

**ORDINANCE NO. 2020-O-097**

**ESTABLISHING THE CITY COUNCIL AUDIT AND ACCOUNTABILITY COMMITTEE AND FURTHER CLARIFYING THE ROLE AND AUTHORITY OF THE INTERNAL AUDITOR**

**WHEREAS**, in November 2010, the voters of the City of Laredo approved an amendment to the City Charter where the City Council shall appoint, evaluate, replace or terminate an officer of the City, who shall have the title of Internal Auditor, and whose functions and duties shall be determined by ordinance; and

**WHEREAS**, in June 2011, Ordinance No. 2011-O-077 was approved by City Council which established the oversight and role of the Internal Auditor and the Internal Audit Office; and

**WHEREAS**, the Mayor and City Council concluded it was necessary to establish an Audit and Accountability Committee to provide guidance and oversight of the Office of the Internal Auditor and provide recommendations to City Council on the risks, efficiencies, improvements and fiscal responsibilities of the City and further clarifying the role and authority of the Internal Auditor and the Internal Audit Office to produce analytical audit reports with emphasis on providing an independent and objective evaluation of the City's risk exposures, reliability and integrity of financial and operational information, safeguarding of assets and compliance with laws, grants and contracts; and

**WHEREAS**, on June 1, 2020, the Mayor and City Council voted to establish an Audit and Accountability Committee to provide guidance and oversight of the Internal Auditor and the Internal Audit Office, as well as further clarify the role and authority of the Internal Auditor; and

**WHEREAS**, City staff examined the government auditing standards, model legislation guidelines for local government auditors and best practices included in charters and ordinances from other municipalities and entities; and

**WHEREAS**, City staff developed recommendations for the establishment of an Audit and Accountability Committee and its responsibilities and further defining the role, authority and oversight of the Internal Auditor and the Internal Audit Office; and

**WHEREAS**, the City Council has determined that it is necessary to implement these recommendations.

**NOW THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF LAREDO THAT:**

**SECTION 1. Internal Audit Office.** There shall be an independent Internal Audit Office charged with conducting audits of all City departments, offices, programs, agencies, contractors and subcontractors. The Internal Audit Office shall be under the direction and control of the Internal Auditor.

**SECTION 2. Appointment, Qualifications and Compensation of Internal Auditor.** There shall be an Internal Auditor who shall be appointed by the City Council, and shall report to the City Council through an Audit and Accountability Committee of the Council.

The Internal Auditor shall have a bachelor's degree from an accredited college or university in public policy, accounting, business administration, economics, finance or related field. The Internal Auditor shall be knowledgeable in public administration, public financial and fiscal practices, and governmental accounting and auditing. The Internal Auditor shall possess adequate professional proficiency for the job as demonstrated by required amount of experience and any relevant certifications.

The Internal Auditor's compensation shall be fixed by the City Council.

**SECTION 3. Term, Removal, Absence or Disability of the Internal Auditor.** The Internal Auditor shall not be appointed for a definite fixed time but shall be removable at the will and pleasure of the City Council by no less than the affirmative vote of five Council Members. In case of the absence or disability of the Internal Auditor, the City Council may designate a qualified person to perform the duties of the office.

**SECTION 4. Appointment and Removal of Employees.** The Internal Auditor shall have the authority to appoint, employ, evaluate and remove such Internal Audit personnel as deemed necessary for the efficient and effective administration of the affairs of the office and to prescribe their duties, scope of authority and qualifications. Prior to the beginning of the annual budget process, the Internal Auditor shall submit an annual proposed certification attainment plan for Internal Audit personnel (i.e. Certified Internal Auditor (CIA), Certified Government Audit Professional (CGAP), etc.) to the Audit and Accountability Committee for review, funding availability and possible approval. All employees in the Internal Audit Office shall be in the classified civil service of the City and shall be appointed and may be removed by the Internal Auditor. Any classified employee in the Internal Audit Office shall have the same rights as other classified city employees.

