

CITY OF VERNON

REPORT OF

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INDEPENDENT ETHICS ADVISOR

Dated July 29, 2011

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PREFACE

On February 15, 2011, you engaged me to serve as an Independent Ethics Advisor with specific duties, among them to:

- (a) review and evaluate Vernon's internal controls and policies with respect to the Political Reform Act of 1974, Government Code Section 1090, Brown Act, Public Records Act, and Conflict of Interest requirements;
- (b) review and evaluate Vernon's policies and procedures relating to reimbursement of expenses and payment of invoices to any individual affiliated with the City or the City Council, including City employees;
- (c) review the effectiveness of Vernon's policies for selecting and paying consultants and to recommend any alterations to ensure the proposed consulting agreements comply with all policies and procedures; and
- (d) review whether Vernon has appropriate policies pertaining to ethics and conflicts of interests and to evaluate the extent of existing training and education and to make recommendations regarding additional training and education relating to ethics and conflicts of interest.

My Engagement Letter, dated February 15, 2011, provides that "all provisions defining the Advisor's jurisdictions, powers, oversight authority and duties shall be broadly construed." The first report is due July 31, 2011.

Staffing

Prior to the engagement I set about to organize a team of professionals who could assist me in an independent review and analysis of the areas you asked me to review.

Those on my team are:

- Robert Stern, President of The Center for Governmental Studies and former General Counsel of The Fair Political Practices Commission.
- Cynthia Kurtz, for 10 years Pasadena's City Manager and an experienced City Administrator.
- Daniel Callender, an Associate of mine at Dewey & LeBoeuf, LLP.

The report which follows is the result of the group's work, which includes interviews with each of Vernon's City Councilmembers, past and present City personnel, its outside consultants, Assembly Speaker John Perez, Senate President Pro Tem Darrell Steinberg, other public officials, and representatives of the Vernon Chamber of Commerce as well as a substantial review of the City's resolutions, contracts and records produced in response to my document requests.

While we worked as a team, each made individual contributions to this report. I take full responsibility for its conclusions and recommendations.

Per your engagement of me, the next steps are as follows:

- (1) Within 90 calendar days of receipt the City Council shall review and consider adopting recommendations in this Report.
- (2) Within 45 days of receipt the Council shall advise me of any recommendations that the City Administrator and City Council consider unduly burdensome, impractical, costly, or which would otherwise impair the day-to-day operations of the City.
- (3) As to those recommendations not adopted by the City Administrator and the City Council, the City Administrator or City Council shall prepare in writing an alternative policy, procedure or system designed to achieve the same objective or purpose.

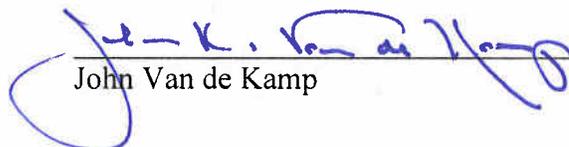
SCOPE OF REVIEW

While we have reviewed documents and material from over the past 5 years, our review has narrowed to how Vernon is operating in 2011, and what it needs to do now to operate like a typically well run Southern California charter city.

Its history is checkered, but in the face of public criticism of some of its past conduct and that of its principals and in the face of possible disincorporation, it has made progress in reforming its policies and procedures starting in 2009.

Our expressed aim is to help hasten the reforms that are still necessary to make it a city that can be proud of its governance, and its standards, and become accepted by its brother and sister cities as a model city, utilizing the best municipal practices in the State.

In developing this report, I thank everyone, particularly those in the City, for their cooperation and assistance.



John Van de Kamp

BACKGROUND

The City of Vernon is unlike most cities in California. It was established as and is primarily an industrial city.

Its first Board of Trustee resolution on September 30, 1905 affirmed that the City was incorporated for the following purposes:

- (1) "To promote and advance manufacturing industries of whatever nature..."
- (2) "That while we invite all persons who so desire to live and have homes within said city, yet they should do so having regard for the rights of manufacturing industries."
- (3) "To promote the maintenance of manufacturing interests which may be established within said city under its liberal policy."

The resolution contained other purposes, among them, the restriction of liquor licenses, opposition to a high rate of taxation, opposition to what is commonly called an "open town," and opposition to "any taxes except what are absolutely necessary to raise funds with which to properly carry on the public business of the said city on the most economic basis."

Over 105 years the City of Vernon has of course changed. In 1988, the City became a charter city, its Charter approved by its electorate. While the Charter sets out typical provisions, no mention was made of the original intent of its founders; yet its original purposes by implication were and are still largely intact.

In March 2008, the Los Angeles Economic Development Corporation provided the following statistics regarding Vernon:

- A total of 105,000 jobs in the region are directly or indirectly attributable to Vernon (I understand that over 50,000 people work there).
- Vernon's economy accounts for, on an annual basis, \$4.5 billion in wages, \$1.1 billion in taxable sales and \$343 million in state and local revenues.
- Vernon has 15.3% of Los Angeles County's food industry employment.
- Vernon has 10.7% of Los Angeles County's furniture industry employment.
- Vernon has 3.4% of Los Angeles County's employment in the fabricated metal industries.

In a study commissioned by the City, Capital Matrix Consulting issued a report on February 28, 2011; specific Vernon strategies were identified as supporting the strong economic activity that remains in Vernon today. Among those strategies:

- (1) Lower business license taxes: Vernon bases its business taxes on the number of employees, as opposed to gross receipts, and charges no utility taxes at all.
- (2) Low Cost Utility Service: Vernon's publicly owned light and power department costs up to 30% less than other entities nearby. Vernon's natural gas distribution system charges 10-30% less than private utility alternatives. Water rates are among the lowest in Southern California. The City also has installed 35 miles of fiber optic cable to provide Vernon's businesses with new ways to connect their office buildings and to access the internet at higher speeds for lower rates.
- (3) A Class 1 Fire Department: All of Vernon's firemen are HAZMAT certified. Its level of fire protection is essential in protection against the dangers inherent in an industrial community, and it results in a reduction in insurance costs.

Also cited are Vernon's one-stop business services as it relates to zoning, building codes, and public works. Additionally, Vernon is one of four California cities with its own Health Department.

While the business side of Vernon has remained strong even in the course of the recession, its housing capacity is minimal.

Vernon has less than 115 residents, most of them living in rental homes at low rates (\$120 per month for 1 bedroom, \$240 for 2 bedrooms, \$360 for 3 bedrooms). Vernon owns nearly all of the homes (average 900-1200 sq. ft.) and one apartment complex containing eight units.

A very high percentage of Vernon's residents work for the City or are related to or are friends of those who work for the City; a small minority of its residents work or have worked for businesses in Vernon. To have access to Vernon's housing in the past, one had to have approval of the City Administrator and/or the City Council. The City Councilmen (all men today) come from this small group of residents. Most of them have been appointed, and when up for election, run unopposed. There has been no contested election for the City Council since 2006.

Among the criticisms leveled at Vernon is that it is a closed community and that by its very nature it is unable to govern itself properly. The argument goes that this has led to self aggrandizement and favoritism to the elected and appointed City officials and their friends and relatives.

Three of its recent public officials have been successfully prosecuted, Leonis Malburg, a longtime Mayor, for falsely claiming City residency, and Bruce Malkenhorst, a longtime City Administrator, for misappropriation of public funds. Former City Administrator Donal O'Callaghan, pursuant to a plea agreement, pleaded guilty to conflict of interest charges relating to the hiring of his wife on July 15, 2011. Malburg left the City government in 2009, Malkenhorst in

2005 and O'Callaghan in October 2010. To date no one has received a jail or prison sentence. Malburg's case is on appeal.

There is evidence that in the past, the salaries of City officials were bloated, that some who held more than one position were receiving compensation for each position, and that some contracts were drawn so that after 1,500 hours of City work and a set salary, City officials would charge hourly rates that would elevate those salaries way beyond any norm.

There is also evidence that City contracts were "evergreen" — that once the original contract term had ended, the contracts would renew automatically unless the City Council took decisive action to retract them.

Beginning in 2009, some reforms were undertaken:

- (1) The City officials' contracts were modified to prevent double dipping; there would be a set salary for a position; if one held two positions, one received only the salary set for the one of the positions held. And contracts were modified to prevent supplementary hourly charges beyond the set salaries.
- (2) Beginning in 2009 and pursuant to City Council resolutions, individuals with contracts were notified that the evergreen nature of their contracts would be cancelled, i.e., that the Council would have to formally approve contract extension. In 2009, pursuant to a cancellation and notice provision, all solid waste franchisees were notified that their agreements would terminate in December 2014.

At the same time there have been voices for the City's abolition, Supervisor Gloria Molina and District Attorney Steve Cooley among them.

And on December 6, 2010 Assemblymen John Perez, the Speaker of the State Assembly, introduced AB 46, which would disincorporate any city with a population of less than 150 people – only Vernon fits that standard. That measure has passed the Assembly and awaits action in the State Senate.

Speaker Perez introduced a companion bill, AB 781, which in the event of disincorporation would create a community services district which would take over certain functions currently performed by Vernon, e.g., fire protection, water, telecommunications, gas, electric utility and street maintenance.

The City is opposing the bills, arguing that to do so is beyond the jurisdiction of the legislature, and that disincorporation would bring significant business and job loss because the business advantages Vernon brings would be lost in the County, or a neighboring community, or in the proposed special district.

Serious arguments have been made both pro and con regarding these two measures. It is not the function of this report to opine on their legality or impact. Rather, this report deals with what improvements and modifications should and can be made under existing law to bring Vernon's governance procedures in alignment with the best practices in other California cities.

On February 15, 2011, I was engaged as an Independent Ethics Advisor to review the items listed in the Preface and to make recommendations to the City for modifications and improvements in their practices and procedures.

I underscored the word independent, because this report attempts to look at Vernon as an independent outside observer not as a paid promoter for the City.

Since the four of us have gone to work, we have had numerous conversations with City officials and have made oral suggestions of areas where improvements (some big, some small) could take place. The response has been positive.

One surprising finding was that the business community, which by and large seems to believe it has been well served by Vernon's government (regardless of the government's own excesses), feels it had little influence or relationship with its City Council.

In a March 10, 2011 meeting with the Vernon Chamber of Commerce, it was noted by some that there was something of a divide between the City's management and the business community. While the Vernon Chamber of Commerce appreciated the business climate and the very good Fire and Police Departments, it wanted closer contact and involvement with City affairs, in particular with the setting of utility rates and with a Housing Authority (although the Vernon Chamber of Commerce favored a Housing Commission):

Subsequently, on May 26, 2011, the City Council unanimously passed an ordinance and a series of resolutions:

- (1) Establishing a Housing Commission, with 7 members appointed by the City Council, including 3 persons representing either a business in Vernon or person or entity owning Vernon commercial property to establish policies for tenancy/occupancy of City owned dwelling units and to enter into leases or rental agreements with tenants or prospective tenants (the members of which have not yet been selected). The Housing Commission was established by ordinance.
- (2) Fixing salaries for Vernon's department heads pursuant to a schedule that adjusts their salaries in line with comparable local jurisdictions in Southern California to be effective July 1, 2011.
- (3) Reducing Councilmember salaries to \$24,996 per year after a review of the council salaries for five comparable Southern California cities, to go into effect at the beginning of the Councilmember's next term (there are staggered terms, so the first reduction takes effect in 2012). On June 7, 2011, the Council voted to reduce their present salaries by 18% to go into effect July 31, 2011. The May 26, 2011 resolution also eliminates reimbursement for the Councilmember's health benefits that exceed and are otherwise not covered by insurance or Medicare and other ancillary benefits — effective July 1, 2011.

- (4) Calling for a Vernon municipal election for a ballot measure to approve or disapprove a two term (five years per term) limit for its Councilmembers with a lifetime ban thereafter. That election is scheduled for November 8, 2011.
- (5) Retaining the law firm of Reed and Davidson to provide annual Political Reform Act, Public Records Act and Brown Act training for City officials and to review the City's policies relating to those statutes. Training was provided on June 21, 2011. (More about that in the Brown Act and Public Records Act sections of this Report).

Earlier, on April 19, 2011, the City Council approved the following resolutions:

- (1) Directing the City Administrator to establish an Ad Hoc Advisory Committee on Electric Rates whose membership includes three business representatives "representing diverse business interests" and two labor representatives, to make recommendations to the City Council relating to rate adjustments to reflect current operating costs, emission reduction requirements and green house gas regulations. The recommendations were made to the City Council in a timely manner. On June 23, 2011, the Council adopted power rate increases of 8% effective July 1, 2011 and 8% effective January 1, 2012.
- (2) Directing the City Administrator to establish an Ad Hoc Advisory Committee on Sustainable Development (the members of which have not been selected) to include three business representatives and two labor representatives.
- (3) Directing the City Administrator to establish an Ad Hoc Advisory Committee for Business Development (the members of which have not been selected) to include three business representatives (the President of the Chamber of Commerce, a real estate developer and a real estate broker) and two labor representatives to explore ways to improve the business climate in the City and to make Vernon more attractive to business and its employees.

