



Agenda Report

Fullerton City Council

MEETING DATE: MAY 5, 2026

TO: CITY COUNCIL

SUBMITTED BY: EDDIE MANFRO, CITY MANAGER

PREPARED BY: DAISY PEREZ, DEPUTY CITY MANAGER

SUBJECT: PROFESSIONAL SERVICES AGREEMENT WITH GRANT THORNTON ADVISORS LLC FOR FINANCIAL AUDIT, BUDGET ANALYSIS, AND RELATED ADVISORY SERVICES

SUMMARY

On April 7, 2026, the City Council directed the City Manager to proceed with an independent review of recent budget practices, financial forecasting, and related fiscal matters. On April 21, 2026, Grant Thornton Advisors LLC presented its qualifications and proposed phased scope of work. This item seeks authorization for the City Manager to proceed with Task Two services and, if warranted based on findings, Task Three forensic services.

PROPOSED MOTION

Authorize the City Manager to execute and administer the necessary professional services agreements and related amendments with Grant Thornton Advisors LLC to continue the City's independent financial review, including budget optimization and economic opportunities analysis, and, if warranted, forensic accounting and investigative services, and execute all necessary documents, subject to approval as to form by the City Attorney.

ALTERNATIVE OPTIONS

- Approve the Proposed Motion
- Other options brought by City Council.

STAFF RECOMMENDATION

Staff recommends the Proposed Motion.

CITY MANAGER REMARKS

None.

PRIORITY POLICY STATEMENT

This item matches the following Priority Policy Statements:

- Fiscal and Organizational Stability
- Infrastructure and City Assets.

FISCAL IMPACT

Task One services were previously authorized by the City Manager within his contracting authority in the amount of \$94,340, plus a six percent administrative fee, and are currently underway. Approval of this item would authorize Task Two services in an amount of \$130,000 plus a six percent administrative fee. Task Three services would only proceed if warranted by the findings of Task One and authorized by the City Manager. Grant Thornton estimates these services typically range between \$400,000 - \$500,000. Based on the nature and potential scope of any forensic review, exact costs for Task Three are unknown at this time and may vary significantly depending on the complexity of issues identified. Sufficient funding is available within the Risk Management Liability Fund for the proposed services.

BACKGROUND AND DISCUSSION

At the April 7, 2026 City Council meeting, the City Council unanimously directed the City Manager to move forward with retaining an independent financial consulting firm to conduct an audit of the City's recent budget practices, fund balance classifications, long-range financial forecasting, and related fiscal management processes. City Council also directed staff to pursue a broader financial analysis of the City's budgeting principles and long-term fiscal condition, similar to work recently completed for the City of Orange.

This direction followed a series of public discussions regarding the City's financial condition, reserve levels, structural budget pressures, and the need for long-term fiscal planning. During recent budget deliberations and review of the Annual Comprehensive Financial Report (ACFR), the City reported a Fiscal Year 2024-25 General Fund operating deficit of approximately \$5.7 million, following an adopted budget that had originally anticipated use of available fund balance to support ongoing operations. In addition, staff identified a prior-period accounting adjustment of approximately \$2.9 million and approximately \$2.7 million in fund balance reclassifications to assigned and committed categories to more accurately reflect prior restrictions, designated uses, and previous City Council actions. These matters generated significant public interest and highlighted the value of obtaining an independent review to confirm accounting treatment, strengthen internal controls, and improve future financial planning practices.

The City, like many municipalities, also continues to face increasing costs associated with employee compensation, pension obligations, infrastructure maintenance, and service delivery demands that exceed recurring revenue growth. While the City has

implemented cost containment strategies, vacancy management, and expenditure reductions, long-term structural challenges remain. In addition, the City has ongoing capital needs including roadway rehabilitation, facility modernization, park improvements, fleet replacement, and deferred maintenance obligations that place additional pressure on available financial resources.

Following City Council direction, staff solicited a proposal from Grant Thornton Advisors LLC, a nationally recognized advisory firm with experience in municipal finance, budgeting analytics, internal controls, fraud risk assessment, and operational performance reviews. Grant Thornton previously completed a financial review for the City of Orange and was identified as a firm with relevant public sector experience to assist the City of Fullerton. On April 21, 2026, representatives of Grant Thornton presented an overview of their qualifications, municipal project experience, and proposed task-based methodology to the City Council. The Grant Thornton team identified for the engagement includes professionals specializing in municipal finance, transaction integrity, internal controls, fraud and forensics, investigations, and risk advisory services.

Grant Thornton's proposal is structured as a phased and scalable approach intended to allow the City to address immediate concerns while preserving flexibility as facts are developed. Based on direction provided by City Council, Task One, previously authorized by the City Manager under his existing contracting authority, focuses on Budget Risk Analysis and Transaction Interrogation. This phase includes review of selected accounting transactions, analysis of prior budget assumptions, interviews with key personnel and stakeholders, evaluation of internal service fund balances, review of long-term budget forecasts, and assessment of whether any indicators of improper activity or material process failures exist. Grant Thornton's proposal indicates that Task One is anticipated to be completed in approximately five to six weeks, with findings and recommendations to follow.

Task Two consists of Budget Optimization and Economic Opportunities and is intended to run concurrently with Task One. This phase would include a detailed review of budget trends, stress-testing of revenue and expenditure assumptions, evaluation of reserve strategies, identification of operational efficiencies, infrastructure funding strategies, revenue enhancement opportunities, economic development priorities, and recommendations to improve budget monitoring, communication, and accountability systems. Grant Thornton also proposed working with City leadership and stakeholders through structured workshops to identify both short-term and long-term solutions designed to strengthen the City's financial position. During the April 21 presentation, Grant Thornton presented the cost of Task Two at approximately \$130,000.

Task Three would consist of supplemental forensic accounting and investigative support services and would only be initiated if information developed during Task One indicates that additional specialized review is warranted, including any potential indicators of fraud, misuse, or other irregularities that require further examination. As outlined in the proposal, such services could include targeted document review and preservation, data analytics, transaction testing, evaluation of supporting records, interviews of relevant personnel, anomaly detection, and coordination with legal counsel, as appropriate.

Because the scope of any supplemental review would depend on the nature and complexity of matters identified during Task One, associated costs are not known at this time and may vary accordingly. To ensure a timely and seamless continuation of the review, staff recommends authorizing the City Manager to proceed with Task Three, if determined necessary based on the results of Task One.

Grant Thornton's deliverables are expected to include written findings, prioritized recommendations, budget risk observations, potential remediation strategies, and presentations to City leadership and the City Council, as requested. The proposed engagement is advisory in nature and intended to provide independent professional insight to support informed policy decisions, enhance transparency, and improve long-term fiscal sustainability.

The proposed phased structure allows the City to continue the current review process, receive strategic recommendations regarding fiscal sustainability, and maintain the ability to respond promptly if additional issues are identified. Staff believes this approach is prudent, efficient, and responsive to City Council direction while ensuring an independent review of the City's financial practices, controls, and long-term outlook.

Attachments:

- Attachment 1 – Grant Thornton Master Services Agreement

cc: City Manager Eddie Manfro