



COUNCIL AGENDA: 10/22/24
FILE: 24-2094
ITEM: 3.4

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Drew Corbett

SUBJECT: See Below

DATE: October 15, 2024

Approved

Date:

10/15/24

COUNCIL DISTRICT: Citywide

SUPPLEMENTAL

SUBJECT: Encumbrances Audit Report

REASON FOR SUPPLEMENTAL

The Encumbrances Audit Report from the Office of the City Auditor was presented to the Public Safety, Finance, and Strategic Support Committee on September 19, 2024. As part of its response to the findings and recommendations, the Finance Department began implementation of an initiative to review and, as appropriate, liquidate outstanding encumbrances. Results from the initial phase of the review are available and provided as a supplement to the Office of the City Auditor's report to the City Council.

BACKGROUND

In response to the Office of the City Auditor's report entitled "Encumbrances: Departments Should Regularly Review All Encumbrances to Ensure Timely Liquidation," the Finance Department began implementation of actions in support of the City Auditor's recommendations. The first action initiated was to communicate with all departments on the urgent need to begin the process to review outstanding encumbrances and liquidate those no longer necessary. The first round of liquidations was focused on encumbrances that expired more than six months before June 30, 2024, and encumbrances with no expiration date that had no activity for the six months preceding June 30, 2024.

ANALYSIS

The initial review of encumbrances was completed on September 30, 2024, and the results are highlighted below.

- A total of 3,850 encumbrances fell within the scope of the initial review. Of these, 3,824 (99.3%) were reviewed and considered for liquidation.
- 52.7% of the outstanding encumbrances were either fully or partially liquidated, resulting in \$29.8 million in total liquidations. Of this amount, \$7.6 million is attributable to the General Fund.
- \$25.5 million were liquidations of operating expenditures, while \$4.3 million were liquidations of capital expenditures.

The next phase of the encumbrance review and liquidation process is currently underway and is focused on encumbrances without any recent spending activity based on the Period 4 Close Remaining Balance Report. This process remains on track for completion, with the results expected to be available in time for the 2024-2025 Mid-Year Budget Review, which is scheduled for City Council review and approval on February 11, 2025.

Additionally, the Finance Department has completed implementation of Recommendation 3b, which is to identify and communicate points of contact, along with email addresses, for staff inquiries regarding encumbrance liquidations.

EVALUATION AND FOLLOW-UP

The implementation of all of the recommendations from the audit report will be complete by June 30, 2025. The full review and liquidation, as appropriate, of outstanding encumbrances will be completed and included in the 2024-2025 Mid-Year Budget Review, which is scheduled for City Council review and approval on February 11, 2025.

COST SUMMARY/IMPLICATIONS

Funds made available through the liquidation of encumbrances will add to the existing fund balance of the appropriate fund to be carried forward as beginning fund balance to start 2025-2026.

The \$7.6 million liquidated in the General Fund will help meet the \$30 million ending fund balance target for 2024-2025 that was assumed in the 2024-2025 City Manager's Budget Request and 2025-2029 Five-Year Forecast and Revenue Projections released March 1, 2024. An additional \$22.4 million will need to be generated from a combination of expenditure savings or additional revenues in the current fiscal year.

The \$22.2 million liquidated within other City funds will be available for future appropriation, beginning in 2025-2026.

COORDINATION

The City Attorney's Office, the City Auditor's Office, and the City Manager's Budget Office were consulted with in the preparation of this report.

/s/
Drew Corbett
Acting Director of Finance

For questions, please contact Victor Lo, Deputy Director, Accounting, Department of Finance, at victor.lo@sanjoseca.gov.