



# Controller Betty T. Yee

## California State Controller's Office

300 Capitol Mall  
Sacramento, CA 95814  
916.445.2636  
[www.sco.ca.gov](http://www.sco.ca.gov)

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Contact: Jacob Roper  
916-445-2636

## Controller Questions Hercules' Use of Millions in State and Federal Dollars

**SACRAMENTO** – State Controller John Chiang today released findings from his first two audits of the City of Hercules, one focusing on its use of [state and federal grants](#), the other on the City's use of [transportation funds](#). The audits found glaring holes in the City's accounting and management of state and federal grant funds, as well as inappropriate charges against street repair funds.

"During my time in office, this could be the worst set of city accounting records I have seen," said Controller Chiang. "The City's books were so poorly managed, that I must question their use of every single federal and state dollar granted to the City."

Auditors made 32 requests for 107 documents from the City, many of them basic ledger statements that are fundamental to any accounting system, but the City only could provide 15 documents. Requests for meetings with City staff often were ignored or cancelled, and by the end of the review, the City no longer employed a senior accountant.

The City could provide almost no records showing how it spent more than \$2 million in state and federal grants, leading auditors to question the use of all grant dollars in 2009-10. Some of the grants included:

- 1 State Citizens Office of Public Safety: \$100,000
- 1 State Housing and Community Development: \$720,000
- 1 Federal EPA Watershed – West Coast Estuary Initiative: \$146,025
- 1 Homeland Security Grant Program: \$4,824

The City's reporting was so poor that it even failed to list four additional federal grants, which together totaled \$159,984.

Auditors also found the City was commingling gas tax receipts – which are solely restricted to fund street improvement projects – in an investment pool with other city funds. Given the City's questionable fiscal management practices, there is concern that gas tax dollars may have been diverted to fund activities unrelated to public streets and roads, and the Controller has ordered the City of Hercules to remove those dollars and place them in a separate bank account. The City also incorrectly charged more than \$39,000 in interest against the gas tax funds, which must be replaced.

"The manner in which city officials approached their fiduciary responsibilities falls below every reasonable standard of care and begins to explain why Hercules is under water," said Chiang. "The longer the City goes without accounting for its taxpayer dollars, the greater the risk that federal and state authorities will withhold money from the City, further increasing Hercules' difficulties."

The audits released today by the Controller will be followed by two separate reviews focusing on the City's financial internal controls, as well as its redevelopment agency.

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