

This document is an extract of a larger publication.

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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 non-audit 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 non-audit 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. (GFOA: Audit Procurement (1996 and 2002).

All cities (88 yes, 0 no) responded that audit contracts require auditors of financial statements conform with independence standards. The Grand Jury obtained the audited financial statements for most cities for Fiscal Years 2010-11 and 2011-12, the most recent available. In reviewing this supporting documentation and comments provided by each city the Grand Jury found that all independent audit reports included statements of compliance with auditing standards, including standards of independence.

Most cities (71 yes, 17 no) responded that independent auditors were selected through a competitive process. The Grand Jury requested each city provide copies of formal policies related to audit procurement. In reviewing this supporting documentation and comments provided by each city the Grand Jury found that most issue a Request for Proposals (RFP) for audit services, typically with a term of up to 5 years. Most cities (9 yes, 79 no) do not require the auditor to be replaced at the end of the contract term. Also most cities (25 yes, 63 no) responded that they do not allow the independent auditor to provide non-audit services.

The Grand Jury also asked each city how many years the current independent auditor conducted the annual city audit, and how long the term of the current independent audit contract was. The exhibit below shows city responses.

Exhibit 11: Responses to Questions on Independent Auditor Contract Term		
City	17. Years with Current Auditor	18. Audit Contract Term
Agoura Hills	3	3 + 2 one year renewals
Alhambra	7	5
Arcadia	2	4

Exhibit 11: Responses to Questions on Independent Auditor Contract Term		
City	17. Years with Current Auditor	18. Audit Contract Term
Artesia	1	3
Avalon	6	Current to FY2010-11 with 1 yr term
Azusa	13	5
Baldwin Park	11	2
Bell	1	3
Bell Gardens	6 2006-2012 FYE	3 (1 year contract) (2 year option)
Bellflower	19	2
Beverly Hills	Current 1st year	5 years
Bradbury	1	3
Burbank	2	3
Calabassas	8	3
Carson	3	3
Cerritos	4	3 with two 1 year extensions allowed
Claremont	6	5
Commerce	7	3
Compton	NA	NA
Covina	5	Annually
Cudahy	1	1
Culver City	2	3
Diamond Bar	3 years	3 years plus a 2 year extension at the City's option.
Downey	10+	1
Duarte	5	3
El Monte	3	3
El Segundo	6	4+2 1yr extensions
Gardena	2	3
Glendale	5	6
Glendora	9	2014
Hawaiian Gardens	one (1) year	4
Hawthorne	2	3+2 Yr Renewal
Hermosa Beach	1st of 3 year contract	3 years with an option to extend 2 years
Hidden Hills	28	1
Huntington Park	5	5
Industry	5	?
Inglewood	5	3
Irwindale	18	3
La Canada-Flintridge	5 years	1 year
La Habra Heights	2	3

Exhibit 11: Responses to Questions on Independent Auditor Contract Term		
City	17. Years with Current Auditor	18. Audit Contract Term
La Mirada	7 years	3 years with a 2 year option
La Puente	2	3
La Verne	2	6
Lakewood	34 Years	1-Year, contract renewed annually
Lancaster	23	5
Lawndale	3	3
Lomita	7 months	5 years
Long Beach	23+	3
Los Angeles	10	5
Lynwood	3	1
Malibu	8	Expired after the close of FY 11/12
Manhattan Beach	3 consecutive years	3 yrs + Two 1-year extensions = 5yrs
Maywood	3	5
Monrovia	11	5
Montebello	1	1
Monterrey Park	1	3
Norwalk	5	5
Palmdale	15	5
Palos Verdes Estates	2	3
Paramount	9	3
Pasadena	2	5
Pico Rivera	1	3+1+1
Pomona	2	3
Rancho Palos Verdes	5	5
Redondo Beach	1	3
Rolling Hills	4	7
Rolling Hills Estates	2	1 year
Rosemead	2	5
San Dimas	32	3
San Fernando	1	3
San Gabriel	3	3
San Marino	10 years +	5 yrs std
Santa Clarita	3	1
Santa Fe Springs	Four (4) years.	One (1) year.
Santa Monica	1.5	5
Sierra Madre	1	3 with option to extend to 5 years

