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HOW TO RESPOND TO RECOMMENDATIONS IN THIS REPORT

Pursuant to California Penal Code §933.05, the person or entity responding to each grand jury finding shall indicate one of the following:

1. The respondent agrees with the finding.
2. The respondent disagrees wholly with or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

The person or entity responding to each grand jury recommendation shall report one of the following actions:

1. The recommendation has been implemented, with a summary regarding the implementation action.
2. The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
3. The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency where applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.
4. The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.

SEND ALL RESPONSES TO:

Presiding Judge
Los Angeles County Superior Court
Clara Shortridge Foltz Criminal Justice Center
210 West Temple Street,
Eleventh Floor, Room 11-506
Los Angeles, CA 90012

All responses for the 2011-2012 CGJ Final Report's recommendations must be submitted to the above address on or before the end of business on October 1, 2012.

INVESTIGATIVE REPORTS



GOVERNANCE ISSUES



CHARTER CITIES' FISCAL HEALTH, GOVERNANCE AND MANAGEMENT PRACTICES



COMMITTEE MEMBERS

**Magdalene Y. Ho – Co-Chair
Alf Schonbach – Co-Chair
Gregory Steve Alvarado
Elizabeth B. Calvert
Bob Cremer
Leah V. Granof
Thomas Joyner**

CHARTER CITIES' FISCAL HEALTH, GOVERNANCE AND MANAGEMENT PRACTICES

EXECUTIVE SUMMARY

Charter cities in California are given greater authority and flexibility, by California law, than general law cities over municipal affairs. The 2011–2012 Los Angeles County Civil Grand Jury (CGJ) members expressed concern about the potential for abuse of this flexibility. The CGJ decided to investigate the fiscal health, as well as the governance, financial management, and procurement and contracting practices of charter cities. Employees with total taxable compensation over \$200,000 for 2011 were also identified.

To conduct this investigation, the fiscal year (FY) 2009-2010 Comprehensive Annual Financial Reports (CAFR) or basic financial statements for each charter city were obtained and analyzed. Best practices for local governments in the areas of governance, financial management, and procurement and contracting were identified. A questionnaire was developed to collect information on current practices of the charter cities in each best practice area, as well as employee compensation. The questionnaire requested each city to provide copies of documentation supporting its responses, and any comments or additional information. These documents and comments were reviewed.

Financial Health

Charter cities in Los Angeles County, like local governments throughout California and the nation, have been severely impacted by the economic downturn that began in 2008 and continues. The charter cities have responded to the economic downturn and have made substantial efforts to reduce costs consistent with reduced revenues.

Despite these efforts, most charter cities expended more than they received in revenues in FY 2010. Two cities spent more than 50% more than they took in, and the average for all cities was nearly 17% in total and 15% for city general funds. Most cities total net assets and general fund balances also declined, indicating cities are spending down their assets in order to meet current financial obligations. Several charter cities ratio of total assets to total liabilities is also lower than desirable.

Governance and management practices of each city contribute to how well prepared each was for the economic downturn, and how effectively each has responded. Information on “best practices” for local governments was compared to current practices by charter cities in the areas of governance, financial management, and procurement and contracting. It is hopeful these best practices and recommendations will be useful to the charter cities in addressing their current financial challenges, and preparing for the future.

Governance Practices

Governance describes the role of a board or city council in providing leadership for an organization. Strategic planning and performance measurement are key tools for a city

council to provide the overall direction for the city, and to oversee the city's performance. The CGJ found several cities that had developed comprehensive strategic plans. Others held regular strategic planning sessions with the city council to discuss strategic issues and provide needed direction. Many other cities focused on short-term or budget related goals, which do not provide the appropriate strategic focus and direction for these cities. The CGJ recommends charter cities that have not developed and adopted a strategic plan that articulates the mission, vision, core values and priorities (goals and objectives) for the City consider doing so.

While most cities responded that they had adopted performance measures or indicators to evaluate outcomes or progress on priorities, the CGJ found only a few cities that had such performance measures. Most cities either provided no performance measure information, or provided performance information that was not quantified, or was focused on activities or workload with little or no information on results or outcomes. The CGJ recommends charter cities that have not developed and reported on performance measures, or indicators to evaluate outcomes or progress on priorities, should consider doing so. These performance measures should be quantified, focused on outcomes or results, and information should be provided for several years to allow evaluation of progress over time.

Effective governance also requires formal definitions of roles and relationships, especially for the city council and executive (city manager or city administrator). It is also important for city councils to provide clear direction for the executive through specific goals and objectives and performance reviews. All cities had defined basic roles and provided the legal framework for the city council and executive through the charter and/or municipal code. A best practice for city councils or boards is to go beyond this basic framework and develop a more detailed description of the relationship. This more extensive "governance framework" can improve the cohesion and effectiveness of both the city council and the executive. The CGJ recommends city councils consider developing a "governance" policy that more specifically defines the relationship between the council and the executive. City councils that do not develop specific annual goals for the city's executive (city manager or city administrator) and conduct meaningful evaluations annually should consider doing so.

Adopting appropriate policies is another key element of effective governance. Two policies that charter cities are required by California Government Code to adopt are a "Conflict of Interest" policy and an "Investment" policy. The CGJ found that all charter cities have adopted or are in the process of adopting a Conflict of Interest policy, and all have adopted an Investment policy.

Financial Management Practices

Financial management within each city is responsible for managing and protecting the financial resources and assets of the city. Effective financial management requires adequate systems of internal controls to ensure funds are used for intended purposes, and transparency and reliability of financial reporting. The Government Finance Officers Association (GFOA) developed recommended best practices to provide guidance on

sound financial management practices. These best practices serve as the basis for evaluating the financial management practices of the charter cities.

An audit committee is a practical approach for the city council to provide independent review and oversight of financial reporting processes, internal controls, and independent auditors. The GFOA recommends the governing body of every state and local government establish an audit committee or its equivalent, and make it directly responsible for the work of the independent auditor. Most charter cities have not established a formal audit committee with the responsibility for monitoring and overseeing financial reporting. The CGJ recommends charter cities consider formally establishing an audit committee and making it directly responsible for the work of the independent auditor.

Annual independent audits are required by each city's charter, and are key in preserving the integrity of public finance functions and maintaining the public's confidence. The GFOA recommends the independent auditor be selected in a way that ensures the auditor meets independence standards, is selected competitively, and the provision of non-audit services by the auditor are carefully reviewed and approved. All charter cities require their auditors to comply with independence standards and most select their auditors through a competitive process. Most also preclude the auditor from providing non-audit services. The CGJ recommends charter cities continue requiring compliance with standards of independence for the external auditor. Cities that do not currently select the auditor through a competitive process should consider doing so. Cities that allow the auditor to provide non-audit services should ensure appropriate review and approval of those services.

Formal documentation of accounting policies and procedures is an essential component in providing effective controls over accounting and financial reporting. The GFOA recommends that accounting policies and procedures be documented, and evaluated and updated at least every three years. Several charter cities did not have documented accounting policies and procedures, and most of those that did could improve their documentation and maintenance of accounting policies and procedures. The CGJ recommends charter cities consider reviewing and updating accounting policies and procedures to ensure they are appropriately detailed and define the specific authority and responsibility of employees. Cities should also consider establishing a policy requiring policies and procedures be reviewed annually and updated at least once every three years.

Most fraud, abuse, and questionable practices are identified through reporting by employees or members of the public. The GFOA recommends establishment of policies and procedures to encourage and facilitate reporting of fraud, abuse and questionable practices. This should include a formal ethics policy, and practical mechanisms for confidential and anonymous reporting. Several charter cities had very comprehensive and detailed policies and procedures including definitions of fraud and abuse, clear responsibilities for employees and management personnel, and guidelines and steps for investigating allegations and reporting the results. However, most cities could improve their policies and procedures for reporting fraud, abuse, and questionable practices. The CGJ recommends charter cities consider reviewing and updating policies and pro-

cedures for reporting fraud, abuse and questionable practices including a practical mechanism, such as a fraud hotline, to permit the confidential, anonymous reporting of concerns.

Internal controls are important to safeguard city assets from error, loss, theft, misuse, misappropriation, and fraud. The GFOA recommends internal controls over financial management be documented, provide practical means for employees to report management override of controls, periodic evaluation of internal control procedures, and development of corrective action plans to address identified weaknesses. Two cities had developed comprehensive procedures for internal controls. However, most cities provided no specific documentation of internal control procedures, or made minor mention of internal controls procedures as part of their financial and accounting policies and procedures.

Most cities also relied on their external auditor for internal control reviews during their annual audit. These reviews are typically limited to review of internal controls over financial reporting and compliance, and do not include an opinion on internal controls. Internal controls that ensure there are adequate procedures in place to protect public funds is the responsibility of city financial management. The CGJ recommends charter cities consider reviewing and updating internal control procedures over financial management.

The internal audit function serves as an additional level of control and helps improve the overall control and risk environment. The GFOA recommends every government consider establishing a formal internal audit function that complies with professional auditing standards. Most cities do not have a formal internal audit function. Several state that, given the small size of their city, an internal audit function and staff could not be justified. The CGJ recommends charter cities consider the feasibility of establishing a formal internal audit function.

It is important that city governments formally set aside adequate funds for use in emergencies, revenue shortages, or budget imbalances. The GFOA recommends that cities establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund, and that this balance should provide no less than two months of regular general fund operating revenues or expenditures. Many charter cities do not have such a policy, and most who do have not established a minimum of two months of regular general fund operating revenues or expenditures. The CGJ recommends charter cities that do not have policies and procedures regarding general fund unrestricted fund balance should consider developing such policies. Charter cities that have not adopted a policy requiring an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures consider developing such policies.

Financial statements and information provide members of the public with information on how their city is using its resources, as well as the financial stability and health of the city. Ensuring transparency and reliability of financial reporting is a key responsibility of financial management. The GFOA recommends maintaining an adequate accounting

system, issuing timely financial statements and a Comprehensive Annual Financial Report (CAFR) in compliance with standards, and making the information readily accessible to the general public on the city's website. All cities maintain an adequate accounting system, most issue timely financial statements and a CAFR, and most make the CAFR available on the city website. The CGJ recommends charter cities that have not developed and published a CAFR consider doing so. Charter cities that have not published financial reports on the city's website should do so.

Procurement and Contracting Practices

The costs of goods and services acquired by procurement and contracting are a substantial expenditure of city resources and generally second only to expenditures for employee salaries and benefits. Protecting city resources requires developing and maintaining adequate policies and procedures for procurement and contracting.

The Public Contract Code defines the requirements for public contracting for public entities, and specifically allows charter cities an exemption if they adopt policies and procedures defining competitive bidding by city charter or code. All charter cities have formally adopted such policies and procedures. These policies and procedures provide exemptions from competitive bidding for emergencies or when items are only available from one source (sole-source). Several cities have not established internal controls over sole-source contracting. The CGJ recommends charter cities that have not developed controls over sole source contracting should consider doing so.

California Government Code §4526 and §4528 require selection of firms providing certain services, including architectural and engineering services, be selected based on demonstrated competence and professional qualifications rather than price. Once the best qualified firm is selected a price that is determined to be fair and reasonable is negotiated. Compliance with these requirements requires specific policies and procedures for selecting firms providing these types or services. The CGJ found two cities that had such policies in place, while most others did not. The CGJ recommends charter cities that have not developed policies and procedures for selecting and negotiating fair prices for architectural and engineering services consistent with State code consider doing so.

Cities issue construction contracts through a competitive process, while construction change orders are typically not competitively bid. Policies and procedures should be documented to ensure fair pricing of change orders and adequate internal controls over contract change orders. Several cities had comprehensive controls over contract change orders, with specific limits on change order amounts and detailed approval steps. No formal policies to ensure fair pricing on change orders were found. The CGJ recommends charter cities that have not developed policies and procedures for ensuring prices negotiated for contract change orders are fair and reasonable, and establishing internal controls over contract change orders consider doing so.

Documentation of the procurement process is necessary to ensure compliance. Contract compliance and oversight is also important to ensure contractors are providing the goods or services they are being paid for. Most cities established a “purchasing officer”

with the responsibility for overseeing the procurement process and ensuring compliance with purchasing requirements. Less than half the cities had adopted policies for providing contract compliance and oversight. The CGJ recommends charter cities that have not developed policies and procedures for documenting compliance with procurement requirements, and providing contract compliance and oversight, consider doing so.

Employee Compensation

Charter cities have the authority and responsibility to determine the appropriate salaries and compensation for its employees. Until recently, there has been a lack of transparency and accountability for actual annual compensation for employees of charter cities. In 2010 media reports alleged that some administrators in Bell and Vernon were receiving disproportionately high compensation. In response to these reports, the State Controller began requiring counties, cities, and special districts to report government compensation to be posted on the Controller's website to promote transparency. The information provided includes the approved salary range, as well as the actual compensation received by each employee as reported to the U.S. Internal Revenue Service. The CGJ recommends city councils and members of the public annually review the actual compensation received by employees of their city. The taxable compensation for charter city positions receiving in excess of \$200,000 in 2011 is listed, by city and position title, in Appendix C of this report.

INTRODUCTION

The 2011-2012 Los Angeles County Civil Grand Jury (CGJ) conducted an investigation of the charter cities within the County of Los Angeles, to look at and consider whether the relative autonomy that charter cities are entitled to may lead to abuse in the areas of financial management, procurement and contracting, compensation, and general city governance. The investigation was prompted in part by concerns resulting from recent scandals in such charter cities as Bell and Vernon, where financial mismanagement and lack of transparent government were alleged. In addition, the CGJ felt it important to identify and emphasize best governance practices.

BACKGROUND

Within Los Angeles County, 25 of the total 89 cities are classified as charter cities. These cities are:

Alhambra	Arcadia	Bell	Burbank	Cerritos
Compton	Culver City	Downey	Glendale	Industry
Inglewood	Inwindale	Lancaster	Long Beach*	Los Angeles*
Palmdale	Pasadena	Pomona	Redondo Beach	Santa Monica
Signal Hill	Temple City	Torrance	Vernon	Whittier

*In this report the cities of Los Angeles and Long Beach have been excluded due to their size.

A charter city is formed by the vote of the citizens of an existing city to establish the basic law of the city. The California State Constitution, Article XI Section 3, guarantees to charter cities a large measure of “home rule”. This grants them direct control of local affairs, independent of the State. It is based on the principle that a city, not the state, is in the best position to know what it needs and how to satisfy those needs. Accordingly, charter cities in California are given more authority, autonomy, and flexibility over municipal affairs than are general law cities. A city charter is the city’s constitution, authorized by a vote of its citizens. Exhibit 1 is a detailed overview of the distinctions between charter and general law cities.¹

¹Source: http://www.cacities.org/resource_files/29142.Chart_General_Law_v._Charter_Cities-07-26-11.pdf

METHODOLOGY

CGJ members expressed concern about the potential for abuse of charter cities autonomy. The CGJ investigated the fiscal health, as well as the governance, financial management, and procurement and contracting practices of charter cities. Employees with total taxable compensation over \$200,000 for 2011 were also identified.

To conduct this investigation the fiscal year (FY) 2009-2010 Comprehensive Annual Financial Reports (CAFR) and/or basic financial statements for each charter city were obtained and analyzed.

The CGJ reviewed the best practices for the charter cities in the following areas:

- Financial Health
- Governance Practices
- Financial Management Practices,
- Contracting and Procurement
- Employee Compensation

A questionnaire was developed to collect information regarding current practices of the charter cities in response to the categories listed above. The questionnaire requested each city provide copies of documentation supporting their responses, and any comments or additional information.²

² See Appendices B and D.

FINANCIAL HEALTH

Charter cities in Los Angeles County, like local governments throughout California and the nation, have been severely impacted by the economic downturn that began in 2008. Property tax revenues received by these cities have declined substantially consistent with the decline in property values and the reduction in the sale and turnover of real property. Sales tax revenues have also declined substantially, with consumers reducing their spending in response to new economic realities and loss of consumer confidence.

At the same time, the cost of funding public pensions for city employees has been impacted as well. The annual cost of pension obligations is partially determined by the earnings of pension funds, primarily the California Public Employees Retirement System (CalPERS). With the economic decline came market corrections and substantial reductions in the investment earnings of CalPERS. This resulted in increased rates and costs for cities to fund their employee pension obligations.

Cities have responded to the economic downturn and have made substantial efforts to reduce costs consistent with reduced revenues. These efforts include hiring and pay freezes for employees, furlough days for existing employees, increased cost to employees for benefits (health care and retirement), and in some cases significant employee layoffs. In other cases cities have also reduced the level of service provided to the community, with reduced hours of operations and reductions for services.

To evaluate the financial health of the charter cities the CGJ obtained and reviewed the Comprehensive Annual Financial Report (CAFR) or basic financial statements for each city for FY 2009-10, the most recent year of audited financial reporting available. The CGJ was able to obtain this information from 22 of the 23 charter cities. The City of Bell is in the process of completing its financial statements and audit for FY 2009-10, and expects it to be available in the Spring of 2012.

The CGJ developed criteria for evaluating the financial health of these cities, and compiled and analyzed the information from the financial statements. The following sections provide the results of this analysis.

City Activities – Revenues, Expenditures and Net Revenues

Most of the charter cities had two primary types of activities: governmental and proprietary or business-type activities. Governmental activities include the core government activities such as government administration, public safety, transportation, community development, and community services. Proprietary or business-type activities typically include operating public utilities (power, water, parking, and refuse collection, etc.) or other non-governmental activities. The CGJ compiled and analyzed information on revenues and expenditures for governmental activities, and for all other activities.

Total Funds – Revenues, Expenditures, and Net Revenues

Budget gaps between receipts and expenditures sometimes exist in any one fiscal year. But cities cannot sustain a pattern of spending more than is received in revenue, and

essentially not living within their means during the fiscal year. Cities must balance their budgets, and they often do so by spending down reserve funds, liquidating city assets, or increasing city debt or liabilities. Cities may have to make even more substantial reductions in city services, or may even face the possibility of insolvency or bankruptcy.

Table 1. Total Revenues, Expenditures and Net Revenues					
Rank	City	Total Revenues	Total Expenditures	Net Total Revenues	Net Revenue %
1	Vernon	\$ 43,977,807	\$ 80,087,633	\$ (36,109,826)	-82.1%
2	Lancaster	\$ 115,563,547	\$ 174,733,808	\$ (59,170,261)	-51.2%
3	Compton	\$ 137,183,571	\$ 184,639,097	\$ (47,455,526)	-34.6%
4	Cerritos	\$ 102,494,642	\$ 125,084,152	\$ (22,589,510)	-22.0%
5	Signal Hill	\$ 31,551,775	\$ 38,286,911	\$ (6,735,136)	-21.3%
6	Whittier	\$ 79,174,360	\$ 95,951,737	\$ (16,777,377)	-21.2%
7	Industry	\$ 202,202,545	\$ 243,484,728	\$ (41,282,183)	-20.4%
8	Inglewood	\$ 156,862,931	\$ 188,615,029	\$ (31,752,098)	-20.2%
9	Pasadena	\$ 306,072,190	\$ 356,586,243	\$ (50,514,053)	-16.5%
10	Glendale	\$ 286,148,000	\$ 332,115,000	\$ (45,967,000)	-16.1%
11	Torrance	\$ 184,251,619	\$ 209,296,279	\$ (25,044,660)	-13.6%
12	Palmdale	\$ 136,008,739	\$ 154,126,410	\$ (18,117,671)	-13.3%
13	Pomona	\$ 181,623,666	\$ 202,575,731	\$ (20,952,065)	-11.5%
14	Redondo Beach	\$ 88,262,501	\$ 97,647,266	\$ (9,384,765)	-10.6%
15	Downey	\$ 81,477,000	\$ 89,699,000	\$ (8,222,000)	-10.1%
16	Irwindale	\$ 42,452,890	\$ 46,310,082	\$ (3,857,192)	-9.1%
17	Alhambra	\$ 78,781,555	\$ 83,072,781	\$ (4,291,226)	-5.4%
18	Culver City	\$ 121,253,707	\$ 127,236,249	\$ (5,982,542)	-4.9%
19	Santa Monica	\$ 424,129,802	\$ 430,635,297	\$ (6,505,495)	-1.5%
20	Arcadia	\$ 60,496,049	\$ 60,709,088	\$ (213,039)	-0.4%
21	Burbank	\$ 523,253,000	\$ 515,911,000	\$ 7,342,000	1.4%
22	Temple City	\$ 16,057,498	\$ 15,720,319	\$ 337,179	2.1%
	Average				-17.4%
Notes: Information obtained from each city's Comprehensive Annual Financial Report (CAFR) or Basic Financial Statements for Fiscal Year 2010, the most recent available. Financial statements for the City of Bell have not been completed and were not available at the date of publication.					