All these changes, including those from 2009, can be considered good government measures, unquestionably stimulated by the Perez bills and the public interest in Vernon.

More needs to be done. Implementation of some of these resolutions are works in progress. Timely and effective action needs to be taken, particularly as it relates to the housing issues.

But unquestionably the City has opened up to the world, and the need to operate on a "best practices" approach. Certainly its closer involvement with leaders in the business and labor communities can only enhance the sophistication with which it goes about its business.

The report that follows responds to our engagement scope and more, in that it makes some recommendations regarding better internal practices. The fact of those recommendations should not be considered as damning. Many of them are minor and could apply to other cities as well. But they are being passed on for what they are worth, again in the hope that if implemented they will help make Vernon a better city, of which its residents and businesses can be proud.

CHAPTER I

The Political Reform Act of 1974 and Ethics

A. Campaign Disclosure

1. Requirements under Engagement Letter

Section 2(a) of the Engagement Letter approved February 15, 2011, requested review and examination of the effectiveness of the City of Vernon's internal controls, record-keeping, internal audit and existing or new reporting policies and procedures with respect to the Political Reform Act of 1974.

2. Political Reform Act Requirements for Campaign Disclosure

The Political Reform Act of 1974 (California Government Code Section 81000 et seq.) imposes a number of requirements on city officials, both elected and appointed. The Act's campaign disclosure and conflicts of interest statutory provisions and regulations govern the conduct of such officials and candidates for city office. The lobbying portions and the contribution limitations sections of the Political Reform Act do not apply to the City.

The Political Reform Act requires every candidate who runs for office in California, both state and local, to file periodic campaign disclosure statements. In addition, if any group makes independent expenditures of \$1,000 or more for a city election, that group must file campaign reports. Govt. Code Section 82013(b).

If the candidate and his or her controlled committee (s) spend less than \$1,000 for an election, then the candidate only has to file a Form 470 stating that the candidate has not spent sufficient funds to require periodic campaign statements to be filed. Govt. Code Section 84206.

In the case of candidates running in Vernon, their campaign statements must be filed with the City Clerk's office and reviewed "on their face" by the city clerk to assure that the reports are completed properly. Govt. Code Section 81010. The City Clerk does not have to field audit the statements (review the original records of the campaign committee) to determine if the statements are accurate.

The City must make these campaign statements (and Statements of Economic Interests) available to anyone who requests them at a fee of no more than ten cents a page and an additional \$5 if the request is for records that are more than five years old. Persons who want to examine these statements may not be required to identify themselves. Govt. Code Section 81008. For all city council races, the reports of the candidates elected to office must be retained indefinitely. For all other committees and candidates who lost, the campaign statements must be retained for at least five years. Govt. Code Section 81009. All reports, both campaign statements and statements of economic interest, must be filed under penalty of perjury. Govt. Code Section 81004.

The Political Reform Act provides for a range of remedies. In serious cases, a person who violates the Act can be charged with a misdemeanor. Govt. Code Section 91000. In addition, civil injunctions can be brought by any interested party, as can civil actions. Govt. Code Section 91003 and 91004. Most violations, however, are handled administratively by the Fair Political Practices Commission, which can impose fines and order respondents to comply with the law. Govt. Code Section 83115. Finally, late filing penalties of \$10 per day up to the amount not properly reported can be imposed by the filing officer. Govt. Code Section 91013.

3. Investigation

The City was asked to provide campaign statements from 2006 to the present. They were provided except for statements for 2010 and 2011. No independent expenditure statements for 2006 were provided.

4. Findings

Two challengers ran in the 2006 election. One filed a Form 470 with a signature A. Lopez but his name did not appear in the space labeled "Name of Officeholder or Candidate." Instead an address was written: "2721 E 46th Street." However, an email address and phone number were listed on the statement.

The other candidate also did not list a name in the space labeled "Name of Officeholder or Candidate." Again an address was written: "2721 E 46th Street" in that space. A phone number was included, and the candidate signed the statement although the name is not legible.

The City Clerk should have asked for an amended statement that listed the name of the candidate on the statement.

The City Clerk should have requested Form 470 statements from the candidates for City Council in the 2010 and 2011 elections even if no money was spent by these candidates; no elections were held in these years because only one candidate filed to run for Councilmember.

5. Recommendation

1. The City Clerk should be sufficiently trained to review campaign disclosure statements and ask for supplemental information as needed.

B. Conflict of Interest Statements

1. Requirements under Engagement Letter

Section 2(a) of the Engagement Letter approved February 15, 2011, requested review and examination of the effectiveness of the City of Vernon's internal controls, record-keeping, internal audit and existing or new reporting policies and procedures with respect to the conflicts of interest requirements of the Political Reform Act of 1974 and Government Code Section 1090.

2. Requirements under the Political Reform Act and Government Code 1090

The Political Reform Act, starting with Govt. Code Section 87200 et seq., requires high level city officials to file statements of economic interest within 30 days of assuming office, on an annual basis and within 30 days of leaving office. The purpose of these statements is not to determine how wealthy an individual is. Rather, the purpose is to identify potential conflicts of interest by the person.

Vernon's Councilmembers, Mayor, City Attorney, City Treasurer and City Administrator must disclose pursuant to state law the following: all investments of \$2,000 or more of entities doing business in the city, planning to do business with the city or having done business within the city within the past two years; all interests in real property of \$2,000 or more located in the city or within two miles of the city; all income from entities doing business within the city of \$500 or more; all gifts of \$50 or more and business positions in entities doing business within the city, planning to do business with the city or having done business within the city within the past two years. Govt. Code Sections 87207-87210.

Other high ranking city employees must file statements of economic interest pursuant to a conflict of interest code adopted by the employee's agency and ratified by the city council. Govt. Code Section 87300 et seq. These codes are supposed to require disclosure only for interests that could possibly be affected by official governmental actions taken by the employee.

Many economic interests are not required to be disclosed. These include personal residences, bank accounts, mutual funds, investments and interests in real property not located in the jurisdiction, and bank loans, among others.

The Fair Political Practices Commission reviews the statements of economic interests for Vernon's Councilmembers, Mayor, City Attorney, City Treasurer and City Administrator. The City Clerk is charged with the responsibility of reviewing the statements for all other filers. Govt. Code Section 87500.

Government Code Section 1090 applies to all state and city elected and appointed officials and is an additional restriction beyond the provisions of the Political Reform Act. It says that no such official shall have an interest in a contract in which the official is participating. No forms are required to be filed. If a person violates Government Code Section 1090, the contract is void even if the person disqualified himself or herself from the contract. In addition, felony criminal charges can be imposed.

3. Investigation

The City furnished economic interest statements (Form 700) for the Councilmembers in March of 2011. In addition, starting in 2011, the Fair Political Practices Commission, the filing officer for the Councilmembers, has posted the 2010 statements from the Councilmembers on its website. All the information may be viewed and printed except for the signature of the Councilmembers. All of the 2010 annual statements were filed on time.

a. Councilmembers

- i. Councilmember William Davis: annual statements for 2007, 2008, 2009 and 2010.
- ii. Councilmember Hilario Gonzalez: annual statements for 2007, 2008, 2009 and 2010.
- iii. Councilmember Richard Maisano: assumed office Jan. 12, 2009; filed an assuming office statement and annual statements for 2009 and 2010.
- iv. Councilmember William McCormick: annual statements for 2007, 2008, 2009 and 2010.
- v. Councilmember Daniel Newmire: assumed office July 6, 2009; filed assuming office statement July 7, 2009 and annual statements for 2009 and 2010.

b. City Employees

- i. City Finance Director and Treasurer Roirdan Burnett: annual statements for 2008 and 2009 and 2010 (assumed City Finance office Feb. 1, 2008; filed assuming office statement on March 24, 2008, and assumed City Treasurer office Aug. 31, 2009 and filed assuming office statement on Nov. 18, 2009).
- ii. Interim Police Chief Daniel Calleros: assuming office statement starting November 15, 2010 and annual statement for 2010, filed together on March 16, 2011.
- iii. City Treasurer Sharon Duckworth (Barrett): annual statements for 2007, 2008 and 2009 (left office Aug. 31, 2009).
- iv. Director of Power and Light Carlos Fandino: assumed office on Aug. 2, 2010; filed assuming office statement on Oct. 25, 2010 and an annual statement for 2010.
- v. Acting City Attorney Jeffrey Harrison: 2006 assuming office statement (Dec. 13, 2006) and annual statements until he left office. He filed a leaving office statement on August 5, 2009.
- vi. Director of Human Resources/Asst. City Attorney Avigal Horrow: assumed office on April 7, 2008 and filed assuming office statement Sept. 8, 2008 and 2008 statement. Listed AH Consulting Group from Manhattan Beach with income between \$10,000 and \$100,000 for 2008, indicating that "this was prior to taking the position at the City of Vernon." She failed to file any other statements, including a leaving office statement.

- vii. City Controller/Assistant Finance Director Masami Higa: assuming office statement March 10, 2008, annual statements for 2008 and 2009 and a number of leaving office statements filed February 24, 2011, although he left the Controller's office on January 4, 2010 and another office on October 4, 2010.
- viii. Director of Light & Power and later City Administrator Donal O'Callaghan: annual statements for 2007, 2008, 2009 and leaving office statement for his position as City Administrator (July 21, 2010 filed July 27, 2010).
- ix. Director, Health and Environmental Control, Lewis Pozzebon: annual statements for 2007, 2008, 2009 and 2010.
- x. Interim Police Chief James Rodino: assuming office statement starting July 1, 2010 and leaving office statement filed November 15, 2010, filed together on March 16, 2011.
- xi. Executive Director of Redevelopment and the Historic Preservation Society, Robert Toering: assumed office on March 5, 2007 and filed assuming office statement on May 10, 2007. He filed annual statements for 2007, 2008 and 2009 and left office on March 1, 2010 and filed leaving office statement on March 29, 2010. Reported income for 2007 and 2008 of between \$10,000 and \$100,000 from Concept Engineering Group, LLC, located in San Pedro, a company involved in management consulting. He was a member, manager of the company.
- xii. Police Chief Steven Towles: assuming office statement (Oct. 10, 2006) filed on Feb. 12, 2007, and annual statements for 2007, 2008 and 2009. He left office in 2010 but no leaving office statement was on file.
- xiii. Director of Personnel Martha Valenzuela: annual statements for 2007, 2008, 2009 and 2010.
- xiv. Fire Chief and later City Administrator Mark Whitworth: annual statements for 2007, 2008, 2009 and 2010 and assuming office statement on Aug. 4, 2010 for assuming the offices of City Administrator on July 21, 2010 and Purchasing Agent on Aug. 2, 2010.
- xv. Director of Community Services and Water Samuel Kevin Wilson: annual statements for 2007, 2008, 2009 and 2010.

- xvi. Risk Manager, City Clerk and former interim City Attorney Willard Yamaguchi: annual statements for 2007, 2008, 2009 and 2010 and assuming office statement for City Clerk on March 15, 2010 (assumed office on March 1, 2010) and annual statement for 2010.
- xvii. The City also provided statements for former Mayor Leonis Malburg: his annual statement for 2008 and his leaving office statement for 2009. His leaving office statement was filed two weeks before he left office (statement filed June 17, 2009 while it indicates he left office on June 30, 2009).
- xviii. The City also provided the leaving office statement filed by City Administrator, City Clerk, and City Treasurer Bruce Malkenhorst dated December 3, 2005.

4. Findings

- a. Councilmember McCormick failed to include a General Description of Business Activity for his investments for his 2007 and 2008 statements; he received no letter of correction for those statements. For his 2009 statement he received a letter from the County Sanitation Districts of Los Angeles County (its letter not included in the materials sent to us) and provided the appropriate information. On his 2008 statement he listed Delphi Corporation, a company not listed on his 2007 statement: in the 2008 statement he needed to indicate the date he acquired an interest in Delphi Corporation.
- b. City Administrator Donal O'Callaghan, for his 2007 statement, failed to indicate the type of statement (annual) or whether or not he had reportable interests.
- c. Police Chief Steven Towles left office in 2010 but no leaving office statement was on file.
- d. The leaving office statement filed by City Administrator, City Clerk, and City Treasurer Bruce Malkenhorst dated December 3, 2005 was not filed with the Fair Political Practices Commission until January 26, 2006 (although he left office on June 30, 2005.)
- e. The leaving office statement for City Controller/Assistant Finance Director Masami Higa was filed late, more than 30 days after leaving office.
- f. The assuming office statements for interim police chiefs, Daniel Calleros and James Rodino, were filed late.

With these exceptions, the statements were filed in a timely manner.

In terms of Government Code Section 1090, the City provides no written instructions on how to comply with its provisions.