Exhibit 11: Responses to Questions on Independent Auditor Contract Term		
City	17. Years with Current Auditor	18. Audit Contract Term
Signal Hill	10	5
South El Monte	2	5
South Pasadena	17	3 years
Southgate	4	N/A
Temple City	2	3
Torrance	7	7
Vernon	14	1
Walnut	Blank	5
West Covina	2	5
West Hollywood	13	3
Westlake Village	3	2
Whittier	2	3

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 requires a well-designed system of documenting accounting policies and procedures. Documentation can also provide a useful training tool for financial staff.

The following are excerpts from the Government Finance Officers Association 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. (GFOA: Documentation of Accounting Policies and Procedures (2002 and 2007) (CAAFR).

Most cities (68 yes, 20 no) responded that accounting policies and procedures were formally documented in an accounting policies and procedures manual. Most cities (72 yes, 16 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 Grand Jury requested each city provide copies of their accounting policies and procedures and accounting manual. In reviewing this supporting documentation and comments provided by each city the Grand Jury found several cities had very comprehensive and detailed 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.

About half the cities (45 yes, 43 no) also responded that the accounting policies and procedures were reviewed annually and updated at least once every three years. The Grand Jury found very little indication that policies and procedures were being reviewed and updated. Most policies and procedures did not include an effective date or a revision date.

Reporting of Fraud, Abuse and Questionable Practices

Most cases of fraud, abuse or questionable accounting or auditing practices, come to the attention of those responsible through employees or members of the public. In addition, accounting and auditing standards require financial reporting systems to be designed to detect fraud and abuse. They also detect any questionable accounting or auditing practices that could jeopardize the integrity of the financial reporting system.

The following are excerpts from the Government Finance Officers Association recommended best practice 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. (GFOA: Encouraging and Facilitating the Reporting of Fraud and Questionable Accounting and Auditing Practices (2007) (CAAFR).*

Most cities (54 yes, 34 no) responded that they have policies and procedures to encourage and facilitate the reporting of fraud, abuse and questionable accounting or auditing practices. Most cities (52 yes, 35 no, 1 not documented) also responded that they have a formally adopted, widely distributed and publicized ethics policy.

In reviewing the supporting documentation and comments provided by the cities the Grand Jury found several cities had very comprehensive policies and procedures on reporting fraud, abuse and questionable acts. These included definitions of fraud and abuse. Also, included are clear responsibilities for employees, and guidelines and steps for investigating allegations and reporting the results. Other cities had 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.

Several cities (33 yes, 55 no) responded they have a practical mechanism, such as a fraud hot line, to permit the confidential, anonymous reporting fraud, abuse or questionable practices. However, in review of the documentation and comments the Grand Jury found very few had a 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. The Grand Jury believes that city council members should also be receptive to such complaints.

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 consistently. Internal controls play an important role in preventing and detecting fraud and protecting the organization's resources.

The following are excerpts from the Government Finance Officers Association 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. (GFOA: Enhancing Management Involvement with Internal Control (2004 and 2008) (CAAFR).

Most cities (67 yes, 21 no) responded that internal control procedures over financial management were formally documented. Most cities (64 yes, 24 no) also responded that internal control procedures include practical means for lower level employees to report instances of management override of controls.

The Grand Jury requested a copy of the internal control procedures over financial management. Several cities had developed comprehensive procedures for internal control, some with very detailed procedural guidelines. Other cities provided no specific documentation of internal control procedures, or made minor mention of internal control procedures.

