

## Ensuring City Financial Integrity - Part 2

1/5/2025

As predicted last September in Part 1 below, the City's auditor was replaced near the **end** of the first quarter (July-September) of fiscal year 2025. You may recall that our **Finance Director of 6 years resigned near the beginning** of that first fiscal quarter - one **of the many department heads that resigned in 2024, in response to actions by the New Council.**

**Unfortunately, the new auditor has a big job to determine where the City is financially.** The 2024 fiscal year audit is now being performed by an auditor who is relatively unfamiliar with the City's complex financials, who came into the auditing cycle late, and who is performing an audit that may be complicated by the fact that some financial actions for the last half of the 2023-2024 fiscal year appear to have been more disorganized than is normal. Switching auditors in September under these conditions was risky, particularly considering that the thoroughness of past audits has earned the City the GOFA financial excellence awards for the last several years.

At the last Council meeting of 2024, during her report, the Mayor argued that the City needs to know where it stands financially against the current (fiscal 2025) budget. This is particularly true since one Council member wants to consider budget amendments in January. The City Manager responded to the Mayor that the interim Finance Director currently was not even available the three days per week that had been agreed upon.

It is true that the City has savings from the several key department head positions that are still unfilled. However, from what we have seen in the media, there also are potential legal liabilities that have not been resolved. We may be flying blind into a storm with a gas gauge and altimeter that aren't working...

# Ensuring City Financial Integrity - Part 1

## 9/13/2024

Financial integrity in an organization is achieved by following well established financial accounting processes that ensure the **breadth and depth of scrutiny** of transactions, commensurate with their dollar value and organizational impact. Put a simpler way, the more money involved and the more critical the intended use, the **more people, and people at higher levels in the organization, need to "sign off"**. As a further attempt to ensure financial integrity, financial laws require that organizations undergo scrutiny by **independent outside financial auditors**. These external audits **attempt** to confirm that the financial management processes instituted by the organization are adequate, are being consistently followed, and not being subverted by employees who are incompetent or have criminal intent. To be effective (finding problems), the auditors have to become familiar with the organization to understand where and how to audit. To be efficient (keep the cost and duration of the audit reasonable), they have to limit their inquiries to focus on a subset of accounting areas and a subset of all the transactions in those areas. If the same auditing firm is employed in successive years, there is less effort (cost) required to familiarize the auditors with the organization, and the focus of the audit can be moved from year to year to broaden and deepen the coverage of the audit over the several-year period. Also, auditors can more readily follow-up on whether efforts to correct problems found in a previous audit have been successful. However, too many years using the same auditors could result in a complacent/less thorough audit, or create an opportunity for auditor-client collusion in obscuring criminal or incompetent actions.

I believe the City's auditor for the last several years has done an excellent job of flagging audit issues, especially issues that have repeated from the previous year. However, good financial stewardship would recommend using a new firm to minimize the possibility of auditor-client collusion. **Unfortunately, this year our Finance Director was one of the many key personnel who departed** in response to actions by the New Council. Furthermore, under the New Council, **some financial actions for the last half of the 2023-2024 fiscal year appear to have been more disorganized than is normal**. Finally, **the selection of the auditor for the 2023-2024 fiscal year audit, if it were to involve a new audit firm, should have been started months ago so as to allow a considered selection process (RFP) and an opportunity for the new firm to become familiar with the City's very complex financial operations. In my opinion, a new firm coming in late will jeopardize meeting the state mandated audit completion deadline and/or the quality of the audit** (at a time when the audit will be more difficult).

In spite of the above, one Councilperson is strongly advocating moving to a new firm and has argued against the selection of the City's current auditor at the previous Council Meeting. I would not be surprised if the decision to use a local audit firm is made very soon. Perhaps an attempt will be made even tonight...