



City of Stockton

Legislation Text

File #: 22-1035, Version: 1

RECOMMENDATION FROM THE MEASURE A ADVISORY COMMITTEE TO THE COUNCIL FOR FUNDING OF AN INDEPENDENT AUDITOR ON THE USES OF MEASURE A PROCEEDS

RECOMMENDATION

It is recommended that the City Council consider a recommendation from the Measure A Citizens' Advisory Committee (Committee) regarding an additional audit of the financial statements of Measure A funds.

Summary

The Measure A Ordinance includes a requirement that the City ensure an annual audit is performed of the tax revenues and its expenditures by an independent accounting firm. The audit completed annually resulting in the Annual Consolidated Financial Report (ACFR - previously referred to as the "CAFR") fulfills this requirement.

On October 3, 2022, the Committee took the following action: "Approve Motion 2022-10-03-0405 recommending City Council immediately to adopt a Resolution that the City arrange for an independent auditor who is not affiliated with anyone on the Measure A committee to conduct an audit of the financial statements of Measure A funds, with the financial statements prepared under GAAP (Generally Accepted Accounting Principles), and the audit be conducted under GAAS (Generally Accepted Auditing Standards), and GAS (Government Auditing Standards).

1. That the independent auditor be one other than the current City Auditor or CAFR auditor.
2. That the Measure A committee serve along the Council Audit Committee as the committee charged with governance."

The October 3, 2022, Committee meeting minutes are included as Attachment A. The task, as outlined in the Committee motion, is not feasible for the reasons outlined in this staff report. When this same issue was raised by the Committee in 2015, the Council approved an additional Agreed Upon Procedures report for the Measure A funds, which has been produced annually for fiscal years 2014-15 through 2020-21. The FY 2021-22 report is being prepared with the annual audit activities. A Supplemental Display on the uses of Measure A proceeds was also added to the ACFR.

DISCUSSION

Background

On November 5, 2013, the citizens of Stockton approved Measure A, a $\frac{3}{4}$ -cent general sales tax measure, effective April 1, 2014. The residents of Stockton also approved Measure B, an advisory measure recommending that 65% of the total sales tax revenue over time be used for law

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enforcement and crime prevention services for implementation of the Marshall Plan and 35% be used for the City's costs to exit bankruptcy and to support other City Services.

Measure A's enacting ordinance (Attachment B - 2013-07-09-1601, Section 20. Audit and Review) states: "The proceeds of the tax imposed by this Ordinance, as well as the expenditure thereof, shall be audited annually by an independent accounting firm. The City Council shall discuss the results of such audit at a meeting of the City Council that is open to the public. The report of such audit shall be posted on the City's website." The ACFR fulfills the legal requirement for an audit. The annual audit is performed in accordance with auditing standards generally accepted and Government Auditing Standards for audits of public agencies. The independent auditors look at internal controls and reviews samples of financial activities to issue an opinion on whether the financial reports are presented fairly. With Measure A being only one of many revenues in the General Fund, the ACFR financial statements report on the General Fund as a whole. To improve reporting of Measure A in the ACFR, a Supplemental Display on the uses of Measure A proceeds was also added.

The Ordinance also established a seven-member Citizens' Advisory Committee (the Committee) appointed by City Council. As part of the implementation of Measure A, the City Council approved a Charter (Attachment C) governing the Committee's responsibilities, and the Committee, in turn, adopted By-Laws establishing their objectives and duties.

At its May 19, 2015, meeting, the Committee approved a motion to recommend to Council that the City engage a separate independent auditor to audit the uses of Measure A proceeds. In response to the Committee's request, on October 6, 2015, the City Council approved and authorized additional auditing procedures to be conducted by an additional independent accounting firm and engaged the services of Eadie and Payne, LLP. Specifically, Eadie and Payne, LLP was contracted to complete the 'Independent Accountant's Report on Applying Agreed Upon Procedures of Measures A and B Revenues and Expenditures ("Measure A Agreed Upon Procedures Report"). These auditing services for review of the expenditures of Measure A funds in conjunction with the parameters of Measure B served as an additional review beyond the minimal legal requirements of Ordinance No. 2013-07-09-1601. The following reports were prepared under this contract and are available on the City's website.

- [2018-19 - Measure A - Independent Report](http://www.stocktongov.com/files/FY19_Stockton_Measure_A_AUP_Final.pdf)
<http://www.stocktongov.com/files/FY19_Stockton_Measure_A_AUP_Final.pdf>
- [2017-18 - Measure A - Independent Report](http://www.stocktongov.com/files/MeasureA_AgreedUponProcedures_17_18.pdf)
<http://www.stocktongov.com/files/MeasureA_AgreedUponProcedures_17_18.pdf>
- [2016-17 - Measure A Independent Report](http://www.stocktongov.com/files/MeasureA_AgreedUponProcedures_16_17.pdf)
<http://www.stocktongov.com/files/MeasureA_AgreedUponProcedures_16_17.pdf>
- [2015-16 - Measure A - Independent Report](http://www.stocktongov.com/files/MeasureA_IndependentReport_June30_2016.pdf)
<http://www.stocktongov.com/files/MeasureA_IndependentReport_June30_2016.pdf>
- [2014-15 - Measure A - Independent Report](http://www.stocktongov.com/files/MeasureA_IndependentReport_June30_2015.pdf)
<http://www.stocktongov.com/files/MeasureA_IndependentReport_June30_2015.pdf>

At the end of the five-year contract term, the next Measure A Agreed Upon Procedures Report was added to the contract with the independent audit firm that prepares the other City audit reports at a significant savings. It was then included in the scope with the rest of the City's audits when a new

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request for proposals was issued in late 2020. The FY 2019-20 and FY 2020-21 Measure A Agreed Upon Procedures Reports were prepared by The Pun Group.