Most cities (80 yes, 8 no) also responded that internal control procedures were evaluated to determine if they are adequately designed to achieve their intended purpose, have actually been implemented, and continue to function as designed. Most cities (77 yes, 11 no) responded that potential internal control weaknesses are documented in exception reports. Most cities (65 yes, 23 no) also responded that there is 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. Most cities rely primarily on the internal controls review conducted by their independent auditor as part of the annual financial audit.

Under Government Auditing Standards independent auditors consider the City's internal controls over financial reporting and conduct tests of compliance. This review is focused on financial reporting, and not 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 is the responsibility of city financial management.

Internal Audit

The internal audit function serves as an additional level of control and helps 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 internal audit function be separate from those that are directly responsible for performing financial functions.

The following are excerpts from the Government Finance Officers Association 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. (GFOA: Establishment of an Internal Audit Function (1997 and 2006) (CAAFR).

Most cities (18 yes, 69 no, 1 not documented) responded that they do not have an internal audit function formally established by charter, enabling resolution, or other legal means. One city indicated it had an internal audit function, but did not provide the requested documentation. Other cities stated that internal audit was an additional responsibility of the finance staff. Several cities also stated that, given the small size of their city, an internal audit function and staff could not be justified.

General Fund Unassigned 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 spendable (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 needed.

It is important that cities 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 Government Finance Officers Association recommended best practice regarding general fund unrestricted fund balance:

...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. (GFOA: Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR).

Most cities (63 yes, 25 no) responded that they have a formal policy on the level of unrestricted fund balance to be maintained in the general fund. Half the cities (44 yes, 44 no) responded that they do not have a policy requiring an unrestricted or unassigned fund balance of not less than two months of regular general fund operating revenues or regular general fund operating expenditures.

Financial and Public Reporting Practices

Financial statements and information prepared and provided by each city provide the public with information on 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. This requires maintaining an adequate financial accounting system and issuing financial statements in a timely manner.

The following are excerpts from the Government Finance Officers Association 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. (GFOA: Governmental Accounting, Auditing, and Financial Reporting Practices (1993, 1997, and 2000) (CAAFR).

The Government Finance Officers Association encourages every government to use its web site as a primary means of communicating financial information to citizens and other interested parties. (GOFA: Web Site Presentation of Official Financial Documents (2009) (ALL).

All cities (88 yes, 0 no) responded they 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). Most cities (83 yes, 5 no) responded they issue timely financial statements for the entire financial reporting entity in conformity with standards as part of a CAFR.

The cities of **Avalon, Bell, Compton and Maywood** have not yet issued financial statements for FY 2010-11. The cities of **Avalon, Azusa, Bradbury, Bell, Compton, Hawaiian Gardens, Huntington Park, Inglewood, La Habra Heights, Lawndale and Maywood** have not yet issued financial statements for FY 2011-12, and report they are in the process of developing these with an independent auditor.

All cities (88 yes, 0 no) responded the city's financial statements are independently audited. Most cities (85 yes, 3 no) also responded that the financial statements or CAFR were readily available on the city's website. Most cities (85 yes, 3 no) responded that city financial management staff are members of and participate in the Government Finance Officers Association.

FINDINGS – FINANCIAL MANAGEMENT PRACTICES

1. Few cities formally established an audit committee responsible for monitoring and overseeing financial reporting.
2. All 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. Many cities could improve their documentation and maintenance of accounting policies and procedures.
4. Many cities could improve their policies and procedures for reporting fraud, abuse, and questionable practices.
5. Many cities could improve their internal control procedures over financial management.
6. Most cities did not have a formal internal audit function.

7. Many 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.

RECOMMENDATIONS – FINANCIAL MANAGEMENT ³

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

³ See Exhibit 12

EMPLOYEE COMPENSATION

Until recently, there has been a lack of transparency and accountability for actual annual compensation for employees of cities. In July 2010 news media reports (Los Angeles Times, July 14, 2010) 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. (City of Vernon Report, John Van De Kamp, Independent Ethics Advisor, July 29, 2011; p.5.)