Table 1 shows that, 20 of the 22 charter cities expended more on all activities (Governmental and Business) during fiscal 2009-10 than revenue received. The cities of Vernon, Lancaster, and Compton spent the most in excess of revenues. Only two cities, Burbank and Temple City, expended less than revenue received. On average, cities expended just over 17% more than revenue received in FY 2010.

General Fund - Revenues, Expenditures, and Net Revenues

Each city's general fund is used to provide resources for basic city services, including police, fire, parks, library, and administrative support services. When expenditures exceed revenues, a city's ability to provide these essential services in the future may be at risk, and it may have to make additional reductions in these key city services.

Table 2. General Fund Revenues, Expenditures and Net Revenues					
Rank	City	General Fund Revenues	General Fund Expenditures	GF Net Revenue	GF Net Revenue %
1	Vernon	\$ 18,353,768	\$ 51,732,177	\$ (33,378,409)	-181.9%
2	Palmdale	\$ 43,541,816	\$ 66,216,488	\$ (22,674,672)	-52.1%
3	Lancaster	\$ 42,969,083	\$ 53,481,380	\$ (10,512,297)	-24.5%
4	Inglewood	\$ 75,253,765	\$ 93,057,071	\$ (17,803,306)	-23.7%
5	Signal Hill	\$ 13,418,856	\$ 16,107,495	\$ (2,688,639)	-20.0%
6	Glendale	\$ 129,834,000	\$ 154,128,000	\$ (24,294,000)	-18.7%
7	Compton	\$ 61,152,456	\$ 70,002,992	\$ (8,850,536)	-14.5%
8	Burbank	\$ 130,620,000	\$ 148,375,000	\$ (17,755,000)	-13.6%
9	Culver City	\$ 66,086,224	\$ 71,403,249	\$ (5,317,025)	-8.0%
10	Irwindale	\$ 16,951,654	\$ 18,211,504	\$ (1,259,850)	-7.4%
11	Pomona	\$ 78,572,894	\$ 84,315,931	\$ (5,743,037)	-7.3%
12	Alhambra	\$ 48,203,884	\$ 50,825,010	\$ (2,621,126)	-5.4%
13	Arcadia	\$ 46,005,476	\$ 48,319,823	\$ (2,314,347)	-5.0%
14	Santa Monica	\$ 252,085,550	\$ 261,076,234	\$ (8,990,684)	-3.6%
15	Downey	\$ 63,534,000	\$ 65,389,000	\$ (1,855,000)	-2.9%
16	Torrance	\$ 141,462,192	\$ 143,303,309	\$ (1,841,117)	-1.3%
17	Redondo Beach	\$ 66,555,676	\$ 66,939,579	\$ (383,903)	-0.6%
18	Whittier	\$ 55,696,839	\$ 53,060,929	\$ 2,635,910	4.7%
19	Pasadena	\$ 194,413,346	\$ 183,451,992	\$ 10,961,354	5.6%
20	Temple City	\$ 10,410,925	\$ 9,790,629	\$ 620,296	6.0%
21	Cerritos	\$ 61,107,599	\$ 56,870,700	\$ 4,236,899	6.9%
22	Industry	\$ 59,005,858	\$ 34,954,708	\$ 24,051,150	40.8%
	Average				-14.8%
Notes: Information obtained from each city's Comprehensive Annual Financial Report (CAFR) or Basic Financial Statements for Fiscal Year 2010, the most recent available. Financial statements for the City of Bell have not been completed and were not available at the date of publication.					

As Table 2 shows, 17 of the 22 charter cities expended more on general fund governmental activities during fiscal year 2009-10 than revenues received. Other cities: Vernon, Palmdale, Lancaster, Inglewood, and Signal Hill, all spent 20% or more than revenue received. The City of Vernon spent nearly 182% more. Only five cities: Whittier, Pasadena, Temple City, Cerritos and Industry, expended less than revenue received. On average, cities expended nearly 15% more than revenue received for governmental activities.

City Fund Balances – Assets, Liabilities, and Net Assets

City assets include funds available for operations, as well as the value of any capital assets such as land, buildings and improvements, machinery and equipment, and infrastructure.

Liabilities include accounts payable and long-term debt such as bonds, certificates of participation, pension obligations, and insurance claims.

Total Funds – Change in Net Assets

Net assets are the total city assets less total city liabilities. Ideally, city net assets would be stable or increasing. Declining net assets indicate cities are spending down their assets in order to meet current financial obligations.

A positive percentage change in total net assets indicates that the city's financial position is improving, while a negative percentage change indicates that the city's financial position is deteriorating.

As Table 3 shows, 14 of the 22 charter cities net assets declined during Fiscal Year 2009-10. While most cities' net assets declined less than 5%, Compton, Vernon, Inglewood, and Pomona had more substantial declines. The City of Compton's net assets declined nearly 23%. The average decline in net assets was 3%.

Table 3. Change in Net Assets					
Rank	City	Beginning Net Assets	Ending Net Assets	Change in Net Assets	% Change in Net Assets
1	Compton	\$ 110,205,422	\$ 85,067,960	\$ (25,137,462)	-22.8%
2	Vernon	\$ 239,612,093	\$ 201,108,074	\$ (38,504,019)	-16.1%
3	Inglewood	\$ 249,452,636	\$ 221,790,427	\$ (27,662,209)	-11.1%
4	Pomona	\$ 288,760,419	\$ 265,701,880	\$ (23,058,539)	-8.0%
5	Cerritos	\$ 343,620,750	\$ 327,513,340	\$ (16,107,410)	-4.7%
6	Culver City	\$ 212,880,609	\$ 204,307,393	\$ (8,573,216)	-4.0%
7	Irwindale	\$ 133,403,988	\$ 128,399,144	\$ (5,004,844)	-3.8%
8	Downey	\$ 299,483,000	\$ 291,298,000	\$ (8,185,000)	-2.7%
9	Torrance	\$ 424,103,515	\$ 415,797,638	\$ (8,305,877)	-2.0%
10	Signal Hill	\$ 60,806,225	\$ 60,059,575	\$ (746,650)	-1.2%
11	Santa Monica	\$ 1,540,899,980	\$ 1,535,362,226	\$ (5,537,754)	-0.4%
12	Palmdale	\$ 732,914,844	\$ 731,360,888	\$ (1,553,956)	-0.2%
13	Lancaster	\$ 898,823,975	\$ 897,375,524	\$ (1,448,451)	-0.2%
14	Arcadia	\$ 199,298,453	\$ 199,030,502	\$ (267,951)	-0.1%
15	Glendale	\$ 1,653,026,000	\$ 1,654,023,000	\$ 997,000	0.1%
16	Redondo Beach	\$ 214,760,352	\$ 215,266,893	\$ 506,541	0.2%
17	Burbank	\$ 1,362,879,000	\$ 1,370,221,000	\$ 7,342,000	0.5%
18	Whittier	\$ 222,793,005	\$ 225,081,443	\$ 2,288,438	1.0%
19	Temple City	\$ 56,347,937	\$ 57,233,673	\$ 885,736	1.6%
20	Pasadena	\$ 1,002,103,194	\$ 1,040,238,519	\$ 38,135,325	3.8%
21	Industry	\$ 556,577,109	\$ 581,342,798	\$ 24,765,689	4.4%
22	Alhambra	\$ 156,455,154	\$ 163,529,822	\$ 7,074,668	4.5%
	Average				-2.8%

Notes: Information obtained from each city's Comprehensive Annual Financial Report (CAFR) or Basic Financial Statements for Fiscal Year 2010, the most recent available. Financial statements for the City of Bell have not been completed and were not available at the date of publication.

General Fund – Change in General Fund Balance

Only general fund balance can be used for the general operations of the cities, since other funds are restricted for designated use or only reflect the value of the city's fixed assets of land, buildings etc., and are not available for the city's operational needs.

A positive percentage change indicates that the city's general fund financial position is improving, while a negative percentage change indicates that the city's financial position is deteriorating.

As Table 4 shows, 17 of the 22 charter cities' general fund balances declined during Fiscal Year 2009-10. Compton, Inglewood, and Pomona had substantial declines. The City of Compton general fund balance went from a negative \$2.6 million to a negative \$14.6 million, a decline of 465%. The average decline in net assets was 20%.

Table 4. Change in General Fund Balance					
Rank	City	Beginning GF Balance	Ending GF Balance	Change in GF Balance	% Change in GF Balance
1	Compton	\$ (2,586,510)	\$ (14,607,702)	\$ (12,021,192)	-465%
2	Inglewood	\$ 35,194,792	\$ 16,879,802	\$ (18,314,990)	-52%
3	Pomona	\$ 8,796,614	\$ 6,535,641	\$ (2,260,973)	-26%
4	Palmdale	\$ 28,135,502	\$ 23,476,666	\$ (4,658,836)	-17%
5	Whittier	\$ 42,582,574	\$ 36,375,616	\$ (6,206,958)	-15%
6	Torrance	\$ 58,748,360	\$ 51,212,447	\$ (7,535,913)	-13%
7	Pasadena	\$ 60,383,043	\$ 53,177,187	\$ (7,205,856)	-12%
8	Alhambra	\$ 9,111,184	\$ 8,080,126	\$ (1,031,058)	-11%
9	Lancaster	\$ 86,184,043	\$ 76,668,663	\$ (9,515,380)	-11%
10	Signal Hill	\$ 27,445,377	\$ 24,525,625	\$ (2,919,752)	-11%
11	Downey	\$ 24,740,000	\$ 23,119,000	\$ (1,621,000)	-7%
12	Irwindale	\$ 29,280,183	\$ 27,375,796	\$ (1,904,387)	-7%
13	Burbank	\$ 115,307,000	\$ 108,520,000	\$ (6,787,000)	-6%
14	Arcadia	\$ 26,586,680	\$ 25,198,726	\$ (1,387,954)	-5%
15	Glendale	\$ 125,663,000	\$ 120,471,000	\$ (5,192,000)	-4%
16	Culver City	\$ 40,520,291	\$ 38,893,637	\$ (1,626,654)	-4%
17	Redondo Beach	\$ 10,025,322	\$ 9,894,077	\$ (131,245)	-1%
18	Temple City	\$ 24,615,597	\$ 24,700,378	\$ 84,781	0%
19	Cerritos	\$ 181,445,052	\$ 183,100,074	\$ 1,655,022	1%
20	Santa Monica	\$ 196,954,230	\$ 215,470,696	\$ 18,516,466	9%
21	Industry	\$ 185,675,395	\$ 204,929,546	\$ 19,254,151	10%
22	Vernon	\$ 4,640,434	\$ 14,097,228	\$ 9,456,794	204%
	Average				-20%

Notes: Information obtained from each city's Comprehensive Annual Financial Report (CAFR) or Basic Financial Statements for Fiscal Year 2010, the most recent available. Financial statements for the City of Bell have not been completed and were not available at the date of publication.

Total Funds – Ratio of Total Assets to Total Liabilities

The ratio of assets to liabilities indicates the city's solvency and ability to meet long-term obligations, including financial obligations to creditors, employees, taxpayers, and suppliers, as well as its service obligations to its residents. Ideally, cities would, at minimum, have twice as many assets as liabilities. This would give them an asset to liability ratio of 2.0 or better to meet future obligations.

As Table 5 shows, 7 of the 22 charter cities' ratios of total assets to total liabilities were less than 2.0. The cities of Compton, Vernon, Pomona, Signal Hill, Inglewood, Industry, and Culver City all had ratios below 2.0. The City of Compton's ratio was the lowest at 1.24. This indicates that several cities' solvency may be at risk, as may also be their ability to meet future obligations.

Table 5. Ratio of Total Assets to Total Liabilities					
Rank	City	Total Assets	Total Liabilities	Net Assets	Assets/ Liabilities
1	Compton	\$ 436,026,358	\$ 350,958,398	\$ 85,067,960	1.24
2	Vernon	\$ 838,968,440	\$ 637,860,366	\$ 201,108,074	1.32
3	Pomona	\$ 812,143,891	\$ 546,442,011	\$ 265,701,880	1.49
4	Signal Hill	\$ 174,713,295	\$ 114,653,720	\$ 60,059,575	1.52
5	Inglewood	\$ 572,555,974	\$ 350,765,547	\$ 221,790,427	1.63
6	Industry	\$ 1,336,990,674	\$ 755,647,876	\$ 581,342,798	1.77
7	Culver City	\$ 441,596,277	\$ 237,288,884	\$ 204,307,393	1.86
8	Pasadena	\$ 1,949,898,673	\$ 909,660,154	\$ 1,040,238,519	2.14
9	Irwindale	\$ 234,197,579	\$ 105,798,435	\$ 128,399,144	2.21
10	Alhambra	\$ 284,392,554	\$ 120,862,732	\$ 163,529,822	2.35
11	Cerritos	\$ 516,513,081	\$ 188,999,741	\$ 327,513,340	2.73
12	Whittier	\$ 347,583,150	\$ 122,501,707	\$ 225,081,443	2.84
13	Torrance	\$ 629,302,119	\$ 213,504,481	\$ 415,797,638	2.95
14	Palmdale	\$ 1,004,795,569	\$ 273,434,681	\$ 731,360,888	3.67
15	Burbank	\$ 1,860,024,000	\$ 489,803,000	\$ 1,370,221,000	3.80
16	Lancaster	\$ 1,208,857,934	\$ 311,482,410	\$ 897,375,524	3.88
17	Downey	\$ 385,362,000	\$ 94,064,000	\$ 291,298,000	4.10
18	Glendale	\$ 2,179,448,000	\$ 525,425,000	\$ 1,654,023,000	4.15
19	Redondo Beach	\$ 276,492,991	\$ 61,226,098	\$ 215,266,893	4.52
20	Santa Monica	\$ 1,897,804,611	\$ 362,442,385	\$ 1,535,362,226	5.24
21	Arcadia	\$ 237,019,926	\$ 37,989,424	\$ 199,030,502	6.24
22	Temple City	\$ 68,117,230	\$ 10,883,557	\$ 57,233,673	6.26
	Average				3.09

Notes: Information obtained from each city's Comprehensive Annual Financial Report (CAFR) or Basic Financial Statements for Fiscal Year 2010, the most recent available. Financial statements for the City of Bell have not been completed and were not available at the date of publication.

General Fund Government Activities - Ratio of Total Assets to Total Liabilities

Cities would ideally have a similar ratio of total assets to total liabilities related to governmental activities, with a minimum of twice as many assets as liabilities and an asset to liability ratio of 2.0 or better.

As Table 6 shows, 6 of the 22 charter cities' ratios of total assets to total liabilities for governmental activities were less than 2.0. The cities of Compton, Signal Hill, Pomona, Inglewood, Culver City, and Industry all had ratios below 2.0. The City of Compton ratio was the lowest at 1.29.

Table 6. Governmental Activities - Ratio of Total Assets to Total Liabilities					
Rank	City	Total Assets	Total Liabilities	Net Assets	Assets/ Liabilities
1	Compton	\$ 357,732,854	\$ 276,747,259	\$ 80,985,595	1.29
2	Signal Hill	\$ 143,828,512	\$ 106,263,834	\$ 37,564,678	1.35
3	Pomona	\$ 558,456,055	\$ 391,687,435	\$ 166,768,620	1.43
4	Inglewood	\$ 530,827,351	\$ 347,338,711	\$ 183,488,640	1.53
5	Culver City	\$ 339,243,877	\$ 210,433,914	\$ 128,809,963	1.61
6	Industry	\$ 1,296,047,690	\$ 755,244,767	\$ 540,802,923	1.72
7	Vernon	\$ 167,702,386	\$ 83,983,725	\$ 83,718,661	2.00
8	Pasadena	\$ 772,807,078	\$ 381,252,334	\$ 391,554,744	2.03
9	Alhambra	\$ 212,742,506	\$ 102,085,086	\$ 110,657,420	2.08
10	Irwindale	\$ 234,197,579	\$ 105,798,435	\$ 128,399,144	2.21
11	Torrance	\$ 462,455,632	\$ 202,109,508	\$ 260,346,124	2.29
12	Cerritos	\$ 476,058,643	\$ 187,631,823	\$ 288,426,820	2.54
13	Whittier	\$ 260,695,917	\$ 80,253,888	\$ 180,442,029	3.25
14	Palmdale	\$ 1,004,795,569	\$ 273,434,681	\$ 731,360,888	3.67
15	Lancaster	\$ 1,208,857,934	\$ 311,482,410	\$ 897,375,524	3.88
16	Downey	\$ 325,355,000	\$ 83,189,000	\$ 242,166,000	3.91
17	Arcadia	\$ 141,318,700	\$ 35,740,759	\$ 105,577,941	3.95
18	Glendale	\$ 1,268,829,000	\$ 313,672,000	\$ 955,157,000	4.05
19	Santa Monica	\$ 1,301,963,323	\$ 311,495,075	\$ 990,468,248	4.18
20	Redondo Beach	\$ 200,849,746	\$ 47,119,694	\$ 153,730,052	4.26
21	Burbank	\$ 1,282,849,000	\$ 294,991,000	\$ 987,858,000	4.35
22	Temple City	\$ 68,117,230	\$ 10,883,557	\$ 57,233,673	6.26
	Average				2.90
Notes: Information obtained from each city's Comprehensive Annual Financial Report (CAFR) or Basic Financial Statements for Fiscal Year 2010, the most recent available. Financial statements for the City of Bell have not been completed and were not available at the date of publication.					

The current financial health of charter cities is largely due to the economic downturn that began in 2008 and continues. However, the overall governance and management practices of each city contributed to how well prepared each city was for this downturn, and how effectively each has responded. The following sections of the report present information on best practices for local governments in the areas of governance, financial management, and procurement and contracting.

FINDINGS – FINANCIAL HEALTH

1. Most charter cities expended more than they received in revenues during FY 2010.
2. Most charter cities' total net assets and general fund balances declined during FY 2010, and several charter cities' ratios of total net assets to total liabilities are lower than desirable.

BEST PRACTICES

1. All charter cities should adopt financial planning, revenue and expenditure policies to guide cities' officials to develop sustainable, balanced budgets.
2. All charter cities should develop a balanced budget and commit to operate within the budget constraints.
3. All charter cities should commit to not using one-time revenues to fund recurring or on-going expenditures.
4. All charter cities should adopt multi-year budgets for better planning to ensure the delivery of basic services before funding projects of lower priority.
5. All charter cities should adopt a method and practice of saving into a reserve or "rainy day" fund to be supplement operating revenue in years of short fall.

GOVERNANCE PRACTICES

“Governance” describes the role of a board or city council in providing leadership for an organization. Governance generally includes responsibility for providing the overall direction for the organization, making key decisions for the organization through policy, and overseeing the organization’s performance. Key tools of effective governance include strategic planning and management, including performance measurement and monitoring. The city council in each charter city is responsible for governing the organization.

