

This document is an extract of a larger publication.

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Most cities (86 yes, 2 no) responded that they have a formal policy that documents the roles of the city council and the city's executive. The Grand Jury asked each city to provide a copy of the formal policy defining roles. In reviewing this documentation and comments provided by the cities the Grand Jury 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.

A best practice is to go beyond this basic framework and develop a more detailed description of the relationship and working approach of the two. Some have developed a comprehensive "governance" policy that 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.

Executive Goals and Evaluation

A key role of each city council is providing clear direction to the city's executive. This clear direction should establish specific expectations for the executive and consist of goals and objectives to be accomplished within 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.

Most of the cities (74 yes, 14 no) also responded that the city council established specific goals for the executive at least annually. Most of the cities (76 yes, 12 no) also responded that the city council conducts a meaningful evaluation of the executive's performance annually.

The Grand Jury requested the specific goals established most recently for the city's executive. In reviewing this documentation and comments provided by each, the Grand Jury found that several cities had established very specific goals for the city's executive. Other cities established goals for the city's executive as part of the strategic planning efforts, the budget document, or the city's executive budget message. Several cities reported that the goals for the city's executive were part of the performance evaluation process and were considered confidential.

City councils should develop a "governance" policy that more specifically defines the relationship between the council and executive. City councils that do not develop specific annual goals for the city's executive and conduct meaningful evaluations annually should do so.

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. The public must be able to rely on their representatives working in their best interest.

California Government Code sections 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 must be amended. The conflict of interest code must be amended when necessitated by changed circumstances.

California Government Code section 53646 requires the city council of each city to annually adopt an investment policy. The investment policy is intended to maximize the efficiency of the city's cash management system, the investments of the city's funds, and to provide guidelines for suitable investments. The primary goal of the investment policy should ensure compliance with the law, provide protection of principal, maintain liquidity, and maximize investment income.

Most of the cities (81 yes, 7 no) responded the city council adopted and enforces a formal "Conflict of Interest" policy. The Grand Jury requested each city provide a copy of the adopted "Conflict of Interest" policy. Almost all the cities (86 yes, 2 no) also responded they had adopted an "Investment" policy. The Grand Jury requested each city provide a copy of the adopted "Investment" policy. In reviewing this documentation the Grand Jury found that cities responding "yes" had provided investment policies. Artesia did not respond to this question, which was recorded as a "no." Maywood responded "no", but also stated that the city did not have any investments at this time.

FINDINGS – GOVERNANCE PRACTICES

1. Most cities have developed strategic plans to provide appropriate strategic focus and direction for the city.
2. Most cities have developed performance measures to demonstrate the results of their organizational activities and goals.
3. All cities stated they have a formal policy agreement, or other documents that define the roles of city council and city executive.
4. Most city councils have established specific goals for executives at least annually.
5. Most cities have adopted a "Conflict of Interest" code.
6. Most cities have adopted an "Investment" policy.
7. Most cities published their financial reports or CAFR to their website.

RECOMMENDATIONS – GOVERNANCE PRACTICES ²

1. Cities should develop and adopt a strategic plan that articulates the mission, vision, core values and priorities for the city.
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.
3. City councils should develop specific annual goals for the city's executive.
4. City councils should conduct meaningful evaluations of the city's executive at least annually.
5. Cities should publish their financial reports or CAFRs on their city's websites.

² See Exhibit 12

FINANCIAL MANAGEMENT PRACTICES

The role and responsibility of financial management within each city is to manage and protect the financial resources 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 important, ensuring that such reporting is consistent with appropriate standards.

The Government Finance Officers Association 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. It identifies and develops financial policies and best practices and promotes their use through education and training. It works closely with the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants, and other organizations and recommends best practices for effective government finance operations.

Beginning in 1993 the Government Finance Officers Association began to develop a body of recommended practices in the functional areas of public finance. This gave Government Finance Officers Association 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 cities discussed in the following sections.

Audit Committee

The responsibility for the quality of financial reporting by cities is shared by three groups: the city council, finance department, 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 of the city's financial reporting processes, internal controls, and independent auditors.

The audit committee can also provide a forum for 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 Government Finance Officers Association recommended best practice regarding audit committees:

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; (GFOA Audit Committees (1997, 2002, 2006, and 2008) (Committee on Accounting, Auditing, and Financial Reporting--CAAFR).

Most cities (28 yes, 59 no, 1 not documented) responded that an audit committee had not been established. For those cities that did have an audit committee, the Grand Jury requested each city provide a copy of the formal document establishing the audit committee. Some cities stated that the audit committee responsibilities were assigned to other committees of the city council. For other cities the audit committee is a function of management, with members from the finance department and other departments of the city. The Audit committee should not be a function of management.

Audit Procurement

Independent audits play a key role in preserving the integrity of public finance functions and maintaining public confidence in city government. Each city is required to have an independent audit performed annually by external accountants. The selection of the independent auditor is an important element of ensuring a quality audit. This includes ensuring the selected auditor meets standards for independence and is selected competitively. Provision of non-audit services must be carefully reviewed and approved.

The following are excerpts from the Government Finance Officers Association 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