

GOVERNANCE AND FINANCIAL MANAGEMENT BEST PRACTICES

The current fiscal health of 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 each city was prepared for this downturn, and how effectively each has responded. The following sections of this report present information on best practices for local governments in the areas of governance and financial management.

Current practices by the cities are compared to these best practices and recommendations made for improvements. These best practices and recommendations should be useful to the cities in addressing their current financial challenges, and preparing for the future.

The Grand Jury identified best practices for local governments in the areas of governance and financial management to be used as a basis for comparison with the practice of cities. A questionnaire was developed and administered to identify the current practice of cities in each of these areas. As part of this questionnaire cities were requested to provide specific documentation in each of these areas and to provide comments or explanations regarding their responses and policies. In the following sections, the Grand Jury provides information on the best practices identified, and compares the current practices of cities with these best practices.

A copy of the questionnaire is provided in Appendix A of this report. The following table shows each city's response in each area.

Exhibit 10- Overview of Governance and Financial Management Best Practices Questionnaire Responses

City	Governance / Audit Committee										Internal Controls / Audit										Gen Fund					Public Reporting					Results				
	1. Developed Strategic Plan	2. Performance Indicators	3. Council/Manager Roles	4. Annual Executive Goals	5. Annual Exec. Evaluation	6. Conflict of Interest Policy	7. Investment Policy	10. Formal Audit Committee	15. Independence Standard	16. Competitive Process	19. Auditor Replaced	20. Non-Audit Services*	24. Formal Manual	25. Updated Policies	26. Define Auth/Resp's	29. Policies / Procedures	30. Ethics Policy	31. Conf/Anon. Reporting	32. Concerns Reviewed	35. Controls Documented	36. Controls Override	37. Controls Evaluated	38. Weaknesses Documented	39. Corrective Actions	42. Formal IA Function	47. Fund Balance Policy	48. Two Months Funds	51. Adequate Acctg. System	52. Timely Fin. Statements	53. Independently Audited	54. CAFR on City Website	55. Participate in GFOA	Number Positive Responses	Percent Positive Responses	Rank Among Cities
Agoura Hills	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	25	78%	31
Alhambra	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	21	66%	56
Arcadia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65
Artesia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	18	56%	78	
Avalon	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	18	56%	78	
Azusa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	19	59%	74	
Baldwin Park	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	19	59%	74
Bell	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	19	59%	74
Bell Gardens	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	19	59%	74
Bellflower	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65
Beverly Hills	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	21	66%	56
Beverly Hills	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	84%	20
Bradbury	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	27	84%	20
Bradbury	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	27	84%	20
Burbank	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	18	56%	78
Calabasas	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	28	88%	14
Carson	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	23	72%	42
Cerritos	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	23	72%	42
Claremont	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	21	66%	56
Commerce	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	26	81%	25
Compton	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	9	28%	87
Covina	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	30	94%	3
Cudahy	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65
Culver City	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	29	91%	7
Diamond Bar	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	29	91%	7
Downey	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	28	88%	14
Duarte	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	28	88%	14

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City	Governance / Audit Committee										Internal Controls / Audit										Public Reporting					Results											
	1. Developed Strategic Plan	2. Performance Indicators	3. Council/Manager Roles	4. Annual Executive Goals	5. Annual Exec. Evaluation	6. Conflict of Interest Policy	7. Investment Policy	10. Formal Audit Committee	15. Independence Standard	16. Competitive Process	19. Auditor Replaced	20. Non-Audit Services ¹	24. Formal Manual	25. Updated Policies	26. Define Auth/Resp's	29. Policies / Procedures	30. Ethics Policy	31. Conf/Anon. Reporting	32. Concerns Reviewed	35. Controls Documented	36. Controls Override	37. Controls Evaluated	38. Weaknesses Documented	39. Corrective Actions	42. Formal IA Function	47. Fund Balance Policy	48. Two Months Funds	51. Adequate Acctg. System	52. Timely Fin. Statements	53. Independently Audited	54. CAFR on City Website	55. Participate in GFOA	Number Positive Responses	Percent Positive Responses	Rank Among Cities		
El Monte	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	22	69%	50
El Segundo	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	27	84%	20
Gardena	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	23	72%	42	
Glendale	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	30	94%	3	
Glendora	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	22	69%	50	
Hawaiian Gardens	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	24	75%	36		
Hawthorne	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65	
Hermosa Beach	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	24	75%	36		
Hidden Hills	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	18	56%	78		
Huntington Park	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	21	66%	56		
Industry	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	9	28%	87		
Inglewood	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	17	53%	83		
Irwindale	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	26	81%	25		
La Canada-Flintridge	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	26	81%	25		
La Habra Heights	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	23	72%	42		
La Mirada	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	21	66%	56		
La Puente	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	24	75%	36		
La Verne	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	26	81%	25		
Lakeview	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	25	78%	31		
Lancaster	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	24	75%	36		
Lawndale	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	23	72%	42		
Lomita	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65		
Long Beach	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	31	97%	1		
Los Angeles	Y	Y	Y	Y	N ²	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	27	90%	13		
Lynwood	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	29	91%	7		
Malibu	N	N	Y	Y	Y	Y	Y	Y	N	N	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	26	81%	25		