- [2020-21 - Measure A - Independent Report](#)
- [2019-20 - Measure A - Independent Report](#)
<http://www.stocktongov>.

Present Situation

At its October 3, 2022 meeting, the Committee re-approved the 2015 motion to recommend to Council that the City engage a separate independent auditor to audit the uses of Measure A proceeds. The Committee members conveyed that they believe that the ACFR does not illustrate the level of detail necessary to fully understand how the Measure A sales tax revenues are used. The Committee members noted that while tax revenues are higher than expected, the number of police officers has been declining. At the October 3, 2022, meeting, Financial staff and the City Attorney's Office articulated how the ACFR, including the review by independent auditors, The Pun Group, fulfills the legal requirements for an audit under Measure A, and no further audit was required. Section 2.2.1 of the Measure A Committee Charter, as approved by Council on October 8, 2013, specifically references the ACFR as meeting the audit requirements.

The Committee expressed interest in seeing detail on how all Measure A revenues are expended. Since Measure A was passed by voters as a General Tax, not a Special Tax, it is tracked and reported in the City's General Fund with other general tax revenues like Sales and Property taxes. The General Fund functions like a joint checking account with all the revenue sources going into the account and available for multiple purposes. The adoption of the Annual Budget determines and controls how the funds can be spent, but it does not tie the various expenses to a specific funding source. To track funding from a specific funding source, the City uses Special Funds. To put the Measure A revenues in a Special Fund could jeopardize its standing as a General Tax. To comply with the advisory Measure B approved by voters at the same time, Marshall Plan related public safety expenses are tracked within the Police Department and Office of Violence Prevention budgets. The remaining 35% expended for general purposes are not tied to Measure A or tracked separately. The Committee also noted that the Measures M and W audit reports are more extensive than the Measure A Agreed Upon Procedures Report. Since Measures M and W were approved by voters as special taxes, they are in separate Special Funds, and thus a full fund balance presentation is included in the audit report.

The General Fund, including Measure A revenues, is audited by the City's independent auditors as part of ACFR, which covers all City funds. The City's independent audit firm has concurred that a GAAP financial audit cannot be completed on part of a fund. To audit Measure A funds within the General Fund would mean a duplication of the current annual audit activities. The annual audit takes approximately five months between preliminary audit work, selecting and providing samples for review by the auditors, internal controls testing, preparation of the financial reports, and finalizing the ACFR. The City pays the audit firm \$204,000 per year for the ACFR and dedicates at least 8 FTEs to the effort during the five-month period. Another audit of the General Fund by a different audit firm would be a similar endeavor from a resource standpoint. The City does not have the staffing resources to support a second audit on a large fund with over \$200 million in expenditures. A second

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audit of the General Fund will not produce any new information that is not currently in the ACFR or the Measure A Agreed Upon Procedures Report. An additional audit is unlikely to accomplish the Committee's objectives.

While audited information is not available, staff supporting the Committee have tried to provide additional information about how Measure A funds have contributed to expending services to the community. On an annual basis, the Committee is provided with General Fund Budget highlights and Long-Range Financial Plan updates. The Committee receives quarterly reports on the Advisory Measure B (Marshall Plan related) Police and Office of Violence Prevention expenditures. In response to Committee requests to see how all Measure A sales tax revenues are expended, additional information on General Fund expenditure enhancements was provided at the Committee meetings of October 3, 2022, and September 9, 2020.

If the information provided by staff and the current Agreed Upon Procedures report are not addressing the Committee's concerns, staff recommends working with the Committee to modify the report scope to include additional information. This could be completed for the fiscal year ending June 30, 2023. If necessary, a separate audit firm can be selected through a competitive process for this report. A separate firm will be more expensive than utilizing the City's current independent audit firm as some duplication of effort will be needed. When contracting with Eadie and Payne, LLC, in 2015, the report cost \$30,000 per year. The cost is currently \$5,150 with The Pun Group.

FINANCIAL SUMMARY

The City Auditor budget includes \$5,150 for the Measure A Agreed Upon Procedures report. Any additional audit services would exceed the authorized budget and add workload to already strained staffing resources.

Attachment A - October 3, 2022 Minutes - Measure A Citizens' Advisory Committee
Attachment B - Measure A Ordinance 2013-07-09-1601
Attachment C - Resolution 2013-10-08-1505 and Citizens' Oversight Committee Charter
Attachment D - October 6, 2015, Council Agenda Item 15.1 Staff Report