



## COUNTY OF PLACER

OFFICE OF  
AUDITOR-CONTROLLER

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MAY 13 2008

Placer County  
Board of Supervisors

Second Reading

To: Board of Supervisors  
From: Katherine Martinis, Auditor-Controller *km*  
Date: May 13, 2008  
Subject: Placer County Audit Committee

### RECOMMENDATION:

It is recommended that your Board

- adopt the attached ordinance adding Section 2.46, *County Audit Committee*, to Chapter 2 of the County Code, creating a Placer County Audit Committee, and
- direct the Clerk of the Board to post a vacancy for the public member.

### INFORMATION & BACKGROUND:

Internal control and financial reporting became the subject of intense public scrutiny in the wake of the Enron and WorldCom scandals that eventually led to the passage of the Sarbanes-Oxley Act of 2002. While that legislation directly affected only publicly traded businesses, it also has had a significant indirect impact on state and local governments. Specifically, in the wake of Sarbanes-Oxley, there has been an increased scrutiny of and interest in the adequacy of internal controls and financial reporting for governmental and nonprofit organizations.

In response to these concerns, the American Institute of Certified Public Accountants issued new auditing standards as follows:

- Statement on Auditing Standards (SAS) No. 104 – 111, "*Risk Assessment Standards*", effective FY 2007-08
- SAS No. 112, "*Communicating Internal Control Related Matters Identified in an Audit*", effective FY 2006-07
- SAS No. 114, "*Communication With Those Charged With Governance*", effective FY 2007-08

One of the new standards, SAS No. 114 requires the external auditor to communicate directly to those "charged with governance" during the course of their audit. This communication may be to the full Board or to a formally established audit committee.

The Government Finance Officers Association (GFOA), the primary source of practical guidance for governmental accounting, issued a Recommended Practice Paper on the topic of Audit Committees in February 2006. Their position is that every governing body, no

matter how small, should establish an audit committee. They see the audit committee as *"an invaluable tool for ensuring that all those responsible in some way for financial reporting – management, independent auditors, and the governing board – fully meet their respective responsibilities"* for providing sound financial reporting. An important benefit of such a committee is that it helps to preserve and enhance the objectivity and independence of the financial statement audit by furnishing a forum in which the independent auditors can discuss internal controls and other audit-related matters. Such communication lends credibility to the entity's financial systems and the resulting financial statements and reports.

The audit committee's primary responsibility will be to provide independent review and oversight of the financial reporting process, the overall systems of internal control and risk mitigation, compliance with laws and regulations, and the performance of the County's internal and external auditors. Fulfilling this responsibility will entail both discussion and deliberation. It is important that the size of the committee provides multiple perspectives while not being so large as to encumber its efficient functioning or discouraging the active engagement of individual committee members.

Accordingly, staff recommends the committee be comprised of three members. Two of the members should be Supervisors to accommodate the external auditor's requirement to directly communicate with those charged with governance. The third member should be a member of the general public. Each member should have a sufficient understanding of accounting, auditing, financial reporting and internal control to be able to deliberate meaningfully on the types of issues likely to come before the committee. It is further recommended that the term of the non-Supervisor member be two years. That member will be required to file economic disclosure forms.

It is anticipated that the committee would meet quarterly. The meetings would be subject to the Brown Act so would require administrative staff support from the Auditor-Controller's Office for scheduling, distribution of agendas and meeting notification processes. Staff would also provide for recording summary minutes of the meetings.

**FISCAL IMPACT:**

There is no fiscal impact as a result of adopting this recommendation.

**Before the Board of Supervisors  
County of Placer, State of California**

**In the matter of:**

**Ord. No.:** \_\_\_\_\_

**An Ordinance adding Section 2.46,  
Audit Committee, to Chapter 2 of the  
County Code, Establishing a County  
Audit Committee.**

**FIRST READING:** May 13, 2008

**SECOND READING:** \_\_\_\_\_

The following **Ordinance** was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held \_\_\_\_\_, by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

\_\_\_\_\_  
Chairman, Board of Supervisors

Attest:  
Clerk of said Board

\_\_\_\_\_  
Ann Holman

\_\_\_\_\_  
THE BOARD OF SUPERVISORS OF THE COUNTY OF PLACER, STATE OF CALIFORNIA,  
DOES HEREBY DOES ORDAIN AS FOLLOWS:

Section 1: Chapter 2 of the Placer County Code is amended to add Article 2.46, County Audit Committee, which shall read as follows:

**Article 2.46 COUNTY AUDIT COMMITTEE**

**2.46.010 Created.**

There is created in the county a county audit committee.

**2.46.020 Function.**

The county audit committee shall assist the Board of Supervisors in fulfilling its oversight responsibilities by monitoring the financial reporting process, the overall systems of internal control and risk mitigation, compliance with laws and regulations, and the independence and performance of the County's internal and external auditors.

**2.46.030 Composition.**

The county audit committee shall consist of:

- A. Two members of the Board of Supervisors;
- B. A member of the general public with a sufficient understanding of accounting, auditing, financial reporting and internal control, appointed by the Board of Supervisors for a two-year term.

**2.46.040 Brown Act**

The meetings of the county audit commission shall be open and public and shall be subject to the Ralph M. Brown Act, Government Code Sections 54950, et seq.

**2.46.050 Administrative Support.**

The County Auditor- Controller shall provide administrative support to the Committee for scheduling, distribution of agendas and meeting notification processes. Staff shall also provide for recording summary minutes of the meetings.

**2.46.060 Meetings.**

The committee shall schedule regular quarterly meetings or meet upon the call of the chairperson.

**2.46.070 Powers and duties.**

It is the audit committee's responsibility to provide independent review and oversight of:

- A. The County's financial reporting processes;
- B. The County's internal controls including risk assessment; and
- C. The independent audit of the County's financial statements.

## **2.46.070 Annual Reports Required.**

The audit committee shall submit annually a written public report to the Board of Supervisors on how it has discharged its duties and met its responsibilities.

Section 2: This ordinance shall take effect and be in full force thirty (30) days after its passage. The Clerk is directed to publish this ordinance, or a summary thereof, within fifteen (15) days in accordance with Government Code Section 25124.

