

SB 827 Compliance Toolkit:

Essential Fiscal and Financial
Oversight for Public Agency Officials



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Questions?



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The following information should not be construed as individual or group legal advice. Readers are cautioned to seek individualized legal assistance based on detailed analysis of particular facts and situations.

Questions for the Council/Board or governing body to ask staff:

1. Are the Council/Board or governing body's priorities, goals, and objectives reflected accurately in the budget?
2. Does the budget allocate sufficient resources to achieve these high priority results?
3. What type of a budget is proposed? Is it a balanced budget, a surplus budget, or a deficit budget?
 - a. **Balanced:** Total Revenues and Total Expenses are equal (therefore, there is zero impact to reserves) or where Expenses are supplemented by Reserves (decrease Reserves).
 - b. **Surplus:** Total Revenues exceed total Expenses, and there is a net contribution to Reserves (increase Reserves).
 - c. **Deficit:** Total Revenues are less than Total Expenses, resulting to a net draw from Reserves (decrease Reserves).

Of all three, the deficit budget is the most unfavorable.

It is very important for the governing body to understand the principles of balancing the budget because structural budget deficits compromise the overall fiscal health of the agency, not just in the short-term but also in the long-term.

By "structural," it means the deficit, surplus, or balanced budget is consistent over several years.

4. How does the proposed budget compare to the previous year's budget?
5. What are the changes in the budget by department or service area, where applicable, and by expense categories, such as personnel, benefits, operating, and capital?
6. What is the status of reserves across funds, and how do current levels compare to established targets or policies? The state of the reserves is another crucial indicator of the overall fiscal health of the agency.
7. What are the discretionary and non-discretionary items in the budget?

What information to provide to decision makers?

1. Staff should provide a comprehensive narrative that supports the figures and numbers. What happened? What is happening? What will happen—to the extent they can be forecasted?
2. Provide assumptions that are based on accurate studies and reports from reputable sources.
3. Propose sound budget strategies to ensure and sustain the fiscal health of the agency.
4. Offer recommendations to structurally balance the budget and find permanent solutions to identifiable financial challenges.
5. Provide information that considers external political, economic, and socioeconomic factors at the federal, state, county, and regional levels that may impact the budget.

Generally, the agency has no control over these external factors. However, the ability to identify and anticipate their impacts is key to helping the agency prepare a feasible plan to avoid or mitigate adverse impacts on their budget and financial resources.

RESERVES

Questions for the Council/Board or governing body to ask staff:

1. How do actual reserve levels compare to established targets or policies?
2. Is the level of unrestricted reserves appropriate? If reserves appear high, what is the justification?
3. What is the purpose of each reserve (e.g., emergency, capital, rate stabilization)?
4. Are reserve policies clearly defined and consistently followed?
5. Are capital needs fully identified, and do current reserves align with those needs? When were cost estimates last updated, and has a formal needs assessment been conducted?

Reserves are a key indicator of an agency's fiscal health and long-term sustainability. Understanding how reserves are structured, maintained, and used helps support informed financial decision-making.

Questions for the Council/Board or governing body to ask staff:

1. What is the current political climate and economic trends at all levels of government?
2. What are industry and market trends, and new technologies that would impact financial plans?
3. Any changes in laws and regulations that must be considered?
4. What are the financial strengths, weaknesses, opportunities, and threats (SWOT) of the agency?
5. What are past successes of the agency? How can those successes be continued or duplicated?
6. What are the challenges faced by the agency? How can they be avoided or mitigated?
7. What changes should the agency adopt, in the short-term and long-term, to move with the changes in the world?

What information to provide to decision makers?

1. Recommend short-term and long-term financial strategies that best support the Council/Board or governing body's vision, mission, and goals.
2. What strategies enhance, leverage, and optimize the strengths of the agency?
3. What strategies eliminate, minimize, or mitigate weaknesses?

Provide financial analyses that have well-rounded perspectives from various sources and various levels.

- The sources must be reputable.
- The information must be comprehensive.
- Staff must vet the information and communicate it accurately to the governing body and decision makers.
- The data must be relevant.

Common sense, logic, and a sense of realism must be applied to the analyses, projections, and forecasts.

- Distinguish and filter what is important, and what is not important.
- Don't create problems where they don't exist.
- On the flip side, don't downplay credible threats or challenges and kick the can down the road because staff doesn't want to be the bearer of bad news.

Questions for the Council/Board or governing body to ask staff:

1. What are the various revenue sources of the agency?
2. What are the portions of revenues from restricted and unrestricted funds?
3. Do current fees reflect the true cost of services provided?
4. What programs, projects, and activities are subsidized by the general fund?
5. What are the opportunities to offset the cost of these programs and services from various revenue sources?

The Council/Board or governing body makes the decision to support full cost recovery vs. subsidizing the cost of services. No matter how the agency does it, the methodology of calculating fees must have a rationale; a nexus to the service provided; and it must be defensible.

What information to provide to decision makers?

1. The General Fund is the primary focus of most agencies because it is usually the largest revenue source and it is the most unrestricted. Therefore, staff should provide the General Fund breakdown by source, specifically, by sales tax, property tax, transit occupancy tax, and other general tax measures and fees.
2. Also provide revenue forecasts and projections that consider internal and external factors.
3. To the extent possible, staff should provide an analysis of the full cost of services. One of the most important decisions the governing body must make is whether to support full-cost recovery or to subsidize the cost of services.
4. Propose revenue generating programs to offset costs. Some examples to increase revenues are:
 - New taxes or fees (which are not always feasible and popular)
 - Adjusting rates or fees to full cost-recovery as much as possible—without making profit
 - Leveraging grants

5. Provide sound fiscal strategies to manage the agency's funds. To underscore, this includes providing timely and accurate reports.