The quality of the leadership of an organization, more than any other factor, determines its performance and effectiveness. An organization with poor leadership often finds itself mired in persistent issues, with little forward progress or resolution. Real issues and challenges go unaddressed and members of the organization become confused about the purpose of the organization and their own roles in it. In contrast, an organization with effective leadership prepares for and quickly resolves issues and challenges, provides clarity of direction and roles and establishes real accountability for the organization.

Strategic Planning

Strategic planning is a disciplined effort to produce fundamental decisions and shape and guide what an organization is, what it does and why it does it. When the strategic plan is linked to operations, all groups in the organization have a clear understanding of its purpose, the strategies used to achieve that purpose and the progress being achieved.

The role of any city council or board is to provide strategic focus and direction for the organization and to ensure decisions support the focus and direction. Oversight is also an important function for any board, ensuring that organizational activities are consistent with legal requirements and its own policies and procedures. Since the city council of each city controls the focus and direction of the organization, the risks posed by ineffective leadership, decision-making and oversight are substantial.

Table 7. Strategic Planning							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	No	Yes	Yes	Yes	No	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 7, most charter cities (19 yes, 4 no) responded that they developed and adopted a strategic plan that articulates the mission, vision, core values and priorities (goals and objectives) for their city. The CGJ asked each city to provide a copy of its strategic plan. In the CGJ's review of this documentation and comments provided by the cities, the CGJ found that several cities had developed and adopted comprehensive strategic plans. For example, the City of Burbank developed a strategic plan entitled "Our Plan, Our Future, Our Burbank – A Strategic 10 Year Plan for the City of Burbank 2011-2021." This plan presents a very well structured mission, goals, and specific objectives. Torrance developed a similarly comprehensive strategic plan. These strategic plans provide appropriate strategic focus and direction for these cities.

Other cities developed mission, vision, core values and goals through regular facilitated strategic planning sessions with their city council. These strategic planning efforts include assessments of the city's strengths, weaknesses, opportunities, and threats (SWOT), and included identification of specific strategies and initiatives with responsibility for completion and completion timelines. Many of these cities conduct follow-up sessions every six months to monitor and evaluate progress and any changes in priorities. These strategic plans also provide appropriate strategic focus and direction for these cities.

Several cities responded that they had developed and adopted strategic plans provided documentation of annual or biennial budget goals adopted. While these are important for the budget, they are typically focused on the short term, and do not provide the appropriate strategic focus and direction for these cities as would be accomplished through a strategic planning effort.

Performance Measurement

Performance measures should generally be quantified to allow for comparison of performance from year to year.

Performance measurement and reporting demonstrates the success or effectiveness of organizational or program activities in addressing a specific need or attaining a specific goal. A meaningful performance measurement framework includes a balanced set of indicators, ensures the collection of sound and reliable indicator data, provides for the

analysis and reporting of indicator information, and drives service improvement efforts and the testing of new initiatives.

Table 8. Performance Measures							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	No	No	Yes	Yes	No	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	No	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	No	Yes	Yes	Yes	

As shown in Table 8, most of the cities (16 yes, 7 no) responded that their city council had adopted performance measures, or indicators, to evaluate outcomes or progress on priorities. The CGJ asked each city to provide copies of their performance measures or indicators. In reviewing this supporting documentation and comments provided by the cities the CGJ found several cities had developed performance indicators tied directly to the strategic goals adopted by the city council. For example, the City of Burbank identified and reported on performance indicators for each of their strategic goals. These performance indicators were focused on the outcomes or results achieved, were quantified, and reporting included three years of information to allow evaluation of progress made toward each strategic objective. The City of Glendale had similar performance indicator information.

Several cities that responded they had developed and reported on performance measures did not provide any documentation on performance measures. Other cities performance information was not quantified, or was focused on activities or workload with little or no information on results or outcomes.

Role Definition – Council and Executive Relationships

The city council or board's role should be to provide policy direction and oversight. Effective governance requires that formal structures and practices define how the city council or board carries out its duties. Many boards develop and document oversight, bylaws, policies and procedures that clearly define the specific role of the board and board members and what actions are appropriate in specific situations. Specific areas in which policies are most often needed include the role of city council members and the executive and the relationship between the board and management.

City council boards and organizations operate most effectively when there is a clear definition and understanding of the city council or board's role, management's role and the line between the two. The city council's role should be to provide policy direction and oversight and management's role is to execute that direction. The most effective organ-

izations have unified commands, meaning direction is provided from only a single source.

It is also important for city councils and members to recognize that their authority only exists when acting as a body. Individual members of a city council have no authority to make decisions or direct the city's management or city staff. Only decisions and directives of the city council, acting as a whole, are authoritative and binding.

A key role of each city council is providing clear direction to the city's executive (city manager or city administrator). This clear direction should establish specific expectations for the executive and should consist of specific goals and objectives to be accomplished within specific timeframes. Equally important is for the city council to evaluate the performance of the city's executive, providing meaningful feedback on how well expectations are being met. These evaluations should be accomplished routinely and within specific timeframes. The managements' role is to execute direction set by the city council.

Table 9. Role Definition							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No response	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 9, most of the cities (22 yes, 0 no, 1 no response) responded that they have a formal policy, agreement, or other document that clearly defines the roles of the city council and the city's executive (city manager or city administrator). The CGJ asked each city to provide a copy of the formal policy defining roles. In reviewing this documentation and comments provided by the city, the CGJ found all cities had defined the basic qualifications, powers and duties for both the city council and the city's executive in either the city's charter, municipal code, or both. These policies provide a solid legal foundation for the relationship between the two.

Executive Role

Boards should go beyond this basic framework and develop a more detailed description of the relationship and working approach of the executive and council.

Some city council boards have developed, adopted, and frequently amend a comprehensive governance policy that defines the governance process, and defines the working relationship between the city council, executive, and staff. While not required, this more extensive governance framework can improve the cohesion and effectiveness of both the city council and the executive.

The CGJ requested the specific goals established most recently for their city manager or city administrator. In reviewing this documentation and comments provided by each city the CGJ found that the City of Burbank had developed very specific goals for the city manager for FY 2010-11. These goals were specific expectations for the city manager only. Other cities established goals for their city manager as part of the strategic planning efforts, the budget document, or the city manager's budget message. Several cities reported that the goals for the city manager were part of the performance evaluation process and were appropriately considered confidential.

Table 10. Executive Goals							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	No	Yes	Yes	No	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 10, most of the cities (19 yes, 4 no) also responded that their city council established specific goals for the executive at least annually.

Table 11. Executive Evaluation							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	Yes	No	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	Yes	Yes	No	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 11, most of the cities (19 yes, 4 no) also responded that their city council conducts a meaningful evaluation of the executive's performance at least annually.

Council Adopted Policies

Other areas in which policies are most often needed include Conflict of Interest and Investment policies. Transparency in public decision-making is essential. Members of the public served by each city must be able to rely on their representatives to be working in their best interest.

California Government Code §81000, et seq. (“Political Reform Act”), requires every state and local government agency to adopt a conflict of interest code. The Political Reform Act further requires every agency to review its conflict of interest code biennially to determine if it is accurate or whether that code must be amended. The conflict of interest code must be amended when necessitated by changed circumstances.

California Government Code §53646 requires the city council of each charter city to annually consider and adopt an investment policy. The investment policy is intended to outline the policies for maximizing the efficiency of the city's cash management system, the prudent investment of the city's funds, and to provide guidelines for suitable investments. The primary goals of the investment policy are to ensure compliance with the law; provide protection of principal; maintain liquidity; and maximize investment income to enhance the economic status of the city.

Table 12. Conflict of Interest							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 12, all but one of the cities (22 yes, 1 no) responded that their city council adopted and enforces a formal conflict of interest policy. The CGJ requested each city provide a copy of the adopted conflict of interest policy. In reviewing this documentation and the comments provided by each city, the CGJ found that 22 of the charter cities had formally adopted a conflict of interest code by resolution or ordinance as required. One city, Inglewood, had developed a draft conflict of interest code for council adoption.

Table 13. Investment Policy							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 13, all of the cities (23 yes, 0 no) responded that they had adopted an investment policy. The CGJ requested each city provide a copy of the adopted investment policy. In reviewing this documentation the CGJ found all cities had adopted an investment policy as required.

FINDINGS – GOVERNANCE PRACTICES

1. Strategic plans varied in providing appropriate strategic focus and direction for charter cities.
2. Many charter cities have not developed an effective performance and reporting measurement that demonstrates the success of their organizational activities and goals.
3. All charter cities stated they have a formal policy agreement, or other documents that define the roles of city council and chief executive (city manager or city executive).
4. Most charter cities (city council) established specific goals for executives at least annually.
5. All but one city adopted a conflict of interest code.
6. All cities stated they had adopted an investment policy.

BEST PRACTICES

1. All charter cities should develop and adopt a strategic plan that articulates the mission, vision, core values and priorities (goals and objectives) for the city.
2. All charter cities should develop and report on performance measures or indicators to evaluate outcomes or progress on priorities. These performance measures should be quantified, focused on outcomes or results, and information should be provided for several years to allow evaluation of progress over time.
3. All charter city councils should develop a governance policy that specifically defines the relationship between the council and executive. Charter city councils should develop specific annual goals for the city's executive (city manager or city administrator) and conduct meaningful evaluations annually.

FINANCIAL MANAGEMENT PRACTICES

The role and responsibility of financial management within each city is to manage and protect the financial resources and assets of the city. This includes planning, organizing, directing and controlling the financial activities of the city. It also requires establishing adequate systems of internal controls to ensure funds are used for their intended purposes. The transparency and reliability of financial reporting is also key, ensuring that such reporting is consistent with appropriate standards.

The Government Finance Officers Association (GFOA) is the association for public sector financial management professionals. Its purpose is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

Beginning in 1993 the GFOA began to develop a body of recommended practices in the functional areas of public finance to give GFOA members and other state and local governments more guidance on sound financial management practices. These recommended practices served as the basis for evaluating the financial management practices of the charter cities discussed in the following sections.

Audit Committee

The audit committee can provide a forum for auditors and other interested parties to candidly discuss concerns separate from the management of the city.

The responsibility for the quality of financial reporting by cities is shared by three groups: the city council (governing board), finance department management, and the independent auditor. Of these three, the city council is in the unique position of being the ultimate monitor of the financial reporting process. An audit committee is a practical approach for the city council to provide independent review and oversight of the city's financial reporting processes, internal controls, and independent auditors.

The audit committee can also provide a forum for auditors and other interested parties to candidly discuss concerns separate from the management of the city. An effective audit committee helps ensure management develops and follows a sound system of internal controls; procedures are in place to objectively assess practices; and independent auditors objectively assess financial reporting practices.

The following are excerpts from the GFOA recommended best practice regarding audit committees:³

³ GFAO Best Practices and Advisories website
http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

The governing body of every state and local government should establish an audit committee or its equivalent;

The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services. Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. The written documentation establishing the audit committee should prescribe the scope of the committee's responsibilities, as well as its structure, processes, and membership requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;

Formal Audit Committee

Table 14. Formal Audit Committee							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	Yes	No	No	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	No	Yes	No	Yes	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	No	No	No	Yes	No	

As shown in Table 14, most charter cities (8 yes, 15 no) responded that no audit committee had been established by the city. The CGJ requested each city provide a copy of the formal document establishing the audit committee. In reviewing this supporting documentation and comments provided by each city, the CGJ found several cities had formally established an audit committee. Redondo Beach established an audit committee as a standing committee in 2008. The Pasadena City Charter formally gives the finance committee the responsibility to perform the functions of an audit committee. Burbank also has an audit committee of the city council, which reviews and approves all financial audit services. Lancaster has appointed one member of the city council as the “audit representative” and considers that to be an audit committee.

Other cities stated that the audit committee responsibilities were assigned to other committees of the city council, such as the finance or budget committee. Glendale has an audit committee of members of the community rather than members of the city council. For other cities the audit committee is a function of management, with members from the finance department and other areas of the city government.

Only the cities of Glendale and Pasadena had a formal audit committee, and each responded that the committee was directly responsible for the work of the independent auditor.

Audit Procurement

Independent audits play a key role in preserving the integrity of public finance functions and maintaining public confidence in city government.

Each of the charter cities is required by its charter to have an independent audit performed annually by external accountants. The selection of the independent auditor is an important element of ensuring an independent and quality audit. This includes ensuring the selected auditor meets standards for independence, is selected competitively, and provision of non-audit services by the auditor are carefully reviewed and approved.

The following are excerpts from the GFOA recommended best practice regarding audit procurement:

Governmental entities should require in their audit contracts that the auditors of their financial statements conform to the independence standard promulgated in the General Accounting Office's Government Auditing Standards even for audit engagements that are not otherwise subject to generally accepted government auditing standards.

Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.

Governmental entities should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements. Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector. Unfortunately, the frequent lack of competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. In such cases, it is recommended that a governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory. Except in cases where a multiyear agreement has taken the form of a series of single-year contracts, a contractual provision for the automatic renewal of the audit contract (e.g., an automatic second term for the auditor upon satisfactory performance) is inconsistent with this recommendation.

Professional standards allow independent auditors to perform certain types of non-audit services for their audit clients. Any significant nonaudit services should always be approved in advance by a governmental entity's audit committee. Furthermore, governmental entities should routinely explore the possibility of alternative service providers before making a decision to engage their independent auditors to perform significant nonaudit services.

The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the sole criterion for the selection of an independent auditor.⁴

Table 15. Independent Standards							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 15, all charter cities (23 yes, 0 no) responded that audit contracts require auditors of financial statements conform with independence standards. The CGJ obtained the audited financial statements for each city for FY 2009-10, the most recent available. In reviewing this supporting documentation and comments provided by each city the CGJ found that all independent audit reports included statements of compliance with auditing standards, including standards of independence.

⁴http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

Table 16. Competitive Process for Auditor Selection							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	Yes	No	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	No	

As shown in Table 16, most charter cities (20 yes, 3 no) responded that independent auditors were selected through a competitive process. The CGJ requested each city provide copies of formal policies related to audit procurement. In reviewing this supporting documentation and comments provided by each city, the CGJ found that most issue a Request for Proposals (RFPs) for audit services, typically with a term of up to five years.

Table 17. Auditor Replaced at End of Term							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	No	No	No	No	No
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	No	No	No	No	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	No	No	Yes	No	No	

As shown in Table 17, most charter cities (4 yes, 19 no) do not require their auditor to be replaced at the end of the contract term. At the end of the term a new RFP is issued for audit services, with the current auditor allowed to compete for the next audit contract.

Table 18. Non-Audit Services							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	Yes	No	Yes	No	No	No	No
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	Yes	No	No	Yes	No	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
No	Yes	No	No	No	No	No	

As shown in Table 18, most charter cities (6 yes, 17 no) responded that they do not allow the independent auditor to provide non-audit services. Only two of those allowing such non-audit services responded that these services must be approved by the audit committee.

Accounting Policies and Procedures

Formal documentation of accounting policies and procedures is an essential component in providing effective controls over accounting and financial reporting, as well as providing a comprehensive framework of internal controls.

Accountability and consistency require a well-designed and maintained system of documenting accounting policies and procedures. This documentation can also provide a useful training tool for financial staff.

The following are excerpts from the GFOA recommended best practice regarding accounting policies and procedures:

Every government should document its accounting policies and procedures. Traditionally, such documentation has taken the form of an accounting policies and procedures manual.

An appropriate level of management to emphasize their importance and authority should promulgate accounting policies and procedures. The documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years, according to a predetermined schedule. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur. A specific employee should be assigned the duty of overseeing this process. Management is responsible for ensuring that this duty is performed consistently.

The documentation of accounting policies and procedures should be readily available to all employees who need it. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, the documentation of accounting policies and procedures should indicate which employees are to perform which procedures. Procedures should be described as

they are actually intended to be performed rather than in some idealized form. Also, the documentation of accounting policies and procedures should explain the design and purpose of control related procedures to increase employee understanding of and support for controls.⁵

Document Accounting Policies/Procedures

Table 19. Document Accounting Policies/Procedures							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	No	No	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
No	Yes	Yes	Yes	Yes	Yes	No	

As shown in Table 19, most charter cities (18 yes, 5 no) responded that accounting policies and procedures were formally documented in an accounting policies and procedures manual.

Table 20. Define Authority and Responsibilities							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	No	No	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 20, most cities (20 yes, 3 no) also responded that accounting policies and procedures specifically define the authority and responsibility of all employees, including the authority to authorize transactions and the responsibility for safekeeping of assets and records.

The CGJ requested each city provide copies of its accounting policies and procedures and accounting manual. In reviewing this supporting documentation and comments provided by each city the CGJ found several cities had very comprehensive and de-

⁵ http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

tailed accounting policies and procedures. These included specific authority and responsibility of employees. Other cities had very high level and brief policies and procedures, with very little detail, and with very little information on the specific authority and responsibility of employees.

Table 21. Accounting Policies Updated Within Three Years							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No response	No	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No response	No response	Yes	No	Yes	No	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	No response	Yes	Yes	Yes	

As shown in Table 21, half of the cities (12 yes, 7 no, 4 no response) responded that their accounting policies and procedures were reviewed annually and updated at least once every three years on a predetermined schedule. Upon review of documentation, the CGJ found very little indication that policies and procedures were being reviewed and updated. Most policies and procedures did not include either effective or revision dates, and most of those that did were not within the past three years.

Reporting of Fraud, Abuse and Questionable Practices

Most cases of fraud and abuse, or questionable accounting, or auditing practices, come to the attention of those responsible through employees or members of the public who become aware of these practices and report them.

In addition, accounting and auditing standards require financial reporting systems to be designed to detect not only material fraud or abuse, but also any questionable accounting or auditing practices that could jeopardize the integrity of the financial reporting system.

The following are excerpts from the GFOA recommended best practices regarding reporting of fraud, abuse and questionable practices:

The Government Finance Officers Association recommends that every government establish policies and procedures to encourage and facilitate the reporting of fraud or abuse and questionable accounting or auditing practices. At a minimum, a government should do all of the following:

- Formally approve, and widely distribute and publicize an ethics policy that can serve as a practical basis for identifying potential instances of fraud or abuse and questionable accounting or auditing practices.

- Establish practical mechanisms (e.g., hot line) to permit the confidential, anonymous reporting of concerns about fraud or abuse and questionable accounting or auditing practices to the appropriate responsible parties. A government should regularly publicize the availability of these mechanisms and encourage individuals who may have relevant information to provide it to the government.
- Make internal auditors (or their equivalent) responsible for the mechanisms used to report instances of potential fraud or abuse and questionable accounting or auditing practices. Emphasize that they should take whatever steps are necessary to satisfy themselves that a given complaint is without merit before disposing of it. Further, they also should document the disposition of each complaint received so it can be reviewed by the audit committee.
- Have the audit committee, as part of its evaluation of the government's internal control framework, examine the documentation of how complaints were handled to satisfy itself that the mechanisms for reporting instances of potential fraud or abuse, and questionable accounting or auditing practices are in place and working satisfactorily.⁶

Policies and Procedures for Reporting Fraud and Abuse

Table 22. Policies and Procedures for Reporting Fraud and Abuse							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	Yes	No	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	No	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	No	Yes	Yes	Yes	

As shown in Table 22, most charter cities (15 yes, 8 no) responded that they have policies and procedures to encourage and facilitate the reporting of fraud or abuse and questionable accounting or auditing practices.

⁶ http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

Table 23. Formal and Publicized Ethics Policy							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	Yes	No	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	Yes	Yes	Yes	Yes	

As shown in Table 23, most cities (18 yes, 5 no) responded that they have a formally adopted and widely distributed and publicized ethics policy.

In reviewing the supporting documentation and comments provided by the cities, the CGJ found several cities had very comprehensive and detailed policies and procedures on reporting fraud, abuse and questionable acts. These included definitions of fraud and abuse, clear responsibilities for employees and management personnel, and guidelines and steps for investigating allegations and reporting the results. Other cities have very limited policies, such as statements that all city employees follow the highest ethical standards, or have adopted specific policies regarding reporting of travel expense reimbursement.

