



CITY OF STOCKTON

OFFICE OF THE CITY CLERK

DATE: August 27, 2014

TO: Hon. George J. Abdallah, Jr.
Judge of the Superior Court and Advisor to the San Joaquin County
Grand Juries
c/o Teresa Martinez
222 E. Weber Avenue, Room 303
P.O. Box 201022
Stockton, CA 95201

FROM: Bonnie Paige, CMC
City Clerk, City of Stockton

SUBJECT: CITY OF STOCKTON'S RESPONSE RELATING TO THE RECOVERY OF
THE CITY'S FINANCIAL CRISIS; CITY OF STOCKTON'S RESPONSE
RELATING TO BUDGET CUTS TO THE POLICE DEPARTMENT AND ITS
EFFECT ON SAFE COMMUNITIES

The following Minutes Excerpt is a true and exact motion of the Stockton City Council at its regular meeting of August 26, 2014:

PRESENT: Councilmember Burgos Medina, Councilmember Holman , Councilmember Miller, Councilmember Tubbs, Councilmember Zapien, Vice Mayor Canepa, and Mayor Silva

15.1 14-0970 RESPONSE TO FOLLOW-UP REPORT TO THE 2012-2013 SAN JOAQUIN COUNTY GRAND JURY CASE NO. 0112 - RECOVERING FROM STOCKTON'S FINANCIAL SINKHOLE

Motion 2014-08-26-1501 accepting the City of Stockton's Response to the Follow-up Report to the 2012 - 2013 San Joaquin County Grand Jury Case No. 0112 relating to the recovery of the City's financial crisis, and direct the City Manager to sign the response on behalf of the City and to transmit the response to the Presiding Judge of the Superior Court of San Joaquin County.

Moved by: Councilmember Holman, seconded by Councilmember Zapien.

Vote: Motion carried 7-0

Yes: Councilmember Burgos Medina, Councilmember Holman , Councilmember Miller, Councilmember Tubbs, Councilmember Zapien, Vice Mayor Canepa, and Mayor Silva.


15.2 14-0974 RESPONSE TO FOLLOW-UP REPORT TO THE 2012-2013 SAN JOAQUIN COUNTY GRAND JURY CASE NO. 0912 - CRIME-BUDGET CUTS +AB 109 = SAFE COMMUNITIES

Motion 2014-08-26-1502 accepting the City of Stockton's Response to the Follow-up Report to the 2012 - 2013 San Joaquin County Grand Jury Case No. 0912 relating to budget cuts to the Police Department and its effect on safe communities, and direct the City Manager to sign the response on behalf of the City and to transmit the response to the Presiding Judge of the Superior Court of San Joaquin County.

Moved by: Councilmember Holman, seconded by Councilmember Zapien.

Vote: Motion carried 7-0

Yes: Councilmember Burgos Medina, Councilmember Holman , Councilmember Miller, Councilmember Tubbs, Councilmember Zapien, Vice Mayor Canepa, and Mayor Silva



BRET HUNTER
ASSISTANT CITY CLERK



CITY OF STOCKTON

OFFICE OF THE CITY MANAGER

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August 26, 2014

Presiding Judge
San Joaquin Superior Court
222 East Weber Avenue
Stockton, CA 95202

CITY OF STOCKTON RESPONSE TO FOLLOW-UP REPORT TO THE 2012-2013 SAN JOAQUIN COUNTY GRAND JURY CASE NO. 0112 RECOVERING FROM STOCKTON'S FINANCIAL SINKHOLD – DON'T FALL BACK IN

The 2013-2014 Grand Jury (Grand Jury) reviewed each of the responses to the 2011-2012 Grand Jury's Final Report and created a follow-up report to address any unresolved issues.

As a result of the report issued on June 17, 2014 from the 2013-2014 Grand Jury for the County of San Joaquin this response has been prepared to address any and all findings and recommendations to the Follow-up Report to the 2012-2013 San Joaquin County Grand Jury Case No. 0112 Recovering from Stockton's Financial Sinkhole – Don't Fall Back In. This matter was thoroughly reviewed and examined to ensure transparency and offer an in-depth report by the City.

