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## Controller Chiang Releases Cudahy Audits

*Finds Questionable Spending, Little Control by Prior Administration*

**SACRAMENTO** – State Controller John Chiang today released several audits of the City of Cudahy examining the city's [internal controls](#) and fiscal management practices, as well as its compliance with state laws governing the use of [transportation](#) and [redevelopment](#) funds.

The Controller found the City's administration during the period between July 2010 and June 2012 had virtually no internal controls to prevent the misuse of taxpayer dollars. His investigations identified questionable leave pay, violations of the City's contract code, uncontrolled credit card spending and mismanaged state grant funds. The Controller also reviewed redevelopment asset transfers and ordered \$22.7 million in redevelopment assets to be returned to the successor agency.

"These audits found that the city's prior leaders displayed little regard for fundamental accounting and fiscal management practices necessary to promote transparency and protect taxpayer dollars," said Chiang. "Very few controls or checks and balances existed to guard against corruption, abuse, and fiscal mismanagement. The few rules that did exist were not followed, and questionable spending was rampant."

The Controller initiated the internal control audit late last year at the request of the City's new management, and provided draft copies of the report to the City in February. The City's response to each finding is included in the published report. The audit found:

- 1 An almost complete lack of internal controls. Of the 79 basic standards of internal controls, only eight were used in the City. Internal controls are management practices that ensure the appropriate use of public funds as well as sufficient accounting to show the use and tracking of the City's expenditures.
- 1 Questionable leave pay for some City officials.
- 1 Violations of the City's contract codes. Some contracts were awarded and extended without adequate records or City Council approval, while others allowed the City to be regularly over-billed.
- 1 Uncontrolled credit card spending. Some City credit cards were spent beyond their limits, while others were used to purchase excessive travel, meals and entertainment.
- 1 City Council meetings were not recorded properly.
- 1 Budgets were submitted and adopted months into the fiscal year.
- 1 Some state grants were mismanaged, prompting local and state investigations and requiring the city to return the money.
- 1 Bank accounts were not reconciled, while the City's General Fund balance continued to dwindle annually.
- 1 Questionable expenses for lobbying. Although the City paid fees to a lobbying firm for several years, the original contract could not be found nor could any record of what services were provided.

The Controller also reviewed the records of Cudahy's now-defunct redevelopment agency (RDA) for the period of January 1, 2011 through January 31, 2012. The agency transferred more than \$26.5 million in assets before it dissolved in January 2012. The Controller found that the majority of those transfers are unallowable under State law. He has ordered \$22.7 million in redevelopment assets – including \$21 million from the City's Economic Development Corporation – be returned to the RDA's successor agency for proper disposition by the oversight board.

The Controller praised the current Cudahy officials for their cooperation in uncovering the problems identified in the audits and for their commitment to implementing the recommendations.

"Sweeping problems under the rug is not a solution for fiscal mismanagement," said Chiang. "Cudahy leaders deserve credit for wanting an independent review of their internal controls and for moving quickly to address the major gaps in the prior administration's accounting and management practices."

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