**SECTION 5. Independence, Objectivity, and Audit Standards.** Internal Audit shall be a staff function with no authority over the personnel and activities being audited. The Internal Auditor shall organize and administer the Internal Audit Office to operate without interference or influence that might adversely affect the independent and objective judgment of an auditor. The Internal Auditor:

1. Shall organize the Internal Audit Office as necessary to perform the auditor's responsibilities and duties under the City Charter;
2. Shall exercise due professional care in carrying out the auditor's duties, and ensure that due professional care is employed by audit staff in conducting audits; and
3. Shall adhere to generally accepted government auditing standards established by the Comptroller General of the United States to conduct the auditor's work and be independent as defined by the standards, as well as, adhere to the International Standards of the Professional Practice of Internal Auditing and the Code of Ethics acknowledged by the Institute of Internal Auditors; and
4. May not be actively involved in partisan City political activity.

**SECTION 6. Powers and Duties.** In carrying out the annual audit plan, the Internal Auditor shall evaluate the adequacy and effectiveness of controls encompassing the City's operations and information systems. This should include the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. The Internal Auditor shall also conduct special audits and investigations, as assigned by the Audit and Accountability Committee. The City Charter establishes the Internal Audit Office, and the Internal Auditor's powers and duties are as follows:

1. Shall communicate directly with the Audit and Accountability Committee and City Council, attend Audit and Accountability Committee meetings, and regularly meet with City Council;
2. Establish risk-based plans to determine the priorities of the Internal Audit Office;
3. Communicate the annual audit plan and resources available to the City Council for review, comment and approval through the Audit and Accountability Committee;
4. May conduct follow-up reviews determined to be necessary by the Internal Auditor to verify a report or plan from City Management in response to an audit recommendation;
5. Maintain a system to monitor the disposition of results and recommendations communicated in prior audits;

6. Respond to the Audit and Accountability Committee's, City Council's and City Management's special requests for audits and consulting services;
7. Communicate results and recommendations of audits completed to the corresponding departments, City Manager, Audit and Accountability Committee and City Council;
8. May obtain the services of Certified Public Accountants, qualified management consultants or other professional experts necessary to assist in the performance of the auditor's duties, in compliance with the City's procurement requirements;
9. Coordinate audit efforts with those of the City's external auditors;
10. Prepare the Internal Audit Office's annual budget and monitor expenditures for compliance with budget limitations;
11. Supervise, plan, schedule and assign work to the Internal Audit staff;
12. Continue professional development of the Internal Audit staff; and,
13. Carry out the administrative responsibilities of the Internal Audit Office.

**SECTION 7. Access to Employees, Records and Property.** The Internal Auditor shall have access to and authority to examine any and all documents including but not limited to books, accounts, internal or external memoranda, tapes, reports, vouchers, files and other records, CDs, computer data, bank accounts, money, funds, and other property of any City department, office or agency, excluding records protected by the attorney-client privilege.

It is the duty of any officer, employee or agent of the City having control of such records to permit reasonable access to, and examination thereof, upon the request of the Internal Auditor or his or her authorized representative. It is also the duty of any such officer, employee or agent to fully cooperate with, and to make full disclosure of all pertinent information. Each City officer and employee shall provide the Internal Auditor with free and open access to property, equipment, facilities, and operations for inspection or observation by the auditor.

Further, all contracts with outside contractors or subcontractors shall contain a "right-to-audit" clause of contracts and performance bonds and provide the Internal Auditor access to contractor's employees and to all financial and performance related records, property and equipment purchased in whole or in part with City funds.

**SECTION 8. Professional Development.** Sufficient resources shall be made available to the Internal Auditor and staff to ensure appropriate professional development, continuing professional education and compliance with applicable certification requirements.

**SECTION 9. Annual Audit Plan.** Prior to the beginning of each fiscal year, the Internal Auditor shall submit an annual audit plan to the City Council for review, comment and approval through the Audit and Accountability Committee. The Internal Auditor shall prepare an annual audit plan based on requests from the City Council, the Audit and Accountability Committee and the City Manager and a risk assessment performed by the Internal Audit Office. Audit selection shall be based on the Internal Auditor's professional judgment augmented by the direction of the City Council acting as a whole.