Table 24. Confidential/Anonymous Fraud Reporting							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	No	Yes	No	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	Yes	No	No	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	No	No	Yes	No	

As shown in Table 24, several cities (10 yes, 13 no) responded they have a practical mechanism, such as a fraud hotline, to permit the confidential, anonymous reporting of concerns about fraud, abuse, or questionable practices. However, in review of the documentation and comments the CGJ found only Glendale, actually had an ethics hotline for confidential and anonymous reporting. Other cities stated that employees or members of the public could write a letter to the city with concerns, or that the city had an open door policy and concerns could be taken to supervisors, managers, the city manager, or the city attorney.

Internal Controls

Internal controls are designed to safeguard city assets from error, loss, theft, misuse, misappropriation, and fraud.

Effective programs of internal controls provide reasonable assurance that these objectives are met continuously and consistently. Internal controls play an important role in preventing and detecting fraud and protecting the organization's resources.

The following are excerpts from the GFOA recommended best practice regarding internal controls:

Internal control procedures over financial management should be documented.

Documented internal control procedures should include some practical means for lower level employees to report instances of management override of controls that could be indicative of fraud.

Financial managers, with the assistance of internal auditors or equivalent personnel as needed, periodically evaluate relevant internal control procedures to satisfy themselves that those procedures 1) are adequately designed to achieve their intended purpose, 2) have actually been implemented, and 3) continue to function as designed.

Evaluations should also encompass the effectiveness and timeliness of the government's response to indications of potential control weaknesses generated by internal control procedures (e.g., resolution of items in exception reports).

Upon completion of any evaluation of internal control procedures financial managers determine what specific actions are necessary to remedy the root cause of any disclosed weaknesses. A corrective action plan with an appropriate timetable should be adopted. There should be follow-up on the corrective action plan to ensure that it has been fully implemented on a timely basis.⁷

⁷ http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

Table 25. Internal Controls Documented							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	No	No	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	Yes	Yes	Yes	No	

As shown in Table 25, most cities (17 yes, 6 no) responded that internal control procedures over financial management were formally documented. They also responded that internal control procedures include practical means for lower level employees to report instances of management override of controls.

The CGJ requested a copy from each city of the internal control procedures over financial management. In reviewing this documentation, the CGJ found Pasadena and Signal Hill had developed comprehensive procedures for internal control. Pasadena had developed very detailed preventive and detective internal controls and procedural guidelines which included very specific internal control procedures for specific transactions and functions. Signal Hill adopted an internal control procedure that included an overview of internal control procedures, and specific checklists for specific transactions and functions. Other cities provided no specific documentation of internal control procedures, or made minor mention of internal control procedures as part of their financial and accounting policies and procedures.

Table 26. Internal Controls Evaluated							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 26, most cities (20 yes, 3 no) responded that internal control procedures were evaluated to determine if those controls are adequately designed to achieve their intended purpose, have actually been implemented, and continue to function as designed.

Table 27. Control Weakness Documented							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
No	No	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 27, most cities (21 yes, 2 no) responded that potential internal control weaknesses were documented in their exception reports.

Table 28. Control Weakness Corrective Action Required							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	No	Yes	No	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	No	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	No	

As shown in Table 28, most cities (17 yes, 6 no) responded that there is a process in place to identify changes in what is being controlled, or the controls themselves. Corrective action plans were developed with appropriate timelines. In reviewing the comments and documentation, it appears that most cities rely primarily on the internal controls review conducted by their independent auditors as part of their annual financial audits.

Based on government auditing standards, independent auditors consider a city's internal controls over financial reporting, and conduct tests of compliance. This review is focused on financial reporting, and not on the larger internal controls environment. Independent auditors generally do not provide an opinion on the internal control over financial reporting or on compliance. Internal controls that ensure there are adequate control procedures in place to protect public funds are the responsibility of city financial management.

Internal Audit

The internal audit function serves as an additional level of control to improve a city's overall control and risk environment. This includes monitoring the design and proper functioning of the internal control policies and procedures. It is important that the inter-

nal audit function be separate from those that are directly responsible for performing financial functions.

The following are excerpts from the GFOA recommended best practice regarding internal audit:

Every government should consider the feasibility of establishing a formal internal audit function because such a function can play an important role in helping management to maintain a comprehensive framework of internal controls. As a rule, a formal internal audit function is particularly valuable for those activities involving a high degree of risk (e.g., complex accounting systems, contracts with outside parties, a rapidly changing environment). If it is not feasible to establish a separate internal audit function, a government is encouraged to consider either 1) assigning internal audit responsibilities to its regular employees or 2) obtaining the services of an accounting firm (other than the independent auditor) for this purpose;

The internal audit function should be established formally by charter, enabling resolution, or other appropriate legal means;

It is recommended that internal auditors of state and local governments conduct their work in accordance with the professional standards relevant to internal auditing contained in the U.S. General Accounting Office's publication Government Auditing Standards, including those applicable to the independence of internal auditors;

At a minimum, the head of the internal audit function should possess a college degree and appropriate relevant experience. It also is highly desirable that the head of the internal audit function hold some appropriate form of professional certification (e.g., certified internal auditor, certified public accountant, certified information systems auditor); and

All reports of internal auditors, as well as the annual internal audit work plan, should be made available to the government's audit committee or its equivalent.⁸

⁸ http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

Table 29. Formal Internal Audit Function							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	Yes	No	No	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	No	Yes	No	Yes	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	No	Yes	Yes	No	

As shown in Table 29, most charter cities (10 yes, 13 no) responded that they do not have an internal audit function formally established by charter, enabling resolution, or other legal means. The CGJ found many cities did not provide any documentation of their formal internal audit function. Some cities stated that internal audit was an additional responsibility of their finance staff.

Several cities stated that, given the small size of their city, an internal audit function and staff could not be justified. One city previously had a formal internal audit function; however, the internal audit position had been eliminated due to budget constraints. The duties of the internal auditor were reassigned to the finance director and controller.

General Fund Unrestricted Fund Balance

The term “fund balance” is used to describe the net assets of governmental funds, and is intended to provide a measure of the financial resources available in the fund. Some of this fund balance is typically restricted because it is not available (for legal or contractual reasons), or restricted by external constraints.

Unrestricted funds include those that are unassigned, as well as those that are committed or assigned by the city council. The city council would be able to change these commitments or assignments if deemed necessary.

It is important that governments formally set aside adequate funds for use in emergencies, revenue shortages, or budget imbalances. Adequate fund balances are also important to provide stable tax rates, maintain government services, and to facilitate long-term financial planning.

The following are excerpts from the GFOA recommended best practice regarding general fund unrestricted fund balance:

The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.

Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and specific plans for increasing or decreasing the

level of unrestricted fund balance, if it is inconsistent with that policy. The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.⁹

Table 30. Policy of Unrestricted Fund Balance							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	No	No	Yes	No	Yes	Yes	No
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	No	No	Yes	No	

As shown in Table 30, most charter cities (15 yes, 8 no) responded that they have a formal policy on the level of unrestricted fund balance to be maintained in the general fund.

Table 31. Require Two Months Unrestricted Fund Balance							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	Yes	No Response	No	Yes	No Response
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
No	No	Yes	Yes	No	Yes	Yes	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
No	Yes	Yes	No	No Response	No	No	

As shown in Table 31, most charter cities (7 yes, 13 no, 3 no response) responded that they do not have a policy requiring an unrestricted fund balance spanning no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

⁹ http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

Financial and Public Reporting Practices

Financial statements and information prepared and provided by each city give members of the public information concerning how their city is expending its resources, as well as the financial stability and health of the city.

Ensuring the transparency and reliability of financial reporting is a key responsibility of financial management within each city. This requires maintaining an adequate financial accounting system and issuing financial statements in a timely manner.

The following are excerpts from the GFOA recommended best practice regarding financial and public reporting practices:

Maintain an accounting system adequate to provide all of the data needed to allow for the timely preparation of financial statements for the entire financial reporting entity in conformity with GAAP;

Issue timely financial statements for the entire financial reporting entity in conformity with GAAP as part of a CAFR; and

Have those financial statements independently audited in accordance with either GAAS or GAS, as appropriate.

The GFOA encourages every government to use its web site as a primary means of communicating financial information to citizens and other interested parties.¹⁰

Adequate Accounting System

Table 32. Adequate Accounting System							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 32, all charter cities (23 yes, 0 no) responded that they maintain an accounting system adequate to provide all the data needed for the timely preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP).

¹⁰ http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

Table 33. Timely Financial Statements (GAAP)							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 33, all but one city (22 yes, 1 no) responded that they issue timely financial statements in conformity with standards as part of a CAFR. The City of Bell has not yet issued financial statements for FY 2009-10, and reports it is in the process of preparing these statements with an independent auditor.

Table 34. CAFR Readily Available on the Public or City Website							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 34, all but one city (22 yes, 1 no) responded that their financial statements or CAFR were readily available on their city's website.

In reviewing the supporting documentation and comments provided by the cities the CGJ found that Compton, Industry, Inglewood, and Temple City did not issue CAFRs for FY 2009-10. These cities issued basic financial statements, some with management's discussion and analysis and others without analysis. The CGJ also found that Compton, Industry, and Temple City did not provide their financial reports on their city's website as of December, 2011.

FINDINGS – FINANCIAL MANAGEMENT PRACTICES

1. All charter cities formally established an audit committee responsible for monitoring and overseeing financial reporting.
2. All charter cities required their auditors to comply with independence standards and most selected their auditors through a competitive process. Most also precluded the auditor from providing non-audit services.
3. Most cities could improve their documentation and maintenance of accounting policies and procedures.
4. Most cities could improve their policies and procedures for reporting fraud, abuse, and questionable practices.
5. Most cities could improve their internal control procedures over financial management.
6. Most charter cities did not have a formal internal audit function.
7. Many charter cities' policies and procedures governing general fund unrestricted fund balance could be improved.
8. All cities maintained an adequate accounting system. Most issued timely financial statements and a CAFR in compliance with standards, and most made the CAFR readily accessible to the general public on their website.

BEST PRACTICES

1. All charter cities should formally establish an audit committee making it directly responsible for the work of the independent auditor.
2. All charter cities should continue requiring compliance with standards of independence for the external auditor. Cities that do not currently select the auditor through a competitive process should do so. Cities that allow the auditor to provide non-audit services should ensure appropriate review and approval of those services.
3. All charter cities should review and update accounting policies and procedures to ensure they are appropriately detailed and define the specific authority and responsibility of employees. Cities should also establish a policy requiring policies and procedures to be reviewed annually and updated at least once every three years.
4. All charter cities should review and update policies and procedures for reporting fraud, abuse and questionable practices including a practical mechanism, such as a fraud hotline, to permit the confidential, anonymous reporting of concerns.
5. All charter cities should periodically review and update internal control procedures over financial management.

6. All charter cities that have not adopted a policy requiring an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures should develop such policies.
7. Charter cities must develop and publish a timely Comprehensive Annual Financial Report (CAFR).
8. Charter cities should publish financial reports on their city's website.

PROCUREMENT AND CONTRACTING PRACTICES

The costs of goods and services acquired by procurement and contracting are a substantial expenditure of city resources. These expenditures are generally second only to the expenditures for employee salaries and benefits. Developing and maintaining adequate policies and procedures for procurement and contracting are important to ensure city resources are protected, and goods and services are procured in the best interest of the city. These policies include competitive bidding requirements, procuring professional services such as architectural and engineering, negotiating prices and change orders, and providing contract oversight and compliance.

Competitive Bidding Requirements and Practices

The California Public Contract Code §100 defines the requirements for public contracting for public entities. The objectives of this Code are:

- To clarify the law with respect to competitive bidding requirements.
- To ensure full compliance with competitive bidding statutes as a means of protecting the public from misuse of public funds.
- To provide all qualified bidders with a fair opportunity to enter the bidding process, thereby stimulating competition in a manner conducive to sound fiscal practices.
- To eliminate favoritism, fraud, and corruption in the awarding of public contracts.

This Code also specifically allows charter cities an exemption as stated in Section §1100.7

This code is the basis of contracts between most public entities in this state and their contractors and subcontractors. With regard to charter cities, this code applies in the absence of an express exemption or a city charter provision or ordinance that conflicts with the relevant provision of this code.

Given the authority granted under this section, it is important that charter cities formally adopt policies and procedures defining competitive bidding.

Table 35. Formal Competitive Bidding Process							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

As shown in Table 35, all cities (23 yes, 0 no) responded that their city has formally adopted policies and procedures defining competitive bidding requirements and practices for the procurement of goods and services. The CGJ asked cities to provide copies of the city charter or city ordinance providing exemption from competitive procurement requirements of California's Public Contract Code (CPCC). In reviewing this information the CGJ found all cities had such formally adopted policies.

Table 36. Exemption from Competitive Procurement							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	Yes	No	Yes	Yes	No	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	No	Yes	Yes	No	

As shown in Table 36, most cities (17 yes, 6 no) responded that their city charter or city ordinance provide exemption from competitive procurement requirements of CPCC. The CGJ asked cities to provide the formal policy defining competitive bidding requirements and practices for the procurement of goods and services. The CGJ found that most cities had exemptions from competitive bidding for emergencies, or when items were only available from one source, i.e. sole source contracting.

Table 37. Formal Policies - Sole Source Contracting							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	Yes	No	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	No	Yes	Yes	Yes	

As shown in Table 37, most of the cities (19 yes, 4 no) responded that they had formally adopted policies and procedures establishing internal controls over sole-source contracting. The CGJ asked cities to provide copies of the formal policy establishing internal controls over sole source contracting. The CGJ found that those cities with such controls, required formal review and approval of sole source contracts by either the city manager or city council, or both.

Procuring Architectural and Engineering Services

California Government Code §4526, which requires that the general law cities select private firms for professional services of architectural, landscape architectural, engineering, environment, land surveying or construction project management by local agencies, be based on demonstrated competence and professional qualifications. This section has been interpreted by many public entities to require firms be initially selected on qualifications alone, precluding consideration of price in the selection. These procedures specifically prohibit policies which might result in unlawful activity including rebates, kickbacks, and government agency employees participating in seeking contracts.

California Government Code §4528 further requires that the local general law agency negotiate a contract with the best qualified firm with a price that is determined to be fair and reasonable. If a fair and reasonable price cannot be negotiated with the firm considered to be the most qualified, negotiations with that firm are terminated and negotiations with the second most qualified firm initiated. This continues until a fair and reasonable price is negotiated.

A best practice used by many governmental agencies to establish fair and reasonable compensation is to perform contract pre-award cost reviews of proposed fully burdened labor rates as a basis for negotiating fair and reasonable fees. Use of pre-award audits to establish fair and reasonable fees could and often does result in significant cost savings unavailable to general law cities.

Table 38. Formal Arch/Eng Procurement Practices							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	No	No	Yes	No	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	No	Yes	Yes	No	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	No	

As shown in Table 38, most cities (15 yes, 8 no) responded that they had formally adopted policies and procedures for selecting firms that provide architectural and engineering services. The CGJ requested cities provide copies of their formally adopted policies and procedures for selecting firms that provide architectural and engineering services. The CGJ found only a few cities whose policies and procedures were consistent with the above sections of California Government Code §4528.

Burbank and Pomona have policies that provide for a negotiated proposal process where the most qualified is identified and the fee and payment schedule is negotiated. Several cities have specific policies and procedures for selecting architectural and engineering services. However, these include consideration of price in the initial selection contrary to the state code.

Since competitive bidding cannot be used in the selection of architectural and engineering services, it is important that negotiated prices are fair and reasonable.

Table 39. Formal Pricing – Fair Prices Negotiated Contracts							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	No	No	Yes	No	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	No	Yes	Yes	No	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	No	Yes	No	

As shown in Table 39, more than half of the cities (13 yes, 10 no) responded that they had formally adopted policies and procedures for ensuring that prices for negotiated contracts are fair and reasonable. The CGJ requested cities provide copies of the formally adopted policies and procedures for ensuring that prices for negotiated contracts are fair and reasonable. In reviewing this information the CGJ found only a few cities actually had such policies and procedures. Most continued to rely on a competitive pricing approach for these services.

Negotiated Prices and Contract Change Orders

Cities generally issue construction contracts through a competitive bidding process by which the reasonableness of bid prices are established. However, construction contracts commonly require contract change orders due to unforeseen conditions during construction or changes in architectural and/or engineering design. These contract change orders should be competitively bid, rather than awarded to the same firm that was awarded the original contract. If substantial contract change orders are not competitively bid, the cities must take other steps to ensure the proposed cost of these changes orders is fair and reasonable.

Best practices for contract change order pricing include the following:

- Preparation of an independent estimate of change order cost.
- A contractor detailed cost proposal.
- A price or cost analysis of the contractor's proposal.
- Preparation of a record of negotiation showing the basis for reaching a fair and reasonable price.

Table 40. Formal Policies - Fair Change Order Pricing							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	No response	No	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	Yes	Yes	No	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	No	Yes	No	

As shown in Table 40, half of the cities (12 yes, 10 no, 1 no response) responded that they had formally adopted policies and procedures for ensuring that prices negotiated for contract change orders are fair and reasonable.

Table 41. Formal Policies – Internal Controls- Change Orders							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	Yes	No	Yes	No	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	No	No	No	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	No	No	Yes	No	

As shown in Table 41, most cities (14 yes, 9 no) responded that they had formally adopted policies and procedures establishing internal controls over contract change orders. The CGJ requested cities provide copies of their formally adopted policies and procedures establishing internal controls over contract change orders. The CGJ found several cities had comprehensive controls over change orders, with specific limits on change order amounts and detailed approval steps. The CGJ did not find any cities that had formal policies to ensure fair pricing on change orders.

Procurement and Contracting Compliance and Oversight

Documentation of the procurement process is necessary in order to ensure compliance with the procurement requirements. Contract compliance and oversight are also important to ensure that contractors are providing the goods or services they are paid for within the terms provided by the contract.

Table 42. Formal Documentation of Compliance with Requirements							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	No	Yes	No	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	No	No	No	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	No	

As shown in Table 42, most cities (17 yes, 6 no) responded that they had formally adopted policies and procedures for documenting compliance with procurement requirements.

The CGJ requested that cities provide copies of their formally adopted policies and procedures for documenting compliance with procurement requirements. The CGJ found that most had established a purchasing officer with the responsibility for overseeing the procurement process and ensuring compliance with purchasing requirements. Most had established specific duties and responsibilities for this position.

Table 43. Formal Policies Contract Compliance and Oversight							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	No	No	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	Yes	Yes	No	Yes	No	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	No	No	No	No	

As shown in Table 43, fewer than half of the cities (10 yes, 13 no) responded that they had formally adopted policies and procedures for providing contract compliance and oversight. The CGJ requested cities provide copies of their formally adopted policies and procedures for providing contract compliance and oversight. The CGJ found that those cities had policies focused on compliance with contract requirements regarding insurance, bonding, licensure and other similar requirements. Few charter cities focused on contract compliance and oversight, but instead focused on the quality of the goods or services being provided.

FINDINGS – PROCUREMENT AND CONTRACTING PRACTICES

1. All charter cities formally adopted policies and procedures defining competitive bidding requirements and practices. Controls over sole source contracting could be improved in some cities.
2. Charter cities policies and procedures for selecting and negotiating prices for architectural and engineering services could be improved as they are seldom based on merit, credentials, and experience apart from the bidding process.
3. Policies and procedures for ensuring prices negotiated for substantial contract change orders are a potential for self-dealings and all of the charter cities need to establish formal policies to ensure fair pricing on substantial change orders,
4. Policies and procedures for documenting compliance with procurement requirements, and providing contract compliance and oversight could be improved to eliminate dealing with the same parties.

