

Agenda Report

September 24, 2012

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Director of Finance

SUBJECT: RESPONSE TO LOS ANGELES COUNTY CIVIL GRAND JURY FINAL REPORT 2011-2012

RECOMMENDATION:

It is recommended that the City Council authorize the Mayor to transmit the proposed responses which appear in the body of this agenda report to the Presiding Judge of the Los Angeles County Superior Court, for those portions of the Civil Grand Jury's Final Report 2011-2012, dealing with the City of Pasadena in order to comply with the statutory requirements when a Grand Jury Report is issued.

EXECUTIVE SUMMARY:

The Los Angeles County Civil Grand Jury serves as a public "watch-dog", by examining the operations of various government agencies within Los Angeles County. Each year the Grand Jury undertakes a number of investigative reports, which are combined into a single annual report.

For its 2011-2012 Annual Report, the Grand Jury performed seventeen investigations. One of these investigations related to charter cities. As charter cities in California are granted greater authority and flexibility than general law cities over municipal affairs, the 2011-2012 Civil Grand Jury members decided to investigate twenty three of the twenty five charter cities in Los Angeles County for potential abuses.

The Civil Grand Jury report on Charter Cities' Fiscal Health, Governance and Management Practices (Attachment 2) presents findings and best practices in five general categories. It then presents 22 recommendations that each City must respond to. Twelve of the recommended actions do not apply to the City of Pasadena as they reflect practices that were already in place. The remaining ten recommendations are prudent recommendations that the City has completed, is in the process of completing, or is reviewing.

BACKGROUND:

On January 24, 2012, the City received a comprehensive survey and request for documents from the Civil Grand Jury. The responses and documents were submitted on February 9, 2012 before the required deadline. To conduct this investigation the fiscal year 2009-2010 Comprehensive Annual Financial Report and/or basic financial statements for each charter city were obtained and analyzed. The Grand Jury was assisted by a certified public accounting firm. The Grand Jury reviewed the best practices and results for each charter city in the following areas:

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

The report was made public on June 30, 2012 and reports on 23 of the 25 charter cities in Los Angeles County. The Cities of Los Angeles and Long Beach were not reviewed due to their size. Some of the information for review of the City of Bell was incomplete as the City of Bell financial statements were not completed and were not available as of the date the report was published.

The report provides 43 tables which present and rank various key financial indicators or present which Cities comply or do not comply with criteria often tied to a best practice. Attachment 1 summarizes these results. Pasadena had a favorable or compliant finding in 30 of the 43 categories. On average, the Charter Cities reported on had a favorable or compliant finding in 15 of the 43 categories.

Pursuant to California Penal Code Sections 933(c) and 933.05 a written response to each of the recommendations contained in the Grand Jury report is required no later than ninety days after publication, by October 1, 2012. As part of the response, cities are required to indicate whether they agree or disagree with the finding or whether more analysis is required. If in agreement, respondent are directed to provide a timetable for implementation. Accordingly, staff is recommending that the following responses be transmitted under cover letter from the Mayor.

OVERVIEW OF GRAND JURY RECOMMENDATIONS:

Grand Jury Recommendation 1 – All charter cities reviewed in this report should adopt financial planning, revenue and expenditure policies to guide cities' officials to develop sustainable, balanced budgets.

Proposed Response: The City of Pasadena agrees with the recommendation. These concepts are already part of the City's financial forecasting and planning methods.

Some further analysis is required to formalize any components which are not already part of an existing written policy. It is anticipated that this will be completed within six months.

Grand Jury Recommendation 2 – All charter cities reviewed in this report should develop a balanced budget and commit to operate within budget constraints.

Proposed Response: The City of Pasadena agrees with the recommendation in concept with the caveat that deliberate prudent choices may be made that allow for temporary deviations. We note that Pasadena has adopted a balanced 2012-2013 budget, while the prior years allowed for some deliberate deficit spending which fit into our five year financial plan to deal with the economy. We note that Pasadena was in the favorable categories of Table 2 General Fund Revenues, Expenditures and Net Revenues, with positive General Fund net revenue; and Table 3 Changes in Net Assets with a positive change in net assets.