In accordance with Sections 933 and 933.05 of the California Penal Code, the City Council of the City of Stockton offers responses to the Grand Jury Report on the above-referenced case as follows:

2013-2014 FINDINGS & RECOMMENDATIONS

F 1.0 The Stockton City Council did not consider an inter-fund loan policy as stated in their response.

***Response:** The respondent disagrees with this finding. The requirement of the City Manager to bring all proposed inter-fund loans before the Council for approval remains in place until a policy is developed. The inter-fund loan policy has not been developed as staff wanted the policy to reflect the recommendations that were pending with the Policy Project of*

the Internal Audit Plan, which would provide a revised template, outline and process for developing all City policies.

R 1.0 The Stockton City Council by October 31, 2014, adopt an inter-fund loan policy.

Response: *The respondent agrees in part with this recommendation. The City will adopt an inter-fund loan policy, but it may not be within the timeframe recommended. An inter-fund loan policy has not been developed to date. The requirement of the City Manager to bring all proposed inter-fund loans before the Council for approval remains in place until a policy is developed. The inter-fund loan policy has not been developed as staff wanted the policy to reflect the recommendations that were pending with the Policy Project of the Internal Audit Plan, which would provide a revised template, outline and process for developing all City policies. The recommendations from the City Auditor for the Policy Project have been released. A comprehensive review of all Administrative Directives is being initiated through this project. The inter-fund loan policy will be developed within the schedule that is determined for the Policy Project. This schedule is currently being developed and consideration will be made for prioritizing the inter-fund loan policy.*

2.0 Effectiveness of the City Auditor

F 2.1 The City of Stockton agreed to adopt a policy regarding the City Auditor but has not done so.

Response: *The respondent agrees with this finding. The Audit Committee has developed a Committee Charter. The Charter approved by the Committee outlines the types of audits and reports that the Council Audit Committee is expected to receive from the City Auditor. The adoption of the Audit Committee Charter was delayed in anticipation of the Policy Project developing a revised template and structure for all Council Policies. This structure is now in place and a review of all Council Policies has been given high priority. With the adoption of the Audit Committee Charter, this finding will be considered closed. Although final adoption of the Audit Committee Charter has not taken place, it is worth noting that the City has been operating under the guidelines set forth in the draft Audit Committee Charter as approved by the Committee.*

F 2.2 Since City Council Members have an interest in adopting a policy regarding the types of audits to be performed by the City Auditor, when they are to be conducted and under whose direction they are to be undertaken, the City Council should consider such a policy.

***Response:** The respondent agrees in part with this finding. The City Council will adopt policy guidelines related to audits through adoption of the Audit Committee Charter. The Audit Committee Charter referenced above does include a general outline of the types of audits and reports that the Council Audit Committee is expected to receive from the City Auditor. In addition, there are other important details in the Audit Committee Charter that are designed to increase accountability and transparency in financial reporting. However, it is overly prescriptive to determine by policy or ordinance the details of each specific audit required of the City Auditor and schedules for their completion.*

R 2.1 The Stockton City Council by October 31, 2014, adopt a concise policy identifying the City Council's oversight obligation of the City Auditor, whether an individual or a firm, and the review process of the Auditor's findings and reports.

