

LOMPOC'S FAILURE TO ADOPT AN AUDIT POLICY FOR NON-PROFIT ORGANIZATIONS

SUMMARY

The City of Lompoc, despite its agreement to do so, has failed to adopt an audit policy for grants and loans to non-profit organizations that would help protect its citizens from financial loss. This report is intended to inform the public of the continuing failure by the Lompoc City Council to provide the protection recommended by the 2011-12 Santa Barbara County Grand Jury Report entitled, "A Failure of Oversight." In its response of September 4, 2012, the council agreed with this recommendation, stating:

When non-profit organizations are provided public monies by means of loans and grants for vital public services and purposes, how that public funding is distributed, used and accounted for are critical to retaining the public's trust. The City Council regrets inaction by the City of Lompoc . . . that [has] diminished the public trust.

BACKGROUND

On June 13, 2012, the Santa Barbara County Grand Jury issued a report entitled, "A Failure of Oversight" which identified the City of Lompoc's failure to monitor the use of taxpayer funds paid to the non-profit Lompoc Housing and Community Development Corporation (LHCDC). The loss to city taxpayers as a result of LHCDC's financial failure was estimated in the report to be \$1.8 million. The Jury's report recommended that the city formally adopt a non-profit audit policy. Specifically, all non-profits receiving loans and grants from the city exceeding \$50,000 in any fiscal year would be required to file an annual audit prepared by an independent auditor. The purpose of these audits is to safeguard the taxpayers of Lompoc against further unnecessary losses due to the lack of oversight by city officials and staff to monitor the proper use of funds. An audit policy should help insure that defaults like the ones that plagued LHCDC do not reoccur.

Despite the critical nature of the Jury's report and the clear recommendations given to the city to correct the situation, now, more than 18 months later, no non-profit audit policy is in place.

CHRONOLOGY

The following is a chronology of pertinent correspondence that illustrates the failure of the Lompoc City Council to follow through on its public commitment to implement the

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Jury's recommendation to adopt a non-profit audit policy, and its failure to comply with *California Penal Code section 933.05, subdivision (b)(2)* by not even providing a timeframe for implementing the promised policy.

In its letter dated September 4, 2012, the city responded that it "intends to implement" the Jury's audit policy recommendation. In its reply dated October 2, 2012, the Jury advised the city that, since no specific time frame for adoption had been set forth in the response as required by *California Penal Code section 933.05, subdivision (b)(2)*, the city would have 15 additional days to amend its response to acknowledge the legally mandated timeline.

The city responded to the Jury on October 17, 2012, and stated that the audit policy ". . . will be finalized in conjunction with the City's biennial (2013-14/2014-15) budget adoption . . ." That projected completion date was unacceptable to the Jury since the municipal budget likely would not be adopted until June 2013. This date would have been one full year after the date of the report and nine months after the original incomplete response of September 4, 2012.

Nevertheless, in November 2012, the Jury extended the date until March 1, 2013. No non-profit audit policy was forthcoming by that date and no explanation for that failure was given to the Jury. Instead, on April 8, 2013, the city advised the Jury that the council had reviewed a draft audit policy in February, but found it needed additional work. No specifics were cited as to any particular area of concern which caused an additional delay.

On May 17, 2013, the city wrote to inform the Jury that on May 6, the City of Lompoc's Human Services Commission had met and requested that staff make changes to the draft. As a result, the city reported that the council would review the document in June 2013, one full year after the original issuance of the Jury's report.

At the council meeting held on June 18, 2013, a draft non-profit audit policy was discussed in public session but not adopted. Rather, it was determined that two council members would be appointed as an ad hoc committee to meet with staff and to report results to the council as soon as possible. However, no deadline for that report was established by the council.

On August 26, 2013, having heard nothing from the city since mid-May, the Jury wrote to the city asking for an update. On September 12, 2013, the city replied that it ". . . is working diligently toward completing [the] . . . policy." It was only then, three months after appointment of the ad hoc committee, that the city informed the Jury of its creation. The city further stated, "We anticipate the ad hoc committee will complete its review over the next few months."

On October 14, 2013, the Jury informed the city that nearly four months had elapsed since the ad hoc committee's appointment. The Jury requested either a status update or a copy of an approved policy by November 1, 2013. The city replied on October 17, 2013, that it intended to comply with the Jury's request "as soon as possible."

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On October 28, 2013, the Jury requested that the two council members who serve as the ad hoc committee appear before the Jury to report what progress had been made, if any, to adopt the long-overdue policy.

On October 30, 2013, the city replied that the two members would not appear as requested since it would be “. . . untimely for the ad hoc committee members to discuss a draft policy that had not been reviewed and adopted by the entire City Council.” To date, no further communication has been received from the City of Lompoc.

CONCLUSION

This Report has been prepared by the 2013-14 Santa Barbara County Grand Jury in accordance with *California Penal Code section 925a*. It is intended to inform the public of the continuing failure by the City of Lompoc to adopt a non-profit audit policy, as recommended in the 2011-12 Santa Barbara County Grand Jury report entitled, "A Failure of Oversight."

As the City of Lompoc acknowledged, its citizens deserve the protection of an effective audit policy applicable to any non-profit organization receiving taxpayer funds. In the Jury's opinion, the Lompoc City Council has engaged in a course of conduct detrimental to its citizens' best interests. Lompoc citizens are poorly served by this governmental inaction. Until the city adopts an effective non-profit audit policy, taxpayers will continue to be at risk of further financial harm.