Former City Administrator Donal O'Callaghan, pursuant to a plea agreement, pleaded guilty to a violation of Government Code Section 1090 on July 15, 2011. While City Administrator, O'Callaghan was alleged to have personally participated in putting his wife in a City position. He was sentenced to 200 hours of community service and one year of summary probation.

5. Recommendations

1. The City Clerk should ensure that assuming office and leaving office statements are filed on-time. Some City employees filed statements more than 30 days after taking office or 30 days after leaving office, which did not meet the requirements of the Political Reform Act.
2. The City Clerk needs to ensure that all statements are readily accessible and kept for at least seven years.
3. The City should provide all incoming affected employees with written guidance regarding compliance with filing the required documentation together with copies of the forms to be completed.
4. The City should provide written instructions on how to comply with Government Code Section 1090.

C. Ethics Training

1. Requirements under Engagement Letter

Section 2(a) of the Engagement Letter approved February 15, 2011, requested review and examination of the effectiveness of the City of Vernon's internal controls, record-keeping, internal audit and existing or new reporting policies and procedures with respect to the conflicts of interest requirements.

2. Requirement of the Conflicts of Interest Law

Govt. Code Section 53235 requires that all councilmembers and local agency officials attend a state approved two hour ethics training course every two years. This law, adopted in 2005 as AB 1234 by the legislature, is intended to educate government officials about ethics and the latest rules. The purpose of the law is to enhance the awareness of ethics by all state and local officials.

3. Investigation

The City was asked whether training session for Councilmembers and staff were held. They promptly responded. A member of our team was present at the June 21, 2011 training session.

The Reed & Davidson AB 1234 Ethics Training session was attended by all City Councilmembers and key staff.

The Reed & Davidson AB 1234 Ethics Training addressed:

- Personal financial gain laws, including (i) laws prohibiting bribery; (ii) contractual conflicts of interest; (iii) conflicts of interest under the Political Reform Act, including an official disqualifying himself or herself from a meeting and penalties for failure to comply with the Political Reform Act; (iv) special rules for property in a redevelopment area; (v) conflicts of interest and campaign contributions; and (vi) conflicts of interest when leaving office.
- Perquisites of office laws, including (i) limitations on the receipt of gifts; (ii) honoraria; (iii) restrictions on personal loans; (iv) mass mailing restrictions; (v) misuse of public funds; (vi) prohibitions against gifts of public funds; and (vii) transportation by transportation companies.
- Government transparency laws, including (i) economic interest disclosure; (ii) the Brown Act; and (iii) the Public Records Act.
- Laws relating to fair processes, including (i) common law bias prohibitions; (ii) prohibition of holding simultaneously two incompatible offices; (iii) competitive bidding requirements; and (iv) anti-nepotism laws.

4. Findings

All Vernon City Councilmembers and officials of City agencies attended a two hour ethics training session on June 21, 2011. The session was conducted by Dana Reed and Jerry Simmons of the law firm Reed and Davidson.

Previously, all Councilmembers attended a session on October 1, 2009. The session was conducted by Craig Steele from the Richards, Watson and Gershon law firm.

Records for 2008 indicate that four of the five Councilmembers completed a training session on May 31, 2008. After assuming office on January 1, 2009, Councilmember Maisano completed his training on October 1, 2009. These Councilmembers have been in compliance with the required Ethics Training since 2008.

5. Recommendations

1. The City should continue to provide ethics training to all Councilmembers and staff in compliance with Section 53235, and should consider yearly courses as appropriate, particularly if there is an influx of new employees and/or if there are significant changes in the rules.
2. Written manuals for the Ethics Training should be provided to new high level employees and Councilmembers within 30 days of assuming their positions.

D. Conflict of Interest Codes

1. Requirements under Engagement Letter

Section 2(a) of the Engagement Letter approved February 15, 2011, requested review and examination of the effectiveness of the City of Vernon's internal controls, record-keeping, internal audit and existing or new reporting policies and procedures with respect to the conflicts of interest requirements.

2. Requirements under the Political Reform Act

The Political Reform Act requires each state and local agency to adopt a conflict of interest code for its agency employees. The Fair Political Practices Commission through Regulation 18730 has set forth the requirements of the conflict of interest code. The code must set forth the employees who are required to file economic interest statements and the types of disclosure each employee must disclose on his or her annual economic interest form.

3. Investigation

The City was requested to provide conflict of interest codes for all City agencies. The City submitted conflict of interest codes adopted for the following City agencies:

- a. The City of Vernon Resolution No. 2010-135 adopted by the City Council on Oct. 4, 2010, which superseded Resolution No. 9711, adopted by the City Council on Oct. 6, 2008 and Resolution No. 9136, adopted by the City Council on Oct. 4, 2006. (This Resolution notes that the City Council originally adopted a conflict of interest code for Vernon on June 17, 1980 and amended the code eight times before the Oct. 4, 2006 amendments. These resolutions were not included in the materials but are not needed since they have been superseded.)
- b. The Industrial Development Authority of the City of Vernon, Resolution No. IDA 23 adopted on Oct. 4, 2010, and ratified by the City Council as Resolution No. 2010-137 on Oct. 4, 2010, Resolution No. IDA 18, adopted on Oct. 6, 2008, and ratified by the City Council as Resolution 9737 on Oct. 20, 2008 and Resolution No. IDA-15, adopted on Oct. 4, 2006. (This resolution noted that the Industrial Development Authority originally adopted a conflict of interest code on Aug. 30, 1994 and amended it four times.)
- c. The Redevelopment Agency of the City of Vernon, Resolution No. RA-387, adopted Oct. 4, 2010 and ratified by the City Council as Resolution 2010-136 on Oct. 4; Resolution No. RA-369, adopted Oct. 6, 2008 and ratified by the City Council as Resolution No. 9378 on Oct. 20, 2008, and Resolution No. RA-308, adopted Oct. 4, 2006. (This resolution noted that the Redevelopment Agency originally adopted a conflict of interest code on Sept. 5, 1989 and amended it three times.)

- d. The Vernon Economic Development Authority, Resolution No. VEDA-0007, adopted Oct. 4, 2010, and ratified by the City Council as Resolution No. 2010-140.
- e. The Vernon Historic Preservation Society (incorporated Nov. 21, 2002), Resolution No. VHPS-0022, adopted Oct. 4, 2010, and ratified by the City Council as Resolution No. 2010-138 on Oct. 4, 2010; and Resolution No. VHPS-0016, adopted Oct. 6, 2008 and ratified by the City Council as Resolution No. 9736 on Oct. 20, 2008.
- f. The Vernon Natural Gas Financing Authority, Resolution No. VNGFA-0022, adopted Oct. 4, 2010 and ratified by the City Council as Resolution No. 2010-139 on Oct. 4, 2010.
- g. The Vernon Housing Authority, Resolution No. VHA-3, adopted January 3, 2011 and ratified by the City Council as Resolution No. 2011-04 on January 3, 2011.

4. Findings

The City appears to be in compliance in the adoption of conflict of interest codes for its agencies.

5. Recommendations

- 1. The City should continue to adopt conflict of interest codes for all City agencies and ensure that they are kept up to date when there are any changes in the state law. The City should direct its ethics attorneys, Reed and Davidson, to review the codes and recommend any necessary changes.
- 2. The City Council needs to adopt a conflict of interest code for the new Housing Commission and alert potential appointees of the reporting and disqualification requirements.

CHAPTER II

Housing and Elections

A. Requirement under the Engagement Letter

The Engagement Letter signed on February 15, 2011, does not specify any review of the City's housing policies, but housing decisions have been questioned. An evaluation of the City's housing situation, its present residents, census data and voter registration was undertaken.

B. Requirements of the Law

The City has recently established a Housing Commission to review City leases and make recommendations to the City Council on who is eligible to rent from the City. In the past, the City Council has had the final decision as to who may lease housing from the City, but in the interviews conducted it is unclear what policy and process was utilized in approving new residents and who in reality made the decisions approving leases for new tenants.

C. Investigation

The City provided 2010 Census Data, a list of registered voters, a list of tenants on lease agreements, an indication of employees who were registered voters and a list of relatives to Councilmembers and employees. The City does not have a list of all the residents.

The City also provided a number of documents that listed instances where the City Council approved requests to move into City owned housing and several cases where requests were made but not approved or disapproved. These documents ranged in dates from 1979 to 2007.

D. Findings

1. Vernon Residents

According to the 2010 Census Data, Vernon has 112 residents: 21 are younger than 18 years, so not eligible to be registered voters. Forty-eight are Latino, 41 White, four are Black, two are Asian, and seven are another race. The median age is 36.5 and there are two more females than males.

The Census found there were 29 housing units (28 occupied), 4 were owner occupied and 24 renter occupied, with an average of 4.25 persons per rental unit.

Vernon had 64 registered voters out of 91 persons 18 years or older. Two of the registered voters are deceased.

Of the 62 registered voters, five are Councilmembers, eight are relatives of Councilmembers (one relative is not registered to vote), five are City employees, six are relatives of City employees, one is related to a consultant.

Thus, a total of 25 of the 62 registered voters have direct connections with the City. In addition, 51 of the 62 registered voters lease property from the City or are related to someone leasing the property from the City.

Finally, six of the registered voters are related to deceased previous Councilmember Thomas A. Ybarra (only one of the six is leasing from the City). These are not counted as part of the 25 connected with the City but they obviously have had close connections with the City.

The relatives of Councilmembers are spouses, a daughter, a son, a mother-in-law, a daughter-in-law and another person whose relationship was not specified. They are (i) the spouse and daughter of Councilmember William Davis; (ii) the spouse, son and daughter-in-law of Councilmember Hilario Gonzales; (iii) the brother and another person related to Councilmember Richard Maisano; and (iv) the spouse and mother-in-law of Daniel Newmire.

The current or former City employees who are residents of Vernon are: (i) a planning assistant; (ii) a utilityman and spouse; (iii) a senior electronics technician; (iv) a firefighter; and (v) a department secretary.

The relatives not living with Councilmembers or employees are four relatives of Fire Chief and City Administrative Officer Mark Whitworth. Two of these relatives are registered to vote and two are not.

Rentals were recently set on a per bedroom basis. \$120 per mo. for 1 bedroom, \$240 per mo. for 2 bedrooms, and \$360 per mo. for 3 bedrooms.

2. Leasing in Huntington Park

Several current or former City employees lease Huntington Park property owned by Vernon: (i) a former utilityman and spouse; (ii) a systems coordinator and spouse; (iii) a department secretary; and (iv) a former communications specialist, who has submitted a lease termination notice effective July 31, 2011.

3. Housing Commission

A new Housing Commission has been established with seven members appointed by the mayor, subject to ratification by the Council, consisting of three residents (which includes one Councilmember), 3 persons representing a business or someone owning or leasing commercial property and one employee of a business located in Vernon. It is to establish policies as to who should lease or buy the property.

The Commission has yet to be appointed or hold its first meeting.

4. Elections

Vernon's five Councilmembers serve five-year terms with the terms staggered in such a way that one Councilmember's term expires each year.

This is a highly unusual election system and appears to be an effort to thwart new or dissident groups from seeking and taking over the elective positions in the City. It seems to be a response to the attempt in 2006 by an outside group attempting to remove incumbent City Councilmembers.

In November 2011, the Vernon voters will be asked to approve or disapprove a ballot measure limiting the Councilmembers to two 5-year terms with a lifetime ban thereafter. The ballot proposal does not affect the present schedule of staggered term elections held every year.

The California League of Cities was asked to provide a norm for most California cities with respect to term lengths and the number of seats up at each election. The League of Cities is not aware of any other city in California having elections every year to elect one councilmember. The League noted that most cities have four-year council terms with staggered elections: an election held every two years, with two seats up at one election and three seats up in the other election.

At a time when Vernon needs to conform to the best practices of other California cities, it should reconsider its term lengths and staggered elections.

E. Recommendations

1. Appointments should be made as soon as possible to the Housing Commission. The Housing Commission should quickly formulate housing policies. If rental programs are adopted, the Commission should set rates on a market basis, and establish policies that avoid favoritism to City personnel and their relatives and friends.
2. Consideration should also be given to the sale of all City-owned residences. If a sales program is adopted, the Commission should be careful to adopt policies that avoid favoring those who work for the City and their friends and relatives. (One exception to this could be the encouragement of a limited number of first responders to live in City housing).
3. Vernon should hold elections every two years with staggered four-year terms for Councilmembers, with two seats up at one election, and three seats up in the other election.

CHAPTER III

The Brown Act

A. Requirements Under the Engagement Letter

Section 2(a) of the Engagement Letter, dated February 15, 2011, called for a review and evaluation of the effectiveness of Vernon's internal controls, record-keeping, internal audit, and existing or new reporting policies and procedures with respect to the Brown Act (California Government Code Section 54950 et seq.).

