

Audit Findings In the City of Bell

By the Office of State Controller

Background and Overview – Walter Barnes

The Office of State Controller has conducted five separate financial audits of the City of Bell. Three of the audits have been issued in final and the others will be issued shortly. Copies of all the audits are on the State Controller's web site at www.sco.ca.gov.

Generally, the Controller's audits found that the City Council and administrative oversight and internal controls that would normally be expected to be in place to prevent or deter waste, fraud abuse and misappropriation were virtually non-existent.

The former Chief Administrative Officer (CAO), for all intents and purposes had complete control and discretion over how city funds, and funds from the state and federal government, were used. In those instances where city ordinances required approval by the City Council they were either ignored or issues were routinely approved with no discussion. Finally, top administrative staff and most of the City Council members benefited from this arrangement through increased compensation and/or personal loans from city funds.

The three audits that have been issued document extensive mismanagement of the City of Bell's finances, including:

- Three instances in which the City Council imposed nearly \$6.8 million in illegal taxes and direct assessments on the residents and business community going back to 2007-08. The Controller issued three separate letters to the County Tax Collector and/or the City of Bell directing that reductions and/or refunds be made.
- In the area of salaries and other personnel matters, the former CAO used his delegated authority to:
 - Increase salaries of the top six administrators, including his own, to nearly \$6 million/year.
 - Increase the salaries of four of the City Council members to over \$100,000/year.

- Grant \$1.5 million in City financed low interest personal loans to himself, other city employees and City Council members.
 - Use city funds to repay \$93,000 separate personal loans.
- Decisions on Measure A Bond Funds have resulted in \$25 million in expenditures to build a Sports Complex, build city parks and make other city improvements. Some parks have been built. However, expenditures related to the Sports Complex have only an empty lot to show for them. In addition, the city lost \$1.7 million in interest for unspent funds because they were deposited by the former CAO in a non-interest bearing bank account.
 - \$10.4 million was paid to a contractor to provide engineering services. Part of the payments to the contractor was for the owner to act as the City's Director of Planning. Besides the potential for conflicts of interest, the contract expired in June 2007 but the contractor continued to be paid.
 - \$300,000 of city funds were used to provide a loan to a business entity that defaulted. The loan was not approved by the City Council.
 - The City purchased real property from a former mayor for \$4.9 million in 2009 even though it was acquired by the former mayor for only \$480,000 in 1981. There was no documentation to explain why the property was chosen to be purchased or what it would be used for. In addition, there was insufficient information to determine whether the purchase price was reasonable.
 - \$521,088 of unsupported expenditures from Gas Tax funds provided by the State of California.
 - The Bell Community Redevelopment Agency Board was composed entirely of the members of the City Council who allowed the former CAO to direct its operations. The results were similar to the city operations described above, including:
 - Unallowable labor costs totaling \$242,268 to pay for part of the salary of the former CAO and others.
 - Unallowable charges of \$422,566 to the low and moderate income housing fund.
 - Procedural and noncompliance issues.

More detail about these findings will be presented as follows:

Tax-related Findings – Steven Mar

- Unallowable pension tax
- Unallowable direct assessments
- Unallowable business license taxes
- Status of refunds and/or reductions.

Significant Control Deficiencies Resulting in Numerous Salary and Personnel Related Findings – Andy Finlayson

New Reporting Requirements on Compensation – George Lolas

The City Mismanaged its Measure A Voter-Approved Bond Funds – Andy Finlayson

Redevelopment Agency Audit – Steven Mar

Gas Tax Audit – Steven Mar

Wrap Up – Walter Barnes