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Manhattan Beach	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65
Maywood	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	18	56%	78
Monrovia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	26	81%	25	
Montebello	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	19	59%	74	
Monterey Park	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	29	91%	7	
Norwalk	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	19	59%	74	
Palmdale	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	29	91%	7	
Palos Verdes Estates	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65	
Paramount	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	21	66%	56	
Pasadena	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	28	88%	14	
Pico Rivera	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	28	88%	14	
Pomona	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	29	91%	7	
Rancho Palos Verdes	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65	
Redondo Beach	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	31	97%	1	
Rolling Hills	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	22	69%	50		
Rolling Hills Estates	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	27	84%	20		
Rosemead	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	23	72%	42		
San Dimas	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	23	72%	42		
San Fernando	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	23	72%	42	
San Gabriel	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	22	69%	50	
San Marino	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	22	69%	50	
Santa Clarita	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	24	75%	36	
Santa Fe Springs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	17	53%	83	
Santa Monica	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	20	63%	65		
Sierra Madre	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	25	78%	31	
Signal Hill	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	30	94%	3		

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South El Monte	N	N	Y	N	Y	Y	Y	N	Y	Y	N	Y	Y	Y	Y	N	Y	N	Y	Y	N	Y	Y	N	N	NA	Y	Y	Y	Y	Y	Y	22	69%	50
South Pasadena	Y	N	Y	Y	Y	Y	Y	N	Y	N	N	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	21	66%	56	
Southgate	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	NA	Y	Y	Y	Y	21	66%	56		
Temple City	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	25	78%	31		
Torrance	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	NA	Y	Y	Y	Y	28	88%	14		
Vernon	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	30	94%	3		
Walnut	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	27	84%	20		
West Covina	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N	N	N	N	N	N	Y	Y	Y	Y	N	N	NA	Y	Y	Y	Y	14	44%	85		
West Hollywood	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	28	88%	14		
Westlake Village	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	24	75%	36		
Whittier	Y	Y	Y	Y	Y	Y	Y	N	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	NA	Y	Y	Y	Y	21	66%	56		
Positive Responses	62	52	86	74	76	81	86	28	88	71	9	63	45	72	54	52	33	36	67	64	80	77	65	18	63	44	88	83	85	84					
Percentage	70%	59%	98%	84%	86%	92%	98%	32%	100%	81%	10%	72%	51%	82%	61%	59%	38%	41%	76%	73%	91%	88%	74%	20%	72%	50%	100%	94%	100%	97%	95%				
Average Number and Percentage of Positive Responses																	23	71%																	

Notes:

- * A few cities did not provide the requested documentation to support the city's responses, or the documentation provided did not adequately support the city's responses. These responses have been replaced with an *.
- Each city was given numerous opportunities, over several months, to provide the requested documentation. Some cities did not respond to some questions. If a question was left blank an answer of No was assumed.
- The Executive of the City of Los Angeles is the elected Mayor. As such, it would not be appropriate for the City Council to establish goals or evaluate the executive's performance. Responses of No to questions 4 and 5 regarding establishing goals and evaluation of the executive are considered appropriate and positive responses for the City of Los Angeles.
- For all cities a No is considered a positive response for Question 20. Does your city allow the independent auditor to provide non-audit services to the city?

GOVERNANCE PRACTICES

The quality of the leadership of an organization determines its performance and effectiveness. 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.

