memo of June 23, 2010

Cleveland – Audit Committee
Chapter 154 – City Audit Committee
Complete to June 30, 2009

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154.01 Establishment and Members

There is hereby established a City Audit Committee composed of seven members consisting of the Mayor, or his designee; the President of Council, or the Chairman of the Finance Committee as his designee; the Director of Law; one member appointed by the Mayor; and two members appointed by the President of Council. The final member, who shall serve as Chair of the City Audit Committee, shall be chosen jointly by the Mayor and Council President, shall have at least ten years experience in auditing or financial accounting, including some experience in governmental finance or auditing, and shall have no financial or contractual interest with the City of Cleveland in accordance with the ethics provisions of the Ohio Revised Code. In addition, the Chair shall not have had any duties pertaining to the audit of the City of Cleveland for at least five years prior to his appointment. In the event that the President of Council and Mayor fail to jointly select a Chair within thirty days of the vacancy of the seat, then the President of Council shall appoint a Chair. The appointed members' terms shall be two years and the term of the Chair shall be three years. The Clerk of Council shall publish the name of each member and the Chair in the City Record. The Director of Law shall designate one of his assistants to serve as Secretary of the City Audit Committee. Members of the City Audit Committee shall serve without compensation. (Ord. No. 1957-2000. Passed 11-13-00, eff. 11-22-00, without the signature of the Mayor)

154.02 Declaration of Purpose

The City Audit Committee is to serve as the focal point for communication between the legislative and executive branches of the City of Cleveland, the independent auditor retained by the City, the Department of Finance, and the Division of Internal Auditing as their duties relate to financial accounting, reporting, internal controls, and compliance with applicable laws and regulations. The City Audit Committee is to assist the staff and employees of the City in fulfilling its responsibilities as to accounting policies and reporting practices of the City of Cleveland and sufficiency of auditing relative thereto. The City Audit Committee shall be the principal agent in ensuring the independence of independent auditors, the integrity of management and the adequacy of disclosures to the public. The City Audit Committee shall make recommendations to the Director of Finance relative to his selection of an independent auditor for the City pursuant to Section 127.41 of the Codified Ordinances of Cleveland, Ohio, 1976. (Ord. No. 1957-2000. Passed 11-13-00, eff. 11-22-00, without the signature of the Mayor)

154.03 Duties of Committee

(a) The City Audit Committee shall:

(1) Review with the Director of the Department of Finance, the independent auditor, and the Commissioner of Internal Audit, the City's policies and procedures to reasonably assure the adequacy of internal control's over accounting, administration, compliance with laws and regulations and financial reporting.

(2) Have familiarity, through the individual efforts of its members, with the accounting and reporting principles and practices applied by the City in preparing its financial statements. Further, the City Audit Committee is to make, or cause to be made, all necessary inquiries of the City and the independent auditor concerning established standards of conduct and performance and deviations therefrom.

(3) Review, prior to the start of the annual audit, the scope and general extent of the independent auditor's planned examination, including its engagement letter. The auditor's fees shall be summarized by the Director of Finance for review by the City Audit Committee. The Committee's review should entail an understanding from the independent auditor of the factors considered by the auditor in determining the audit scope, including:

- (a) risk characteristics of the City of Cleveland; and
- (b) external reporting requirements; and
- (c) quality of internal accounting, administrative and compliance controls; and
- (d) extent of internal auditor's involvement with the audit examination; and
- (e) other areas to be covered during the audit engagement.

(4) Review the extent of non-audit services planned to be provided by the independent auditor in relation to the objectivity and independence needed in the audit.

(5) Review with the City staff and the independent auditor, upon completion of its audit, financial results and findings prior to their finalization and dissemination to the public.

(b) The City Audit Committee is to review the City's comprehensive annual financial report, including the financial statements and footnote disclosures and supplemental disclosures required by generally accepted accounting principles, with respect to the following:

- (1) Significant transactions not a normal part of the City's operations; and
- (2) Selection of and changes, if any, during the year in the City's accounting principles or their application; and
- (3) Significant adjustments proposed by the independent auditor; and
- (4) The process used in formulating accounting estimates and the independent auditor's conclusions regarding the reasonableness of those estimates; and
- (5) Any disagreements between the independent auditor and management about matters that could be significant the City's financial statements or the auditor's report; and
- (6) Difficulties encountered in the performance of the audit.