Grand Jury Recommendation 3 – All charter cities reviewed in this report should commit to not using one-time revenue to fund recurring or on-going expenditures.

Proposed Response: The City of Pasadena agrees with the recommendation. These concepts are already part of the City's financial forecasting and planning methods. Some further analysis is required to formalize any components which are not already part of an existing written policy. It is anticipated that this will be completed within six months.

Grand Jury Recommendation 4 – All charter cities reviewed in this report should Adopt multi-year budgets for better planning to ensure the delivery of basic services before funding projects of lower priority.

Proposed Response: The City of Pasadena is reviewing this recommendation. The City believes that its current practices accomplish the intended benefit of this recommendation, but is exploring the benefits of a two year budget cycle. Currently the City uses a five year budget plan for capital improvement projects, a five year General Fund financial forecast to anticipate future challenges and opportunities, and an annual budget process that provides a careful review of current and future situations.

Grand Jury Recommendation 5 – All charter cities reviewed in this report should adopt a method and practice of saving into a reserve or "rainy day" fund to be supplement operating revenue in years of short fall.

Proposed Response: The City of Pasadena agrees with the recommendation. The City Council approved a Fund Balance Policy on August 15, 2011 which establishes a policy of a 10% reserve increasing to a 20% reserve goal after fiscal year 2014.

Grand Jury Recommendation 6 – Charter cities should develop and adopt a strategic plan that articulates the mission, vision, core values and priorities (goals and objectives) for the City.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 7 – Charter cities should develop and report on performance measures or indicators to evaluate outcomes or progress on priorities. These performance measures should be quantified, focused on outcomes or results, and information should be provided for several years to allow evaluation of progress over time.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 8 – Charter city councils should continue to maintain a governance policy that specifically defines the relationship between the City Council and executive. Charter city councils should continue providing specific annual goals for the city's executive (City Manager or City Administrator) and conduct meaningful evaluations annually.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 9 – Charter cities should formally establish an audit committee making it directly responsible for the work of the independent auditor.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 10 – All charter cities reviewed in this report should continue requiring compliance with standards of independence for the external auditor. Cities that do not currently select the auditor through a competitive process should do so. Cities that allow the auditor to provide non-audit services should ensure appropriate review and approval of those services.

Proposed Response: The City of Pasadena agrees with the recommendation. The City does select through a competitive process and requires a written statement that the auditor is independent under generally accepted auditing standards. The City anticipates that it would only utilize our external auditor for audit services that must comply with professional and government requirements of independence. In the event that they could be used for non-audit services, such as a review of the City Enterprise Resource Planning system, a proper review and approval process through the Finance Committee of the City Council would occur.

Grand Jury Recommendation 11 – Charter cities should review and update accounting policies and procedures to ensure they are appropriately detailed and define the specific authority and responsibilities of employees. Cities should also establish a policy requiring policies and procedures to be reviewed annually and updated at least

once every three years. Pasadena was listed as one of the cities that should review and update accounting policies and procedures at least once every three years.

Proposed Response: The City of Pasadena agrees with the recommendation. The City has extensive written policies and procedures and has in many individual areas updated specific policies and procedures. It is anticipated that it will take approximately one year to complete a thorough review and update.

Grand Jury Recommendation 12 – Charter cities should review and update policies and procedures for reporting fraud, abuse and questionable practices including a practical mechanism, such as a fraud hotline, to permit the confidential, anonymous reporting of concerns.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation. The City will enhance its reporting abilities by making a fraud hotline available within the next six months.

Grand Jury Recommendation 13 – Charter cities should periodically review and update internal control procedures over financial management.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 14 – Charter cities that have not adopted a policy requiring an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures should develop such a policy.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 15 – Charter cities must develop and publish a timely Comprehensive Annual Financial Report (CAFR).