B. Requirements Under the Brown Act

The Brown Act governs meetings conducted by local government bodies in California. Specifically, the Brown Act facilitates public participation in local government decisions by imposing open meeting requirements on local government bodies. The Brown Act also contains specific exceptions from the open meeting requirements when the local government body demonstrates a need for confidential candor, debate and information gathering.

The Brown Act applies to multi-member local government bodies, such as city councils, committees and commissions, but not individuals. The Brown Act fosters public access to local government bodies by requiring (i) public notice of the time and date of each meeting; (ii) a publicly available agenda that briefly describes all matters to be discussed or considered at the meeting; (iii) public access to the same information provided to a majority of the local government body's members; and (iv) an opportunity for the public to directly address the local government body on any item under the body's subject matter jurisdiction. In addition, a local government body may not ask a person to provide his or her name as a precondition to attending a meeting.

The Brown Act permits local government bodies to meet in closed session (i.e., a meeting without public access). Closed session meetings are limited in scope, and primarily involve personnel issues, pending litigation, labor negotiations, real property acquisitions and public security. Each closed session matter must be briefly described on a meeting agenda in sufficient detail to provided interested parties with an understanding of the subject matter under consideration. Section 54954.5 of the Brown Act establishes safe-harbor provisions for a closed-session agenda. Immediately after the closed session, the local government body must reconvene in open session and, depending on the type of action taken in closed session, may be required to report on votes cast and actions taken in closed session.

Remedies for violation of the Brown Act include (i) criminal penalties; (ii) civil injunctive relief; (iii) an award of attorney's fees; and (iv) subject to certain exceptions and limitations, a court declaration to rescind an action taken in violation of the Brown Act.

C. Investigation

Vernon's Brown Act compliance practices were investigated by (i) requesting information; (ii) interviewing relevant Vernon personnel; (iii) monitoring City Council meetings; (iv) attending a training session; and (v) reviewing selected documents. In particular, the following actions were taken:

- Requested, by letter dated February 18, 2011, from Vernon of all Brown Act written policies, or if no such policies existed, a statement as to how Vernon implements the Brown Act;
- Interviewed (i) Willard Yamaguchi, Interim City Attorney, City Clerk and Risk Manager on February 16 and April 6, 2011; (ii) Michael Montgomery, Interim City Attorney on July 12, 2011; and (iii) Kristen Enomoto, Council Department Manager, on April 14, 2011;
- Monitored City Council meetings held on April 19, May 26 and June 21, 2011;
- Attended the AB 1234 Ethics Training conducted by Dana W. Reed and Jerry Margaret Simmons of Reed & Davidson, LLP on June 21, 2011; and
- Reviewed selected City Council meeting notices, agendas and minutes from 2009, 2010 and 2011.

D. Findings

1. Responsible Parties

The Interim City Attorney (formerly Mr. Yamaguchi, and as of June 27, 2011, Mr. Montgomery) leads Vernon's Brown Act compliance process. Ms. Enomoto, former Deputy City Clerk, had significant responsibility for Vernon's Brown Act compliance until March 2011. Ana Barcia, Deputy City Clerk, has assumed these responsibilities from Ms. Enomoto. Other Vernon personnel that participate in Vernon's Brown Act compliance process are Eva Muro, legal assistant to Mr. Montgomery, and Debbie Juarez, Records Clerk.

2. Vernon Government Bodies Subject to the Brown Act

Mr. Montgomery maintains a list of all Vernon government bodies that are subject to the Brown Act. All these bodies hold meetings at Vernon City Hall. While Mr. Yamaguchi attended all City Council meetings, he did not attend all meetings of the other government bodies that are subject to the Brown Act. Mr. Montgomery has attended all City Council meetings and all such other meetings and states that he plans to continue to do so.

3. Notices, Agendas and Meeting Materials

Ms. Barcia prepares the meeting notice for each Vernon government body that is subject to the Brown Act. The notice is in the form of an agenda. Mr. Montgomery authorizes each

notice. The notice is then posted immediately outside Vernon City Hall and on Vernon's website within the required timeframe in advance of each meeting (e.g., at least 72 hours prior to a regular meeting) and is made available in the City Clerk's office at the same time the meeting notice is posted. The public may view the notice at any time on any day of the week.

Prior to 2007, Vernon mailed notices to media outlets and any other party that requested notice of Vernon's public meetings in accordance with Section 54954.1 of the Brown Act. Since 2007, notice of public meetings, along with the non-privileged meeting materials (e.g., staff reports and resolutions), have been provided to requesting parties in an electronic form on a password protected internet site. Vernon provides the electronic information on the same day that the notice of the public meeting is posted outside of Vernon City Hall. Ms. Barcia is primarily responsible for providing the electronic information. The meeting agenda and all non-privileged meeting materials are also provided at the entrance table of each public meeting immediately before and during the meeting.

4. Public Meetings

There is no sign-in sheet at Vernon's public meetings, nor does Vernon request members of the public to provide their names in order to attend a meeting. At the start of each meeting, the government body opens the meeting for public comment. There is no time limitation placed on the public when addressing the government body.

5. Training

Vernon does not offer or otherwise facilitate Brown Act compliance training for its employees responsible for Vernon's Brown Act compliance process. Rather, employees receive training on an ad hoc basis through individually identified training courses or self-study.

Although the AB 1234 Ethics Training held on June 21, 2011 addressed some requirements of the Brown Act, as discussed above under Chapter I, it did so at an introductory level and did not provide meaningful Brown Act compliance guidance.

6. Conclusions

No evidence has been found of Vernon violating the Brown Act during the engagement of the Independent Ethics Advisor.

While the Interim City Attorneys have advised Vernon on Brown Act compliance matters, it is not reasonable to expect that they attend every meeting of Vernon's government bodies that are subject to the Brown Act. Therefore, it is necessary that Brown Act requirements be understood by all members of Vernon's government bodies that are subject to the Brown Act. Moreover, because several Vernon employees other than the Interim City Attorney are directly involved in Vernon's Brown Act compliance process, it is essential that these employees understand the Brown Act as well.

Moreover, Vernon has no Brown Act compliance policy, handbook, resolution or other written process. Rather, Vernon's Brown Act compliance process is based on an informal set of procedures known to only a few Vernon employees.

The lack of (i) a formal periodic Brown Act compliance training program for all individuals who are responsible for Vernon's Brown Act compliance, or who are otherwise subject to the Brown Act, inhibits the development of a rigorous, organization-wide compliance process to ensure Brown Act compliance for each public meeting; and (ii) any documentation of Vernon's Brown Act compliance process makes it vulnerable to personnel changes with respect to the handful of individuals who have knowledge of the process.

E. Recommendations

1. It was orally suggested to Mark Whitworth, Vernon's City Administrator, that Vernon institute a formal periodic Brown Act compliance training program and adopt a written Brown Act compliance policy. On April 19, 2011, upon the recommendation of Mr. Whitworth, the City Council adopted the following Resolution No. 2011-69:

"The City Administrator is directed to retain a firm with Political Reform Act, Public Records Act and Brown Act compliance expertise to provide annual Political Reform Act, Public Records Act and Brown Act training for City officials including department heads and City Councilmembers. Training for 2011 shall be completed by June 30. Such firm also shall review City policies for compliance with the Political Reform Act, Public Records Act and Brown Act and make recommendations for modifications and improvements to policies."

On May 23, 2011, upon the recommendation of Mr. Whitworth, the City Council approved the retention of Reed & Davidson, LLP to perform the foregoing actions authorized by the City Council. On June 21, 2011, Dana W. Reed and Jerry Margaret Simmons of Reed & Davidson, LLP conducted the AB 1234 Ethics Training discussed above under Chapter I.C.

In order to comply with City Council resolution No. 2011-69, Vernon must provide annual Brown Act compliance training. The AB 1234 Ethics Training did not satisfy this requirement. The Brown Act compliance training should be conducted in the third quarter of 2011. For 2012 and thereafter, annual Brown Act compliance training may be conducted concurrently with the Political Report Act training (i.e., the AB 1234 Ethics Training) and Public Records Act training.

2. Vernon also should continue to work with Reed & Davidson, LLP, or another expert approved by the City Counsel, to develop a written Brown Act compliance policy. Vernon, with assistance from counsel, should also prepare a Brown Act compliance binder that contains written materials to help Vernon employees understand the requirements of the Brown Act and how those requirements apply to Vernon. Both the Brown Act compliance policy and the compliance binder should be made available to Vernon employees in electronic form and posted on Vernon's intranet site.

CHAPTER IV

The Public Records Act

A. Requirements Under the Engagement Letter

Section 2(a) of the Engagement Letter, dated February 15, 2011, called for a review and evaluation of the effectiveness of Vernon's internal controls, record-keeping, internal audit, and existing or new reporting policies and procedures with respect to the Public Records Act (California Government Code Section 6250 et seq.).

B. Requirements Under the Public Records Act

The Public Records Act provides the public access to information in possession of public agencies. It applies to records held by all local agencies, including any city (whether general law or chartered) and any officer, bureau, department, board, commission or agency of the city. "Records" includes all identifiable communications related to public business prepared, owned, used, or retained by the local agency, regardless of physical form or characteristics, including any writing, picture, sound or symbol, whether paper, magnetic, electronic or other media. The Public Records Act rests on the basic precept that the public must be given an opportunity to monitor the functioning of their government, and therefore, governmental records must be disclosed to the public, upon request, unless there is a specific reason not to do so.

The Public Records Act requires a request for information to be specific and focused. The request may be made orally or in writing. Records may be inspected at a local agency during its regular office hours. Local agencies are generally required to assist members of the public in making focused and effective requests for identifiable records (e.g., by making an index of the agency's records available). A person need not give notice in order to inspect public records. However, if the records are not readily accessible or if portions of the records must be redacted in order to protect exempt material, the agency is given a reasonable period of time to perform these functions.

When a copy of a record is requested, the agency must determine within ten days (subject, when necessary, to a fourteen day extension) whether to comply with the request, and must promptly inform the requestor of its decisions and the reasons therefor. Records subject to disclosure must be provided after the determination is made. If immediate disclosure of the records is not possible, the agency must provide the records within a reasonable period of time, along with an estimate of the date that the records will be available.

No charge may be imposed in connection with the inspection of records. However, a local agency may charge the direct cost of duplication for copies of records. When an agency must compile records or extract information from an electronic record or undertake programming to satisfy a request, the requestor will bear the full cost of such compilation, extraction and programming, and not merely the direct cost of duplication.

The Public Records Acts exempts certain records from required disclosure in whole or in part. These exemption generally apply to (i) personnel, medical or similar records; (ii) investigative records; (iii) preliminary notes, drafts and memoranda; (iv) attorney-client discussions; (v) records regarding unresolved agency litigation; (vi) records which if disclosed would impair an agency's deliberative process; (vii) home addresses; and (viii) material made confidential by other state or federal statutes. In addition, a record may be withheld whenever the public interest in nondisclosure clearly outweighs the public interest in disclosure. When a local agency withholds a record because it is exempt from disclosure, the agency must notify the requestor of the reasons for withholding the record.

Materials deemed exempt by a local agency cannot be disclosed to any member of the public if the material is to remain exempt from disclosure. Once materials have been disclosed to a member of the public, they generally are available upon request to any member of the public.

C. Investigation

Vernon's Public Record Act compliance practices were investigated by (i) requesting information; (ii) interviewing relevant Vernon personnel; (iii) attending a training session; and (iv) reviewing selected documents. In particular, the following actions were taken:

- Requested, by letter dated February 18, 2011, from Vernon of all Public Records Act written policies, or if no such policies existed, a statement as to how Vernon implements the Public Records Act, and for access to all its Public Records Act requests and responses since February 18, 2009;
- Interviewed (i) Willard Yamaguchi, Interim City Attorney, City Clerk and Risk Manager on February 16 and April 6, 2011; and (ii) Kristen Enomoto, Council Department Manager, on April 14, 2011;
- Attended the AB 1234 Ethics Training conducted by Dana W. Reed and Jerry Margaret Simmons of Reed & Davidson, LLP on June 21, 2011;
- Reviewed City Council Resolution No. 7216, dated September 22, 1998, entitled "A Resolution of the City Council of the City of Vernon Revising its Fees and Procedures for Public Inspection and Examination of Public Records, and for Obtaining Copies of Public Records of the City of Vernon and Repealing Resolution No. 6677";
- Reviewed the form Request for Public Inspection, Examination or Copies of Public Records;
- Reviewed the City of Vernon Community Services & Water Department Guidelines for Inspection of Public Records; and
- Reviewed City Council resolutions on Vernon's record retention policy.

D. Findings

1. Responsible Parties

Generally, Mr. Yamaguchi, in his role as City Clerk, is responsible for Vernon's Public Records Act request compliance process. Ms. Enomoto assists Mr. Yamaguchi in this regard. However, since 2010, Vernon has received requests for a significant volume of public records, and in response, Vernon has delegated responsibility for responding to all its Public Records Act requests to Latham & Watkins.

