

Exhibit A

City of Beverly Hills
Responses to Grand Jury Findings and Recommendations

Introduction

The Los Angeles County Civil Grand Jury requested information to determine the fiscal health of all 88 incorporated cities within the County. The Grand Jury made seventeen general findings, four recommendations directed to several cities, including Beverly Hills regarding its fiscal health and three recommendations to Beverly Hills regarding its financial management. In accordance with Penal Code Section 933, listed below are the City of Beverly Hills' responses to the general findings as well as the seven more specific recommendations. Note that because of the very general nature of the Grand Jury's findings (i.e. often applicable to many or most cities in the County), the City of Beverly Hills responded based on the practices of the City of Beverly Hills and had no basis for commenting on the practices of other cities. However, where applicable and appropriate the City's policies or actions related to the finding are described. Also, though no finding or recommendation was made regarding compensation, a description of why the number reported for Beverly Hills employees making over \$200,000 in 2010-11 was, if not technically overstated, at least somewhat misleading is also included in this report.

Grand Jury Findings

Fiscal Health

- 1. Finding:** Most cities expended more than they received in revenues during FY 2011-12.

Response: The City of Beverly Hills has generated a surplus of revenues over expenditures for many years (including 2011-12) as described more fully in our response to Fiscal Health Recommendation #2 below. The City of Beverly Hills has not studied whether or not most cities in Los Angeles County expended more than they received in fiscal year 2011-12 and, therefore, has no basis for commenting further on this finding.

- 2. Finding:** Most cities' total net assets and general fund balances declined during FY 2011-12, and several cities' ratios of total net assets to total liabilities are lower than desirable.

Response: The City of Beverly Hills's net assets (ratio of assets to liabilities) was above the ideal ratio of 2.0 noted in the Grand Jury report (page 108) in both 2010-11 (2.55 ratio) and 2011-12 (2.83). Furthermore, the City of Beverly Hills has a very healthy General Fund balance as noted in the Grand Jury report (starting on page 122). The City's General Fund balance increased \$9.2 million, or 9.4%, from 2010-11 to 2011-12 to

\$107.2 million. It is important to point out that Exhibit 8 on page 123 of the Grand Jury report shows an incorrect amount for the City's beginning General Fund balance. The Exhibit shows \$39.8 million as a beginning balance, however the correct beginning balance is \$98.0 million, with a change in balance of \$9.2 million rather than the reported \$67.4 million. The City of Beverly Hills has not studied the net assets and fund balances of other cities in Los Angeles County and, therefore, has no basis for commenting further on this finding.

Governance Practices

1. **Finding:** Most cities have developed strategic plans to provide appropriate strategic focus and direction for the city.

Response: The City of Beverly Hills has developed such plans. The City of Beverly Hills has not studied whether or not most cities in Los Angeles County have developed strategic plans and, therefore, has no basis for further commenting on this finding.

2. **Finding:** Most cities have developed performance measures to demonstrate the results of their organizational activities and goals.

Response: The City of Beverly Hills has developed performance measures to demonstrate the results of City activities and goals. The City of Beverly Hills has not studied whether or not most cities in Los Angeles County have developed performance measures and, therefore, has no basis for further commenting on this finding.

3. **Finding:** All cities stated they have a formal policy agreement, or other documents that define the roles of city council and city executive.

Response: The City of Beverly Hills Municipal Code defines the roles of the City Council and the City manager. The City of Beverly Hills has not studied whether or not all cities in Los Angeles County have a formal policy defining the roles of city council and city executive and, therefore, has no basis for further commenting on this finding.

4. **Finding:** Most city councils have established specific goals for executives at least annually.

Response: The City of Beverly Hills does establish such goals. The City of Beverly Hills has not studied whether or not most cities in Los Angeles County have established specific annual goals for executives and, therefore, has no basis for further commenting on this finding.

5. **Finding:** Most cities have adopted a "Conflict of Interest" code.

Response: The City of Beverly Hills has adopted a “Conflict of Interest” code. It is important to note that the City also has a formal Ethics Policy even though the Grand Jury report (pg 133) does not so indicate. It is possible there was a problem with the upload of the policy document to the website provided by the Grand Jury earlier this year, but a formal policy does exist. The City of Beverly Hills has not studied whether or not most cities in Los Angeles County have adopted a “Conflict of Interest” code and, therefore, has no basis for further commenting on this finding.