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 16 – Charter cities that have not published financial reports on the city's website should do so.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 17 – Charter cities should develop controls over sole sourced contracting to prevent preferential granting of contracts.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 18 – Charter cities should develop policies and procedures for selecting and negotiating fair prices for architectural and engineering services consistent with state codes. Pasadena was listed as one of the cities that should develop such policies and procedures.

Proposed Response: The City of Pasadena agrees with the recommendation, but disagrees with the finding that Pasadena needs to develop further policies and procedures. The City utilizes competitive bidding and has formal policies and procedures that meet these requirements. These are documented in the City Charter under Article X, Contracts, Purchasing, and Claims, and under the Municipal Code Chapter 4.08, Competitive Bidding Ordinance.

Grand Jury Recommendation 19 – All charter cities reviewed in this report should provide policies and procedures for ensuring prices negotiated for substantial contract change orders are fair and reasonable, and establish internal controls over substantial contract change orders so that same contractors not repeatedly awarded contracts.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 20 – All charter cities reviewed in this report should develop policies and procedures for documenting compliance with procurement requirements, and provide contract compliance and oversight and have annual audit oversight with an outside accounting firm.

Proposed Response: The City of Pasadena agrees with the recommendation and was identified as having already implemented this recommendation.

Grand Jury Recommendation 21 – All charter city councils and citizens of the cities, reviewed in this report should annually review the actual compensation received by employees of their cities.

Proposed Response: The City of Pasadena agrees with the recommendation. The City for a number of years has listed all salary ranges by position on its public website. This can be viewed at www.cityofpasadena.net under the Human Resources, Classification/Compensation pages. The direct link is <http://agency.governmentjobs.com/pasadena/default.cfm?action=agencyspecs>

It has been the practice of the City to review salaries and total benefit packages as part of the labor negotiation cycle, normally upon the expiration of memorandums of understanding with bargaining units. Additionally, the impact of compensation is evaluated with each annual budget cycle.

Grand Jury Recommendation 22 – All charter city councils of the cities reviewed in this report should have access to prevailing municipal wage rates and/or salary ranges for comparable cities in order to identify any individual city position(s) whose salaries exceed the normal salary range for those positions. Approval of any exceptional salaries should be based on justifications of exceptional and unique job responsibilities.

Proposed Response: The City of Pasadena agrees with the recommendation. In addition to the information available on the City of Pasadena website the State Controller's office is obtaining and placing on the State Controllers website, <http://www.sco.ca.gov/>, information on all municipalities. The direct link to search compensation in California governments is http://www.sco.ca.gov/compensation_search.html.

It has been the practice of the City to review salaries and total benefit packages as part of the labor negotiation cycle, normally upon the expiration of memorandums of understanding with bargaining units. This will often but not always include a study of comparable compensation levels. Periodically, the City will conduct a comprehensive compensation study which will compare compensation levels from comparable cities and of comparable industries and positions.

Upon submission of the City's response, it our understanding that the Presiding Judge will review the responses and then have them placed on the Civil Grand Jury website for public viewing. A future Civil Grand Jury may choose to review and conduct further investigations related to this one.

COUNCIL POLICY CONSIDERATION:

The actions being taken by the City in regard to the issue highlighted by the Civil Grand Jury are all consistent with the City Council's Strategic Plan goal to maintain financial responsibility and stability.

FISCAL IMPACT:

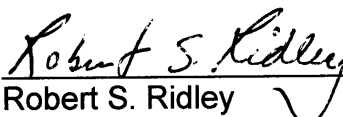
There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. The anticipated to other operational programs or capital projects as a result of this action will be none.

Respectfully submitted,



ANDREW GREEN
Director of Finance

Prepared by:



Robert S. Ridley
Controller

Approved by:



MICHAEL J. BECK
City Manager

Attachments: (2)

Attachment 1 – Charter Cities – Pasadena Results
Attachment 2 – Charter Cities' Fiscal Health, Governance and Management Practices Report