***Response:** The respondent agrees in part with this recommendation. The City Council will adopt policy guidelines related to the City Auditor function through adoption of the Audit Committee Charter. As noted above, the adoption of the Audit Committee Charter was delayed in anticipation of the Policy Project and revision of all Council policies has high priority in the Policy Project review schedule. However, given the number of competing priorities at the City, the Audit Committee Charter may not be adopted by October 31, 2014. In addition, the City Council does not intend to adopt a distinct policy related to City Auditor oversight outside of the Audit Committee Charter. The draft Audit Committee Charter outlines the types of audits and reports that the Council Audit Committee is expected to receive from the City Auditor, including a process for developing an annual Internal Audit Plan and the procedure for reporting out on the progress of that plan. The purpose of the annual audit plan is to provide direction from the Council Audit Committee to the City Auditor in conducting the appropriate audits and reports based upon the current needs of the City. In September 2013, the City Council adopted a two year Internal Audit Plan that does schedule an aggressive series of performance audits and internal controls projects to mitigate the highest priority risks and gaps for the City. Progress related to this plan has been regularly reported out to the Audit Committee and an Audit Findings Tracking Report has been developed to comprehensively track all audit findings and validate that they are addressed and closed. The Audit Committee Charter and the annual Internal Audit Plan process will continue to provide the direction and oversight of the Council to the City Auditor.*

R 2.2 **The Stockton City Council by October 31, 2014, adopt a policy clarifying the types of audits and reports the City Auditor is to perform, when the audits are to be conducted and under whose direction they are to be undertaken.**

Response: The respondent agrees in part with this finding. The City Council will adopt policy guidelines related to audits through adoption of the Audit Committee Charter. The Audit Committee Charter referenced above does include a general outline of the types of audits and reports that the Council Audit Committee is expected to receive from the City Auditor. In addition, there are other important details in the Audit Committee Charter that are designed to increase accountability and transparency in financial reporting. However, it is overly prescriptive to determine by policy or ordinance the details of each specific audit required of the City Auditor and schedules for their completion.

3.0 Effectiveness of the City's External Auditors

F 3.1 Since City Council Members have an interest in adopting a policy regarding the term of the external auditor, the City Council should adopt such a policy.

Response: The respondent agrees with the concept but disagrees with the finding that there must be a firm policy. The City finds this recommendation overly prescriptive and narrowly defining to the potential detriment of conducting City business. The City supports awarding external financial contracts for terms that balance continuity with complacency. It has been the practice of the City to limit the term of the external auditor to no more than five years, and to competitively bid these services at the end of each term. This is consistent with conventional practices of other municipalities. However, it is not a common practice to adopt policies governing the term of service of external auditors. It is overly prescriptive to establish a policy stipulating that all contracts for external audit services have a particular term, three year terms with a maximum of two one-year extensions. There may be unique circumstances or audits that merit different terms. City management plans to award future external financial audit contracts according to the terms outlined in this recommendation, but does not intend to create a policy stipulating this term for all external audit services. We need to balance price, learning curve costs, performance and other emerging factors. At some future date we may want to contract for auditing for less than 5 years.

- F 3.2 Since City Council Members have an interest in having an independent third party review of the Letter to Management and the staff's response, the City Council should have such a review.

Response: The respondent disagrees with the finding. Due to the City's recent financial crisis, the City has undergone an intensive process of audits and evaluation of policies, procedures and protocols. To this end, the addition of an independent third party review of the Letter to Management and the staff's response is not deemed financially responsible or necessary given the overall awareness to conduct City business in adherence to best management practices. The external financial reports for the City are provided to the Audit Committee and the City Council for their review and approval. In addition, all findings contained in the letter to management are tracked by the City Auditor and reported on to the Audit Committee on a quarterly basis.

- R 3.1 **The Stockton City Council by October 31, 2014, adopt a policy that stipulates all contracts for external audit services, including the preparation of the CAFR, be awarded for three year terms, with a maximum of two one-year extensions.**

Response: The respondent agrees with the concept but disagrees with the finding that there must be a firm policy. The City finds this recommendation overly prescriptive and narrowly defining to the potential detriment of conducting City business. The City supports awarding external financial contracts for terms that balance continuity with complacency. It has been the practice of the City to limit the term of the external auditor to no more than five years, and to competitively bid these services at the end of each term. This is consistent with conventional practices of other municipalities. However, it is not a common practice to adopt policies governing the term of service of external auditors. It is overly prescriptive to establish a policy stipulating that all contracts for external audit services have a particular term, three year terms with a maximum of two one-year extensions. There may be unique circumstances or audits that merit different terms. City management plans to award future external financial audit contracts according to the terms outlined in this recommendation, but does not intend to create a policy stipulating this term for all external audit services. We need to balance price, learning curve costs, performance and other emerging factors. At some future date we may want to contract for auditing for less than 5 years.