BEST PRACTICES

1. All charter cities should develop written and procedural controls over sole sourced contracting to prevent preferential granting of contracts.
2. All charter cities should develop policies and procedures for selecting and negotiating fair prices for architectural and engineering services consistent with state codes.
3. All charter cities should provide policies and procedures for ensuring prices negotiated for substantial contract change orders are fair and reasonable, and establish internal controls over substantial contract change orders so that same contractors not repeatedly awarded contracts.
4. All charter cities should develop policies and procedures for documenting compliance with procurement requirements, and provide contract compliance and oversight and have annual audit oversight with an outside accounting firm.

EMPLOYEE COMPENSATION

Charter cities differ from general law cities in setting employee salaries and compensation. Charter cities are granted control over municipal affairs, and case law has determined that “salaries of local employees of a charter city constitute municipal affairs and are not subject to general laws.”¹¹ Therefore, the city councils of charter cities have the authority and responsibility to determine the appropriate salaries and compensation for their employees.

Examples of compensation differences between charter and general law cities include:

- While general law cities must pay prevailing wages for public works projects valued at greater than \$1,000, charter cities historically are not required to meet this standard unless they chose to. (Exception: projects funded by state or federal grants.) Prevailing per diem wages are set by the California Department of Industrial Relations.
- The salaries of city council members of general law cities are set by state law and are based on a scale reflecting the populations of the cities. The salaries of city council members of charter cities may be set by the councils themselves.¹²

In July 2010 news media reports revealed that some City of Bell administrators and council members were receiving disproportionately high salaries. In addition, the report of the independent reform monitor for the City of Vernon found:

There is evidence that in the past, the salaries of City officials were bloated, that some who held more than one position were receiving compensation for each position, and that some contracts were drawn so that after 1,500 hours of City work and a set salary, City officials would charge hourly rates that would elevate those salaries way beyond any norm.¹³

In the past, each city council was required to establish the range of salary for each position and adopt that range in a formal “salary resolution.” In late 2010 the State Controller required counties, cities and special districts to report government compensation, which were posted to the Controller’s website in an effort to promote transparency following the salary scandal in the City of Bell. The information provided includes the approved salary range, as well as the actual compensation received and reported to the Internal Revenue Service.

Requiring publishing the salary resolutions has not proven to be an effective means of providing transparency and accountability for government compensation. Many citizens, including those of charter cities, do not recognize the State Controller’s Office website

¹¹ *Voters For Responsible Retirement v. Board of Supervisors*, 8 Cal.4th 765, 781 (1994)

¹² California Constitution Article XI, §5(b)

¹³ *City of Vernon Report*, John Van De Kamp, Independent Ethics Advisor, July 29, 2011; p. 5

as a means of staying informed regarding the salaries and compensation of their cities' council members and management-level personnel.

As part of this investigation, the CGJ requested information on city employee compensation for those employees receiving over \$200,000 in taxable compensation in calendar year 2011. The taxable compensation for employees receiving over \$200,000 in 2011 is listed, by position title and city, in Appendix C of this report.

FINDINGS – EMPLOYEE COMPENSATION

1. The CGJ found multiple instances of charter cities which have not developed and approved employee compensation schedules in a manner transparent and accountable to the cities' constituencies.
2. The CGJ found instances of individual salaries of job classifications which differed significantly from the salaries of comparable classifications in other cities.

BEST PRACTICES

1. All charter city councils and citizens of the cities should annually review the actual compensation received by employees of their cities.
2. All charter city councils should have access to prevailing municipal wage rates and/or salary ranges for comparable cities in order to identify any individual city position(s) whose salaries exceed the normal salary range for those positions. Approval of any exceptional salaries should be based on justifications of exceptional and unique job responsibilities.

RECOMMENDATIONS

Responses are required from the following charter cities:

Alhambra	Arcadia	Bell	Burbank	Cerritos
Compton	Culver City	Downey	Glendale	Industry
Inglewood	Inwindale	Lancaster	Palmdale	Pasadena
Pomona	Redondo Beach	Santa Monica	Signal Hill	Temple City
Torrance	Vernon	Whittier		

1. All charter cities reviewed in this report should adopt financial planning, revenue and expenditure policies to guide cities' officials to develop sustainable, balanced budgets.
2. All charter cities reviewed in this report should develop a balanced budget and commit to operate within budget constraints.
3. All charter cities reviewed in this report should commit to not using one-time revenues to fund recurring or on-going expenditures.
4. All charter cities reviewed in this report should adopt multi-year budgets for better planning to ensure the delivery of basic services before funding projects of lower priority.
5. All charter cities reviewed in this report should adopt a method and practice of saving into a reserve or "rainy day" fund to be supplement operating revenue in years of short fall.
6. Charter cities should develop and adopt a strategic plan that articulates the mission, vision, core values and priorities (goals and objectives) for the City. The following cities should develop and adopt such a strategic plan: Arcadia, Compton, Industry, Inglewood.
7. Charter cities should develop and report on performance measures or indicators to evaluate outcomes or progress on priorities. These performance measures should be quantified, focused on outcomes or results, and information should be provided for several years to allow evaluation of progress over time. The following cities should develop such performance measures for indicators: Arcadia, Bell, Compton, Industry, Inglewood, Lancaster, Temple City.
8. Charter city councils should continue to maintain a governance policy that specifically defines the relationship between the council and executive. Charter city councils should continue providing specific annual goals for the city's executive (City Manager or City Administrator) and conduct meaningful evaluations annually. The following cities should do so: Alhambra, Bell, Industry, Inglewood, Lancaster.

9. Charter cities should formally establish an audit committee making it directly responsible for the work of the independent auditor. The following cities should formally establish an audit committee: Alhambra, Arcadia, Bell, Cerritos, Compton, Industry, Inglewood, Irwindale, Palmdale, Pomona, Santa Monica, Signal Hill, Temple City, Torrance, Whittier.
10. All charter cities reviewed in this report should continue requiring compliance with standards of independence for the external auditor. Cities that do not currently select the auditor through a competitive process should do so. Cities that allow the auditor to provide non-audit services should ensure appropriate review and approval of those services.
11. Charter cities should review and update accounting policies and procedures to ensure they are appropriately detailed and define the specific authority and responsibility of employees. Cities should also establish a policy requiring policies and procedures to be reviewed annually and updated at least once every three years. The following cities should review and update accounting policies and procedures at least once every three years: Alhambra, Arcadia, Bell, Burbank, Industry, Inglewood, Lancaster, Pasadena, Pomona, Santa Monica, Temple City.
12. Charter cities should review and update policies and procedures for reporting fraud, abuse and questionable practices including a practical mechanism, such as a fraud hotline, to permit the confidential, anonymous reporting of concerns. The following cities should adopt such policies and procedures: Alhambra, Arcadia, Burbank, Industry, Inglewood, Irwindale, Santa Monica, Temple City.
13. Charter cities should periodically review and update internal control procedures over financial management. The Following cities should review and update internal control procedures over financial matters: Bell, Industry, Inglewood.
14. Charter cities that have not adopted a policy requiring an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures should develop such policies. The following cities should adopt such a policy: Alhambra, Arcadia, Bell, Cerritos, Compton, Downey, Glendale, Industry, Lancaster, Pomona, Redondo Beach, Temple City, Torrance, Vernon, Whittier.
15. Charter cities must develop and publish a timely Comprehensive Annual Financial Report (CAFR). The city of Bell should do so.
16. Charter cities that have not published financial reports on the city's website should do so. The city of Industry should do so.
17. Charter cities should develop controls over sole sourced contracting to prevent preferential granting of contracts. The following cities should develop such controls: Bell, Industry, Irwindale, Temple City.

18. Charter cities should develop policies and procedures for selecting and negotiating fair prices for architectural and engineering services consistent with state codes. The following cities should develop such policies and procedures: Arcadia, Bell, Cerritos, Industry, Inglewood, Irwindale, Pasadena, Whittier.
19. All charter cities reviewed in this report should provide policies and procedures for ensuring prices negotiated for substantial contract change orders are fair and reasonable, and establish internal controls over substantial contract change orders so that same contractors not repeatedly awarded contracts. The following cities should do so: Alhambra, Bell, Cerritos, Inglewood, Irwindale, Lancaster, Temple City, Torrance, Whittier.
20. All charter cities should develop policies and procedures for documenting compliance with procurement requirements, and provide contract compliance and oversight and have annual audit oversight with an outside accounting firm. The following cities should do so: Bell, Cerritos, Inglewood, Irwindale, Lancaster, Whittier.
21. All charter city councils, and citizens of the cities, reviewed in this report should annually review the actual compensation received by employees of their cities.
22. All charter city councils of the cities reviewed in this report should have access to prevailing municipal wage rates and/or salary ranges for comparable cities in order to identify any individual city position(s) whose salaries exceed the normal salary range for those positions. Approval of any exceptional salaries should be based on justifications of exceptional and unique job responsibilities.

ACRONYMS

AICPA	American Institute of Certified Public Accountants
CAFR	Comprehensive Annual Financial Reports
CalPERS	California Public Employees Retirement System
CFO	Chief Financial Officer
CGJ	Los Angeles County Civil Grand Jury
CPCC	California Public Contract Code
FPPC	California Fair Political Practices Commission
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAS	Government Auditing Standards
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
IIA	Institute of Internal Auditors
RFP	Request for Proposal
SWOT	Strengths, Weaknesses, Opportunities, and Threats

APPENDICES

A	Glossary of Terms
B	Sample Questionnaire
C	Positions with Compensation in excess of \$200,000 in 2011
D	Charter Cities Comments and Additional Documentation

EXHIBIT

1	General Law City v. Charter City
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APPENDIX A – GLOSSARY OF TERMS

Adopted Budget – The City Council approved annual budget establishing the legal authority for the expenditure of funds as set forth in the adopting Council budget resolution.

Asset – Property owned by a government, which has monetary value.

Audit – An examination and evaluation of the City's records and procedures to ensure compliance with specified rules, regulations, and best practices. City Charters generally require a yearly independent financial audit, by an independent certified public accountant that forms an audit opinion regarding the legitimacy of transactions and internal controls.

Balanced Budget – When the total of revenues and other financing sources is equal to or greater than the total of expenditures and other financing uses.

Budget – A fiscal plan of financial operation comprised of estimated expenditures and the proposed means of financing them for a given period (usually a single fiscal year). The budget is proposed until it has been approved by the City Council through a series of budget study sessions and a formal budget hearing in June.

Budget Message – The City Manager's general discussion of the budget which contains an explanation of principal budget items and summary of the City's financial status at the time of the message.

California Public Employees' Retirement System (CalPERS) – The retirement system administered by the State of California, to which all permanent City employees belong.

Capital Asset – A tangible, fixed asset that is long-term in nature, of significant value, and obtained or controlled as a result of past transactions, events or circumstances. Fixed assets include land, buildings, equipment, improvements to buildings, and infrastructure (i.e., streets, highways, bridges, and other immovable assets). A capital asset is defined as an asset with a useful life extending beyond a single accounting period.

Change in General Fund Balance – The difference from the beginning of the fiscal year to the end of the fiscal year in the balance in the primary fund of the City used to account for all revenues and expenditures of the City not legally restricted as to use. Departments financed by the General Fund include Police, Fire, Parks, Library, and administrative support departments (Finance, Human Resources, City Attorney, etc.)

Change in Net Assets – The difference from the beginning of the fiscal year to the end of the fiscal year in the total City assets minus total City liabilities.

City Charter – The legal authority granted by the State of California establishing the City and its form of government. The Charter also gives the City the ability to provide services and collect revenue to support those services.

Comprehensive Annual Financial Report (CAFR) – A government financial statement that provides a thorough and detailed presentation of the government's financial condition. It provides the Council, residents and other interested parties with information on the financial position of the City and its various agencies and funds. Report contents include various financial statements and schedules and all available reports by the City's independent auditors.

Deficit – An excess of expenditures or expenses over revenues (resources) during an accounting period.

Department – An organization unit comprised of divisions, sections, and/or programs. A department has overall management responsibility for an operation or a group of related operations.

Expenditure – The actual spending of Governmental funds set aside by an appropriation.

Fiscal Year – A twelve-month period of time to which the annual budget applies. Fiscal years are designated by the calendar year that they begin and end. Abbreviation: FY.

Fund – In Governmental Accounting, a fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Balance – The amount of financial resources immediately available for use. Generally, this represents the accumulated annual operating surpluses and deficits since the fund's inception.

General Fund – The primary fund of the City used to account for all revenues and expenditures of the City not legally restricted as to use. Departments financed by the General Fund include Police, Fire, Parks, Library, and administrative support departments (Finance, Human Resources, City Attorney, etc.)

Generally Accepted Accounting Principles (GAAP) – Uniform minimum standards of/and guidelines for financial accounting and reporting. They govern the form and content of the basic financial statements of an entity. GAAP encompasses the conventions, rules, and procedures necessary to define accepted accounting practices at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations.

Goal – A long-term organizational target or direction. It states what the organization wants to accomplish or become over the next several years. Goals provide the direction for an organization and define the nature, scope, and relative priorities of all projects and activities. Everything the organization does should help it move toward attainment of one or more goals.

Governmental Accounting Standards Board (GASB) – The organization that establishes generally accepted accounting principles (GAAP) for states and local governments.

Government Finance Officers Association (GFOA) – A professional association that enhances and promotes the professional management of state and local governments for the public benefits by identifying and developing financial policies and best practices through education, training, facilitation of member networking, and leadership. The organization sponsors award programs designed to encourage good financial reporting for financial documents including the Comprehensive Annual Financial Report (CAFR) and the annual budget.

Liability – City debts or obligations that arise during the course of operations.

Net Assets – Total City assets minus total City liabilities.

Net Revenues – Total City revenues minus total City expenditures.

Ordinance – A formal legislative enactment by the City Council. It has the full force and effect of law within City boundaries unless pre-empted by a higher form of law. An Ordinance has a higher legal standing than a Resolution.

Ratio of Total Assets to Total Liabilities – The total assets of a city divided by the total liabilities of a city.

Reserve – An account used to record a portion of the fund balance as legally segregated for a specific use.

Resolution – A special order of the City Council which has a lower legal standing than an ordinance. The City's budget is adopted via a Resolution of Appropriation.

Revenues – Amount received for taxes, fees, permits, licenses, interest, intergovernmental sources, and other sources during the fiscal year.

Salaries and Benefits – A budget category which generally accounts for full-time and temporary employees, overtime expenses, and all employee benefits such as medical, dental, and retirement.

Undesignated Fund Balance – Accounts used to record a portion of the fund balance not legally segregated for a specific use and, therefore, available for appropriation.

APPENDIX B – SAMPLE QUESTIONNAIRE

JANUARY 24, 2012

Julio Fuentes, City Manager
City of Alhambra
111 South First Street
Alhambra, CA 91801

Dear City Manager Fuentes,

The Los Angeles County Civil Grand Jury is currently conducting an investigation of governance, management, and fiscal health of charter cities in Los Angeles County. The enclosed questionnaire is being sent to charter cities to collect information on each City's practices in these areas. Under Penal Code sections 925 and 925A, the Grand Jury may investigate and examine the books and records of County and City operations. Penal Code section 921 gives the Grand Jury free access at all reasonable times to the examination of all public records within a County. The Civil Grand Jury has an aggressive schedule in completing this investigation and is requesting your timely cooperation in compliance with the above.

Please send the completed questionnaire and documentation by Friday, February 10th to Alf Schonbach, Foreperson, at the address above.

The questionnaire is available at <http://www.stellarsurvey.com/s.aspx?u=4C48DD07-A297-4313-ABC2-628535B7BE0F&> if you prefer to complete and submit it online. This will also allow you to upload requested support documentation. You were sent an email with this link on Monday, January 23rd.

The Grand Jury has retained the firm of Thompson, Cobb, Bazilio & Associates (TCBA) to assist in this investigation. TCBA is administering the survey, will be reviewing information submitted, and conducting follow-up site visits with selected charter cities. If you have any questions please contact Scott Bryant with TCBA at sbryant@tcbacal.com.

Sincerely,

Alf Schonbach
Foreperson

Enclosure: Charter City Questionnaire

Governance

1. Has the City Council developed and adopted a strategic plan that articulates the mission, vision, core values and priorities (goals and objectives) for the City?
 - ☐ Yes
 - ☐ No
2. Has the City Council adopted performance measures or indicators to evaluate outcomes or progress on priorities?
 - ☐ Yes
 - ☐ No
3. Does your City have a formal policy, agreement, or other document that clearly defines the roles of the City Council and executive (City Manager or Administrator) and their relationship?
 - ☐ Yes
 - ☐ No
4. Does the City Council establish specific goals for the Executive at least annually?
 - ☐ Yes
 - ☐ No
5. Does the City Council conduct a meaningful evaluation of the Executive's performance at least annually?
 - ☐ Yes
 - ☐ No
6. Has the City Council adopted and does it enforce a formal "Conflict of Interest" policy?
 - ☐ Yes
 - ☐ No
7. Has the City Council adopted "Investment" policy?
 - ☐ Yes
 - ☐ No
8. Please provide copies of the
 - strategic plan and performance measures or indicators,
 - formal agreement or other document that clearly defines the roles of the Board and executive and their relationship,
 - the specific goals most recently established for the Executive,
 - adopted "Conflict of Interest" policy, and
 - adopted "Investment" policy.
9. Please provide any comments or explanations regarding your responses on governance:

Audit Committee

10. Does your City have an audit committee that is formally established by charter, enabling resolution, or other appropriate legal means?
- ☐ Yes
 - ☐ No
11. Is the audit committee directly responsible for the appointment, compensation, retention, and oversight of the work of independent accountants engaged to perform independent audit, review, or attestation services?
- ☐ Yes
 - ☐ No
12. Do such independent accountants report directly to the audit committee?
- ☐ Yes
 - ☐ No
13. Please provide a copy of the action formally establishing the audit committee.
14. Please provide any comments or explanations regarding your responses on audit committees:

Audit Procurement

15. Do your City's audit contracts require auditors of financial statements conform with the independence standard defined in the General Accounting Office's *Government Auditing Standards*?
- ☐ Yes
 - ☐ No
16. In selecting independent auditors does your City undertake a full-scale competitive process at the end of the term of each audit contract?
- ☐ Yes
 - ☐ No
17. Does your City have a formal policy requiring that the independent auditor be replaced at the end of the audit contract?
- ☐ Yes
 - ☐ No
18. Does your City allow the independent auditor to provide non-audit services to the City?
- ☐ Yes
 - ☐ No

19. If yes, does the Audit Committee review and approve these services?

- ☐ Yes
- ☐ No

20. Please provide a copy of the formal policies related to audit procurement.

21. Please provide any comments or explanations regarding your responses on audit procurement:

Accounting Policies and Procedures

22. Are accounting policies and procedures formally documented in an accounting policies and procedures manual?

- ☐ Yes
- ☐ No

23. Are accounting policies and procedures reviewed annually and updated at least once every three years on a predetermined schedule?

- ☐ Yes
- ☐ No

24. Do the accounting policies and procedures specifically define the authority and responsibility of all employees, including the authority to authorize transactions and the responsibility for safekeeping of assets and records?