6. **Finding:** Most cities have adopted an “Investment” Policy.

Response: The City of Beverly Hills has adopted an Investment Policy. The City of Beverly Hills has not studied whether or not most cities in Los Angeles County have adopted an Investment Policy and, therefore, has no basis for further commenting on this finding.

7. **Finding:** Most cities published their financial reports or CAFR to their website.

Response: The City of Beverly Hills has published its CAFR to its website. The City of Beverly Hills has not studied whether or not most cities in Los Angeles County publish their financial reports or CAFR to their website and, therefore, has no basis for further commenting on this finding.

Financial Management Practices

1. **Finding:** Few cities formally established an audit committee responsible for monitoring and overseeing financial reporting.

Response: The City of Beverly Hills does have a formally established audit committee. The City of Beverly Hills has not studied whether or not other cities in Los Angeles County have formally established an audit committee and, therefore, has no basis for further commenting on this finding.

2. **Finding:** All cities required their auditors to comply with independence standards and most select their auditors through competitive process. Most also precluded that auditor from providing non-audit services.

Response: The City of Beverly Hills requires its auditors to comply with independence standards, selects its auditors through competitive process, and precludes that auditor from providing non-audit services as more fully discussed in the “Recommendations and Required Responses” section of this report. The City of Beverly Hills has not studied whether or not other cities in Los Angeles County require their auditors to comply with independence standards, select their auditors through competitive process, or preclude

the auditor from providing non-audit services and, therefore, has no basis for further commenting on this finding.

3. **Finding:** Many cities could improve their documentation and maintenance of accounting policies and procedures.

Response: The City of Beverly Hills does maintain its accounting policies and procedures as discussed in our response to Financial Management Recommendation #2 on page 8 of this report. The City of Beverly Hills has not studied whether or not cities in Los Angeles County could improve their documentation and maintenance of accounting policies and procedures and, therefore, has no basis for further commenting on this finding.

4. **Finding:** Many cities could improve their policies and procedures for reporting fraud, abuse, and questionable practices.

Response: The City of Beverly Hills has not studied whether or not cities in Los Angeles County could improve their policies and procedures for reporting fraud, abuse, and questionable practices and, therefore, has no basis for commenting on this finding.

5. **Finding:** Many cities could improve their internal control procedures over financial management.

Response: The City of Beverly Hills has not studied whether or not cities in Los Angeles County could improve their internal control procedures over financial management and, therefore, has no basis for commenting on this finding.

6. **Finding:** Most cities did not have a formal internal audit function.

Response: The City of Beverly Hills does not currently have a formal internal audit function. The City of Beverly Hills has not studied whether or not other cities in Los Angeles County have a formal internal audit function and, therefore, has no basis for further commenting on this finding.

7. **Finding:** Many cities' policies and procedures governing general fund unrestricted fund balance could be improved.

Response: The City of Beverly Hills has not studied whether or not cities in Los Angeles County have policies and procedures governing general fund unrestricted fund balance that could be improved and, therefore, has no basis for commenting on this finding.

8. **Finding:** All cities maintained an adequate accounting system. Most issued timely financial statements and a CAFR in compliance with standards, and most made the CAFR readily accessible to the general public on their website.

Response: The City of Beverly Hills maintains an adequate accounting system, issues timely financial statements and a CAFR in compliance with standards, and makes its CAFR readily accessible to the general public on its website. The City of Beverly Hills has not studied whether or not other cities in Los Angeles County maintain an adequate accounting system, issue timely financial statements and a CAFR in compliance with standards, and make the CAFR readily accessible to the general public on their website and, therefore, has no basis for commenting on this finding.

