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Chiang finds problems in Montebello's gas tax, redevelopment funds

SACRAMENTO - State Controller John Chiang today released two audits of the City of Montebello, one focusing on the City's gas tax fund, the other on the City's redevelopment agency (RDA) funds. Together, the audits found \$31 million in questionable spending, loans, and fund transfers.

"At the expense of local job development, street repair, and schools, Montebello has made it a habit to tap legally-restricted funds to cover its budget and cash shortfalls," said Controller Chiang. "It appears that the City moved money wherever it wanted, whenever it wanted, regardless of the law or the intended purpose of those taxpayer dollars."

The two audits released today are the first in a series of reviews the Controller ordered of the City of Montebello. The Controller ordered those reviews after the City repeatedly failed to comply with financial reporting requirements.

The Controller's review found that between the years of 2005 and 2010, much of the City's RDA dollars were not used for renovating blight or growing jobs. Instead, the fund was improperly used to pay for frivolous or questionable expenses, such as:

- 1 Dinners in Las Vegas for the City Manager;
- 1 Promotional items including notebooks, pens, water bottles, and flash drives;
- 1 Embroidered polo shirts and golf tournament registration fees for city councilmembers;
- 1 The purchase of a home outside the redevelopment project area.

The City also inappropriately used RDA funds to pay for some of the City's general administrative costs, for audits of sales tax revenues unrelated to redevelopment, and for association dues. It also failed to make \$2 million in required payments to local agencies, which increased the State's required payments to those educational agencies.

The audit took exception with the management of the Low and Moderate Income Housing Fund, which should receive 20 percent of all RDA dollars under state law. Not only did the city shortchange this account by \$12.1 million, it also charged inappropriate administrative costs to the fund without any documentation to explain the charges.

The Controller's review also observed that the Montebello City Council members, who also serve as the RDA board, have a history of authorizing forgivable loans to individuals who are political contributors.

A separate audit of Montebello's Gas Tax Fund found that its cash position was impaired by up to \$2.18 million due to the unlawful use of those dollars to pay for general operating costs. State law requires these funds to be used exclusively for street or road maintenance, reconstruction, and storm damage repair. As a preventative measure, the Controller ordered the City to establish a separate cash account for its gas tax funds so that they can no longer be commingled with other city cash accounts. The City also used its gas tax revenues to make an unlawful \$500,000 loan to a different city fund with no documentation showing the transfer was related to street and road work. That loan was later reimbursed.

In a third finding, the City improperly transferred \$5,500 to its Golf Fund without any supporting documentation to justify the transfer. The City contends the funds were used to repair a street that runs through the city golf course. The Controller has required the City reimburse the gas tax fund for that unsupported loan.

Today's audits will be followed by separate reviews of the City's internal controls, and the City's use of state and federal funds. Click the following links to read the [Montebello RDA audit](#) and the [gas tax audit](#).

Since taking office in January 2007, Controller Chiang has used his auditing authority to identify more than \$2.85 billion in waste, abuse, and misspending of taxpayer dollars.

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