- ☐ Yes
- ☐ No

25. Please provide a copy of the accounting policies and procedures manual.

26. Please provide any comments or explanations regarding accounting policies and procedures:

Reporting of Fraud, Abuse, and Questionable Practices

27. Does your City have policies and procedures to encourage and facilitate the reporting of fraud or abuse and questionable accounting or auditing practices?
- ☐ Yes
 - ☐ No
28. Does your City have a formally adopted and widely distributed and publicized ethics policy?
- ☐ Yes
 - ☐ No
29. Does your City have a practical mechanism, such as a fraud hotline, to permit the confidential, anonymous reporting of concerns about fraud, abuse, or questionable practices?
- ☐ Yes
 - ☐ No
30. Are concerns received regarding fraud, abuse, or questionable practices reviewed by internal auditors, with documentation reviewed by the Audit Committee.
- ☐ Yes
 - ☐ No
31. Please provide a copy of the ethics policy and information on mechanisms for reporting concerns of fraud, abuse, or questionable practices.
32. Please provide any comments or explanations regarding reporting of fraud, abuse, and questionable practices:

Internal Controls

33. Are internal control procedures over financial management formally documented?
- ☐ Yes
 - ☐ No
34. Do internal control procedures include practical means for lower level employees to report instances of management override of controls?
- ☐ Yes
 - ☐ No
35. Are internal control procedures evaluated to determine if those controls are adequately designed to achieve their intended purpose, have actually been implemented, and continue to function as designed?
- ☐ Yes
 - ☐ No
36. Are potential internal control weaknesses documented in exception reports?
- ☐ Yes

- ☐ No
- 37. Is there a process in place to identify changes in what is being controlled or controls themselves, and corrective action plans are developed with an appropriate timeline?
 - ☐ Yes
 - ☐ No
- 38. Please provide a copy of the internal control procedures over financial management.
- 39. Please provide any comments or explanations regarding your responses on internal controls:

Internal Audit

- 40. Does your City have an internal audit function formally established by charter, enabling resolution, or other legal means?
 - ☐ Yes
 - ☐ No
- 41. Is the work of the internal audit function conducted in accordance with the U.S. General Accounting Office's *Government Auditing Standards*?
 - ☐ Yes
 - ☐ No
- 42. Are all reports of the Internal Audit function provided to or available to the Audit Committee?
 - ☐ Yes
 - ☐ No
- 43. Please provide a copy of the formal action establishing the internal audit function.
- 44. Please provide any comments or explanations regarding your responses on internal audit:

General Fund Unrestricted Fund Balance

45. Does your City have a formal policy on the level of unrestricted fund balance to be maintained in the General Fund?
- ☐ Yes
 - ☐ No
46. Does this policy require an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures?
- ☐ Yes
 - ☐ No
47. Please provide a copy of the formal policy on the level of unrestricted fund balance to be maintained in the General Fund.
48. Please provide any comments or explanations regarding your responses on general fund unrestricted fund balance:

Financial and Public Reporting Practices

49. Does your City maintain an accounting system adequate to provide all the data needed for the timely preparation of financial statement for the entire entity in conformity with Generally Accepted Accounting Principles (GAAP)?
- ☐ Yes
 - ☐ No
50. Does your City issue timely financial statements for the entire financial reporting entity in conformity with GAAP as part of a Comprehensive Annual Financial Report (CAFR)?
- ☐ Yes
 - ☐ No
51. Has your City's financial statements been independently audited in accordance with either generally accepted auditing standards (GAAP) or Government Auditing Standards (GAS)?
- ☐ Yes
 - ☐ No
52. Are the annual budget documents or CAFR for your City published and readily accessible to the general public on your City's website?
- ☐ Yes
 - ☐ No

53. Please provide any comments or explanations regarding your responses on financial and public reporting practices:

Employee Compensation

54. Please provide a list of all employees with total compensation for CY 2011 in excess of \$175,000 as reported to the Internal Revenue Service (IRS). Please provide detail about the compensation for each employee (salary, overtime, car allowance, vacation payout, sick leave payout, etc.).

55. Please provide any comments or explanations regarding employee compensation:

Procurement and Contracting

56. Does your City have formally adopted policies and procedures defining competitive bidding requirements and practices for the procurement of goods and services?
- ☐ Yes
 - ☐ No
57. Does your City Charter or City ordinance provide exemption from competitive procurement requirements of California's Public Contracting Code?
- ☐ Yes
 - ☐ No
58. Does your City have formally adopted policies and procedures for documenting compliance with procurement requirements?
- ☐ Yes
 - ☐ No
59. Does your City have formally adopted policies and procedures for selecting firms that provide architectural and engineering services?
- ☐ Yes
 - ☐ No
60. Does your City have formally adopted policies and procedures for ensuring that prices for negotiated contracts are fair and reasonable?
- ☐ Yes
 - ☐ No

61. Does your City have formally adopted policies and procedures for ensuring that prices negotiated for contract change orders are fair and reasonable?
- ☐ Yes
 - ☐ No
62. Does your City have formally adopted policies and procedures establishing internal controls over sole-source contracting?
- ☐ Yes
 - ☐ No
63. Does your City have formally adopted policies and procedures establishing internal controls over contract change orders?
- ☐ Yes
 - ☐ No
64. Does your City have formally adopted policies and procedures for providing contract compliance and oversight?
- ☐ Yes
 - ☐ No
65. Please provide copies of the:
- formal policy defining competitive bidding requirements and practices for the procurement of goods and services,
 - City Charter or City ordinance providing exemption from competitive procurement requirements of California’s Public Contracting Code,
 - formally adopted policies and procedures for documenting compliance with procurement requirements,
 - formally adopted policies and procedures for selecting firms that provide architectural and engineering services,
 - formally adopted policies and procedures for ensuring that prices for negotiated contracts are fair and reasonable,
 - formal policy establishing internal controls over sole-source contracting,
 - formal policy establishing internal controls over contract change orders,
 - formal policy and procedures for providing contract compliance and oversight.
66. Please provide any comments or explanations regarding your responses on procurement and contracting:

Please provide the contact information for the individual with primary responsibility for completing this survey:

Name: _____

Title: _____

Phone: _____

Email: _____

APPENDIX C – POSITIONS WITH COMPENSATION OVER \$200,000 IN 2011

City	Title	Taxable Compensation¹
Alhambra	City Manager	\$ 209,942.00
Arcadia	City Manager	\$ 281,558.96
Bell	Director of Administrative Services	\$ 215,938.50
Burbank	City Manager	\$ 241,288.11
Burbank	City Attorney	\$ 214,025.88
Burbank	General Manager - Water & Power	\$ 209,822.95
Burbank	Police Lieutenant	\$ 208,317.02
Burbank	Fire Battalion Chief	\$ 205,053.54
Cerritos	City Manager	\$ 246,021.60
Compton	City Manager	\$ 243,298.44
Culver City	City Manager	\$ 272,005.66
Culver City	City Attorney	\$ 244,560.41
Culver City	Assistant Police Chief	\$ 234,532.42
Culver City	Police Chief	\$ 232,422.86
Culver City	Fire Chief	\$ 226,679.96
Culver City	Police Lieutenant	\$ 225,130.38
Culver City	Chief Information Officer	\$ 218,233.23
Culver City	Fire Battalion Chief	\$ 215,481.40
Culver City	Assistant Fire Chief	\$ 213,028.12
Culver City	Chief Financial Officer	\$ 210,714.21
Culver City	Assistant City Manager	\$ 210,260.46
Culver City	Fire Captain	\$ 209,288.04
Culver City	Public Works Director /City Engineer	\$ 206,377.11
Culver City	Fire Battalion Chief	\$ 201,591.21
Downey	Fire Chief	\$ 405,943.03
Downey	City Manager	\$ 265,608.99
Downey	Deputy City Manager	\$ 231,955.45
Downey	Police Officer	\$ 213,097.40
Downey	Police Chief	\$ 212,928.47
Downey	Battalion Chief	\$ 207,898.70
Downey	Assistant Fire Chief	\$ 207,248.17
Downey	City Manager	\$ 204,495.80
Downey	Fire Battalion Chief	\$ 203,920.95
Glendale	General Manager - GWP	\$ 243,402.57
Glendale	City Manager	\$ 222,891.12

City	Title	Taxable Compensation ¹
Glendale	Police Chief	\$ 218,729.74
Inglewood	Police Sergeant	\$ 212,802.00
Inglewood	Chief of Police	\$ 206,189.00
Lancaster	City Manager	\$ 253,988.33
Palmdale	City Attorney	\$ 293,249.82
Palmdale	City Manager	\$ 289,579.55
Palmdale	Public Works Director	\$ 214,725.58
Pasadena	City Manager	\$ 266,399.83
Pasadena	City Attorney/City Prosecutor	\$ 232,713.98
Pasadena	Police Chief	\$ 221,654.83
Pasadena	Assistant City Manager	\$ 221,026.29
Pasadena	Assistant City Manager	\$ 216,907.65
Pasadena	General Manager - Water & Power	\$ 215,942.17
Pasadena	Fire Battalion Chief	\$ 212,405.11
Pasadena	Director Of Finance	\$ 207,890.77
Pasadena	Deputy Fire Chief	\$ 207,611.30
Pasadena	Fire Battalion Chief	\$ 200,397.56
Redondo	City Attorney	\$ 283,416.64
Redondo	City Manager	\$ 251,011.96
Redondo	Fire Division Chief	\$ 209,197.82
Redondo	Fire Captain	\$ 205,575.84
Redondo	Firefighter/Paramedic	\$ 201,541.31
Santa Monica	City Manager	\$ 301,072.56
Santa Monica	Police Sergeant	\$ 273,166.58
Santa Monica	Police Sergeant	\$ 256,502.37
Santa Monica	City Attorney	\$ 251,648.36
Santa Monica	Assistant City Attorney	\$ 246,731.46
Santa Monica	Police Officer	\$ 243,765.85
Santa Monica	Police Chief	\$ 237,104.80
Santa Monica	Fire Captain	\$ 233,209.13
Santa Monica	Deputy Police Chief	\$ 229,093.34
Santa Monica	Fire Captain	\$ 229,050.15
Santa Monica	Cultural Services Director	\$ 228,569.36
Santa Monica	Police Sergeant	\$ 226,947.75
Santa Monica	Fire Captain	\$ 224,907.60
Santa Monica	Fire Captain	\$ 222,225.06
Santa Monica	Deputy City Attorney	\$ 221,989.11

City	Title	Taxable Compensation ¹
Santa Monica	Fire Chief	\$ 221,113.52
Santa Monica	Assistant City Manager	\$ 219,885.25
Santa Monica	Police Officer	\$ 219,595.81
Santa Monica	Fire Chief	\$ 218,182.82
Santa Monica	Firefighter	\$ 217,518.11
Santa Monica	Police Sergeant	\$ 217,352.26
Santa Monica	Paramedic	\$ 216,518.83
Santa Monica	Fire Captain	\$ 216,472.66
Santa Monica	Chief Deputy City Attorney	\$ 216,429.70
Santa Monica	Senior Land Use Attorney	\$ 215,427.39
Santa Monica	Deputy City Attorney	\$ 214,940.57
Santa Monica	Fire Battalion Chief	\$ 214,051.84
Santa Monica	Firefighter	\$ 212,907.55
Santa Monica	Deputy City Attorney	\$ 212,782.90
Santa Monica	Police Captain	\$ 211,360.32
Santa Monica	Deputy City Attorney	\$ 210,639.45
Santa Monica	Firefighter	\$ 208,278.95
Santa Monica	Firefighter	\$ 207,549.77
Santa Monica	Fire Captain	\$ 207,211.34
Santa Monica	Firefighter	\$ 206,055.11
Santa Monica	Fire Captain	\$ 205,961.85
Santa Monica	Fire Captain	\$ 205,163.90
Santa Monica	Deputy City Attorney	\$ 204,552.72
Santa Monica	Chief Deputy City Attorney	\$ 203,341.32
Santa Monica	Fire Captain	\$ 201,803.49
Santa Monica	Deputy City Attorney	\$ 200,045.93
Signal Hill	City Manager	\$ 230,107.83
Temple City	City Manager	\$ 218,414.73
Torrance	City Manager	\$ 340,897.37
Torrance	Attorney, City	\$ 297,578.06
Torrance	Police Chief	\$ 295,559.73
Torrance	Fire Chief	\$ 281,628.30
Torrance	Police Captain	\$ 267,043.76
Torrance	Police Lieutenant	\$ 253,449.15
Torrance	Deputy Fire Chief	\$ 251,492.77
Torrance	Assistant City Manager	\$ 248,030.95
Torrance	Police Lieutenant	\$ 246,396.14

City	Title	Taxable Compensation ¹
Torrance	Police Captain	\$ 244,804.79
Torrance	Fire Battalion Chief	\$ 240,358.47
Torrance	Police Lieutenant	\$ 240,339.46
Torrance	Police Captain	\$ 236,248.24
Torrance	Police Captain	\$ 233,873.90
Torrance	Police Sergeant	\$ 230,199.99
Torrance	Public Works Director	\$ 229,937.26
Torrance	Fire Battalion Chief	\$ 229,613.64
Torrance	Community Development Director	\$ 229,498.43
Torrance	Police Sergeant	\$ 229,270.95
Torrance	Finance Director	\$ 226,100.97
Torrance	Police Officer	\$ 223,133.55
Torrance	Fire Battalion Chief	\$ 221,462.68
Torrance	Police Sergeant	\$ 219,323.04
Torrance	Police Captain	\$ 219,059.54
Torrance	Fire Engineer	\$ 209,961.09
Torrance	Fire Captain	\$ 209,129.50
Torrance	Info Technology Director	\$ 206,835.59
Torrance	Police Lieutenant	\$ 206,731.05
Torrance	Police Sergeant	\$ 206,358.35
Torrance	Police Officer	\$ 204,688.65
Torrance	Fire Captain	\$ 203,987.86
Torrance	Fire Captain	\$ 203,820.89
Torrance	Police Sergeant	\$ 203,739.43
Torrance	Police Lieutenant	\$ 203,715.95
Torrance	Fire Captain	\$ 202,604.14
Torrance	Police Sergeant	\$ 201,050.96
Vernon	Finance Director	\$ 280,418.00
Vernon	Chief Deputy City Attorney	\$ 239,794.00
Vernon	Director of Community Services	\$ 228,432.00
Vernon	Fire Chief	\$ 225,932.00
Vernon	Engineering Manager	\$ 212,542.00
Whittier	City Manager	\$ 219,052.37

¹ Note: May include payouts for accumulated vacation or sick leave, and for overtime.

APPENDIX D – CITIES’ COMMENTS AND ADDITIONAL DOCUMENTATION FROM QUESTIONNAIRE

Alhambra

1. Governance

City Council developed mission, vision, core values and 3 year goals during strategic planning session. Included SWOT analysis and assignment of responsibility. Serve as goals for the City Manager / Executive Team. Roles are defined in the City Charter. Conflict of Interest Policy adopted by Council Resolution 1/30/2012. Investment policy presented and approved by City Council at least annually.

2. Audit Committee / Audit Procurement

The City Council would act as the audit committee, final audit is presented to the City Council by the Independent Auditor. No specific policy for audit procurement, follows policies for procuring professional services.

3. Accounting Policies and Procedures / Internal Controls

Accounting Manual provided (340 pages). Appears to have been last updated March 1997. No specific internal controls policies and procedures provided. Employee reporting of Internal Control override according to Federal Whistleblower Act.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

Code of Ethics adopted by resolution 12/16/2002.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Council adopted policy by resolution on unrestricted fund balance consistent with GASB Rule 54.

6. Procurement and Contracting

Summary of competitive bidding policy and procedures provided. Sole source allowed if item only available from one source. Also rely on State Contracting Code and Green Book for Public Works contracting.

Arcadia

1. Governance

Roles defined in the City Charter. Goals for the City Manager outlined in the budget. Investment policy provided.

2. Audit Committee / Audit Procurement

(No notes)

3. Accounting Policies and Procedures / Internal Controls

Basic policies and procedures with no discussion of internal controls.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

No formal ethics policy provided. State that concerns are reviewed internally by the Administrative Services Director. No information provided on the Internal Audit function.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance
(No comments)

6. Procurement and Contracting

Purchases in excess of \$5,000 require a competitive bid process. Procedures for emergency purchases are outlined. Exceptions include when only available from one vendor, or with the approval of the City Manager. Sole source and change order procedures provided.

Bell

1. Governance

Major City goals established for FY 2012-13, Roles defined in City Charter, Conflict of Interest Policy adopted by Resolution Sept. 2010. Investment Policy adopted by Resolution May 2005.

2. Audit Committee / Audit Procurement
(No additional comments)

3. Accounting Policies and Procedures / Internal Controls
(No additional comments)

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit
Adopted a “Code of Ethics and Values” and “Fraud Prevention” policy in July 2008.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance
(No additional comments)

6. Procurement and Contracting
(No additional comments)

Burbank

1. Governance

Comprehensive strategic plan entitled “Our Plan, Our Future, Our Burbank – A Strategic 10 Year Plan for the City of Burbank 2011-2021” Presents very well structured mission, goals and specific objectives. Key performance indicators provided in the annual budget for each Department tied to specific goals and strategies. Performance indicators are quantified, and information for most provided for a 3 year period. Role and duties of the City Manager defined by the City Charter and employment agreement. Very specific goals established for the City Manager for FY 2010-11 including Balanced and Strategic 5-Year Budget, Improved Communication, Business Process Improvement, Continued

Environmental Leadership, and Improved Disaster Preparedness, Economic Development, and Address Police issues. Annual evaluation of the City Manager required by the employment agreement. Adopted a Conflict of Interest Policy and code in conformity with state law. Adopts investment policy annually.

2. Audit Committee / Audit Procurement

The Council Audit Sub-Committee, which includes two city council members, reviews and approves all financial audit services.

3. Accounting Policies and Procedures / Internal Controls

City currently in the process of establishing Accounting Policies and Procedures and documenting internal controls. Internal controls are reviewed as part of the annual audit.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

City currently finalizing a formal fraud policy. Fraud documentation reviewed by the Council Audit Sub-Committee. Internal auditors perform transient occupancy and parking audits and some specialty audits. Follow AICPA standards.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Financial policy requires a designated General Fund working capital reserve equivalent to 15% of the General Fund's operating budget and a designated emergency reserve equivalent to 5% of the General Fund's operating budget.

6. Procurement and Contracting

City code and policy requires competitive procurement except in specific circumstances including purchases under \$5,000, when obtainable from only one vendor, when unique, and in emergencies. Documentation is required. Change orders for public works construction works street projects are done based on unit prices fixed by the contractors bid. Other change orders negotiated pursuant to contract terms. Policies provide for a negotiated proposal process for professional services where the most qualified is identified and the fee and payment schedule is negotiated. Amendments to contracts (change orders) must go through a formal approval process.

Cerritos

1. Governance

No "strategic plan" with mission, vision, core values, and goals provided. The budget (Combined Financial Program) provides financial objectives and some activity descriptions and objectives for individual departments. Also provides some activity and activity workload indicators, but no performance indicators focused on outcomes or effectiveness of activities. The eligibility, powers, duties, etc. for the City Manager defined in the City Charter and Municipal Code.

Stated City Manager goals defined in the performance evaluation process.

Conflict of Interest policy adopted by resolution November 2010. Investment policy provided – adopted annually with budget.

2. Audit Committee / Audit Procurement

Audit Committee is a management practice – includes Director of Administrative Services, Budget Manager, Finance Manager, finance and MIS staff. Audit contract prohibits conflicts and statement of independence in compliance with standards included in selected audit firm's proposal. Bid from selected audit firm indicates competitive process for selection. Contract term is for 2010, 2011, 2012 with the option to extend for 2 subsequent years.

3. Accounting Policies and Procedures / Internal Controls

Provided a statement that desk manual with appropriate guidance for finance staff exist for key functions and include documentation of internal control procedures. Copies not provided due to proprietary and confidential information contained in them. Unable to determine when developed or review / update schedule. Internal control flow charts for FY 2009 from independent auditors provided. Stated exception reports and correction action plans for control weaknesses would be developed by external auditors. All employees can report inappropriate override of internal controls to the Human Resources Division.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

Council adopted "Travel Expense Reimbursement and Ethics Training Policy" in May 2006. Focused on ethics related to travel and reimbursement for expenses. Council also given information on ethics at the Oct. 16, 2004 City Council meeting. State audit / finance functions authorized by City Charter – Charter does not include an internal audit function.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

In the comments they state that reserves generally have been significantly in excess of two months of regular general fund operating revenues (and often in excess of one year of such revenues), the City has opted not to establish a fund balance policy. There has been a concern that such a policy, in our situation, actually could encourage additional spending of reserves – resulting in a reduction to the adopted level.