Examples of reports:

- a. Budget to actual revenue report
- b. Investment and Treasurer's reports

The overall general strategy is to increase revenues while decreasing expenses.

EXPENSE POLICY

Questions for the Council/Board or governing body to ask staff:

1. What is the breakdown of expenses by department or service area, where applicable, by programs, by activities, and by projects?
2. What are new expenses? What are one-time expenses? What are ongoing expenses?
3. What are the service levels of the various department programs, projects, and activities?
4. Did service levels go up or down from last year? Why?
5. Are these programs and activities sustainable?
6. Is there a need to expand, contract, start, or stop programs? Why?
7. Should difficult decisions be made to decrease expenses now or in the near future? How far into the future can decisions be deferred?
8. What are ways to offset expenses? Which programs, activities, or projects should be subsidized or unsubsidized by the general fund?
9. When approving appropriation adjustments to the expense budget, ask for the root cause of those adjustments. Why is the agency making these budget adjustments?

What information to provide to decision makers?

1. Staff should provide expenditure forecasts and projections that consider:
 - Base targets
 - Year-end estimates
 - Historical actuals to identify trends

- Changes Year-over-Year
 - One-time items
 - Relationships of expense patterns, and,
 - Internal and external factors
2. Staff should propose sound fiscal policies and strategies to manage the agency's expenditures, such as:
 - Reporting on the status of expenses accurately and timely (monthly, quarterly, close out reports);
 - Recommending actions that are responsive to current economic and financial situations; and,
 - Identifying current trends, opportunities, and challenges.

PROCUREMENT POLICY

Questions for the Council/Board or governing body to ask staff:

1. What goods and services are purchased? What kind of contracts are being awarded?
2. What are the justifications for awarding a contract to a particular vendor? If sole source, is there sufficient justification?
3. What are the change orders to a contract? Or the better question is: Why are there *many* change orders to a contract?
4. Were the procurement policies, standards, and guidelines followed? Was the procurement process conducted legally, ethically, fairly, and transparently?
5. Are the procurement practices in line with the values of the agency? Are we engaging local, minority, or veteran-owned businesses?
6. Are vendors vetted fairly? Is vendor performance evaluated periodically? What information to provide to decision makers (i.e., recommendations, reports, information, best practices)?

What information to provide to decision makers?

1. Ensure that all procurement processes and procedures follow the laws, guidelines, and code of ethics, in practice and in documentation.
2. Properly document the procurement process and be ready to provide it to the Council/Board or governing body or the public, upon request.

When reviewing audited financial statements there are two areas to focus

1. Audit management letter

An audit management letter is a formal document prepared by external auditors at the conclusion of an audit. It's addressed to an agency's management and usually its governing board, highlighting findings, weaknesses, and recommendations that arose during the audit process.

Ask about the management letter comments – Are there repeat findings? Repeat findings are a red flag.

2. Management Discussion and Analysis (MD&A)

The first section of the audited financial statement is the Management Discussion and Analysis. The MD&A provides additional context, analysis, and explanations of the financial statements and other key information outlining the government's fiscal decisions and rationale. A well-written MD&A presents the entire story, and the remainder of the financial statements support the themes written in the MD&A.

What information to provide to decision makers?

1. Interim Reports: Identify important trends. Tell the story to assist the readers to better understand the numbers. Considerations such as market conditions, staffing challenges, or inflationary pressures should be included in the report narrative.
2. When presenting a proposed grant to your governing board, provide information about the Specific Funder Reporting Requirements. Many grants have complex requirements.
3. Give the Council/Board or governing body perspective such as comparisons to budget, prior year, graphs and charts. Not everyone loves numbers like accountants; therefore, present the numbers in a way that non-accountants better understand the story.

Questions for the Council/Board or governing body to ask staff:

1. Who can sign a check?
2. Who can authorize a bank transfer?
3. Who takes the cash to the bank?

The same person should not be responsible for all three tasks.

What information to provide to decision makers?

1. Provide regular reports to Council with cash balances.
2. Conduct the long-term cash flow analysis. Be transparent if you have concerns about the future years' cash flow.

INVESTMENT POLICY

Questions for the Council/Board or governing body to ask staff:

1. What major changes have occurred at the agency since the last investment policy was adopted? Are those changes taken into consideration?
2. Does the policy accurately reflect the size and scope of the pool of funds available for investments?
3. Are the provisions of safety, liquidity and yield prioritized in that order?

What information to provide to decision makers?

Provide timely reports. Old information does nothing to assist the governing body to make good decisions.

Questions for the Council/Board or governing body to ask staff:

1. What are the objectives of the debt issuance?
2. What is the cost of the debt service?
3. What is the timeline for repayment?
4. How will the debt affect the Agency's financial position and ability to meet other obligations?
5. How will the debt issuance affect the Agency's credit rating and its ability to secure future financing?

What information to provide to decision makers?

1. Be transparent. Provide the full cost of the debt service – bond underwriter, municipal advisor, bond rating – all of these services have a cost. While these costs are often folded into the overall bond amount, that does not mean the governing body does not need to know those details.
2. Are there other options to fund the project? Other types of debt or another alternative such increasing fees or taxes, and grants?