- R 3.2 **The Stockton City Council by October 31, 2014, annually select a qualified individual or firm to provide an independent review of the external audit's Letter to Management and staff's response to include a report of the finding to the City Council.**

Response: The respondent disagrees with the finding. Due to the City's recent financial crisis, the City has undergone an intensive process of audits and evaluation of policies, procedures and protocols. To this end, the addition of an independent third party review of the Letter to Management and the staff's response is not deemed financially responsible or necessary given the overall awareness to conduct City business in adherence to best management practices. In the future, the City's Auditor will provide an update to the City Council biannually to provide transparency. These reports will be provided to the Audit Committee and the City Council and all findings contained in the letter to management are tracked and reported on to the Audit Committee on a quarterly basis.

6.0 City Council Budget and Audit Committee

- F 6.1 The full City Council received limited information from the Audit Committee during 2013.

Response: The respondent agrees with this finding. However, it is important to note that limited information reached final report status in 2013. The full City Council voted to award a contract to Moss Adams to provide the services of City Auditor on March 5, 2013. The Council Audit Committee had not been meeting regularly for some time prior to an initial meeting in April 2013 to meet with Moss Adams and develop expectations for reporting back to the Committee. The initial task of the City Auditor was to conduct an Enterprise Risk Assessment and Internal Control Review. This work was completed by August of 2013, was presented to the Audit Committee and then presented to the full City Council. The Council subsequently approved in September 2013 a two-year Internal Audit Plan presented by the City Auditor and City Manager. Work on the Internal Audit Plan began in 2013, but reports were not completed until 2014. In recent months, a number of audit reports have been finalized and presented to the Audit Committee. As these reports are accepted by the Audit Committee, the protocol is to include them as informational items on City Council agendas along with the Audit Committee minutes. The Internal Audit Plan also calls for biannual reports from Moss Adams to the full Council. One such report was presented to the Council in conjunction with an Internal Controls Training conducted in the spring of 2014. A subsequent update to Council will be scheduled for the fall of 2014.

- F 6.2 Since City Council Members have an interest in reviewing the Council, the City Council should conduct such a review.

Response: The respondent agrees with the finding. The City assumes the statement above should read, "Since City Council Members have an interest in reviewing the Council Committees, the City council should conduct such a review." The City's original response to the 2012-13 Grand Jury report made a commitment to review and revise the scope and responsibilities of the Audit Committee, but did not commit to a review of all Council Committees comprehensively. Since that time, capacity has been created within the Policy Project of the Internal Audit Plan to review all Council Policies, including policy statements related to Council Committees. The City Auditor, Moss Adams, will be conducting this review in the fall of 2014 and present their recommended revisions to the Audit Committee.

- R 6.1.1 **Minutes of each Audit Committee meeting be included within 45 days as a City Council agenda item.**

Response: The respondent agrees in part with the recommendation. The City finds this recommendation overly prescriptive. Although the City agrees and will adhere to submitting the Audit Committee minutes to City Council for review, it does not want to commit to a set timeline given the complexities of scheduling and to provide flexibility to the members of the committee and City staff.

- R 6.1.2 **Major items discussed by the Audit Committee be included as an agenda item for full City Council discussion and/or action.**

Response: The respondent agrees in part with this recommendation. The Audit Committee is made up of Council members. The Audit Committee is best suited to make the determination regarding which items should be forwarded for presentation to City Council. In the past 18 months, the Audit Committee and City staff have forwarded several issues to the City Council for approval including the City Auditor contract, the Internal Audit Plan and adoption of the City's Comprehensive Annual Financial Report (CAFR).