6. Procurement and Contracting

Municipal Code requires purchases by formal or informal bid except for emergencies or obtainable from only a single or sole source. Also provides an exemption if the City Council has determined in the best interest of the City to do so. RFP's for architectural / engineering services procurements include consideration of fees and Municipal Code requires purchases by formal or informal bid except for emergencies or obtainable from only a single or sole source. Also provides an exemption if the City Council has determined in the best interest of the City to do so. RFP's for architectural / engineering services procurements include consideration of fees and resources required to perform the requested services.

Compton

1. Governance

Roles are defined in the City Charter - Charter specifically defines the relationship between the Council and Manager (Section 2-2.8). Goals not set for City Manager due to search being conducted for new City Manager. Code of ethics included in the “Standard Operating Manual” and effective April 1997 City Council adopted updated “Conflict of Interest Code” November 2010. Follow FPPC requirements for ethics training. Adopted annual statement on investment policy for FY 2010-11 March 2011.

2. Audit Committee / Audit Procurement

City Council is the Audit Committee – given the responsibility by the Charter. City Controller point of contact for the audit contractor. Audit RFP provided – specifically states audit to be conducted in accordance with multiple audit standards. Also requires specific affirmative statement on independence. RFP indicates selection is through a competitive process. Term is for 2010, 2011, and 2012 with a one-time option of a 2 year extension.

3. Accounting Policies and Procedures / Internal Controls

Financial Policies and Procedures and Internal Controls provided. Adopted by City Council June 2009. No regular schedule for review and update. States the City Council authorizes the City Manager to periodically review and amend as necessary.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

No formal ethics policy, follow FPPC rules and have annual ethics training. Internal Auditor reports to the City Controller, who is appointed by the City Council. Policies state the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors (IIA) serve as guidelines for internal audit activities.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

CAFR available in the City Clerk’s Office and on the City’s website. General Fund reserve listed in TOC of Financial Policies and Procedures Manual (Section 4.1) but not provided, Not mentioned in investment policy.

6. Procurement and Contracting

Procurement policies require competitive bid for purchases estimated to cost \$7,500 or more. Non-competitive procurement is allowed when only one vendor is qualified, an emergency exists, or competition is determined to be inadequate. Policy requires agencies to document details of non-competitive procurements. No specific policies regarding architectural or engineering procurements, fair prices for negotiated contracts or change orders. No specific policies on contract compliance and oversight.

Culver City

1. Governance

City goals outlined in the City Manager's budget message and the work plans for each department. State that much of the City's strategic planning has focused around the budget process since the economic downturn in 2008. Roles defined in the City Charter. City Manager goals outlined in the work plans for the City Manager's Office in the annual budget. Conflict of Interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

State that the Finance and Judiciary Committee established by municipal code serve as the Audit Committee (code provides no role in audit). Also state the independent auditors and City Manager meets with the Committee to the report.

Contract indicates the independent auditor is selected through a competitive RFP process. City Council requires competitive selection at least every five years.

3. Accounting Policies and Procedures / Internal Controls

Accounting manual develop February 2006 – state they are currently reviewing and updating. City Council financial policies revised in June 2009. No information on internal controls provided.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

City Charter section stating: "it is the policy of the City that all officers and employees of the City shall observe the highest standards of ethics." State that individuals can send anonymous letters to the City. The few allegations have been investigated. State that given its size there is no internal audit function. The CFO / Treasurer has the authority to investigate irregularities.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

State the City is in the process of procuring a new financial system. City Council adopted financial policies in June 2009 including a goal of maintaining a general operating reserve of, at a minimum, 25% of projected General Fund operating expenditures and an additional 5% for emergency situations.

6. Procurement and Contracting

Procurement policies require formal bid for purchases over \$30,000, and informal bid for purchases between \$2,500 and \$30,000. Personal and professional services (architectural/engineering) are exempt from competitive bidding. Other specific exemptions provided, including sole source and emergencies. Specific policies and procedures exist for change orders, but do not include fair pricing provisions.

Downey

1. Governance

City Council developed and ranked goals and departmental priorities in 2009 and had a follow-up in January 2012 of City Council priorities for 2012. No mission, vision, core

values, or SWOT analysis. Performance measure information provided for most departments in the budget document. Most measures are process or workload indicators – little or no outcome or results information. Duties of Council and City Manager defined in the City Charter. Goals for City Manager same as goals identified as City Council priorities for 2012. Conflict of Interest Code adopted October 2010. Policy for ethics training adopted in November 2006. Investment policy adopted February 2011.

2. Audit Committee / Audit Procurement

Stated the Budget Committee is an “Audit/Budget Committee.” Only referred to as the “Budget Committee in committee assignments – no indication this committee plays a role in the annual independent audit. State accountants report directly to the Finance Director who reports to the Audit/Budget Committee.

3. Accounting Policies and Procedures / Internal Controls

Policies and procedures contained in the “administrative regulations” provided. Many adopted in the 1980’s and early 1990’s with no evidence of more recent review or revision. No documentation of internal controls provided.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

State reporting of fraud is through unrestricted accessibility to the City Manager, Assistant City Manager, City Attorney, and Human Resources. No documentation of internal audit function or standards.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

State a policy exists defining unrestricted fund balance; however levels of unrestricted fund balances evaluated on an annual basis by the City Council.

6. Procurement and Contracting

Only documentation provided is for professional services, requiring competitive procurement over \$10,000.

Glendale

1. Governance

Budget document includes strategic goals adopted by the City Council. Also presents accomplishments and initiatives, “quick facts” and performance measures for each strategic goal. Annual report 2011-12 provides an overview of the City’s operations and provides key performance measures for each strategic objective. Measures are quantified, and include the 2011 target and actual and the target for 2012. Roles defined in the City Charter. City Manager goals are part of the performance evaluation process and considered confidential. Conflict of Interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

Specific Audit Committee established in the municipal code with specific duties. Five members from the Community. Compliance with GAO standards included in the contract scope of work. RFP process required every 3 years, can hire the same firm if most qualified and competitive bid.

3. Accounting Policies and Procedures / Internal Controls

Comprehensive accounting manual with revision dates, many within the past 3 years. Other policies indicated no updates for many years. Specific internal controls and steps provided.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

City maintains an “ethics hotline” which is accessed and reviewed by the Human Resources Director and Internal Audit for appropriate response. City Auditor (Internal Audit) created in municipal code and given duties including internal audit.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Charter has a requirement for a general reserve fund to maintain the City on a cash basis. State that the City’s general fund reserve limit is set by Council policy and is revisited each year in January after all financial reports are complete. The last time the policy was altered was in 2006 when the reserve amount was lowered from 35% of the City’s general fund operating budget to 30%.

6 Procurement and Contracting

Procurement policies require formal bid for purchases over \$50,000, and informal bid for purchases under \$50,000. Policies and procedures for sole source and emergency purchases provided. Specific policies and procedures exist for change orders, but do not include fair pricing provisions.

Industry

1. Governance

Roles defined in the City Charter. Conflict of interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

Engagement letter with independent letter references independence standard.

3. Accounting Policies and Procedures / Internal Controls

Some policies and procedures on internal controls provided.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

(No additional comments)

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Stated the city is in the process of updating its website and city officials will consider posting the annual financial statements at a later date.

6. Procurement and Contracting

Municipal code establishes basic procurement policies and procedures. Projects under \$30,000 can be procured through negotiated contract or purchase order. Under \$125,000 by informal bid process. Projects over \$125,000 require formal bid process.

Inglewood

1. Governance

City Charter provided as defining role of Executive - City Administrator responsibilities and qualifications listed. A draft “Ethical Standards and Conflict of Interest Guidelines” was developed in February 2012 – has not been adopted by City Council. Investment policy and guidelines adopted by City Council on December 11, 2007.

2. Audit Committee / Audit Procurement

City is in the process of developing an audit committee to review the City’s investments and policy and provide oversight of the financial audit. The Charter requires the City Council to employ a public accountant, but does not specify how they are to be procured, the term of the contract, or provision of non-audit services.

3. Accounting Policies and Procedures / Internal Controls

Financial policies are fairly general and brief (6 pages), have no dates or updates. Stated all accounting policies and procedures are currently being reviewed in order to update for internal controls and document procedures.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

City has developed a draft “Fraud In The Workplace Policy/Procedures.” Not clear how current fraud and abuse concerns are currently addressed.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Inglewood does not produce a CAFR, only basic financial statements, which are available on the City’s website. City financial policy states “It is the policy of the City of Inglewood to establish and maintain at least a reserve fund balance for the General Fund equal to 8% of the current year’s expenditure appropriations and adequate operating reserves for all other funds to be reviewed at least annually.” No evidence adopted by City Council. Unreserved fund balance at the end of FY 10 was –18%.

6. Procurement and Contracting

Inglewood Municipal Code provides specific exceptions to competitive bidding. Instructions for making a sole-source purchase were provided.

Irwindale

1. Governance

Strategic plan outlining mission and goals, as well as objectives for each City Department contained in the City budget. Includes how each objective will be accomplished, measured and tracked – could be improved with more quantitative performance measures. City Manager duties outlined in the City Charter and municipal code. No

specific goals for the City Manager provided. Conflict of Interest Policy adopted by City Council by resolution on Sept. 24, 2008. Investment Policy ratified by City Council by resolution on June 22, 2011.

2. Audit Committee / Audit Procurement

Mayor and City Council serve in the capacity of the audit committee, and independent audit report presented to them as required by State law. The City does not have a formal policy relating to the use or procurement of independent auditors, uses policies for professional services. Required the current audit firm to change partners upon completion of the contract ending for FY 2008-09. It is Staff's intent to pursue a request for proposals process following the termination of this current contract. We do not use our auditor for non-audit services.

3. Accounting Policies and Procedures / Internal Controls

Accounting policies and procedures were updated and documented in 2008 and again in December 2010 with the implementation of a new financial system. Will put in place a schedule to maintain the accounting policies and procedures updated on a regular basis, not to exceed every three years. The only procedures that have not been updated in the last three years are for fixed assets. Internal control procedures included in the Accounting Policy and Procedures. Independent auditors spend two weeks reviewing and evaluating internal controls, provide City Council with a "Report on Internal Control over Financial Reporting and on Compliance and other matters based on an audit of Financial Statements performed in accordance with Governmental Auditing Standards" which would outline any deficiencies or material weaknesses in internal controls. Should weaknesses be noted, corrective action plans would be required which include a timeline. The City maintains a locked comment box in our employee lunch room whereby information is shared anonymously if needed. Only the human resources department has access to this box.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

City Council adopted ethics policy by resolution July 2007. Copy of ethics code included with each City Council agenda. State that being a small City, the cost of maintaining an internal audit function would most likely outweigh any benefit derived.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Received GFOA Certificate of Achievement for Excellence in Financial Reporting. City Council passed a fund reserve policy in June 2011 requiring at least \$5 Million with the intent to provide a minimum of 3 months operating expenditures.

6. Procurement and Contracting

The City does not have formally adopted policies and procedures relating to procurement and contracting. A draft Purchasing Policy is anticipated to be considered by the City Council in March 2012. The City has adopted the State of California Public Contract Code, Standard for Public Works Construction, and State of California Department of Transportation Construction contract Administration, which are used for all public works contracts and address items 61 and 64.

Lancaster

1. Governance

Strategic Plan from 2005 – provides vision and core values. Also provides goals for the period 2005-2007. More current goals and priorities are provided in the annual budget, which also presents the vision, mission, and core values. Role of the City Manager defined in Municipal Code. Goals for the City Manager outlined in his budget message. City Council adopted a conflict of interest policy by ordinance in February 1994. City Council adopted an investment policy by resolution in October 2011.

2. Audit Committee / Audit Procurement

City Council action taken in 2008 to appoint a Council member as the audit representative. Selection of the auditor follows general procurement policies for professional services.

3. Accounting Policies and Procedures / Internal Controls

Provided policies and procedures. No internal controls information provided.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

Code of ethics and conduct adopted. Policy on whistle blowing and retaliation allow employees to report retaliation to supervisor, manager, Human Resources, or the City Attorney.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

In 1996 the City Council established a policy to maintain an unallocated reserve in the General Fund equal to 10% of expenditures and transfers to buffer any unexpected change in the revenue / expenditure picture. Subsequent policy established a “financial stability reserve fund” to maintain service levels during economic downturns.

6. Procurement and Contracting

Purchases under \$125,000 require written quotations, purchases over \$125,000 require formal bidding. Professional services over \$125,000 are through RFP and negotiations. Exceptions for emergencies and sole source are provided.

Palmdale

1. Governance

Strategic Plan covering 2008-13 provided. Includes mission, vision, values, strategic goals and action plans with responsibility assigned and expected completion dates. Included substantial community participation and assessments of external conditions and municipal services. Also included completion metrics. Roles of City Manager defined in municipal code. City Manager goals established during closed performance evaluation session with the City Council – considered confidential information. Conflict of Interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

Selection of the auditor follows general procurement policies for professional services.

3. Accounting Policies and Procedures / Internal Controls

Policies and procedures provided – most adopted many years ago and indicate no review or revision dates. No internal controls information provided.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

State that policies, including fraud reporting, are informal, with a draft comprehensive policy in review. Concerns are reported to the City Manager or City Attorney. Human Resources policies prohibit retaliation. City provides ethics training as required.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Adopted fund balance policy consistent with GASB 54 including minimum fund balance of 10% of the next year's annual budgeted operating expenditures.

6. Procurement and Contracting

Purchases between \$2,500 and \$30,000 require a determination that the price is fair and reasonable. Purchases between \$30,000 and \$125,000 may be made through an information competitive process. Purchases over \$125,000 require a formal competitive process. Change order must be approved by City Manager and/or City Council.

Pasadena

1. Governance

City Council developed mission, vision, core values and three year goals in November 2010. Discussion included SWOT analysis. Also included specific strategies with responsibility assigned. Council reviews and updates every six months. Council and City Manager roles defined in the City Charter. No information on specific City Manager goals provided other than the strategic plan.

Conflict of Interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

The City Charter formally and specifically gives the Finance Committee the responsibility to “perform the functions of an audit committee.” RFP for audit requires compliance with standards, and indicates selection is competitive.

3. Accounting Policies and Procedures / Internal Controls

Comprehensive policies and procedures – state in the process of updating some of the accounting policies and procedures. Comprehensive internal controls policies and procedures.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

“Ethical Standards for Employees” adopted by the City. Internal Audit policies and procedures developed in July 2002 outline specific standards for internal audit. State internal audit position was eliminated a year ago due to budget. Some duties were re-assigned to the Finance Director and Controller.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Council updated its fund balance policy in 2011, including establishing an “emergency contingent commitment of General Fund of 20% of the General Fund annual appropriations for fiscal years beginning after FY 2014.

6. Procurement and Contracting

Competitive bidding or competitive selection required for contracts over \$25,000. Exemptions include for emergencies, or when in the best interest of the City.

Pomona

1. Governance

Council developed mission, vision, motto, core values, and three year goals in June 2011 through a facilitated strategic planning session. Discussion included SWOT analysis. Also included specific strategies with responsibility assigned. Powers and duties of City Council and City Manager defined in the Municipal Code. Code also requires an annual evaluation of the City Manager. Conflict of Interest code adopted by resolution December 2010. Investment Policy adopted by resolution December 2010.

2. Audit Committee / Audit Procurement

Municipal Code allows the accountant or firm to be designated annually for a period not exceeding three years.

3. Accounting Policies and Procedures / Internal Controls

Finance and accounting policies and procedures very comprehensive and detailed. State that while the City of Pomona does not conduct a one-time annual review or on some other predetermined basis, the City Manager and Finance Director monitor trends, events and occurrences and make changes to policies and procedures as needed.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

Ethics policy and code adopted by City Council February 2006. Also a “fraud prevention” administrative policy and procedure in October 2008. Provides specific definitions of fraud and procedures for reporting and investigating allegations of fraud. Specifically directs employees to take reports to a higher level of management and/or the City Manager or designee.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

City Council adopted a Fund Balance policy in June 2011 by resolution – requires a committed fund balance equal to 17% of operating expenditures of the General Fund for operating contingencies and catastrophic events.

6. Procurement and Contracting

Competitive bidding required for purchases over \$30,000 with specific exceptions including items only available from one source.

Comprehensive procurement policies and procedures including compliance with non-competitive procurement, negotiated process for architectural / engineering services, change orders, and compliance and oversight.

Redondo Beach

1. Governance

City Council developed mission, vision, core values and three year goals in September 2011 through a facilitated strategic planning session. Discussion included SWOT analysis. Also included specific strategies with responsibility assigned. City Manager also provided an update to City Council in January 2012. Information provided in the budget on the activities of each department. No performance indicators focused on outcomes or results. Duties of the City Manager defined in the municipal code. City Manager roles, responsibilities, and rules of conduct adopted in November 2011. City Manager performance evaluation guidelines and criteria, and sample evaluation form provided. Conflict of Interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

City Council adopted and appointed an Audit Committee as a standing committee in May 2008. Charter states audit contract is competitive upon the recommendation of the City Manager. City Financial Principles include the City routinely bidding for audit services, at a minimum, every five years, with audit contracts not exceeding 5 years at a time.

3. Accounting Policies and Procedures / Internal Controls

Comprehensive policies and procedures –some with original and revision dates – others without. Many policies with revision dates over 3 years. City Charter assigns budgeting and financial management responsibilities to the elected City Clerk. Internal controls reviewed by the independent auditor.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

Comprehensive “Fraud in the Workplace” policy and procedures. Allows employees to take concerns to higher management or City manager and grants “whistle-blower” protection. Provides detailed steps for review and investigation of concerns.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Policy adopted in December 2004 requiring the City to maintain a minimum reserve for contingencies equivalent to 8.33% of the General Funds in the current fiscal year budget.

6. Procurement and Contracting

Purchases over \$5,000 require a sealed bid, except Public Works contracts under \$50,000. Change order policies and procedures adopted in August 1993.

Santa Monica

1. Governance

Biennial budget provides goals, objectives and service benchmarks for each department, including the City Manager. No performance measures showing results or outcomes. Roles defined by City Charter. Annual performance review of the City Manager by the City Council required by the City Manager's contract. Conflict of Interest and Investment policies adopted.

2 Audit Committee / Audit Procurement

State have an "informal" audit committee of City staff. Selection of the auditor follows general procurement policies for professional services.

3. Accounting Policies and Procedures / Internal Controls

Have some accounting policies and procedures documented – but not complete. Internal controls reviewed by the independent auditor.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

No formal ethics policy, but active in promulgating instructions on ethical behavior and reviewing and investigating concerns. Internal audit Division not formally authorized, but referred to in policies and procedures developed for internal audit.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Financial policies adopted with the budget include a policy that the City maintain a General Fund operating contingency equal to at least 10% of the following year's General Fund operating and capital expenditures and subsidies to other funds.

6. Procurement and Contracting

Competitive bidding required for purchases over \$100,000 with specific exemptions, including for professional services.

Signal Hill

1. Governance

Strategic Plan developed in 2005-06 – covers the period 2006-11. Includes the City's mission and goals, ranked by priority. Includes a SWOT analysis and input from public meeting and employees. No performance measure information provided. Roles defined in the City Charter. City Manager outlined goals for the City Council's review, and the City Council conducted an evaluation and amended the City Manager's contract. Conflict of Interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

City could not locate information on the competitive selection of the auditor.

3. Accounting Policies and Procedures / Internal Controls

Comprehensive policies and procedures – not clear when some were adopted or when last reviewed or revised. State review and revision is an ongoing process.

Comprehensive internal controls policy and checklists.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

Adopted “Ethical Work Practices for Employees Conflict of Interest” policy in March 2001. Adopted a “Workplace Integrity and Fraud Prevention” policy in July 2010. Directs employees to report concerns to supervisor, manager, personnel manager, City Attorney, or City Manager.