(c) The City Audit Committee shall also:

(1) Evaluate the cooperation received by the independent auditor during its audit, including its access to all requested records, data, and information and inquire of the independent auditor whether there have been any disagreements with City management that, if not satisfactorily resolved, would have caused the independent auditor to issue a nonstandard report on the City's financial statements.

(2) Discuss with the independent auditor the quality of the City's financial and accounting process and any recommendations that the independent auditor may have, including improvements to internal financial controls, controls over compliance with laws and regulations, the selection of accounting principles and management reporting systems.

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(3) Review written responses to "letter of comments and recommendations" from the independent auditor and discuss with the City the status of implementation of prior period recommendations and corrective action plans.

(4) Recommend any extensions or changes in the duties of the City Audit Committee.

(5) Issue an annual report on the discharge of the duties of the City Audit Committee.
(Ord. No. 1957-2000. Passed 11-13-00, eff. 11-22-00, without the signature of the Mayor)

154.04 Meetings and Attendance

The City Audit Committee shall meet at least quarterly in each calendar year and as many additional times as the majority of members deems necessary in the offices of the Department of Finance at such time as it shall decide. All meetings of the City Audit Committee shall be public and the dates and attendance of the meetings shall be published by the Clerk of Council in the City Record. The Chair, however, may hold executive sessions in accordance with the provisions of the Ohio Revised Code. A simple majority of the members shall constitute a quorum for the transaction of business. Any member who is absent from three consecutive duly called meetings shall be removed by the Chair from the City Audit Committee. In the event that a vacancy occurs during the term of any member, the appropriate appointing authority shall name a successor to serve the unexpired term. The members of the City Audit Committee may request that members of the other departments of the City be present at the meetings, as well as representatives of the independent auditor. The City Audit Committee shall keep minutes of its meetings, a copy of which shall be kept on file and available for public inspection in the Mayor's office and with the Clerk of Council.

(Ord. No. 1957-2000. Passed 11-13-00, eff. 11-22-00, without the signature of the Mayor)

Orange, CA

Audit Committee

Desirable Qualifications: The Committee shall consist of seven voting members that include the City Manager, Internal Audit Manager and five (5) citizen representatives, with the professional designation of Certified Public Accountant, whose primary residence or primary place of employment is in the City. No member of the Committee shall be financially interested in any contract, or otherwise conduct any business with the City, the Orange Redevelopment Agency or any officer of the city either on an individual basis or as a partner, major shareholder, member or employee of any firm. (Qualifications revised 8/22/06 per Resolution 10112). The duties are set forth in Resolution No. 9624.

Terms: Two-years for citizen representatives per Resolution No. 9624.

General Purpose: An advisory committee whose primary purpose is to assist the City Council in discharging its responsibilities for the overall stewardship of the City's financial affairs. This will include reviewing financial information; ascertaining the existence and adequacy of accounting and internal control systems and related safeguards over the City's assets; and serving as a communication link between the City Council and the independent auditor.

NOTE: All members of the Committee are subject to the requirements of the Conflict of Interest codes of the City of Orange and Conflict of Interest laws of the State of California.

CARSON CITY, NV
Audit Committee

Membership

Five members consisting of one member of the Board of Supervisors and four representatives of the city-at-large. Responsible coordinator is the City Auditor.

Purpose

The role of the Carson City Audit Committee is to maintain oversight of the auditing function, both internal and external resulting in increased integrity and efficiency of the audit processes for the City and the City's system of internal controls and financial reporting.

Typical Duties

Review and make recommendations to the Board of Supervisors regarding the annual financial audit, performance, compliance and efficiency audits, including specific issues of concern providing a higher level of accountability over the use of public funds.

Bowling Green, KY
Audit Committee

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Purpose

The Audit Committee is appointed by the mayor, with approval by the Board of Commissioners to provide independent oversight to:

- (1) approve annual assessment of risk presented by Internal Auditor's Office,
- (2) approve annual audit plan based on assessment of risk,
- (3) review quarterly internal audit progress towards approved audit plan,
- (4) recommend selection and retention of external auditor and ensure proper rotation of external partner or firm as mandated by any applicable statute or regulation, and
- (5) review annual financial statement audit and recommend approval to the Board of Commissioners

Meetings

Regular meetings shall be held at least quarterly, and any special meetings may be held as specified in KRS 61.823. All meetings shall be open to the public in a manner consistent with

KRS 61.805-61.850. Full and complete minutes of all meetings and records of all proceedings, including number of votes for and against each motion and the record of the vote of each member, shall be kept and made available for public inspection. The City of Bowling Green shall provide clerical staff as needed.