In the past, each city council was required to establish the range of salary for each position and adopt that range in a “salary resolution.” These salary resolutions were reported to the State Controller’s Office and published on its website. Requiring and publishing the salary resolutions did not prove to be an effective means of providing transparency and accountability for government compensation.

In late 2010 State Controller John Chiang began requiring counties, cities and special districts to report government compensation, which was posted to the Controller’s website in an effort to promote transparency following the salary scandal in the City of Bell. Government compensation is now posted on the State Controller’s website for all government employees. 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. Refer to Exhibit 2 presented previously and Appendix C.

The Grand Jury noted that several cities had a high number of employees in several departments earning over \$200,000. Exhibit 2 reflects these city’s as follows:

- Beverly Hills: 21 Fire Department employees and 18 Police department employees made over \$200,000.
- El Segundo: 7 Fire Department employees made over \$200,000.
- Los Angeles: 224 Water and Power employees and 115 Fire Department made over \$200,000.
- Manhattan Beach: 16 Fire Department employees made over \$200,000.
- Santa Fe Springs: 13 Fire Department employees made over \$200,000.
- Santa Monica: 17 employees in the legal department and 29 Fire Department employees made over \$200,000.
- Vernon: 5 employees in various departments made over \$200,000.

NEW LEGISLATION

The Grand Jury desires all citizens within Los Angeles County and its incorporated cities avail themselves of recent legislation specific to the California State Auditor and its Local High Risk Program. The following is from the California State Auditor website (www.bsa.ca.gov):

Recent legislation—AB187, which went into effect in January 2012—permits the California State Auditor to develop a high-risk local government agency audit program for the purpose of identifying, auditing, and issuing reports on any local agency, including a city, county, special district, or other publicly created entity, that the State Auditor identifies as being at high risk for waste, fraud, abuse, and mismanagement or as having major challenges associated with its economy, efficiency, or effectiveness. However, any audit that the State Auditor wishes to perform under this authority must be authorized by the Legislature’s Joint Legislative Audit Committee before it may move forward.

Because this legislation just recently took effect, the program still is being developed. Please check back periodically for updates regarding the implementation of this program. As we establish protocols for the program, we will post the information on our Web site (www.bsa.ca.gov). In the meantime, if you have any information about a local government agency that you would like to share with us, refer to “Report an Improper Activity” on our home page.

The Grand Jury believes that the State Auditor’s “Local High Risk Program” once established, will provide the public with greater oversight over local government agencies, which includes cities. Citizens need to work through their local State Representatives in order to expedite the implementation of this Program.

RECOMMENDATIONS AND REQUIRED RESPONSES

Responses are required from the following cities:

Exhibit 12: Recap of Recommendations and Required Responses	
Recommendation	Response Required From
Fiscal Health	
1. Cities should adopt financial planning, revenue and expenditure policies to guide city officials to develop sustainable, balanced budgets.	Agoura Hills, Alhambra, Arcadia, Artesia, Avalon, Azusa, Baldwin Park, Bell, Bell Gardens, Bellflower, Beverly Hills, Bradbury, Burbank, Calabasas, Carson, Cerritos, Claremont, Commerce, Compton, Covina, Cudahy, Culver City, Diamond Bar, Downey, Duarte, El Monte, El Segundo, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Hermosa Beach, Hidden Hills, Huntington Park, Industry, Inglewood, Irwindale, La Canada Flintridge, La Habra Heights, La Mirada, La Puente, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Los Angeles, Lynwood, Malibu, Manhattan Beach, Maywood, Monrovia, Montebello, Monterey Park, Norwalk, Palmdale, Palos Verdes Estates, Paramount, Pasadena, Pico Rivera, Pomona, Rancho Palos Verdes, Redondo Beach, Rolling