2. Compliance Process

On September 22, 1998, the City Council by resolution set forth Vernon's Public Records Act compliance process. It provides that all Vernon's public records are open to public inspection and examination, except those records identified as exempt from disclosure by California statute. It also established the following process: (i) any person who wants a copy of a public record must deliver to the City Clerk a written request; (ii) within ten days after receiving the written request, the City Clerk must notify the requesting party if the document exists, if it is a public record open to inspection or copying, the location of the document, the estimated costs to copy the document, and the person who may be contacted to arrange for copying thereof; (iii) upon receiving payment of the estimated copying costs, the City Clerk will arrange for the copying of the document and will notify the requesting party in a timely fashion; and (iv) the cost charged for copying a document is \$0.15 per page.

Currently, all Public Records Act requests received by Vernon are directed to Mr. Yamaguchi and Ms. Enomoto, who then forward the requests to Latham & Watkins. Latham & Watkins determines how to respond to the request, including how the response will be provided (e.g., hardcopy or electronic) and whether the request asks for information exempt from public disclosure. Latham & Watkins is required to comply with the Public Records Act generally, and with Vernon's Public Records Act resolution in particular. No complaints with respect to Latham & Watkins' compliance with the Public Records Act or Vernon's resolution have been identified; by and large, it appears that Latham & Watkins is in compliance.

The City Council resolution also required each department head (i) to prepare a department policy for public access to records consistent with the resolution and (ii) to designate individuals in his or her department that will evaluate public records request to determine whether a particular public record is open for public inspection or exempt from disclosure. It appears that only the Vernon Community Services & Water Department and the Environmental Health Department developed guidelines for inspection of public records. The requirements set forth in the resolution do not appear to have been addressed by the other departments.

3. Public Records Request Form

Vernon also maintains a public records request form to facilitate the request process. The form informs the requestor that a letter will be mailed to the requestor within ten days, advising of the date and time the requested documents will be made available, and in the case the requestor has requested copies, the total cost to provide the service. Since March 2011, Vernon has made this form available on its website.

4. Record Retention

On August 22, 2000, Vernon adopted a records retention schedule, which was last amended on July 14, 2004. It addresses retention of records for (i) the City Administrator; (ii) the City Clerk; (iii) Community Services & Water Department; (iv) Finance; (v) Fire Department; (vi) Health Department; (vii) Information Technology; (viii) Light & Power; (ix) Personnel; and (x) Risk Management. On July 28, 2004, Vernon also adopted separate record retention schedules for (a) the Vernon Historic Preservation Society; (b) the Industrial Development Authority; and (c) the Redevelopment Agency.

Records are retained in the City Clerk's office, offices of certain departments (e.g., some invoices are stored within the finance department), and at an offsite facility near Vernon City Hall.

5. Training

Vernon does not offer or otherwise facilitate Public Records Act compliance training for its employees responsible for Vernon's Public Records Act compliance process. Rather, employees receive training on an ad hoc basis through individually identified training courses or self-study.

On June 21, 2011, Reed & Davidson, LLP conducted AB 1234 Ethics Training, which is discussed above under Chapter I. Although the AB 1234 Ethics Training addressed some requirements of the Public Records Act, it did so at an introductory level and did not provide meaningful Public Records Act compliance guidance.

6. Conclusions

No evidence has been found of Vernon violating the Public Records Act during the engagement of the Independent Ethics Advisor. However, a component of the Vernon City Council Public Records Act resolution is not compliant with case law which permits a person to make an oral request for a record. In particular, the resolution requires that any person who wants a copy of a public record must deliver to the City Clerk a written request. If a Vernon employee receives an oral request for a record, such employee may ask that the request be reduced to writing, but if the requestor declines, the request must nevertheless be addressed to be compliance with state law. In such circumstance, best practice would require a written confirmation of the request from the Vernon employee to the requestor.

It is not reasonable to expect that Vernon will continue to receive voluminous public record requests. As the current level of public records requests wanes, Vernon's reliance on Latham & Watkins to address all its public records requests will no longer be justified. Vernon therefore must develop a written Public Records Act compliance process that substantially relies on internal resources and is understood by all Vernon employees.

Moreover, the lack of a formal periodic Public Records Act compliance training program for all individuals who are responsible for Vernon's Public Records Act compliance, or who otherwise are reasonably likely to receive a request for a Vernon public record, inhibits the development of a rigorous, organization-wide compliance process to ensure Public Records Act compliance.

E. Recommendations

1. It was orally suggested to Mr. Whitworth that Vernon institute a formal periodic Public Records Act compliance training program and adopt a written Public Records Act compliance policy. On April 19, 2011, upon the recommendation of Mr. Whitworth, the City Council adopted Resolution No. 2011-69 regarding Public Records Act training and compliance policies (which is discussed in more detail under Chapter III.E.).

On May 23, 2011, upon the recommendation of Mr. Whitworth, the City Council approved the retention of Reed & Davidson, LLP to perform the foregoing actions authorized by the City Council. On June 21, 2011, Dana W. Reed and Jerry Margaret Simmons of Reed & Davidson, LLP conducted the AB 1234 Ethics Training discussed above under Chapter I.C.

In order to comply with City Council resolution No. 2011-69, Vernon must provide annual Public Records Act compliance training. The AB 1234 Ethics Training did not satisfy this requirement. The Public Records Act compliance training should be conducted in the third quarter of 2011. For 2012 and thereafter, annual Public Records Act compliance training may be conducted concurrently with the Political Report Act training (i.e., the AB 1234 Ethics Training) and Brown Act training.

2. Vernon also should continue to work with Reed & Davidson, LLP or other counsel to develop a written Public Records Act compliance policy which shall permit a person to make an oral request for a record. Vernon, with assistance from Reed & Davidson, LLP, also should prepare a Public Records Act compliance binder that contains supplemental written materials to help Vernon employees understand the requirements of the Public Records Act and how those requirements apply to Vernon. Both the Public Records Act compliance policy and the compliance binder should be made available to Vernon employees in electronic form and posted on Vernon's intranet site. Vernon's Public Records Act compliance policy also should be made available on Vernon's website.

CHAPTER V

Internal Policies, Procedures and Controls

A. Requirements under the Engagement Letter

Section 2 of the Engagement Letter, dated February 15, 2011, requires review and evaluation of the effectiveness of:

- Internal controls, record-keeping, and internal audits;
- Policies and procedures related to reimbursement of expenses and procedures relating to reimbursement of expenses and payment of invoices to any individual affiliated with the City or the City Council including City employees;
- Policies for selecting, engaging and paying consultants; and
- Structure and content of current consulting agreements and payments made to consultants thereunder.

B. Internal Financial Controls, Record Keeping, Policies for Selecting and Engaging Consultant and Structure of Current Consulting Agreements and Payments Made to Consultants

1. Investigation

a. Meetings and Conference Calls:

- February 16, 2011 - Meeting with City Administrator Mark Whitworth and City senior staff.
- March 1, 2011 - Conference call with Finance Director Rory Burnett and Assistant Finance Director Masami Higa.
- April 4, 2011 - Meeting with City Administrator Mark Whitworth.
- April 14, 2011 - Meetings with City Administrator Mark Whitworth and Finance Director Rory Burnett.
- April 25, 2011 - Meetings with City of Vernon department heads: Director of Health Lewis Pozzebon; Interim Chief of Police Daniel Calleros; Director of Community Services and Water Kevin Wilson and follow up with Assistant Finance Director Masami Higa.

- May 2, 2011 - Meetings with City of Vernon department heads: Finance Director Rory Burnett; Interim City Attorney/ City Clerk/ Risk Manager Willard Yamaguchi; Director of Business Services and Purchasing/Director of Personnel Martha Valenzuela; Director of Light and Power Carlos Fandino.
- May 16, 2011 - Meeting with City Administrator Mark Whitworth.

b. Documents Reviewed

- City of Vernon Charter as approved April 12, 1988, amended April 12, 1998 and August 31, 2010.
- Resolution No. 8699 approved April 13, 2005 regarding City's Financial Policies, Procedures and related Internal Control Systems.
- Resolution No. 9201 approved December 20, 2006 Establishing a Written Policy for the Reimbursement of Certain Expenses of City Councilmembers.
- Ordinance No. 1107 approved April 27, 2005 Vernon City Code Amendments Regarding City Administrator; Purchasing System; Separate Funds.
- Ordinance No. 1047 approved July 15, 1997 Regarding the Procedures for the Award of Contracts.
- Vernon City Council approved contracts for professional service firms and individual consultants during the period January 2008 through the time of engagement in 2011 as provided by the City of Vernon at the request of the Independent Ethics Advisor.
- Ordinance No. 722 approved November 6, 1958 Providing for the purchase and Sale of supplies, Services and Equipment.
- City of Vernon Purchasing and Cash Disbursement Policies and Procedures.
- City of Vernon Municipal Code Article IV - Purchasing Systems - Sections 2.17 - 2.31.
- Minutes of City Council Meetings for November 2, 2009; November 30, 2009 and March 1, 2010 regarding evergreen contracts.
- Ordinance No. 1166 approved February 8, 2010 Temporarily Suspending Acceptance and Review of Non-exclusive Solid Waste Franchise Agreement Applications.

- Letters dated November 18, 2009 notifying individuals that automatic renewal (evergreen) clauses of contracts were being modified.

2. Findings

a. Written Financial Policies and Procedures

The City has well documented written policies and procedures regarding its financial controls and contracting. These policies and procedures have been adopted by Resolution No. 8699 and No.9201. The policies and procedures require that purchases of supplies and services over \$1,000 require a competitive process. Formal bidding is required for all purchases of equipment and supplies. There were no discrepancies identified between the adopted policies and procedures and the City's operations.

These procedures assign clear responsibilities to each operating department. The role of the Finance Department is appropriately defined as having the responsibility for establishing, communicating and enforcing the policies and procedures.

The petty cash fund is centralized with the Revenue Manager under the direction of the Finance Department and no purchase above \$200 may be made using petty cash. These procedures and controls provide adequate protections against abuse.

Services and supplies contracts over \$10,000 and professional service contracts over \$5,000 require City Council approval. These limits are low in comparison to other cities. Pasadena, Glendale and Burbank, all cities with comparable purchasing practices which also operate electric utilities, require city council approval of contracts over \$74,999, \$49,999 and \$74,999 respectively.

b. Professional Service Contracts Completion Dates and Caps

A review of professional service contracts for the past five years found that a number of contracts lacked completion dates and/or caps on total expenditures. Some examples are a contract approved by Resolution No. 2010-07 with the Law Offices of Eric T. Fresch approved January 4, 2010; a contract approved by Resolution No. 2010-154 with MSW Consultants on November 1, 2010; a contract approved by Resolution 2010-100 with Krishna Nand on August 2, 2010; a contract approved with Resolution No. 2010-101 with Port Canaveral Power Consultants on Aug 2, 2010 and a contract approved with Resolution No. 9851 with Freddie Taylor on Feb 2, 2009. Payments to consultants are approved by Council so it would be technically possible for the Council and the public to track how much was being spent. However, given the number of payments the Council is asked to approve at each meeting, a more effective process would be to include either a specific ending date (that could be extended by the Council) or, alternatively a cap on total expenditures with each contract approval.

c. Periodic Rebidding

Several professional service firms have been assisting the City for long periods of time. One example is the City's auditing firm, Macias, Gini & O'Connell LLP, which has been engaged by the City since June 30, 1999. Using the same consultants and advisors can be beneficial since the firm becomes very familiar with City operations and can offer cost efficiencies. At the

same time having a new set of eyes especially to review the City's finances and its financial policies, can focus attention on improvements that might otherwise have been missed. Meeting the City's stated policy of retaining the highest quality consulting expertise for the lowest cost requires that the City periodically review the expertise and costs of other firms capable of providing the quality service. This process can assist the City in reducing its own costs. A reasonable standard would be to rebid professional service contracts every three years.

d. Limits on Fee Increases

There was one professional service contract that allowed increases in compensation rates at the consultant's discretion, during the term of the contract. This was a contract with the BLX Group approved by Resolution 2010-166 on November 15, 2010. There was no evidence in the contract that the increases were limited to any index or maximum. As a general practice, increases in rates or fees during the term of a contract should not be permitted. In the event an increase is unavoidable, the City should require it be tied to a cost of living or other appropriate index. Otherwise any fee or rate change should require approval by the City Council through a contract amendment.

e. Review of Professional Service Invoices

The City of Vernon Financial Policies and Procedures, adopted by Resolution No. 8699 on April 13, 2005, describes the required processes for (i) formal bidding of supplies and services, (ii) the selection of consultants for professional services, and (iii) how invoices are to be processed once the merchandise or services has been received. Specific sign off by the *initiating division or department* is required prior to sending the invoice to the City Finance Department for payment on all purchase orders.

