



The Superior Court
COUNTY OF SAN JOAQUIN
222 E. WEBER AVENUE, ROOM 303
STOCKTON, CALIFORNIA 95202

TELEPHONE
(209) 468-2827
WEBSITE
www.stocktoncourt.org

Contact: Gary L. Spaugh, Grand Jury Foreperson
(209) 468-3855 or (209) 468-2959
grandjury@sjcourts.org

FOR IMMEDIATE RELEASE
MAY 30, 2013

• • NEWS RELEASE • • NEWS RELEASE • •

**2012-2013 GRAND JURY RELEASES REPORT ON
CITY OF STOCKTON'S FINANCIAL OPERATIONS**

(Stockton, CA) The San Joaquin County Grand Jury (Grand Jury) has concluded its investigation into the City of Stockton's financial operations which may have contributed to the City's current financial situation. More importantly, the Grand Jury has determined that if the problems are not addressed, the City's long-term fiscal health may not be remedied.

Recognizing that improvements to City governance have been made in recent years, a number of problem areas were identified by the Grand Jury which contributed to Stockton's fiscal meltdown: These problem areas demand prompt attention if the City is to avoid repeating past mistakes. First, important information provided to the City Council and public by former city management was often incomplete, misleading, and on occasion, provided too late to permit thorough analysis. Actions recommended by former mayors and city managers were promoted in spite of warnings from experts retained by the City. And, perhaps most troubling, is that few if any members of the City Council questioned the information being provided.

Second, internal audit functions were weak. The former City Auditor was not effective in reviewing the City's internal financial operations and identifying problems in internal accounting procedures or determining the effectiveness of the City's external auditors. The City Council, charged by the City Charter to provide oversight of the City's Auditor's activities, failed in their obligations.

Third, the City's external audit firm did not identify major deficiencies in the City's financial and accounting operations until the end of its 10-year span of audits. This is in sharp contrast to what the recently-retained audit firm uncovered during its first audit: 30 material findings--of which 13 were material weaknesses, the most discrediting of audit findings.

Fourth, the City's financial capabilities were not adequate to properly handle the size and complexity of Stockton's operations; there are thousands of accounts being handled with antiquated computer hardware and software. Information on expenditures was not provided in a timely manner due to the difficulty in extracting the data with the inefficient computer system. Further, while commending the current financial management for taking steps to improve the qualifications and competence of the finance department's staff, the Grand Jury is concerned that insufficient priority is being given to improve the staff's abilities, upgrade the technology in the department, or making the accounting structure more manageable.

A fifth area of concern discovered by the Grand Jury was the manner in which City budgets were prepared and monitored. For many years budget preparation was a function within the city manager's office with little interaction with the finance department on projected revenues and expenditures. One result from the outdated financial technology in use by the City meant that elected officials, department managers, and the public were provided delayed or incomplete reports on actual expenditures versus appropriations during the fiscal year. Sixth, the Grand Jury was concerned about the effectiveness of the City Council's Budget and Audit Committees. Some past mayors had limited the Budget Committee's effectiveness by removing members who delved into budget facts. The Audit Committee was found to be lax in its oversight of the external audits and the City Auditor's operation. A single, combined committee is recommended with clear responsibilities and isolation from appointment whims.

The Grand Jury's seventh area of concern is the elected City officials' limited grasp of municipal finances. Four of the seven current members of the City Council responded to the Grand Jury's inquiry about their financial knowledge. While a few indicated they had taken college-level courses in finance or attended workshops, none indicated they were proficient in the matter. They rely on city management for information about municipal finance, which the Grand Jury finds troublesome given the City's recent history. Obtaining independent professional training is recommended to provide the legislative body with an objective view of what the city's financial requirements and obligations should address

The final area of concern investigated by the 2012-2013 Grand Jury focused on the Council and City Manager's responsibilities and oversight. Through testimony and review of documents the Grand Jury concluded that each contributed to fostering distrust, poor information, and bad decisions about Stockton's financial health. Better open communications between the Council and Management on major financial activities is a prerequisite to better financial decisions and prevention of another financial meltdown.

The City of Stockton's current financial troubles were not the result of a single action or a single individual: Its authors were numerous and scattered throughout the city government--and evolved without community scrutiny. While the Grand Jury understands and appreciates the actions taken by recent council members and city managers to get Stockton out of its financial hole, unless changes are made there may be the need for another grand jury investigation.

#####

A copy of the Report can be accessed by visiting: <http://stocktoncourt.org/grandjury/>