Exhibit 12: Recap of Recommendations and Required Responses

Recommendation	Response Required From
	Hills, Rolling Hills Estates, Rosemead, San Dimas, San Fernando, San Gabriel, San Marino, Santa Clarita, Santa Fe Springs, Santa Monica, Sierra Madre, Signal Hill, South El Monte, South Gate, South Pasadena, Temple City, Torrance, Vernon, Walnut, West Covina, West Hollywood, Westlake Village, Whittier
2. Cities should develop a balanced budget and commit to operate within the budget constraints.	Agoura Hills, Alhambra, Arcadia, Artesia, Avalon, Azusa, Baldwin Park, Bell, Bell Gardens, Bellflower, Beverly Hills, Bradbury, Burbank, Calabasas, Carson, Cerritos, Claremont, Commerce, Compton, Covina, Cudahy, Culver City, Diamond Bar, Downey, Duarte, El Monte, El Segundo, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Hermosa Beach, Hidden Hills, Huntington Park, Industry, Inglewood, Irwindale, La Canada Flintridge, La Habra Heights, La Mirada, La Puente, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Los Angeles, Lynwood, Malibu, Manhattan Beach, Maywood, Monrovia, Montebello, Monterey Park, Norwalk, Palmdale, Palos Verdes Estates, Paramount, Pasadena, Pico Rivera, Pomona, Rancho Palos Verdes, Redondo Beach, Rolling Hills, Rolling Hills Estates, Rosemead, San Dimas, San Fernando, San Gabriel, San Marino, Santa Clarita, Santa Fe Springs, Santa Monica, Sierra Madre, Signal Hill, South El Monte, South Gate, South Pasadena, Temple City, Torrance, Vernon, Walnut, West Covina, West Hollywood, Westlake Village, Whittier
3. Cities should commit to not using one-time revenues to fund recurring or on-going expenditures.	Agoura Hills, Alhambra, Arcadia, Artesia, Avalon, Azusa, Baldwin Park, Bell, Bell Gardens, Bellflower, Beverly Hills, Bradbury, Burbank, Calabasas, Carson, Cerritos, Claremont, Commerce, Compton, Covina, Cudahy, Culver City, Diamond Bar, Downey, Duarte, El Monte, El Segundo, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Hermosa Beach, Hidden Hills, Huntington Park, Industry, Inglewood, Irwindale, La Canada Flintridge, La Habra Heights, La Mirada, La Puente, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Los Angeles, Lynwood, Malibu, Manhattan Beach, Maywood, Monrovia, Montebello, Monterey Park, Norwalk, Palmdale, Palos Verdes Estates, Paramount, Pasadena, Pico Rivera, Pomona, Rancho Palos Verdes, Redondo Beach, Rolling Hills, Rolling Hills Estates, Rosemead, San Dimas, San Fernando, San Gabriel, San Marino, Santa Clarita, Santa Fe Springs, Santa Monica, Sierra Madre, Signal Hill, South El Monte, South Gate, South Pasadena, Temple City, Torrance, Vernon, Walnut, West Covina, West Hollywood, Westlake Village, Whittier
4. Cities should adopt a method and practice of saving into a reserve or “rainy day” fund to supplement operating revenue in years of short fall.	Agoura Hills, Alhambra, Arcadia, Artesia, Avalon, Azusa, Baldwin Park, Bell, Bell Gardens, Bellflower, Beverly Hills, Bradbury, Burbank, Calabasas, Carson, Cerritos, Claremont, Commerce, Compton, Covina, Cudahy, Culver City, Diamond Bar, Downey, Duarte, El Monte, El Segundo, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Hermosa Beach, Hidden Hills, Huntington