A similar review and sign-off process for payment of professional service contracts is not addressed in such Financial Policies and Procedures. While the City Council has the final approval for these invoices, it is not reasonable to assume that they can have knowledge of the exact work that has been completed. Therefore, it is important that there be a process in place to review professional services invoices to insure that the rates charged are as described in the contract, and that the time charged is reasonable. All invoices for legal services should be reviewed and approved by the City Attorney.

In conversations with Vernon staff, it appears that this process is being followed even though it is not specifically part of the City's written procedures.

f. Differentiating Consultants and Employees

There are approximately six to eight personal service contracts, most with the Light and Power Department, for hourly services ranging in cost from \$13 per hour to \$65 per hour that appear to be for work that would typically be performed by city employees (e.g., Administrative Aide, Gas Department Superintendent, Administrative Accountant). To be considered an independent contractors or consultants, those who are engaged by a city should prepare their own work schedules, provide a scope of work and a schedule that is contractually limited, provide their own supplies and equipment and be able to work for other clients during the same time frame during which they are engaged with the City. If personal service contracts do not meet these tests,

these assignments should be transitioned into employee positions to prevent issues with the Internal Revenue Services regarding tax withholdings, social security and medicare. If the IRS finds the City has classified an employee as an independent contractor, the City will be responsible for employment taxes which should have been paid for that worker. The Internal Revenue Services Code Section 3509 has more information about the consequences of misclassification.

g. Rate Negotiations

The Vernon Municipal Code Article IV, Purchasing System, Section 2.29-3 Negotiated Contracts gives staff the authority to negotiate for best prices. When hiring professional services, many firms especially legal firms, offer a government rate. It does not appear from the review of the professional services contracts or conversations with City staff that the City is soliciting reduced rates that other cities are receiving. An example of a contract that appear to include rates normally charged to private clients is the contract with Latham & Watkins approved by Resolution No. 2010-90 on July 7 2010. Because of the uniqueness of the issues facing the City of Vernon and the necessity to make decisions quickly, these negotiations might not have been possible. But in the long term, City staff should be instructed to negotiate with firms, especially law firms, for lower compensation rates or fees whenever possible.

h. Evergreen Contracts and Contracts with Automatic Renewals

During a review of the contracts approved since 2008, several “evergreen” contracts with companies and individuals were identified. An evergreen contract may have a termination date but the contract states that it will roll over or renew unless one of the parties takes steps to terminate the relationship. As previously noted regarding professional service contracts, all contracts should have specified end dates that do not automatically roll over or expenditure caps. Questions regarding evergreen contracts were orally communicated to City representatives. Since that time we have learned that this issue had already been satisfactorily resolved beginning with the evergreen contracts for solid waste franchisees who were notified in November 2009 that their agreements would terminate in December 2014, followed by the termination of evergreen contracts with individuals beginning in 2009.

3. Recommendations

1. Require all contracts, including professional service contracts, to include ending dates and/or expenditure caps.
2. Review and rebid professional service contracts at least once every three years.
3. Require lead staff on professional service contracts especially for legal services to negotiate for best rates or rates similar to those provided to other government agencies.
4. Require that the review and sign-off of professional service invoices by the initiating division or department be reinforced either through a policy amendment or by memorandum from the City Administrator.

5. As a general practice do not allow compensation rate increases during the term of the contract. In the event all parties are aware that external factors are going to significantly affect costs and rates during the term of the agreement, require rate increases to be tied to the most appropriate index or cost of living rate.
6. Review contracts with individuals to make sure the criteria for contractors or consultants are being met. If any contracts do not meet this criteria, take steps to transfer the work to City employees or change the status of the contractor to employee.

C. Internal Audits, Budget, and Policies and Procedures Related to Reimbursement of Expenses and Payments of Invoices to any Individual Affiliated with the City or the City Council including City Employees

1. Documents Reviewed

- City of Vernon, California Annual Financial Reports for Fiscal Years ended June 30, 2010, June 30 2009, and June 30, 2008.
- City of Vernon, California Notes to Basic Financial Statement June 30, 2010.
- Vernon Redevelopment Agency Annual Financial Reports for Fiscal Years ended June 30 2010, June 30, 2009 and June 30, 2008.
- Light and Power Department Fund Annual Financial Report for Fiscal Year Ended June 30, 2009.
- Annual Valuation Report as of June 30, 2009 for Safety Plan of the City of Vernon, CalPERS Actuarial Office.
- Annual Valuation Report as of June 30, 2009 for Miscellaneous Plan of the City of Vernon, CalPERS Actuarial Office.
- Resolution No. 2010-85 Approving a budget for the Fiscal Year 2010-2011.
- Draft Electric Rate Design Study for Vernon - February 15, 2011.
- Resolution No. 2011-65 Amending the Employee Corrective Eye surgery Loan Program.
- Resolution No. 2011-66 Amending the Employee Hearing Aid Device Loan Program.
- Resolution No. 2011- 67 Amending the Employee Computer Purchase Loan Program.

- Reports of Eye Surgery loans receivables as of March 31, 2011, computer loan receivables as of March 31, 2011 and Education Loan Receivables as of February 28, 2011.
- Salary Resolution No. 9630 - adopted June 16, 2008; No 9664 - adopted July 7, 2008; No. 9672 - adopted July 21, 2008; No. 9678 - adopted Aug 4, 2008; No. 9728 - adopted Oct 6, 2008; No. 9815 - adopted Jan 12, 2009; No. 9888 - adopted March 16, 2009.
- Salary Resolution No. 9942 - adopted May 11, 2009; No. 10,001 - June 29, 2009; No. 10,021 - adopted July 13, 2009; No. 10,029 - adopted July 20, 2009; No. 10,053 - adopted Aug 26, 2009; No. 10,057 - adopted Aug 31, 2009; No. 10,075 - adopted Oct 5, 2009; No. 2010-06 - adopted Jan 4, 2010; No. 2010-33 - adopted March 1, 2010.
- Salary Resolution No. 2010-98 - adopted July 19, 2010; No. 2010-91 - adopted July 19, 2010; No. 2010-110 - adopted Aug 2, 2010; No 2010-115 - adopted Aug 18, 2010; No. 2010-147 - adopted Nov 1, 2010; No. 2010-174 - adopted Dec 6, 2010; No. 2010-179 - adopted Dec 6, 2010; No. 2010-189 - adopted Dec 20, 2010; No. 2011-03 - adopted Jan 3, 2011; No. 2011-22 - adopted Feb 15, 2011.
- City of Vernon Ordinance No. 1107 - adopted April 27, 2005 and No. 1121 - adopted July 5, 2006 regarding City Administration Job Description and Compensation.
- Resolution No. 2011-69 - adopted April 19, 2011 regarding studies to be preformed including salary and benefits for City Staff and City Council.
- Resolution 9748 - adopted Nov 3, 2008 regarding Education Assistance and Loans.

2. Findings

a. Budget and Reserve Funds

The two primary sources of municipal income for the City of Vernon are tax increment funding from the Redevelopment Agency and electric power sales. The Annual Financial Report for the Fiscal Year Ended June 30, 2010 states "...unreserved fund balance serves as a useful measure of a governments net resources for spending at the end of the year." This Report shows a General Fund unreserved deficit of (\$10,987,848). An Electric Rate Design Study for Vernon projected that "Vernon will have a deficit (in the Light and Power Fund) starting in FY'12 as a result of a large increase in the City's debt service obligations in FY'11." The City has cash reserves and assets to draw upon in the short term to cover these deficits but needs to make changes in expenditures, revenues, or both to be sustainable in the long term.

Vernon had increased its reserve levels while the economy was strong and has used these reserves to cover increased costs and lower revenues as the economy slowed rather than levying increased utility rates on businesses that were already having financial difficulties. However, the reserves are now at levels that necessitate that other actions be taken.

City staff understands the financial situation. Several steps have already been implemented to reduce expenditures. The City Administrator did not approve employee salary step increases for the last two years. Departments have been required to make cuts and contract for services when it is more cost efficient. Staff positions have been reduced. Per Resolution 2010-33, adopted by the City March 1, 2010, City employees have been required to pay the employee share of PERS pension costs (8% for general employees and 9% for public safety employees). At the same times costs for consulting and advisory services in the City has dramatically increased because of the work related to understanding and responding to AB 46.

Increases in power rates have recently been adopted. An Ad Hoc Advisory Committee on Electric Rates made up of representatives from the City, local businesses and labor was established and began meeting in mid-April 2011. The Committee reported back to the City Council with recommendations for electric rate increases of 8% effective July 1, 2011, and 8 % effective January 1, 2012. Those were adopted by the Council on June 23, 2011. The Committee will continue to meet on a quarterly basis and will considered whether or not to recommend an additional 5% rate increase effective July 1, 2012.

A second Ad Hoc Committee for Business Development was established to explore ways to improve the business climate in order to attract more businesses to Vernon. More businesses locating in Vernon would also result in additional City revenues. As of this writing, the Committee members have not been selected. Its report is due to the City Council in mid-August.

b. Employee Pension Costs

In contrast to many other cities, Vernon is not facing a serious unfunded employee pension problem. According to actuarial studies performed by CalPERS, the City's Public Safety Employee Plan is 83% funded and the Miscellaneous Employee Plan is 86.2% funded (as of the June 30, 2009 valuation date). Vernon's pension funds are held in a separate account in CalPERS, unlike most other local jurisdictions.

While there is no industry standard for what constitutes an adequate level of funding for public pension funds, private pension funds, which are controlled by federal regulations, are required to maintain at least an 80% actuarial funding level.

Several public and private financial officers were contacted. They concurred that the 80% to 90% range was an adequate funding range but with a few caveats, one being the market value of the pension funds. The market value is important because CalPERS has adopted changes to the asset smoothing method in order to phase in over three years the impact of the - 24% investment loss experienced by CalPERS in fiscal year 2008-2009. One of the results of this change is that the 86.2% misc. and 83% public safety actuarial values for Vernon's pension funds do not reflect all of the losses that were experienced between 2007 and 2009. If all the losses had been included, the 2010 actuarial value is likely to be lower than reflected in the June 30, 2009 CalPERS reports.

Even with the caveat, Vernon's pension funding appears to be within an acceptable range as long as CalPERS investments continue to show gains. The City should pay careful attention to these numbers as the remaining losses are accounted for in future actuarial studies.

c. Loss of Redevelopment Funds

On June 29, 2011, California Governor Jerry Brown signed budget trailer bills ABX1 26 and ABX1 27 into law. The two bills would dissolve all existing redevelopment agencies and community development agencies in California and designate that successor agencies could be established subject to tight controls. Among the requirements for the successor agencies would be voluntary contributions to education thereby reducing the amount paid to education from state resources. Based on estimates prepared by the California Redevelopment Association, Vernon's payment to education for FY 11-12 would be just over \$5 million.

The California Redevelopment Association and the California League of Cities have questioned whether ABX1 26 and ABX1 27 are constitutional and are expected to raise legal challenges.

Finance Director, Rory Burnett believes the \$5 million cost to Vernon was incorrectly calculated and is filing an appeal. Currently the City's Redevelopment Fund has approximately \$4 million in uncommitted funds.

Interim City Attorney, Michael Montgomery, is monitoring the California Redevelopment Association legal challenge. The City intends to have a contingency plan prepared in the event the challenge is not successful.

d. Travel Policies

The written travel policy for employees was adopted by Resolution No. 8699 on April 13, 2005 and was later repealed. The policy addressed travel advancements and reimbursements for City staff. The policy provided adequate controls on the amount of stipends and reimbursements (\$50 per day or up to \$80 with actual receipts) for City business related travel. Transportation reimbursements were also tightly controlled. Air travel was allowed only if the trip is outside the six county SCAG region. Employees had to purchase the lowest fare possible. Exceptions to the lowest fare could be made for night travel. Accommodations had to be reasonably priced. Prior approvals from a supervisor and in some cases the City Administrator were required. Any trip costing in excess of \$5,000 required City Council approval. Today there is no written travel policy for City employees.

There is a policy for City Council travel which was adopted by Resolution No. 9201 on December 20, 2006. It does not include the same level of specificity as the repealed staff policy. The only limit on cost of air travel requires purchasing round trip rather than one way tickets. In contrast, other cities limit air travel to economy class seating except in very unusual circumstances. In other cities, councilmembers are typically permitted to upgrade air travel seating to higher classes, but only at their own cost. While Councilmembers have been criticized for the cost of out-of-state travel in the past, there is no record of out-of-state travel by Councilmembers in the past 17 months.

Vernon limits the cost of accommodations to the published group rate (for a conference) or when not available to “the most economical manner.” Some cities have set costs for accommodations based on a sliding scale to reflect the varying costs of different locations. The cities of Glendale and Pasadena have policies which include limits on costs of travel and accommodations for city councilmembers.