1. The annual audit plan shall identify each audit the Internal Auditor intends to conduct, including:
  - a. The department, organization, service, program, function, policy, contractor(s) or subcontractor(s) to be audited; and
  - b. Key audit objective(s) to be addressed.
2. The annual audit plan may be amended by the Internal Auditor if he or she notifies and obtains concurrence of the Audit and Accountability Committee.
3. The Internal Auditor may initiate, conduct, or expand the scope of an audit or investigation, if the auditor determines that:
  - a. Fraud, abuse, or illegality may have been or is occurring; or

- b. An audit finding requires expansion of the scope of an audit or investigation in progress.

**SECTION 10. Report of Irregularities.** If, during an audit, the Internal Auditor becomes aware of abuse or illegal acts or indications of such acts that could affect the City, the Internal Auditor shall:

1. Report the suspected violation to the City Manager;
2. Report the suspected violation to the Audit and Accountability Committee;
3. Report the suspected violation to the City Council;
4. Consult with and obtain advice from the City Attorney; and
5. If the suspected violation is criminal, notify the Police Department in order to begin a separate criminal investigation.

**SECTION 11. Agency Response.** A final draft of audit reports will be forwarded to the corresponding departments and the City Manager for review and comment prior to release. The department must respond in writing, specifying (i) agreement with audit findings, observations and/or recommendations or reasons for disagreement with findings, observations and/or recommendations; (ii) plans for implementing solutions to issues identified; and (iii) a time table to complete such activities. The response must be forwarded to the Internal Auditor within ten (10) working days. The Internal Auditor will include the department's response in the final audit report. If no response is received, the Internal Auditor will note that fact in the transmittal letter and will release the final audit report.

**SECTION 12. Final Audit Report Distribution and Presentation.** The Internal Auditor shall submit each final audit report to the Audit and Accountability Committee, City Council, City Manager and the corresponding Department(s), and shall retain a copy as a permanent record. A copy shall be retained in accordance with public records law.

**SECTION 13. Audit and Accountability Committee.** The Audit and Accountability Committee, one of the standing committees of the City Council, serves the City Council, the Internal Audit Office, City Manager and staff, and the general public by promoting a culture of improvement, integrity, accountability and trust in the performance of City operations and functions. The Audit and Accountability Committee will accomplish this goal by providing guidance to and oversight of the Internal Audit Office in the performance of its responsibilities.

#### Members.

Five members appointed by the Mayor shall comprise the Audit and Accountability Committee. Three members shall be members of the City Council. Two members, who are residents of the City of Laredo and have applicable experience in financial and/or audit matters, shall be appointed by the Mayor. These two members are to be independent of City Management and the City of Laredo. The Mayor shall appoint one of the Council Members as Chairperson.

#### Meetings.

The Audit and Accountability Committee shall meet as needed to perform its duties but shall not meet less than once quarterly.

1. A majority of the members of the Audit and Accountability Committee shall constitute a quorum.
2. The Chairperson of the Audit and Accountability Committee may request the City Manager, Internal Auditor or others attend meetings and provide pertinent information, as necessary.
3. The minutes of each meeting are to be prepared and sent to Committee members and approved at subsequent meetings.
4. In compliance with the Texas Open Meetings Act, the Audit and Accountability Committee will hold executive sessions with the Internal Auditor and External Auditors as deemed appropriate.

#### Financial Statement Responsibilities.

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
2. Review with City Management and the External Auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
4. Review other sections of the annual report before release and consider the accuracy and completeness of the information.
5. Review the independent auditors' single audit of the federal awards administered by the City and their reports thereon.
6. Review with City Management and the External Auditors all matters required to be communicated to the Committee under generally accepted auditing standards.

Internal Control Responsibilities.

1. Consider the effectiveness of the City's internal control system, including information technology security and control.
2. Understand the scope of the External Auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with Management's responses.

Internal Auditor Responsibilities.