Exhibit 12: Recap of Recommendations and Required Responses

Recommendation	Response Required From
	Park, Industry, Inglewood, Irwindale, La Canada Flintridge, La Habra Heights, La Mirada, La Puente, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Los Angeles, Lynwood, Malibu, Manhattan Beach, Maywood, Monrovia, Montebello, Monterey Park, Norwalk, Palmdale, Palos Verdes Estates, Paramount, Pasadena, Pico Rivera, Pomona, Rancho Palos Verdes, Redondo Beach, Rolling Hills, Rolling Hills Estates, Rosemead, San Dimas, San Fernando, San Gabriel, San Marino, Santa Clarita, Santa Fe Springs, Santa Monica, Sierra Madre, Signal Hill, South El Monte, South Gate, South Pasadena, Temple City, Torrance, Vernon, Walnut, West Covina, West Hollywood, Westlake Village, Whittier
Governance Practices	
1. Cities should develop and adopt a strategic plan that articulates the mission, vision, core values and priorities for the city.	Agoura Hills, Arcadia, Avalon, Azusa, Baldwin Park, Bell Gardens, Calabassas, Carson, Compton, Cudahy, Hawthorne, Hermosa Beach, Hidden Hills, Huntington Park, Industry, Inglewood, La Habra Heights, Lomita, Malibu, Palos Verdes Estates, Pico Rivera, Rolling Hills, Rolling Hills Estates, San Dimas, San Fernando, South El Monte
2. Cities should develop and report on performance measures or indicators to evaluate outcomes. These performance measures should be quantified, focused on outcomes and information should be provided for several years to allow evaluation of progress over time.	Agoura Hills, Arcadia, Avalon, Azusa, Bell, Bell Gardens, Bradbury, Calabassas, Carson, Commerce, Compton, Cudahy, Diamond Bar, El Monte, Gardena, Hermosa Beach, Hidden Hills, Huntington Park, Industry, Inglewood, La Habra Heights, Lancaster, Lawndale, Lomita, Malibu, Montebello, Paramount, Rolling Hills, San Dimas, San Fernando, San Marino, Santa Clarita, Santa Fe Springs, South El Monte, South Pasadena, West Covina
3. City councils should develop specific annual goals for the city’s executive.	Avalon, Compton, Cudahy, Diamond Bar, Hidden Hills, Industry, Inglewood, Norwalk, Palos Verdes Estates, San Fernando, San Marin, South El Monte, South Pasadena
4. City councils should conduct meaningful evaluations of the city’s executive at least annually.	Alhambra, Compton, Cudahy, Hidden Hills, Industry, Lancaster, Maywood, Palos Verdes Estates, Paramount, Rolling Hills, San Fernando
5. Cities should publish their financial reports or CAFR on their city’s website.	Cudahy, Industry, Maywood
Financial Management	
1. Cities should formally establish an audit committee making it directly responsible for the work of the independent auditor.	Alhambra, Arcadia, Azusa, Bell, Bell Gardens, Bellflower, Bradbury, Calabassas, Carson, Cerritos, Claremont, Compton, Cudahy, Diamond Bar, Duarte, El Monte, El Segundo, Gardena,