Limitations of the Committee's Role

While the Audit Committee has the powers and duties set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the financial statements and disclosures are complete and accurate and are in accordance with generally accepted principles and applicable rules and regulation. These are responsibilities of management and the external auditor.

Powers and Duties

The powers and duties of the audit committee include the following:

- Approve annual assessment of risk presented by the Internal Auditor's Office;
- Approve annual audit plan based on assessment of risk presented by the Internal Auditor's Office;
- Review quarterly internal audit progress towards approved annual audit plan;
- Review the Comprehensive Annual Financial Report and recommend approval to the Board of Commissioners;
- Recommend selection and retention of external auditor and ensure proper rotation of partner and firm as mandated by any applicable statute or regulation.

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Composition Of Members

- Two (2) members shall be audit professionals from the community at large preferably with CIA, CPA, CFE or other appropriate professional certification;
- Two (2) members shall be from the business community at large;
- One (1) member shall be selected from the membership of the Board of Commissioners;
- City Manager shall serve as ex-officio, non-voting member of the committee.

The mayor shall appoint all voting members, with approval by a majority vote of the Board of Commissioners. The members of the Audit Committee shall serve without compensation, but shall be reimbursed for expenses necessarily incurred in the performance of their duties.

Tybee Island, GA

Audit Committee

As detailed in the City Code:

Sec. 2-264. Audit committee.

- (a) *Creation.* Pursuant to section 3.11 of the city Charter there is created an audit committee.
- (b) *Purpose.* The audit committee shall have the purpose of enhancing the financial statement auditor's real and perceived independence and to provide a direct link between the auditor and governing body and to facilitate communication between the governing body, the auditors and management. Further, the audit committee should play an advisory role to the governing body; however, it should not interfere with performance of the auditor's duties.
- (c) *Membership.* The audit committee shall consist of no less than five nor more than seven members appointed by the mayor and council, such appointees being selected on the basis of their knowledge and interest in the financial planning and accounting principles.
- (d) *Functions and duties.* The audit committee shall:
- (1) Oversee the independent audit of the city's financial statements from making recommendations on the selection of independent auditors to the resolution of findings or issues;
 - (2) Review the reports of any internal auditors (as opposed to independent) as well as any internal audit work plans;
 - (3) Annually present a report to the mayor and council and city manager of its activities and its recommendations and/or findings.
- (e) *Administration.* The audit committee shall elect one of its members as chair and one member as vice-chair and may elect as its secretary one of its own members.
- (f) *Rules of procedure.* To the extent the audit committee deems it appropriate, it may adopt bylaws, rules and regulations not inconsistent with any provisions of the city Charter, ordinances or other law. Copies of any such rules, bylaws, etc., shall be filed with the clerk of council.
- (g) *Meetings.* Meetings of the audit committee shall be scheduled as directed by the chair or the membership and all meetings shall comply with the Georgia Open Meetings Act.

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THE CORPORATION OF THE CITY OF WINDSOR

AUDIT COMMITTEE CHARTER

ROLE:

The Committee's role is to assist Council in its oversight responsibilities by exercising responsibility for corporate governance, corporate control and financial reporting.

AUTHORITY:

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility including:

- Retaining outside Legal Counsel, law enforcement or accountants to advise the Committee or assist in the conduct of an investigation;
- Seek information from any employee or management (all of whom are directed to cooperate with the Committee's requests) or external parties.

COMPOSITION:

The Audit Committee shall consist of 7 members appointed by Council with two of the members also being members of Council. Each member shall be independent of management and be financially literate (as defined by Council). At least one member shall have expertise in financial reporting (or become trained therein). The chair of the Committee will be nominated from the members annually.

MEETINGS:

The Audit Committee shall meet at least four times each year, with authority to convene additional meetings as circumstances require. Meeting agendas will be prepared and provided to members in advance of the meeting along with appropriate briefing materials. Minutes of meetings will be prepared and approved.