The Audit and Accountability Committee shall communicate City Council's expectations and feedback to the Internal Auditor.

1. The Committee shall review with the Internal Auditor the charter, budget, plans, activities and staffing of the Internal Audit Office.
2. The Chairperson of the Audit and Accountability Committee shall meet periodically with the Internal Auditor to discuss whether the materials and information being furnished to the Committee are meeting their needs. The Internal Auditor shall have reasonable access to the Chairperson of the Audit and Accountability Committee.
3. The Audit and Accountability Committee shall review and approve the Internal Auditor's proposed annual audit plan. This plan may be amended after review with and approval by the Committee. In the case of extraordinary circumstance, the City Manager may utilize resources from the Internal Auditor to take actions as necessary to safeguard the assets of the City, with the concurrence of the Audit and Accountability Committee Chair, until the next scheduled meeting of the Committee.

The Audit and Accountability Committee shall:

- a. Ensure that the City Manager has provided input and feedback on the proposed annual audit plan;
  - b. Continuously identify significant issues for audit in order to minimize unexpected or negative outcomes;
  - c. Ensure that audit work efforts are commensurate with perceived risk; and
  - d. Review and recommend on a case-by-case basis future actions concerning any written audit requests by the Internal Auditor, City Manager or City Council that are beyond the approved annual audit plan.
4. The Audit and Accountability Committee shall perform an evaluation of the Internal Auditor annually and report the results of the evaluation and effectiveness of the audit function to the City Council.
  5. The Audit and Accountability Committee shall review the Internal Auditor's report on major activities, key findings and issues. The Internal Auditor shall be expected to raise matters that have a material effect on controls, integrity of management and quality of financial reporting. The Audit and Accountability Committee shall:

- a. Monitor the Internal Auditor’s audit results and follow-up activities on significant findings and recommendations from previous audits to determine whether timely and appropriate corrective actions have been taken by City Management;
  - b. Ensure that audit results include recommendations that serve to improve and enhance City operations; and
  - c. Ensure that City Management’s corrective action plans to audit report recommendations are appropriate.
6. The Audit and Accountability Committee shall review the Internal Auditor’s report on performance measures for the Internal Audit Office.

External Audit Responsibilities.

1. Review the External Auditors’ proposed audit scope and approach, including coordination of audit effort with the Internal Auditor.
2. Review the performance of the External Auditors and subject to review and final approval of the City Council exercise approval on the appointment or discharge of the auditors.
3. Review and confirm the independence of the External Auditors by obtaining statements from the auditors on relationships between the auditors and the City, including non-audit services and discussing the relationships with the auditors.
4. When required, meet separately with the External Auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

Compliance Responsibilities.

The Audit and Accountability Committee shall review the effectiveness of the system for monitoring compliance with laws and regulations.

**SECTION 14: Peer Review.** In accordance with generally accepted government auditing standards, the audit activities of the Internal Audit Office shall be subject to a peer review not less than once every three years by a professional, non-partisan, objective person or group, including an auditor or other professional with appropriate government auditing expertise, utilizing guidelines endorsed by the Association of Local Government Auditors.

1. Peer review shall determine compliance by the Internal Audit Office with government auditing standards and the quality of the auditor’s audit effort and reporting, including:
  - a. General standards, including staff qualifications, due professional care, and quality assurance;
  - b. Fieldwork standards, including planning, supervision, and audit evidence; and
  - c. Reporting standards, including report content, presentation, and timeliness.
2. After the Audit & Accountability Committee has evaluated the findings and recommendations in the written peer review, the Committee shall provide a copy of the written peer review report to City Council.
3. The Internal Auditor shall pay for the cost of the peer review from the Internal Audit Office budget.

**PASSED BY THE CITY COUNCIL AND APPROVED BY THE MAYOR ON THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2020.**

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**PETE SAENZ  
MAYOR**

**ATTEST:**

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**JOSE A. VALDEZ, JR.**  
**CITY SECRETARY**

**APPROVED AS TO FORM:**

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**KRISTINA L. HALE**  
**CITY ATTORNEY**