

Measure A Advisory Committee Recommendation on Financial Audits

Agenda Item x.xx

December 6, 2022

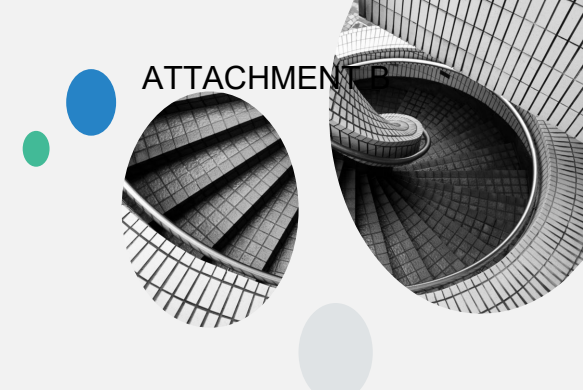
10/3/22 Committee Motion

Approve Motion 2022-10-03-0405 recommending City Council immediately 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.



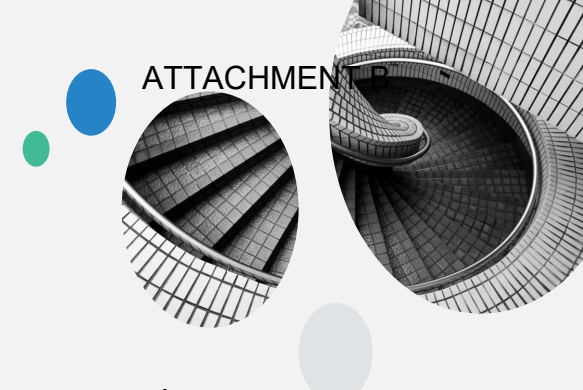
Background



- The Committee approved the same motion in 2015
- After review by the Council Audit Committee and the City Council, two actions were taken
 - The City contracted with a new audit firm to prepare an Agreed Upon Procedures Report
 - A Supplemental Schedule was added to the Annual Consolidated Financial Report (ACFR, CAFR)
- Agreed Upon Procedure Reports (AUP) were prepared for FY 2015 through FY 2021
 - Presented to Committee and on the City's website

Measure A

Legal Requirements



- On November 5, 2013, the citizens of Stockton approved Measure A, a $\frac{3}{4}$ -cent general sales tax measure.
 - The tax went into effect on April 1, 2014.
- Measure A was passed as a General (not Special) Tax.
- 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 enforcement and crime prevention services for implementation of the Marshall Plan and
- Measure A's enacting ordinance (2013-07-09-1601, Section 20) 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 Audit and the ACFR

ATTACHMENT

- Section 2.2.1 of the Measure A Committee Charter as approved by Council on October 8, 2013 (prior to Measure A election), specifically references the ACFR as meeting the audit requirements.
- The City hires an independent financial auditor through a Request for Proposal process.
- The audit firm reviews internal controls, the City's financial statement, and tests for accuracy by reviewing a sampling of entries.
- The ACFR is the result of this annual audit and fulfills the legal requirements for an audit under Measure A.

Measure A Reporting

- In addition to ACFR and AUP, the Committee is provided with:
 - Quarterly Financial Reports on Measure B expenditures
 - Police and Office of Violence Prevention (OVP) Department Program Updates
 - A general overview of other City service and Bankruptcy expenditures
 - Provided in September 2020 and October 2022
 - Annual Budget information on General Fund and Long-Range Financial Plan

Auditing Measure A

- Ordinance Section 3.E. – “to be used for the general governmental purposes of the City, with... revenue received being placed into the City’s general fund”
 - Measure A revenues and expenditures are recorded in the General Fund
 - Advisory Measure B expenditures are tracked within the Police and OVP budgets to measure the 65%
- The General Fund operates like a joint checking account
 - The Annual Budget controls how funds can be spent
 - Revenue sources are not tied to specific expenditures
- Putting Measure A into a separate fund might jeopardize the designation as a General tax



A Second General Fund Audit

- A financial audit as defined in the motion must be done on an entire fund
 - It cannot be on just Measure A revenues and expenditures
- This would be a duplication of the audit already completed on the General Fund
- There would be an additional cost and additional staffing resources would be required
- No new information would come out of a second audit of the General Fund
- It is unlikely that the Committee's objectives would be achieved by a second General Fund audit



Staff Recommendation

- Continue to work with Committee members to identify what additional information would address the concerns of the Committee
- As appropriate, incorporate this information into the scope of the Agreed Upon Procedures Report for fiscal year ending June 30, 2023
- If the information cannot be added, provide the Committee with unaudited information