Special meetings may be convened as required at the call of the chair. The City Auditor or External Auditor may convene a meeting if they consider that it is necessary.

The Committee may invite members of management, the City Auditor's Office, External Auditors and others to attend meetings as it sees necessary.

Generally, under normal circumstances, the Audit Committee should plan to meet at least once quarterly. The Committee would meet early in the first quarter of each year to review the external auditor's plans for the annual audit and review the Annual Report of the City Auditor. The Committee would then meet in the second quarter to review the City's audited financial statements and the external auditor's management report. A meeting should be held in the third quarter to address any interim findings or issues of the Committee or the City Auditor as of that time. A meeting should be held later in the fourth quarter to review and approve the City Auditor's plans for the subsequent year. Other meetings may be necessary from time to time to deal with specific financial or performance audits as part of the City Auditor's Work Plan for the year concerned.

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TERM:

The Audit Committee will serve a term of 3 years coincident with the term of Council. No member of the Audit Committee shall serve more than 3 terms.

RESPONSIBILITIES:

1. The primary responsibility for financial and other reporting, internal control and compliance with laws, by-laws, regulations, policies and procedures as well as ethics within the corporation rest with senior management.
2. City Council has oversight responsibilities in those areas that are management's responsibilities.
3. The Audit Committee assists City Council in fulfilling those oversight responsibilities. The Committee shall have unrestricted access to all information, including documents and personnel and have adequate resources in order to fulfill its oversight responsibilities.
4. The Audit Committee shall maintain its independence from corporate management, in fact and in perception, and shall ensure the professional independence of the City Auditor's function and that appropriate actions are taken on audit findings.
5. The Audit Committee shall establish and maintain lines of communication between Council and the Corporation's external auditors, City Auditor and financial management.
6. The Committee shall review to ensure internal audit activities are being carried out in accordance with the "Standards for the Professional Practice of Internal Auditing" adopted by the Institute of Internal Auditor or in accordance with similar professional internal auditor standards approved by the Committee.

ACTIONS:

- a) **Corporate Governance**
 - Review corporate policies relating to compliance with by-laws and regulations, ethics, conflict of interest and the investigation of misconduct and fraud;
 - Review current/pending legislation, litigation or regulatory proceedings bearing on corporate governance;
 - Review cases of employee conflict of interest, misconduct or fraud;
 - Require the City Auditor to report in writing annually on the scope of the reviews on corporate governance and any significant findings.
- b) **Corporate Control**
 - Review the City Auditor's assessment of the adequacy and effectiveness of the City's internal control structure;
 - Obtain an understanding of the City's key financial reporting risk areas and the internal control structure therein. The Committee should then monitor the control process through the results of internal and external audits.
 - Require the City Auditor to report in writing annually on the scope of the reviews on corporate control and any significant findings.
 - Ensure compliance with the Corporation's Code of Conduct.

c) **Financial Reporting**

- Recommend the City's external auditors
- Oversee the external audit coverage including:
 - Engagement letters
 - Estimated fees
 - Timing of external auditor visits
 - Coordination with internal audit
 - Monitor audit results
 - Review of auditor performance
 - Review accounting policies and policy decisions
 - Review financial statements, auditors opinions and management letters
 - Performance Measurement issues

OTHER RESPONSIBILITIES:

- a) The Audit Committee shall perform other activities related to the Charter as requested by Council such as:
- Review or oversee special investigations as needed
 - Review and assess the adequacy of the Charter annually
 - Evaluate the Committee's own performance annually
- b) The Audit Committee shall exercise an active oversight role with respect to the internal audit function including:
- Reviewing and approving the City Auditor Charter
 - Reviewing audit plans, staffing and budgets including professional development budgets for internal audit staff
 - Reviewing audit objectives and audit results
 - Requesting audit projects on matters of concern to the committee including:
 - Investigation of potential or suspected fraud, or other irregularities
 - Compliance with laws, by-laws, policies, procedures and regulations
 - Evaluation of external auditors
 - Evaluation of the internal audit function in accordance with the "Standards for the Professional Practice of Internal Auditing" adopted by the Institute of Internal Auditors or in accordance with similar professional internal auditor standards approved by the Committee.
 - Review and evaluate the performance of the City Auditor.

REPORTING:

The Audit Committee shall regularly report to Council about Committee findings, issues and related recommendations.

FRANK G. JON CLERK
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