- R 6.2 **The Stockton City Council by December 31, 2014, review and amend as necessary the stated purpose of all Standing Committees established in Council Policy 100-4 and provide clear specifications of the committees' scope of activity, particularly minimum effective oversight responsibilities.**

Response: The respondent agrees in part with the recommendation. As noted above, the City's original response to the 2012-13 Grand Jury report made a commitment to review and revise the scope and responsibilities of the Audit Committee, but did not commit to a review of all Council Committees comprehensively. Since that time, capacity has been created within the Policy Project of the Internal Audit Plan to review all Council Policies, including policy statements related to Council Committees. The City Auditor, Moss Adams, will be conducting this review in the fall of 2014 and present their recommended revisions to the Audit Committee. However, the City cannot commit that the completed policies will be adopted by December 31.

7.0 Financial Training for City Council Members

F 7.1 Since City Council Members have an interest in the City requesting the League of California Cities to establish a training program, the City should make such a request.

Response: The respondent agrees with the finding.

F 7.2 Since City Council Members have an interest in the City developing a workshop on general municipal finance for newly elected officials, the City should develop such a workshop.


Response: The respondent agrees in part with the finding. The City Manager and the CFO work with the Council members to ensure they understand the financial matters of the City. This is not conducted in a one-time workshop for new Council members but on and on-going basis as necessary.

R 7.1 The City of Stockton by September 30, 2014, submit a request to the League of California Cities Board of Directors to establish training programs for local elected officials to learn about the various aspects of municipal finance similar to the depth and content of the California State Association of Counties (CSAC) courses.

Response: The respondent agrees with the recommendation. The City of Stockton will submit a letter to request to the League of California Cities Board of Directors to establish training programs for local elected officials to learn about the various aspects of municipal finance similar to the depth and content of the California State Association of Counties (CSAC) courses.

R 7.2 The City of Stockton by November 1, 2014, develop with the assistance from educational institutions a workshop for elected officials on municipal finance operations, structure, responsibilities and oversight drawing upon best practices developed by other cities and professional organizations. The workshop will be available beginning with the members of the City.

Response: *The respondent agrees in part with this recommendation. The City will request that the League of California Cities provide educational opportunities to elected officials regarding municipal finance operations, structure, responsibilities and oversight. The request will be submitted prior to November 1, 2014.*



KURT O. WILSON
CITY MANAGER

KW:LM/aa



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August 26, 2014

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CITY OF STOCKTON RESPONSE TO FOLLOW-UP REPORT TO THE 2012-2013 SAN JOAQUIN COUNTY GRAND JURY CASE NO. 0912 CRIME-BUDGET CUTS +AB 109 = SAFE COMMUNITIES

The 2013-2014 Grand Jury (Grand Jury) reviewed each of the responses to the 2011-2012 Grand Jury's Final Report and created a follow-up report to address any unresolved issues.

As a result of the report issued on June 17, 2014 from the 2013-2014 Grand Jury for the County of San Joaquin this response has been prepared to address any and all findings and recommendations to the Follow-up Report to the 2012-2013 San Joaquin County Grand Jury Case No. 0912 Crime-Budget Cuts +AB109 = Safe Communities. This matter was thoroughly reviewed and examined to ensure transparency and offer an in-depth report by the City.

In accordance with Sections 933 and 933.05 of the California Penal Code, the City Council of the City of Stockton offers responses to the Grand Jury Report on the above-referenced case as follows:

2013-2014 FINDINGS & RECOMMENDATIONS

F 1.0 The Stockton Police Department has maintained an aggressive recruitment program but has not been able to significantly increase its staffing due to the number of officers leaving the department.

Response: The respondent agrees with this finding.

R 1.0 The Stockton City Council review and implement retention strategies for police officers before December 31, 2014.

Response: *The respondent agrees in part with this recommendation. The City agrees that a significant hurdle to reducing crime is the retention of qualified police officers. The Police Department is actively engaged in researching potential retention strategies. These strategies have been reviewed with the City Council and the Police Department has employed those efforts that are best suited to our situation. These strategies are being measured for their effectiveness and new strategies are being developed and considered.*

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KURT O. WILSON
CITY MANAGER

KW:LM/aa