Grand Jury Recommendations and Required Responses:

Fiscal Health

1. **Recommendation:** Cities should adopt financial planning, revenue and expenditure policies to guide city officials to develop sustainable, balanced budgets. (pg 156)

Response: The City of Beverly Hills disagrees with this recommendation because the City has already implemented these policies. The Beverly Hills City Council has adopted financial policies that have guided the operation, management, budgeting, auditing and reservation of the City's finances for many years. Included in these policies are the following statements:

- The City will endeavor to avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets.
- Budget development will use strategic multi-year fiscal planning, conservative revenue forecasts, and program-based cost accounting that require every program to be justified annually in terms of meeting intended objectives ("effectiveness criteria").

2. **Recommendation:** Cities should develop a balanced budget and commit to operate within the budget constraints. (pg 157)

Response: The City of Beverly Hills disagrees with the finding because the City has been adopting only balanced budgets for more than a decade. As the table below shows, the City has operated within those constraints and has ended each year with a surplus of revenues over expenditures.

City of Beverly Hills
Schedule of Year-End Surpluses

Fiscal Year	Operating Revenues	Operating Expenditures	Year-End Surplus
2011/12	\$172,228,304	\$153,507,998	\$18,720,306
2010/11	165,096,982	146,012,553	19,084,429
2009/10	159,166,971	146,100,497	13,066,474
2008/09	161,340,585	156,260,911	5,079,674
2007/08	169,725,461	145,603,960	24,121,501
2006/07	158,319,543	143,822,591	14,496,952
2005/06	142,171,929	128,580,467	13,591,462
2004/05	128,538,660	121,336,134	7,202,526
2003/04	122,202,883	113,112,150	9,090,733
2002/03	115,583,328	106,157,443	9,425,885
2001/02	115,401,032	106,589,263	8,811,769

In addition, the City’s financial policies address this Grand Jury recommendation with the following statements:

- The City will endeavor to avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets.
- Current revenues will fund current expenditures and a diversified and stable revenue system will be developed and maintained to protect programs from short-term fluctuations in any single revenue source.

3. **Recommendation:** Cities should commit to not using one-time revenues to fund recurring or on-going expenditures. (pg 157)

Response: The City of Beverly Hills disagrees with this recommendation because it is already addressed by the City’s financial policies, which include the following statement:

- One-time revenue windfalls should be designated as a reserve or used for one-time expenditures. The funds are not to be used for on-going operations.

4. **Recommendation:** Cities should adopt a method and practice of saving into a reserve or “rainy day” fund to supplement operating revenues in years of shortfall. (pg 157)

Response: The City of Beverly Hills disagrees with this recommendation because the City’s policies have already resulted in the accumulation of substantial “rainy day” reserves. The City of Beverly Hills budgets expenditures at full cost for the year and budgets revenues conservatively. This combination has allowed the City to grow its reserves and invest in

reducing long-term unfunded liabilities. Currently, the City's General Fund cash reserve exceeds 45% of the FY 2013/14 General Fund projected revenues.

The City's financial policies include the following statement addressing this concern:

- It is a goal of the City to obtain and maintain a general operating reserve in the form of cash, of at least 40% of operating revenues.

Financial Management

1. **Recommendation:** Cities that allow the auditor to provide non-audit services should ensure appropriate review and approval of those services. (pg 159)

Response: The City of Beverly Hills disagrees with this recommendation because the City already has a history of not allowing auditors to provide non-audit services.

2. **Recommendation:** Cities should review and update accounting policies and procedures to ensure they are appropriately detailed and define the specific authority and responsibility of employees. (pg 159)

Response: The City of Beverly Hills disagrees with this recommendation because the City already reviews its accounting policies and procedures annually, along with its financial policies, including the adoption of all current Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) reporting requirements in its financial reports. The City of Beverly Hills has been an early implementer of GASB pronouncements for more than 25 years and was recognized for our leadership with a special citation by the Government Finance Officer's Association (GFOA) for our implementation of GASB Statement 34. In addition, our Accounting Manager was recently asked to participate on a GFOA panel discussing our implementation of GASB Statement 54. Due, in part, to its strong financial reporting, the City has been recognized with an underlying AAA rating by all three bond rating agencies as a leader in financial management and planning.

3. **Recommendation:** Cities should undertake a full-scale competitive process every five years for the selection of an independent external auditor. (pg 160)

Response: The City of Beverly Hills disagrees with this recommendation because the City already routinely undertakes a competitive Request for Proposal process for audit services at least every five years and has worked with three different audit services firms in the past ten years.