Based on interviews it appears that some members of the City Council do not have a good understanding of the City’s travel policies. A standard part of orientation for new Councilmembers should include the content and importance of the travel policy; if policy changes are made written advisories should go out to each Councilmember.

e. Salaries and Benefits

i. Councilmembers

The Independent Ethics Advisor completed a study comparing Vernon City Council salaries with the salaries of councilmembers in the cities of Glendale, Pasadena, Burbank and the City of Industry. These cities were selected because of their similarities to Vernon. The first three cities also operate electric utilities and own electric generating facilities. The City of Pasadena has a Public Health Department. The City of Industry was selected because it, like Vernon, is primarily an industrial city with a small residential population.

This comparison showed that the Vernon Mayor and Councilmembers were making \$68,052 per annum,(approved March 16, 2009 by Resolution No. 9888) approximately \$40,000 more than their counterparts in other cities referenced.

A review of City Council benefits was also conducted. Of significant cost to the City has been the health coverage provided to the Councilmembers. They were being directly reimbursed for all health costs that were not covered by insurance and Medicare. The cost for Council benefits in 2009-2010 exceeded \$500,000. At the time of engagement, three of the Councilmembers were eligible for Medicare coverage but were not taking advantage of the benefits.

These salary and benefit findings were orally communicated to the City Administrator. It was suggested that a more extensive market study be completed based on the cities that Vernon believed were the best comparisons. On April 19, 2011, the City Council adopted Resolution No. 2011-69 directing the completion of studies comparing Vernon City Council salaries and benefits with those in other cities.

Based on this Resolution, the City conducted a survey of councilmember salaries and benefits. The cities of Anaheim, Burbank, Long Beach, Pasadena, and Riverside were selected for comparison purposes. The average salary for these cities (based on 2009 data) was \$23,600. On May 26, 2011, the City Council reviewed the salary study and adopted Resolution No. 2011-87, reducing their salaries to \$24,996 (\$2,083 per month) effective upon the completion of each Councilmember’s current terms.

Under this resolution the first Council salary reduction will be applicable to one Councilman in 2012 and the final salary reduction will take place in 2016.

Additionally, Resolution No. 2011-87 eliminated the reimbursement of their health expenditures that exceeded or were not covered by insurance or Medicare. This action became effective July 1, 2011.

In a subsequent action on June 7, 2011 the City Council adopted Resolution No. 2011-93 reducing their current salaries by 18% effective July 31, 2011. This action did not change the salary reductions that will be effective for newly elected Councilmembers starting in 2012; their salaries will be \$24,996.

ii. Department Heads and Staff

At the time the Independent Ethics Advisor's letter of engagement was signed, the City of Vernon's website listed the salaries of Vernon City Leadership Salaries (department heads) effective January 1, 2011. Additional information on Vernon's salaries was available on the California State Controller's Office website. These salaries were then compared with similar employee positions in the cities of Burbank, Glendale, Pasadena, and the City of Industry. It should be noted that in each case the top step of the salary range was used for the comparison not the current salary of the incumbent.

The comparison show a significant discrepancy with the salary for Vernon's Finance Director position which was set at \$339,996. Vernon's salary was \$147,000 higher than the highest of the other cities used in this review. Additionally, the salaries approved by resolution for Vernon's City Administrator, City Attorney and Director of Light and Power were significantly higher than those of the other cities. In each of these cases, the person filling these positions in Vernon was not making the top step in the approved range.

Interviews with City staff revealed that the City of Vernon does not have a regular practice of comparing market salary information for staff positions with other cities. Past practice has been to base salaries on comparison with private industry (Ordinance No. 1107 - adopted April 27, 2005) and availability of resources.

Resolution No. 2011-69 also directed the completion of a salary comparison study of Vernon department head salaries with those in other similar cities. The City has completed that review. The cities of Anaheim, Pasadena, Riverside, Cudahy, Bell Gardens, Irwindale, Burbank, Monterey Park, Downey, Santa Fe Springs, Alhambra, Huntington Park, Montebello, Commerce, Pico Rivera, Compton, Irwindale, South Gate and Maywood were selected for comparing staff salaries. Average of the top quartile was selected as the salary level for comparison.

The staff salary comparison report was brought to the Vernon City Council on May 26, 2011. At the same meeting, the Vernon City Council adopted Resolution No. 2011-85 establishing new top salaries for City Administrator (\$267,000), City Clerk (\$150,000), Risk Manager (\$163,000), Director of Light and Power (\$262,000), City Attorney (\$252,000) and Finance Director (\$210,000).

Additionally, the position of Director of Human Resources was established with a salary of \$196,000. This position remains vacant.

Salaries for staff positions other than department heads were not reviewed as a part of this study. Human Resources/Personnel Directors in other cities recommend the differential between staff and their supervisors should be between 10% and 15%. While it appears that most employees' salaries would still allow for this differential, because of the reductions on some department head position salaries, it is possible that compression (e.g., when supervisor and employee salaries become too close) may exist with other positions in the City staff and should be reviewed.

f. Employee Loans

Loans have been used in other cities to unduly supplement Councilmembers and employees' salaries. A review of Vernon's annual audit reports disclosed that Vernon has an employee loan program for computer equipment, eye surgery and hearing aid devices. A review of the program establishes that it is providing a popular low cost benefit for employees and that the loans are being reimbursed on a regular basis through payroll deductions. The total amount of outstanding loans as of March 31, 2011 was \$26,500.

Consistent with the policies in many cities financial assistance for education is available for employees and is utilized. Vernon provides up to \$2,200 per fiscal year in education grants subject to department head approval.

Employees may also apply for education loans of up to \$25,000 per year which are repaid through payroll deductions. Currently there are no outstanding employee education loans.

3. Recommendations

1. Adopt a written formal travel policy for City employees.
2. Amend the City Council travel policy to provide the Council specific guidance related to purchase of economy airline tickets. Ensure City Council Travel Policies are reviewed as a part of orientation for new Councilmembers. Written advisories should go out to each Councilmember when there are changes in policy.
3. Conduct market comparison studies for department heads and other key staff positions on a regular basis, e.g., every three years.
4. Reduce City Councilmember salaries effective immediately to the levels set forth in the May 26, 2011 resolution rather than at the end of each member's term. To do so is in the City's best interest.
5. Seek voter approval of a Charter amendment that would tie future City Council salary increases to the cost of living or some other appropriate index.

CHAPTER VI

Operations

The City Administrator asked the Independent Ethics Advisor to set up meetings with each of Vernon's department heads and provide an analysis of the strengths and weaknesses regarding the City's operations and organization.

On April 25 and May 2, 2011, meetings were held with each Vernon department head. The purpose of the interviews was to provide the City Administrator with information on ways the City of Vernon could be more effective in delivering services. The questions asked during the interviews included:

- How long have you worked for the City of Vernon?
- What did you do before and why did you come to Vernon?
- Tell me about your Department: For what services is it responsible? How large is your budget? How many employees do you have? Do you contract out some or most of your work? Does your department include the functions you need to successfully complete your mission or would you organize the City differently?
- How do you communicate with the City Administrator? Do you have regular meetings or briefings?
- How do you communicate with the City Council? Do they contact you directly with requests or try to direct how you do your work?
- Do you and your peers have formal or informal communications systems? Are they effective? Do communications between departments occur only at the senior level or throughout the organization? Do department heads support each other in providing services to the community?
- How do you communicate with your staff?
- Did you review the reform resolution that Vernon City Council recently adopted before it became public? Do you think the outcomes of this resolution will impact your work?
- What is the biggest problem(s) or issue(s) facing your Department in the next five years and how have you started to prepare for them?
- Has AB 46 effected the operations in your department and if so how?
- Are there other topics you would like to discuss?

In addition to these interviews, issues impacting operations were occasionally discussed in interviews with contractors and other City personnel.

A. Findings

1. Communication

The vast majority of the department heads like working for Vernon, respect the City Administrator, and work well with their colleagues. Most have worked for the City for a long time (20 + years) and are very familiar with the services they are responsible for providing. Communication systems are primarily informal and are based on long term working relationships rather than formal meetings and data sharing. Communications occur at all levels throughout the organization and with a few exceptions the staff works well together and support each other.

Department heads believe they have been given the responsibilities and resources they need to accomplish their missions. Most spoke about recent budget cuts and hiring freezes but still believed they are delivering high quality services.

Everyone stated that the City Council did not interfere in their work or try to direct their work. Most communications with the Council occur only at City Council meetings. Separate briefings are provided to Councilmembers who sit on specific committees.

The department heads realize that responding to AB 46 is the highest priority for the City Administrator and is consuming most of his time. However, there was unanimous agreement that there is a need for regular meetings of the department heads. These meetings would keep the department heads better informed about what is happening in the City as well as allow their input on the recommendations in agenda reports. For example, no one interviewed had seen the reform resolutions before they went to City Council on April 19, 2011. A few said they had known something was being prepared and had a general idea about what it included. Eventually some of the changes that are the result of these resolutions may require action from their respective departments. Having a role in preparing the recommendations would have been valuable in preparing for their implementation.

Reviewing the agenda for upcoming Council meetings keeps everyone informed about policy issues. To be most effective meetings should follow a printed agenda and be capped in length at 60 or 90 minutes. This is also an opportunity for department heads to make announcement about matters in their departments that will affect other departments (e.g., retirements, new hires, vacations, special studies etc.). Scheduling staff meetings the day after City Council meetings allows the City Administrator to review Council decisions with everyone and make sure appropriate follow up is assigned to staff.

2. Media Relations

Because of AB 46, Vernon currently has more media requests and calls than a city typically receives; supplementary public information services have been contracted to assist with this extraordinary number of media requests.

Even though these extra services are available, department heads should still be available and responsible for answering questions from the media related to their areas of expertise and responsibility and/or advising the media where to access the information they are seeking. Department heads should receive media training and use interactions with the media as an opportunity to provide information about the City. If stories are one sided or staff is misquoted, then the media involved should be contacted through a designated press representative.

Adoption of a written media policy accompanied by media training is recommended.

3. Organizational Impacts of AB 46

Everyone interviewed said AB 46 was having an impact on staff morale throughout the organization. Because of fear of job loss, personal decisions about buying homes or other purchases are being deferred. The Interim Police Chief said there were discussions among the rank and file officers about looking for positions in other cities but the Department had not yet experienced any transfers.

Department heads are doing the best they can to provide information to employees but should be assisted with periodic updates from the City Administrator about the status of AB 46 and steps the City is taking. Just getting the information directly from an informed City source rather than from the media would be a positive step. This could be either through a newsletter or the briefing of department heads who in turn could brief their staff.

4. Nepotism Policy

Cities should have a written policy regarding the employment of relatives of other city employees. This is usually referred to as a "Nepotism Policy." The City of Vernon has adopted rules and regulations regarding the employment of related family members (Resolution No. 5413). This Resolution was adopted September 16, 1986. It has not been updated. It does not include some of the provisions found in policies reflecting best city practices today.

Nepotism policies should govern the hiring and promotion of city employees. These policies are usually found in the Personnel Manual and presented as part of new employee orientation.

At the outset it seems clear that city employees should be prohibited from hiring a relative and should have no role in that decision.

Overall, prohibiting the hiring of anyone related to a city employee is too restrictive and could be seen as discriminatory. However, prohibiting the direct or indirect supervision of persons who are related prevents favoritism, both real and imaginary, and negative effects on morale. Indirect supervision includes the ability to influence conditions of employment or salary because of a position somewhere in the supervisory chain of command.

Specifically, the existing Vernon rules says nothing about the direct role a city employee may have in hiring a relative and gives the City the right to refuse to hire someone into a position where they would be supervised by a relative. An updated policy should prohibit such

actions. Promotions and transfers that would result in a related superior-employee relationship should be explicitly prohibited as well.

Resolution 5314 exempts all related supervisor-employee relationships that existed at the time of its adoption. Since the policy is 25 years old, it is most likely that any such relationship that existed at the time, no longer exists. An updated policy should not allow any such preexisting exemptions.

In order to guarantee that the policy is implemented, it is equally important that there be a clear assignment of the responsibilities to monitor personnel decisions and implement the policy. Typically this assignment would be given to Human Resources/Personnel Department because of the department's involvement in hiring, transfers and promotions.

5. Organizational Changes

The City has many talented, motivated, and dedicated department heads who appear to be effectively managing their departments and delivering a high level of services to the community.

There is no single "right" way to organize a city. A city structure or organization chart needs to reflect the City's service priorities and resources. Because of the hiring freeze in place, many staff members are filling several positions. When resources allow for hiring to begin again, there are several areas where the City of Vernon could benefit from organizational or personnel changes.

First, the City needs a full time City Clerk with training in city election processes and requirements. Many cities use outside consulting services during elections. Vernon is relying principally on the services of Linda Hudson and should have in-house capabilities to complement her work. The City Clerk should also serve as an advisor, along with the City Attorney, on issues related to open meeting laws and conflict of interest reporting. On June 27, 2011, Willard Yamaguchi who still serves as the City Clerk, was replaced as the Interim City Attorney by Interim City Attorney Michael Montgomery.