Exhibit 12: Recap of Recommendations and Required Responses

Recommendation	Response Required From
	Glendora, Hawaiian Gardens, Hermosa Beach, Hidden Hills, Huntington Park, Industry, Inglewood, Irwindale, La Mirada, La Puente, La Verne, Lakewood, Manhattan Beach, Maywood, Monrovia, Monterrey Park, Norwalk, Palos Verdes Estates, Paramount, Pico Rivera, Pomona, Rancho Palos Verdes, Rolling Hills, Rosemead, San Fernando, San Gabriel, San Marin, Santa Clarita, Santa Fe Springs, Santa Monica, Sierra Madre, Signal Hill, South El Monte, South Pasadena, Southgate, Temple City, West Covina, West Hollywood, Westlake Village, Whittier
2. Cities that do not currently select the auditor through a competitive process should do so.	Bellflower, Glendora, Hawthorne, Hidden Hills, Industry, Irwindale, La Canada-Flintridge, La Mirada, Lakewood, Malibu, Palos Verdes Estates, San Dimas, San Marino, Santa Fe Springs, Walnut, West Covina, Whittier
3. Cities that allow the auditor to provide non-audit services should ensure appropriate review and approval of those services.	Arcadia, Avalon, Baldwin Park, Bellflower, Beverly Hills, Carson, Claremont, Commerce, Diamond Bar, Glendale, Huntington Park, Inglewood, La Vern, Lawndale, Monrovia, Montebello, Palmdale, Paramount, Rancho Palos Verdes, Rolling Hills, Rolling Hills Estates, San Gabriel, Santa Fe Springs, Santa Monica, Southgate.
4. Cities should review and update accounting policies and procedures to ensure they are appropriately detailed and define the specific authority and responsibility of employees.	Beverly Hills, Bradbury, Burbank, Carson, Commerce, Cudahy, El Monte, Hawaiian Gardens, Hidden Hills, Industry, La Verne, Lomita, Manhattan Beach, Norwalk, Santa Monica, Sierra Madre, Southgate, West Covina, Whittier
5. Cities should establish a policy requiring financial policies and procedures to be reviewed annually and updated at least once every three years.	Agoura Hills, Alhambra, Arcadia, Avalon, Azusa, Bell Gardens, Bellflower, Bradbury, Burbank, Carson, Commerce, Cudahy, Diamond Bar, El Monte, Glendora, Hawaiian Gardens, Hawthorne, Hidden Hills, Industry, Inglewood, La Canada-Flintridge, La Habra Heights, La Mirada, La Puente, Lancaster, Lawndale, Lomita, Los Angeles, Manhattan Beach, Montebello, Norwalk, Pasadena, Rolling Hills Estates, Rosemead, San Fernando, Santa Clarita, Santa Fe Springs, Santa Monica, South Pasadena, Southgate, Walnut, West Covina

Exhibit 12: Recap of Recommendations and Required Responses

Recommendation	Response Required From
6. Cities should review and update policies and procedures for reporting fraud, abuse and questionable practices including a practical mechanism, such as a fraud hot line, to permit the confidential, anonymous reporting of concerns.	Alhambra, Arcadia, Avalon, Azusa, Bell Gardens, Bellflower, Bradbury, Burbank, Covina, Cudahy, El Monte, Glendora, Huntington Park, Industry, Inglewood, Irwindale, La Mirada, Lakewood, Lomita, Lynwood, Manhattan Beach, Montebello, Norwalk, Rancho Palos Verdes, Rolling Hills, Rosemead, San Fernando, San Gabriel, San Marino, Santa Fe Springs, Santa Monica, Sierra Madre, Temple City, West Covina
7. Cities should periodically review and update internal control procedures over financial management.	Bell, Cudahy, Industry, Inglewood, Lomita, Montebello, South El Monte
8. Cities should undertake a full-scale competitive process every 5 years for the selection of an independent external auditor.	Agoura Hills, Alhambra, Arcadia, Artesia, Avalon, Azusa, Baldwin Park, Bell, Bell Gardens, Bellflower, Beverly Hills, Bradbury, Burbank, Calabasas, Carson, Cerritos, Claremont, Commerce, Compton, Covina, Cudahy, Culver City, Diamond Bar, Downey, Duarte, El Monte, El Segundo, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Hermosa Beach, Hidden Hills, Huntington Park, Industry, Inglewood, Irwindale, La Canada Flintridge, La Habra Heights, La Mirada, La Puente, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Los Angeles, Lynwood, Malibu, Manhattan Beach, Maywood, Monrovia, Montebello, Monterey Park, Norwalk, Palmdale, Palos Verdes Estates, Paramount, Pasadena, Pico Rivera, Pomona, Rancho Palos Verdes, Redondo Beach, Rolling Hills, Rolling Hills Estates, Rosemead, San Dimas, San Fernando, San Gabriel, San Marino, Santa Clarita, Santa Fe Springs, Santa Monica, Sierra Madre, Signal Hill, South El Monte, South Gate, South Pasadena, Temple City, Torrance, Vernon, Walnut, West Covina, West Hollywood, Westlake Village, Whittier

APPENDICES

APPENDIX A: GLOSSARY

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. The City Charter requires 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.

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.

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. GAPP 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.

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.

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.