“Governance” describes the role of the 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 city is responsible for governing the organization.

Strategic Planning

The role of any city council is to provide strategic focus and direction for the city. Oversight is also an important function for any city council, 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 are substantial.

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 International City/County Management Association (ICMA) is the professional association of city and county managers and administrators. The following excerpt is from the ICMA’s publication: *Strategic Planning: A New Perspective for Public Managers (2002)*.

Strategic thinking and planning is one of the most critical elements of public management. Its purpose is to establish long-term goals, annual objectives, and detailed actions/strategies that address issues related to performance, productivity, required statutory services, and community and personal well-being. Yet even though it is a key factor in the success of any organization, efforts to implement strategic thinking and planning often fail.

In addition the Government Finance Officer’s Association recommends that:

...all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals.(GFOA: Recommended Budget Practice on the Establishment of Strategic Plans (2005)(Budget).

Most cities (62 yes, 24 no, 2 not documented) responded that the city council developed and adopted a strategic plan that articulates the mission, vision, core values and priorities for the city. The Grand Jury asked each city to provide a copy of their strategic plan. In the review of this documentation and comments provided by the cities the Grand Jury found that several cities had developed and adopted comprehensive strategic plans. Other cities developed mission, vision, core values and goals through strategic planning sessions with the city council. These strategic planning efforts include assessments of the city's strengths, weaknesses, opportunities, and threats, and included identification of specific strategies and initiatives with responsibility for completion and 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 that responded that they had 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. Budget goals do not provide the appropriate strategic focus for these cities that would be accomplished through a strategic planning effort.

A few cities submitted a copy of the city's general plan as their strategic plan. Every city is required to have a general plan by state law (Government Code section 65300). The purpose of a general plan is to define the city's physical development and focuses primarily on land use. A general plan does not meet any standards for an organizational strategic plan.

Performance Measurement

Performance measurement demonstrates the success of organizational activities in addressing a specific need. Meaningful performance measurement includes a balanced set of indicators, ensures the collection of reliable indicator data, provides for the analysis and reporting of indicator information and drives service improvement efforts and the testing of new initiatives. Performance measures should generally be quantified to allow for comparison of performance from year to year.

The following is an excerpt from the Government Finance Officers Association recommended best practice regarding performance management and indicators:

...program and service performance measures (should) be developed and used as an important component of long term strategic planning and decision making which should be linked to governmental budgeting. Performance measures should:

- *Be based on program goals and objectives that tie to a statement of program mission or purpose;*
- *Measure program outcomes;*
- *Provide for resource allocation comparisons over time;*
- *Measure efficiency and effectiveness for continuous improvement;*
- *Be verifiable, understandable, and timely;*
- *Be consistent throughout the strategic plan, budget, accounting and reporting systems and to the extent practical, be consistent over time;*

- *Be reported internally and externally;*
- *Be monitored and used in managerial decision-making processes;*
- *Be limited to a number and degree of complexity that can provide an efficient and meaningful way to assess the effectiveness and efficiency of key programs; and*
- *Be designed in such a way to motivate staff at all levels to contribute toward organizational improvement.* (GFOA: Performance Management: Measurement for Decision Making (2002 and 2007) Budget)

Most of the cities (52 yes, 36 no) also responded that the city council had adopted performance measures on priorities. The Grand Jury asked each city to provide copies of their performance measures or indicators. In reviewing this supporting documentation and comments provided by the cities the Grand Jury found several cities had developed performance indicators tied directly to the strategic goals adopted by the council. Several cities that responded indicated they had developed and reported on performance measures. However, they 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.

Cities that have not developed and reported on performance measures or indicators to evaluate outcomes on priorities should consider do so. These performance measures should be quantified, focused on results. Information should be provided for several years to allow evaluation of progress over time.

City Council and Executive Relationship

Effective governance requires that formal structures and practices define how the city council carries out its duties. Many city councils develop and document bylaws, policies and procedures that clearly define the role of the city council members. Specific areas in which policies are most often needed include the role of city council members and the executive. The relationship between the city council and management is extremely important.

Cities operate most effectively when there is a clear definition and understanding of the city council's role, management's role and the difference between the two. The city council's role should be to provide policy direction and oversight. Management's role is to execute that direction.

It is also important for city council 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.

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

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