Second, the City needs a permanent City Attorney with a good understanding of municipal law and redevelopment. While having outside counsel for special litigation or redevelopment projects is typical in many cities, any outside legal contracts should report through a City Attorney who could be a full time City employee or a contracted law firm specializing in municipal legal affairs. The City Attorney should be responsible for negotiating government rates for outside legal counsel.

Third, the Fire Department is one of the most important services provided by the City to its businesses. Vernon is one of 25 cities nationwide with a class 1 rated Fire Department. Currently, the Fire Chief is also serving as the City Administrator. The expertise of the fire personnel has made it possible for the department to operate under a part-time Fire Chief and an able Assistant Department Fire Chief.

Similarly, the role of City Administrator is demanding. The person in this position needs to be able to respond to daily issues regarding policy, public services delivery, and political controversy. The present City Administrator-Fire Chief appears committed to the necessary restructuring of the City's governance. He should have an Assistant City Administrator versed in best practices, as well as a competent Assistant Fire Chief to back him up if he is to continue to hold both positions.

Fourth, the City of Vernon would benefit from a professionally run Human Resources/Personnel Department. This department should be responsible for overseeing all salary and benefit studies, assisting departments in the hiring process, managing any employees complaints or grievances, providing new employee and city council orientations, and updating all personnel rules and regulations.

6. Cost Savings

The staffing levels and costs of the Vernon Police Department were mentioned in several interviews. The number of serious felony (Part 1) crimes is very low in Vernon. The Department employs 10 detectives yet has relatively little crime to investigate. The City covers just 5.16 square miles yet has four patrol cars on duty. Businesses provide their own security services to protect their buildings and products. The Interim Police Chief would like to add a fifth patrol car and bike patrols.

Vernon businesses are used to and expect to have a higher level of service then they would receive in other localities. According to Chamber representatives the level of service that would be provided through a contract with the LA County Sheriff would probably come at reduced levels. However, businesses also are concerned about the City's financial condition and the costs of doing business in Vernon. Some adjustments to the Police staffing could result in significant cost reductions.

Before making any final decisions, the City should undertake a comprehensive review that compares Vernon Police staffing and costs and service provided with other primarily industrial cities.

7. Participation in Regional Municipal Organizations

The City of Vernon already participates in regional organizations such as Southern California Public Power Association (SCPPA) and should become a more active member of the Independent Cities Association and the League of California Cities. Through these organizations the City can access technical and advisory information, better track the impacts of new legislation on the City or its businesses, and learn how other cities are addressing issues that are effecting local governments.

Through the League of Cities, professional development and training is available for the Mayor and Council, City Administrator, City Attorney, City Clerk, Fire Chief, Police Chief and Director of Community Services and Water. The League departments provide education and networking opportunities specific to the areas of interest for those positions.

It would also be advantageous for the City Administrator to meet on a quarterly basis with City Managers and City Administrators from Southern California to review best practices and to determine whether or how Vernon's policies coincide with best practices in governance elsewhere.

B. Recommendations

1. Schedule regular meetings of the department heads.
2. Implement ongoing updates about AB 46 with City employees.
3. Update the existing rules and regulations regarding the employment of related family members, prohibiting the hiring, promotion and transfer of relatives of city employees into positions which would allow an employee to control the hiring and the terms, conditions, or performance of employment of a relative. (On June 30, 2011, City Administrator Mark Whitworth was provided with the Nepotism Policies of Pasadena and Glendale, and was urged to update Vernon's policy).
4. Adopt a media policy and provide media training for department heads and others who are expected to communicate with the media.
5. Require that the City Clerk has training on regulations governing municipal elections as well as Brown Act and Public Records Act compliance.
6. Hire a permanent City Attorney with experience in municipal law and redevelopment.
7. Should the present City Administrator-Fire Chief continue to serve in a dual function, he should be supported by an Assistant City Administrator and an able Assistant Fire Chief.
8. Create a Human Resources/Personnel Department and hire a trained Human Resources Director.
9. Conduct a study of the Vernon Police Department staffing and costs in comparison with other primarily industrial cities.
10. Actively participate in the Independent Cities Association and the California League of Cities.
11. Establish an ongoing consulting relationship with City Administrators and City Managers from other Southern California cities and California League of Cities representatives to review best practices and Vernon's utilization of them.

CONCLUSION

In the period covered by this engagement, Vernon, under pressure, has shown a willingness to tackle the two areas most in need of reform, i.e., compensation of Councilmembers and City officials, and its housing policies which have favored City officials and their relatives. Our recommendations call for a speed up and implementation of Councilmembers salary cutbacks and the formation and work of the Housing Commission.

No significant fault has been found with Vernon's compliance with the Political Reform Act, conflict of interest policies, the Brown Act and the Public Records Act, although recommendations have been made for better training, education and follow through with respect to those policies, recommendations that could probably be applicable to other cities as well.

In our final chapter on operations we offer a series of recommendations which could improve the way the City functions. In so doing we note that no City is perfect: city management depends on the nature of its Council, its management team, its standards, and its relationship with the community it serves.

In Vernon's unusual case, we discovered rather surprisingly that there was a gulf between the business community which the City of Vernon was created to serve and those who ran the City. While City officials have generally continued to provide support to the approximately 1,700 businesses which occupy most of the City, many of those in the business community appear to believe they have been kept at bay by the City Council. A better public-private partnership can better inform and assist the City in its operation. A step in the right direction was the Ad Hoc Committee on electric rates which included business and labor representatives who worked closely with City officials to recommend rate increases that were the product of a better understanding of the City's economic plight and what appears to be an intelligent two step process to meet the City's immediate needs. Its recommendations were adopted.

This type of public-private partnership needs to be replicated in the other Ad Hoc Committees established but not yet formed by the City. The City can only benefit with a closer relationship and involvement with its business community, just as it can with closer ties to other cities in Southern California through more active participation in the League of Cities and a better relationship with its neighboring cities.

RECOMMENDATIONS

below: A compilation of the recommendations made throughout the report are set forth

A. The Political Reform Act of 1974 and Ethics (Chapter I)

1. Campaign Disclosure (Section A.5.)
 1. The City Clerk should be sufficiently trained to review campaign disclosure statements and ask for supplemental information as needed.
2. Conflicts of Interest Statements (Section B.5.)
 1. The City Clerk should ensure that assuming office and leaving office statements are filed on-time.
 2. The City Clerk needs to ensure that all statements are readily accessible and kept for at least seven years.
 3. The City should provide all incoming affected employees with written guidance regarding compliance with filing the required documentation together with copies of the forms to be completed.
 4. The City should provide written instructions on how to comply with Government Code Section 1090.
3. Ethics Training (Section C.5.)
 1. The City should continue to provide ethics training to all Councilmembers and staff in compliance with Section 53235, and should consider yearly courses as appropriate, particularly if there is an influx of new employees and/or if there are significant changes in the rules.
 2. Written manuals for the Ethics Training should be provided to new high level employees and Councilmembers within 30 days of assuming their positions.
4. Conflict of Interest Codes (Section D.6.)
 1. The City should continue to adopt conflict of interest codes for all City agencies and ensure that they are kept up to date when there are any changes in the state law. The City should direct its ethics attorneys, Reed and Davidson, to review the codes and recommend any necessary changes.
 2. The City Council needs to adopt a conflict of interest code for the new Housing Commission and alert potential appointees of the reporting and disqualification requirements.

B. Housing and Elections (Chapter II, Section E)

1. Appointments should be made as soon as possible to the Housing Commission. The Housing Commission should quickly formulate housing policies. If rental programs are adopted, the Commission should set rates on a market basis, and establish policies that avoid favoritism to City personnel and their relatives and friends.
2. Consideration should also be given to the sale of all City-owned residences. If a sales program is adopted, the Commission should be careful to adopt policies that avoid favoring those who work for the City and their friends and relatives. (One exception to this could be the encouragement of a limited number of first responders to live in City housing).
3. Vernon should hold elections every two years with staggered four-year terms for Councilmembers, with two seats up at one election, and three seats up in the other election.

C. The Brown Act (Chapter III, Section E)

1. In order to comply with City Council resolution No. 2011-69, Vernon must provide annual Brown Act compliance training. The AB 1234 Ethics Training did not satisfy this requirement. The Brown Act compliance training should be conducted in the third quarter of 2011. For 2012 and thereafter, annual Brown Act compliance training may be conducted concurrently with the Political Report Act training (i.e., the AB 1234 Ethics Training) and Public Records Act training.
2. Vernon also should continue to work with Reed & Davidson, LLP, or another expert approved by the City Counsel, to develop a written Brown Act compliance policy. Vernon, with assistance from counsel, should also prepare a Brown Act compliance binder that contains written materials to help Vernon employees understand the requirements of the Brown Act and how those requirements apply to Vernon. Both the Brown Act compliance policy and the compliance binder should be made available to Vernon employees in electronic form and posted on Vernon's intranet site.

D. The Public Records Act (Chapter IV, Section E)

1. In order to comply with City Council resolution No. 2011-69, Vernon must provide annual Public Records Act compliance training. The AB 1234 Ethics Training did not satisfy this requirement. The Public Records Act compliance training should be conducted in the third quarter of 2011. For 2012 and thereafter, annual Public Records Act compliance training may be conducted concurrently with the Political Report Act training (i.e., the AB 1234 Ethics Training) and Brown Act training.
2. Vernon also should continue to work with Reed & Davidson, LLP or other counsel to develop a written Public Records Act compliance policy which shall permit a person to make an oral request for a record. Vernon, with assistance from Reed & Davidson, LLP, also should prepare a Public Records Act compliance binder that

contains supplemental written materials to help Vernon employees understand the requirements of the Public Records Act and how those requirements apply to Vernon. Both the Public Records Act compliance policy and the compliance binder should be made available to Vernon employees in electronic form and posted on Vernon's intranet site. Vernon's Public Records Act compliance policy also should be made available on Vernon's website.

E. Internal Policies, Procedures and Controls (Chapter V)

1. Internal Financial Controls, Record Keeping, Policies for Selecting and Engaging Consultant and Structure of Current Consulting Agreements and Payments Made to Consultants (Section B.3.)
 1. Require all contracts, including professional service contracts, to include ending dates and/or expenditure caps.
 2. Review and rebid professional service contracts at least once every three years.
 3. Require lead staff on professional service contracts especially for legal services to negotiate for best rates or rates similar to those provided to other government agencies.
 4. Require that the review and sign-off of professional service invoices by the initiating division or department be reinforced either through a policy amendment or by memorandum from the City Administrator.
 5. As a general practice do not allow compensation rate increases during the term of the contract. In the event all parties are aware that external factors are going to significantly affect costs and rates during the term of the agreement, require rate increases to be tied to the most appropriate index or cost of living rate.
 6. Review contracts with individuals to make sure the criteria for contractors or consultants are being met. If any contracts do not meet this criteria, take steps to transfer the work to City employees or change the status of the contractor to employee.
2. Internal Audits, Budget, and Policies and Procedures Related to Reimbursement of Expenses and Payments of Invoices to any Individual Affiliated with the City or the City Council including City Employees (Section C.3.)
 1. Adopt a written formal travel policy for City employees.
 2. Amend the City Council travel policy to provide the Council specific guidance related to purchase of economy airline tickets. Ensure City Council Travel Policies are reviewed as a part of orientation for new

Councilmembers. Written advisories should go out to each Councilmember when there are changes in policy.

3. Conduct market comparison studies for department heads and other key staff positions on a regular basis, e.g., every three years.
4. Reduce City Councilmember salaries effective immediately to the levels set forth in the May 26, 2011 resolution rather than at the end of each member's term. To do so is in the City's best interest.
5. Seek voter approval of a Charter amendment that would tie future City Council salary increases to the cost of living or some other appropriate index.

F. Operations (Chapter VI, Section B)

1. Schedule regular meetings of the department heads.
2. Implement ongoing updates about AB 46 with City employees.
3. Update the existing rules and regulations regarding the employment of related family members, prohibiting the hiring, promotion and transfer of relatives of city employees into positions which would allow an employee to control the hiring and the terms, conditions, or performance of employment of a relative.
4. Adopt a media policy and provide media training for department heads and others who are expected to communicate with the media.
5. Require that the City Clerk has training on regulations governing municipal elections as well as Brown Act and Public Records Act compliance.
6. Hire a permanent City Attorney with experience in municipal law and redevelopment.
7. Should the present City Administrator-Fire Chief continue to serve in a dual function, he should be supported by an Assistant City Administrator and an able Assistant Fire Chief.
8. Create a Human Resources/Personnel Department and hire a trained Human Resources Director.
9. Conduct a study of the Vernon Police Department staffing and costs in comparison with other primarily industrial cities.
10. Actively participate in the Independent Cities Association and the California League of Cities.
11. Establish an ongoing consulting relationship with City Administrators and City Managers from other Southern California cities and California League of Cities representatives to review best practices and Vernon's utilization of them.