Employees Making Over \$200,000

The City would also like to address the area in the Grand Jury Report which notes that there are 64 employees in 2011 that made over \$200,000. (pg 94) While the reported number is correct, it is important to clarify that in 2011 thirty-eight of those employees received one-time payout amounts that were unusual in nature. When allowance is made for these one-time payouts, this leaves 26 employees (21 safety employees, 5 non-safety) that received \$200,000 or more in pay in 2011, notwithstanding the one-time amounts.

The difference in the numbers can be largely attributed to a unique and innovative program designed to reduce the City's unfunded OPEB (Other Post-Employment Benefits) retiree health liability. This program "bought out" existing retiree health benefits for participants, thereby reducing the City's exposure to the related unfunded liabilities. As a result of this program, there were several cash payouts for these benefits that gave the appearance that these employees were paid a salary of over \$200,000.

In addition to the retiree health payouts, most of the safety officers included in this list were retirees that had accumulated significant amounts of banked sick and vacation time throughout their long careers with the City. When they left service with the City, they received substantial one-time cash-outs of their banked time off which also contributed to the appearance of a larger number of employees listed as making over \$200,000.

Because of the above one-time pay factors in 2011, the City believes a better count of employees receiving more than \$200,000 in pay in 2011 is 26 employees rather than the 64 reported. This is a better measure of the number of employees paid at this level on an ongoing basis.

Discussion of Fiscal Health Ratios

The Grand Jury report detailed several financial ratios for each city in Los Angeles County as a way to study and rank their relative "fiscal health." The following comments and corrections relate to the fiscal health ratios reported for the City of Beverly Hills.

Total Revenues, Expenditures and Net Revenues (pg 104)

Comment: The City of Beverly Hills had a very strong showing in this category with a ratio of net revenue to total revenues of 5.7% in 2010-11 (#6 ranking of all incorporated cities in Los Angeles County) rising to 8.5% in 2011-12 (#3 ranking).

Ratio of Assets to Liabilities (pg 110)

Comment: According to the Grand Jury report, an ideal Assets to Liabilities ratio would be at least 2.0. As noted earlier, the City of Beverly Hills ratio in this category was 2.55 in 2010-11 (#51 ranking) rising to 2.83 in 2011-12 (#61 ranking). The City's Asset to Liability ratio, while strong and above 2.0, ranked lower than many cities because of the City's substantial amount of bonded debt.

Change in Net Assets (pg 114)

Comment: The City of Beverly Hills had a strong positive change in net assets in 2010-11 of 6.6% (#8 ranking) and even stronger in 2011-12 at 8.2% (#38 ranking). Note that even though the City's change in net assets was stronger in 2011-12 than in 2010-11, the ranking amongst all other cities in the County slipped from #8 to #38. This appears to be largely due to the impact of the elimination of Redevelopment Agencies, which shifted assets from a city's Agency to the city's newly formed Successor Agency, pending distribution of the assets. The City of Beverly Hills did not have a Redevelopment Agency so this impact did not apply in our case.

General Fund Revenues, Expenditures and Net Revenues (pg 118)

Comment: The City of Beverly Hills had a very strong ratio of net revenues to total revenues in the General Fund of 11.8% in 2010-11 (#11 ranking) and another strong showing of 11.1% (#9 ranking) in 2011-12.

Change in General Fund Balance (pg 123-124)

Comment: The City of Beverly Hills's General Fund balance changed only +0.4% in 2010-11, giving the City a ranking of #44 in the County for this category. However, the City's fund balance only increased by this relatively small amount due to a large payment that year (\$9.7 million) to reduce its unfunded retiree medical (OPEB) liability. The Grand Jury report shows the City of Beverly Hills moving to the #1 spot in the County for this fiscal health category in 2011-12. This ranking is in error, however, due to an incorrect number being used for the beginning General Fund balance (see further description of this on page 2 of this report under the response to Fiscal Health Finding #2). Error aside, the City of Beverly Hills still had a very strong increase in General Fund balance of 9.4% in 2011-12, or +\$9.2 million, to a total fund balance of \$107.2 million.