

City Council Meeting: June \_\_\_\_, 2023

Santa Monica, California

RESOLUTION NUMBER \_\_\_\_\_ (CCS)

(City Council Series)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA REQUIRING ACCOUNTABILITY, OVERSIGHT, AND REFORM OF CITY SPENDING ON HOMELESSNESS, AND REQUIRING ACCOUNTABILITY, OVERSIGHT, REFORM, AND OBJECTIVE PERFORMANCE CRITERIA FOR ALL EXISTING AND FUTURE CONTRACTS WITH THIRD PARTY HOMELESS SERVICES PROVIDERS

WHEREAS good governance in the municipal sector, and ensuring that Santa Monica City government achieves its goals while acting in the public interest, are essential to meeting the public's expectation that the City is providing effective stewardship over public assets, value-for-money in its operations, transparent administration, and accountability for results;

WHEREAS, ensuring that the City of Santa Monica is financially healthy and administratively effective, including a commitment to excellent public services, are chief among the goals of City government – as articulated prominently in the City's 2019 Corporate Plan;

WHEREAS each year, the City prepares a combined annual budget and two-year financial plan, made up of operating and capital budgets and department service plans, with approximately half of the annual funds required to run the City coming directly from transient occupancy taxes, sales taxes, and property taxes, all of which were particularly hard-hit by the COVID-19 pandemic;

WHEREAS, the City's 2022-23 fiscal budget is \$707.8 million,

WHEREAS, the City's 2022-23 fiscal budget exceeds revenues by \$69.5 million;

WHEREAS, the City of Santa Monica ranks #4 among U.S. cities in per capita spending;

WHEREAS, due to two large unforeseen expenses, a \$202 million settlement of the class action sex abuse lawsuit involving the Police Activities League and the acknowledgement of between \$481 million and \$520 million in unfunded future CALPERS pension liabilities, the latter of which is identified in the 2021-23 fiscal budget as, “the greatest risk factor to the City’s financial health,” as well as continuing sluggish recovering in tax revenue following the COVID-19 pandemic, the City finds itself in an increasingly precarious financial position;

WHEREAS the 2021-22 independent audit performed by LCL Partners expressly did not evaluate operational results of City departments or potential sources of fraud and misappropriation, and also relied on “reasonable, not absolute assurance that the [City’s] financial statements are free of material misstatement due to fraud or error,” thereby leaving both City officials and residents in the dark as to the actual performance of City operations;

WHEREAS the City of Santa Monica is the only major California city that does not have an elected City Auditor’s office (or a comparable City Controller’s office) that is independent of the City’s management – one that is capable of providing an essential layer of independent financial and performance oversight of the City’s financial and operational affairs;

WHEREAS, the establishment of an independently elected City Auditor’s Office in Santa Monica, consistent with Auditors’ offices in other major California cities, and operating independent of the City’s existing internal audit processes, would offer an

enhanced standard of audit independence and objectivity and help to ensure that the City is providing effective stewardship over public assets, value-for-money in operations, transparent administration, and accountability for results, consistent with the public's reasonable expectations;

WHEREAS, in contrast to the City of Santa Monica's existing internal audit processes, a City Auditor's office at the municipal level would report directly to the City Council, and have a mandate to set its own audit plan, publicly report the results of audits, serve independently from City management, and greatly assist City government in holding themselves and City administrators and employees accountable for the stewardship of public funds and the achievement of value-for-money within municipal operations;

NOW THEREFORE THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES RESOLVE AS FOLLOWS:

SECTION 1. The City of Santa Monica here establishes an independent City Auditor, independently elected during regular election cycles;

SECTION 2. The independent City Auditor, in addition to being accountable to the voters, shall report directly to the full City Council on a semi-annual basis;

SECTION 3. The City Auditor shall be independent of the City's management and internal audit functions and shall operate based on the best practices, insights, and experience observed in other major California cities that have municipal City Auditors

SECTION 4. The City Auditor shall have the following obligations:

- Assist City Council in holding itself and City administrators accountable;

- Strengthen the City's audit and financial functions and inspire public confidence and faith among taxpayers that the City of Santa Monica and the Santa Monica City Council are providing the best possible stewardship over public funds while actively and continuously seeking to
- Identify and mitigate financial risks the City faces, including but not limited to evaluation of City departments', offices', and agencies' operational performance and value added in relationship to their budgets;
- Improve accountability and transparency via annual audits that are made available to the public as soon as they are completed;
- Strengthen City management controls; and
- Enhance the efficiency and effectiveness of City operations

SECTION 5. The new City Auditor shall be elected during the next municipal elections scheduled for Tuesday, November 5, 2024;

SECTION 6. The initial budget for the independent City Auditor's office shall be set at \$1 million annually, and with the funds to be integral to the City's 2024-26 Fiscal Budget and subsequently recouped from savings and efficiencies identified by the City Auditor General in subsequent Budget years;

SECTION 7. The City Council instructs that the City Council's Internal Audit Subcommittee, which reports to the Mayor, City Manager, Deputy City Manager, and City Attorney, make a presentation to the full City Council before the end of January 2024 with an overview of its findings and recommendations over the past five years, with specific reference to any and all performance / operational, financial, and compliance audits of various programs and business processes, reviews of all City audit

reports, analyses of those findings, any and all consultations with external and internal auditors on any irregularities and deficiencies disclosed in their reports, and any and all recommended corrective actions, including those specific to the effectiveness of internal controls and efficiency of business processes;

SECTION 7. The City Clerk shall certify the adoption of this Resolution, and thenceforth and thereafter the same shall be in full force and effect.

APPROVED AS TO FORM:

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Douglas Sloan, City Attorney