State the internal audit function is part of the job descriptions of the finance staff..

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

Financial policies establish an “economic uncertainties” reserve and require the City maintain a combined General Fund reserve and economic uncertainties reserve equal to a minimum of six months operating expenses.

6. Procurement and Contracting

Municipal code requires all purchases over \$250 be made through bid, with those over \$15,000 by formal bid and contract. Exceptions include emergencies, only available from on vendor, or made under an open purchase order.

Temple City

1. Governance

City Council held a goal setting sessions in April and May 2011 – established goals for FY’s 2011-13 including a goal to formalize a long range strategic plan. In the process of formalizing the strategic planning process for the City Council by June 2012. Conflict of Interest Code adopted by resolution September 2010. Investment Policy receipt acknowledged by resolution June 2011.

2. Audit Committee / Audit Procurement

Selection of auditor follows procurement policy for professional services.

3. Accounting Policies and Procedures / Internal Controls

Accounting policies and procedures provided – not very detailed, only 5 pages. Adopted October 2002 with no indication of review or update. Includes basic information on internal controls. Accounting policies currently under review – will be completed June 2012. Internal controls reviewed annually by independent auditor.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

No ethics policy provided other than Conflict of Interest Code.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

The City does not develop a CAFR. The City’s website provides the basic financial statement for FY 2007-08 – more current financial statements not available on the City’s website. State the City will adopt a General Fund Reserve Policy by March 2012.

6. Procurement and Contracting

City policy requires purchases over \$25,000 to be made by formal bidding process. Current purchasing policy being reviewed, with a new policy to be adopted by June 2012. Change orders require Council approval.

Torrance

1. Governance

Comprehensive strategic plan including Mission, Vision Statement, Values, Citizen's Preamble, and Strategic Priorities (Goals). Also included specific sub-goals and an implementation plan, which serve as the goals for the City Manager. Roles defined in the Community and Employee guide books.

Conflict of Interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

(No Notes)

3. Accounting Policies and Procedures / Internal Controls

Several policies and procedures provided – some have revision dates – others do not. Most show revision date of March 2002.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

State fraud concerns addressed by the Finance Director and Audit Manager. Code of Ethics adopted in April 2008. Audit Manager (internal audit) position created in 1998.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

(No notes)

6. Procurement and Contracting

Purchases of \$40,000 or more require competitive procurement – provides exceptions for professional services, sole source purchases, and other specific purchases. Purchases are reviewed by the Purchasing Manager for compliance. No specific policies for procuring architectural / engineering services.

Vernon

1. Governance

Provided the City's General Plan, which is a land used plan required by the State, not a strategic plan. No performance measure information. Roles defined in City Charter. Conflict of Interest and Investment Policies adopted.

2. Audit Committee / Audit Procurement

No documentation of an audit committee. Have retained an independent reform monitor whose duties include internal controls and audit. No independence statement or requirement found. Current auditor has been the City's auditor since 1999, which was selected competitively at that time.

3. Accounting Policies and Procedures / Internal Controls

Policies and procedures provided. Do not include information on when adopted, reviewed, or revised. Includes information on internal controls.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

State the City adopted an “open door” policy for all complaints and or grievances. Ethics training provided in June 2011. No documentation of an internal audit function – provided information requiring examination and auditing claims and demands (invoices) prior to payment – this is not an internal audit function.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

City has a policy establishing a “dry period” reserve to balance the fact that a significant portion of the City’s annual revenues are received during the latter half of the fiscal year. Does not address the issue of unrestricted fund balance.

6. Procurement and Contracting

Competitive bidding required “whenever possible.” Award to lowest responsible bidder “to the extent practical.” No evidence of policies on fair pricing or negotiated contracts, sole source contracting, or change orders.

Whittier

1. Governance

Stated that the City Council meets regularly to discuss priorities prior to adopting the budget. Adopt a work plan that serves as a strategic plan and evaluate priorities. Has also adopted a values statement. No City Manager goals provided. Conflict of Interest and Investment policies adopted.

2. Audit Committee / Audit Procurement

None

3. Accounting Policies and Procedures / Internal Controls

City Controller has desk procedures in lieu of accounting policies and procedures.

4. Reporting of Fraud, Abuse, and Questionable Practices / Internal Audit

No ethics policy provided.

5. Financial and Public Reporting Practices / General Fund Unrestricted Balance

City’s fund balance policy established a General Fund contingency reserve for emergencies at a minimum equivalent to 5% of the following years General Fund budgeted operating expenditures.

6. Procurement and Contracting

Purchases over \$10,000 require competitive bidding.

Additional Charts (not included in body of the report)

Audit Committee/Audit Procurement Directly Responsible							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	No	Yes	No	No	No
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	No Response	Yes	No	Yes	No Response
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
No	No	No Response	No	No Response	No	No	

Audit Committee/Audit Procurement Report to Committee							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No	No	Yes	Yes	No	No	No
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
No	No	No	No Response	Yes	No	No	No Response
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
No	No	No Response	No	No Response	No	No	

Audit Committee/Audit Procurement Non-Audit Approval							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No Response	No	No Response	Yes	No Response	No	No	No Response
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	No Response	No Response	No	No Response	No Response
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	No Response	No	No Response	No Response	No	

Accounting Policies and Procedures/Internal Controls Internal Controls Override Reporting							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	Yes	No	No	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	No	No	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	Yes	Yes	Yes	Yes	

Reporting of Fraud, Abuse, and Questionable Practices/Internal Audit Fraud/Abuse Concerns Reviewed							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No Response	No	Yes	Yes	No	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
No Response	No	Yes	No	No	Yes	Yes	No
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	No	Yes	Yes	No	

Reporting of Fraud, Abuse, and Questionable practices/Internal Audit Internal Audit in Accord with GAO Standards							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No Response	No	Yes	Yes	Yes	No	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
No Response	No	No	No Response	No Response	No Response	Yes	No Response
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	No	Yes	Yes	No	

Reporting of Fraud, Abuse, and Questionable practices/Internal Audit Internal Audit Reports to Audit Committee							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
No	No Response	No	Yes	Yes	No	No	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
No Response	No	No	No Response	No Response	No Response	Yes	No Response
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	No	Yes	No	No Response	Yes	No	

Financial and Public Reporting Practices / General Fund Unrestricted Balance Independently Audited in Accord with GAAP/GAS							
Alhambra	Arcadia	Bell	Burbank	Cerritos	Compton	Culver City	Downey
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Glendale	Industry	Inglewood	Irwindale	Lancaster	Palmdale	Pasadena	Pomona
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redondo Beach	Santa Monica	Signal Hill	Temple City	Torrance	Vernon	Whittier	
Yes	Yes	Yes	Yes	Yes	Yes	Yes	

EXHIBIT 1¹⁴

General Law City v. Charter City

Characteristic	General Law City	Charter City
Ability to Govern Municipal Affairs	Bound by the state's general law, regardless of whether the subject concerns a municipal affair.	Has supreme authority over "municipal affairs." Cal. Const. art. XI, § 5(b).
Form of Government	State law describes the city's form of government. For example, Government Code section 36501 authorizes general law cities be governed by a city council of five members, a city clerk, a city treasurer, a police chief, a fire chief and any subordinate officers or employees as required by law. City electors may adopt ordinance which provides for a different number of council members. Cal. Gov't section 34871. The Government Code also authorizes the "city manager" form of government. Cal. Gov't Code § 34851.	Charter can provide for any form of government including the "strong mayor," and "city manager" forms. See Cal. Const. art. XI, § 5(b); Cal. Gov't Code § 34450 <i>et seq.</i>
Elections Generally	Municipal elections conducted in accordance with the California Elections Code. Cal. Elec. Code §§ 10101 <i>et seq.</i>	Not bound by the California Elections Code. May establish own election dates, rules, and procedures. See Cal. Const. art. XI, § 5(b); Cal. Elec. Code §§ 10101 <i>et seq.</i>
Methods of Elections	Generally holds at-large elections whereby voters vote for any candidate on the ballot. Cities may also choose to elect the city council "by" or "from" districts, so long as the election system has been established by ordinance and approved by the voters. Cal. Gov't Code § 34871. Mayor may be elected by the city council or by vote of the people. Cal. Gov't Code §§ 34902.	May establish procedures for selecting officers. May hold at-large or district elections. See Cal. Const. art. XI, § 5(b).
City Council Member Qualifications	Minimum qualifications are: 1. United States citizen 2. At least 18 years old 3. Registered voter 4. Resident of the city at least 15 days prior to the election and throughout his or her term 5. If elected by or from a district, be a resident of the geographical area comprising the district from which he or she is elected. Cal. Elec. Code § 321; Cal. Gov't Code §§ 34882, 36502; 87 Cal. Op. Att'y Gen. 30 (2004).	Can establish own criteria for city office provided it does not violate the U.S. Constitution. Cal. Const. art. XI, § 5(b), 82 Cal. Op. Att'y Gen. 6, 8 (1999).

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Characteristic	General Law City	Charter City
Public Funds for Candidate in Municipal Elections	No public officer shall expend and no candidate shall accept public money for the purpose of seeking elected office. Cal. Gov't Code § 85300.	Public financing of election campaigns is lawful. <i>Johnson v. Bradley</i> , 4 Cal. 4th 389 (1992).
Term Limits	May provide for term limits. Cal. Gov't Code § 36502(b).	May provide for term limits. Cal. Const. art. XI, § 5(b); Cal Gov't Code Section 36502 (b).
Vacancies and Termination of Office	An office becomes vacant in several instances including death, resignation, removal for failure to perform official duties, electorate irregularities, absence from meetings without permission, and upon non-residency. Cal. Gov't Code §§ 1770, 36502, 36513.	May establish criteria for vacating and terminating city offices so long as it does not violate the state and federal constitutions. Cal. Const. art. XI, § 5(b).
Council Member Compensation and Expense Reimbursement	Salary-ceiling is set by city population and salary increases set by state law except for compensation established by city electors. See Cal. Gov't Code § 36516. If a city provides any type of compensation or payment of expenses to council members, then all council members are required to have two hours of ethics training. See Cal. Gov't Code §§ 53234 - 53235.	May establish council members' salaries. See Cal. Const. art. XI, § 5(b). If a city provides any type of compensation or payment of expenses to council members, then all council members are required to have two hours of ethics training. See Cal. Gov't Code §§ 53234 - 53235.
Legislative Authority	Ordinances may not be passed within five days of introduction unless they are urgency ordinances. Cal. Gov't Code § 36934. Ordinances may only be passed at a regular meeting, and must be read in full at time of introduction and passage except when, after reading the title, further reading is waived. Cal. Gov't Code § 36934.	May establish procedures for enacting local ordinances. <i>Brougher v. Bd. of Public Works</i> , 205 Cal. 426 (1928).
Resolutions	May establish rules regarding the procedures for adopting, amending or repealing resolutions.	May establish procedures for adopting, amending or repealing resolutions. <i>Brougher v. Bd. of Public Works</i> , 205 Cal. 426 (1928).
Quorum and Voting Requirements	A majority of the city council constitutes a quorum for transaction of business. Cal. Gov't Code § 36810. All ordinances, resolutions, and orders for the payment of money require a recorded majority vote of the total membership of the city council. Cal. Gov't Code § 36936. Specific legislation requires supermajority votes for certain actions.	May establish own procedures and quorum requirements. However, certain legislation requiring supermajority votes is applicable to charter cities. For example, see California Code of Civil Procedure section 1245.240 requiring a vote of two-thirds of all the members of the governing body unless a greater vote is required by charter.

Characteristic	General Law City	Charter City
Rules Governing Procedure and Decorum	Ralph Brown Act is applicable. Cal. Gov't Code §§ 54951, 54953(a). Conflict of interest laws are applicable. See Cal. Gov't Code § 87300 <i>et seq.</i>.	Ralph Brown Act is applicable. Cal. Gov't Code §§ 54951, 54953(a). Conflict of interest laws are applicable. See Cal. Gov't Code § 87300 <i>et seq.</i>. May provide provisions related to ethics, conflicts, campaign financing and incompatibility of office.
Personnel Matters	May establish standards, requirements and procedures for hiring personnel consistent with Government Code requirements. May have "civil service" system, which includes comprehensive procedures for recruitment, hiring, testing and promotion. See Cal. Gov't Code § 45000 <i>et seq.</i> Meyers-Milias-Brown Act applies. Cal. Gov't Code § 3500. Cannot require employees be residents of the city, but can require them to reside within a reasonable and specific distance of their place of employment. Cal. Const. art. XI, § 10(b).	May establish standards, requirements, and procedures, including compensation, terms and conditions of employment for personnel. See Cal. Const. art. XI, § 5(b). Procedures set forth in Meyers-Milias-Brown Act (Cal. Gov't Code § 3500) apply, but note, "[T]here is a clear distinction between the <i>substance</i> of a public employee labor issue and the <i>procedure</i> by which it is resolved. Thus there is no question that 'salaries of local employees of a charter city constitute municipal affairs and are not subject to general laws.'" <i>Voters for Responsible Retirement v. Board of Supervisors</i>, 8 Cal.4th 765, 781 (1994). Cannot require employees be residents of the city, but can require them to reside within a reasonable and specific distance of their place of employment. Cal. Const. art. XI, section 10(b).
Contracting Services	Authority to enter into contracts to carry out necessary functions, including those expressly granted and those implied by necessity. See Cal. Gov't Code § 37103; <i>Carruth v. City of Madera</i>, 233 Cal. App. 2d 688 (1965).	Full authority to contract consistent with charter. May transfer some of its functions to the county including tax collection, assessment collection and sale of property for non-payment of taxes and assessments. Cal. Gov't Code §§ 51330, 51334, 51335.

Characteristic	General Law City	Charter City
Public Contracts	Competitive bidding required for public works contracts over \$5,000. Cal. Pub. Cont. Code § 20162. Such contracts must be awarded to the lowest responsible bidder. Pub. Cont. Code § 20162. If city elects subject itself to uniform construction accounting procedures, less formal procedures may be available for contracts less than \$100,000. See Cal. Pub. Cont. Code §§ 22000, 22032. Contracts for professional services such as private architectural, landscape architectural, engineering, environmental, land surveying, or construction management firms need not be competitively bid, but must be awarded on basis of demonstrated competence and professional qualifications necessary for the satisfactory performance of services. Cal. Gov't Code § 4526.	Not required to comply with bidding statutes provided the city charter or a city ordinance exempts the city from such statutes, and the subject matter of the bid constitutes a municipal affair. Pub. Cont. Code § 1100.7; see <i>R & A Vending Services, Inc. v. City of Los Angeles</i>, 172 Cal. App. 3d 1188 (1985); <i>Howard Contracting, Inc. v. G.A. MacDonald Constr. Co.</i>, 71 Cal. App. 4th 38 (1998).
Payment of Prevailing Wages	In general, prevailing wages must be paid on public works projects over \$1,000. Cal. Lab. Code § 1771. Higher thresholds apply (\$15,000 or \$25,000) if the public entity has adopted a special labor compliance program. See Cal. Labor Code § 1771.5(a)-(c).	Historically, charter cities have not been bound by state law prevailing-wage requirements so long as the project is a municipal affair, and not one funded by state or federal grants. <i>Vial v. City of San Diego</i>, 122 Cal. App. 3d 346, 348 (1981). However, there is a growing trend on the part of the courts and the Legislature to expand the applicability of prevailing wages to charter cities under an analysis that argues that the payment of prevailing wages is a matter of statewide concern. The California Supreme Court currently has before them a case that will provide the opportunity to decide whether prevailing wage is a municipal affair or whether it has become a matter of statewide concern.

Characteristic	General Law City	Charter City
Finance and Taxing Power	May impose the same kinds of taxes and assessment as charter cities. <i>See</i> Cal. Gov't Code § 37100.5. Imposition of taxes and assessments subject to Proposition 218. Cal. Const. art. XIII C. Examples of common forms used in assessment district financing include: ☐ Improvement Act of 1911. Cal. Sts. & High. Code § 22500 <i>et seq.</i>. ☐ Municipal Improvement Act of 1913. <i>See</i> Cal. Sts. & High. Code §§ 10000 <i>et seq.</i>. ☐ Improvement Bond Act of 1915. Cal. Sts. & High. Code §§ 8500 <i>et seq.</i>. ☐ Landscaping and Lighting Act of 1972. Cal. Sts. & High. Code §§ 22500 <i>et seq.</i>. ☐ Benefit Assessment Act of 1982. Cal. Gov't Code §§ 54703 <i>et seq.</i>. May impose business license taxes for regulatory purposes, revenue purposes, or both. <i>See</i> Cal. Gov't Code § 37101. May not impose real property transfer tax. <i>See</i> Cal. Const. art. XIII A, § 4; Cal. Gov't Code § 53725; <i>but see</i> authority to impose documentary transfer taxes under certain circumstances. Cal. Rev. & Tax. Code § 11911(a), (c).	Have the power to tax. Have broader assessment powers than a general law city, as well as taxation power as determined on a case-by case basis. Imposition of taxes and assessments subject to Proposition 218, Cal. Const. art. XIII C, § 2, and own charter limitations May proceed under a general assessment law, or enact local assessment laws and then elect to proceed under the local law. <i>See J.W. Jones Companies v. City of San Diego</i>, 157 Cal. App. 3d 745 (1984). May impose business license taxes for any purpose unless limited by state or federal constitutions, or city charter. <i>See</i> Cal. Const. art. XI, § 5. May impose real property transfer tax; does not violate either Cal. Const art. XIII A or California Government Code section 53725. <i>See Cohn v. City of Oakland</i>, 223 Cal. App. 3d 261 (1990); <i>Fielder v. City of Los Angeles</i>, 14 Cal. App. 4th 137 (1993).
Streets & Sidewalks	State has preempted entire field of traffic control. Cal. Veh. Code § 21.	State has preempted entire field of traffic control. Cal. Veh. Code § 21.
Penalties & Cost Recovery	May impose fines, penalties and forfeitures, with a fine not exceeding \$1,000. Cal. Gov't Code § 36901.	May enact ordinances providing for various penalties so long as such penalties do not exceed any maximum limits set by the charter. <i>County of Los Angeles v. City of Los Angeles</i> , 219 Cal. App. 2d 838, 844 (1963).

Characteristic	General Law City	Charter City
Public Utilities/Franchises	May establish, purchase, and operate public works to furnish its inhabitants with electric power. <i>See</i> Cal. Const. art. XI, § 9(a); Cal. Gov't Code § 39732; Cal. Pub. Util. Code § 10002. May grant franchises to persons or corporations seeking to furnish light, water, power, heat, transportation or communication services in the city to allow use of city streets for such purposes. The grant of franchises can be done through a bidding process, under the Broughton Act, Cal. Pub. Util. Code §§ 6001-6092, or without a bidding process under the Franchise Act of 1937, Cal. Pub. Util. Code §§ 6201-6302.	May establish, purchase, and operate public works to furnish its inhabitants with electric power. <i>See</i> Cal. Const. art. XI, § 9(a); <i>Cal. Apartment Ass'n v. City of Stockton</i>, 80 Cal. App. 4th 699 (2000). May establish conditions and regulations on the granting of franchises to use city streets to persons or corporations seeking to furnish light, water, power, heat, transportation or communication services in the city. Franchise Act of 1937 is not applicable if charter provides. Cal. Pub. Util. Code § 6205.
Zoning	Zoning ordinances must be consistent with general plan. Cal. Gov't Code § 65860.	Zoning ordinances are not required to be consistent with general plan unless the city has adopted a consistency requirement by charter or ordinance. Cal. Gov't. Code § 65803.

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COMMITTEE MEMBERS

Alf Schonbach – Chair
Delora Brown
Thomas Joyner
Jocelyn Keene
Diana S. Lee

