



## CITY OF COMMERCE AGENDA REPORT

Item No. \_\_\_\_

**TO:** Honorable City Council

**FROM:** Ernie Hernandez, City Manager

**SUBJECT:** Receive and File the Annual Financial Comprehensive Report (ACFR) and the Auditor's Communication Related to Fiscal Year 2023-24 Annual Audit.

**MEETING DATE:** July 8, 2025

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### **RECOMMENDATION:**

Staff recommends that the City Council receive and file the Annual Comprehensive Financial Report (ACFR) for the Fiscal Year ended June 30, 2024, and accept the report as presented by the city's independent auditors, The Pun Group, LLP.

### **BACKGROUND AND ANALYSIS:**

Pursuant to State law and Generally Accepted Accounting Principles (GAAP), the City of Commerce is required to publish audited financial statements and submit the report to the City Council annually. In order to ensure the reliability of the information contained within the financial statements, the City contracted with an independent audit firm, The Pun Group, LLP, to perform the annual financial audit. The goal of the audit is to provide reasonable assurance that the city's financial statements are free from material misstatement. The Pun Group, LLP issued an unmodified opinion, or clean opinion, indicating that the financial statements are fairly presented in all material respects, in accordance with GAAP.

The ACFR provides a comprehensive overview of the City's financial condition, including all governmental activities, business-type activities, major funds, and component units for the fiscal year ended June 30, 2024. The ACFR also includes the audited financial statements, management's discussion and analysis, and extensive statistical data to inform long-term fiscal planning. Highlights from the FY 2023–24 ACFR include:

- **General Fund Reserves:** The City maintained a General Fund unassigned reserve of over \$100 million, exceeding the City's minimum fund balance policy of 50% of operating budgeted expenditures.

- Sales Tax Performance: While overall sales tax decreased by \$1.8 million compared to the prior year (2023), Measure AA revenues remained strong, contributing \$9.7 million toward capital improvements.
- The Transit fund, as of June 30, 2024, has a structural deficit of \$10.7 million. City staff is developing a deficit elimination plan for the structural deficit as well as the operating deficit for FY 2025-26.
- Audit Findings: As part of the accompanying Single Audit, several material weaknesses and compliance issues were noted. These include deficiencies in internal control over payroll processing, lease revenue reporting, and year-end reconciliations. Staff has initiated steps to address these through internal process improvements, including enhanced cross-department coordination and documentation practices.
- The accompanying Single Audit Report, specifically, also identified material weaknesses and significant deficiency tied to the City's budgeting and financial reporting practices:
  - Deficit Net Position and Expenditures Exceeding Appropriations (Finding 2024-001): The City incurred expenditures in multiple departments and funds that exceeded the adopted budget due to the absence of strong budget controls . This resulted in budget overruns not formally authorized by the City Council and a material audit adjustment to correct expenditures retroactively. The auditors noted expenditures in excess of legal appropriations, indicating that financial controls during the budget execution phase were insufficient to prevent overages in certain funds.

As the City Council is aware, current city staff is actively implementing several improvements to strengthen the city's financial operations. In response to the audit finding regarding the city's budgeting and financial reporting practices, staff has initiated a series of corrective measures, including:

- Formalizing monthly, quarterly, and mid-year and budget review protocols;
- Enhancing internal coordination between Finance and departments;
- Reinforcing use of budget appropriation forms to document budget adjustments, ensure alignment with City Council-approved changes, and facilitate timely entry into the City's financial system;
- Providing departments with monthly budget-to-actual reports and conducting quarterly meetings to monitor compliance adopted budget limits.

As the City Council is also aware, the city has completed its financial statements significantly later than expected over the past few years, and the FY 2023-24 statements

were no exception. As both a best practices and a legal requirement under state law, cities are expected to issue their financial statements within seven months of the fiscal year's end, typically by January 31. However, the FY 2023-24 financial statements were finalized on July 1, 2025, more than one year after the fiscal year concluded.

City staff recognizes the importance of timely financial reporting and is fully committed to completing and issuing future financial statements no later than January 31<sup>st</sup> of each year.

## **FISCAL IMPACT**

There is no direct fiscal impact associated with this action. All audit and reporting-related costs were included in the FY 2023–24 budget.

## **ALTERNATIVES:**

1. Accept the ACFR as recommended.
2. Provide direction to staff for further revisions or review.

## **RELATIONSHIP TO STRATEGIC PLAN:**

The actions recommended in this report align with the 2016 Strategic Plan Fiscal Sustainability Guiding Principle 1: demonstrate fiscal responsibility through the establishment of financial policies and budgeting practices that meet the Financial Standards of Excellence Requirements.

## **ATTACHMENTS:**

- Annual Comprehensive Financial Report (ACFR) – FY 2023–24
- Single Audit Report – FY 2023–24
- Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets
- Auditor Communications to the City Council

Prepared by: Alvaro Castellon, Director of Finance  
Respectfully submitted: Ernie Hernandez, City Manager  
Approved as to form: Noel Tapia, City Attorney