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## **Controller's Bell Audit Finds Mismanaged Bonds, Unlawful Payments and Illegal Taxes**

**SACRAMENTO** – State Controller John Chiang today released the first of three audits focusing on the City of Bell's mismanaged finances. The report found the city's internal controls were "virtually non-existent," resulting in the city making inappropriate payroll, illegally raising taxes, mismanaging bond funds and entering into questionable contracts and land purchases. The Controller will release audits on the city's handling of state and federal funds by the end of October, and an audit of the financial reports prepared by the outside accounting firm retained by the city in early November.

"Our audit found the city had almost no accounting controls – no checks or balances – and the General Fund was run like a petty cash drawer," said State Controller John Chiang. "The city's purse-strings were tied to only one individual, resulting in a perfect breeding ground for fraudulent, wasteful spending."

The Controller's audit found former Bell Chief Administrative Officer (CAO) Robert Rizzo had total control and discretion over how city funds were spent. The audit findings suggest the former CAO used public funds for personal gain. During his 17-year tenure with the City of Bell, Rizzo's final compensation of \$787,000 was 11 times higher than his starting salary. The city used more than \$93,000 of public funds to repay two personal loans taken out by Rizzo, and approved \$1.5 million in loans to other Bell employees without any authorizing ordinance or policy on the city's books. The Controller's audit has determined all of these loans to be gifts of public funds, as they provided no public benefit.

The employment agreements for the city's former CAO and other top officials required performance evaluations, but none could be found during the course of the audit. Nevertheless, the former CAO's salary continued to grow, and he was allowed to authorize disproportionate salary and benefit packages for other Bell staff. The city spent more than \$5.8 million on compensation for just the six top administrators, the City Council and the Mayor in the last year alone.

The audit also found the city mismanaged its 2003 voter-approved Measure A bond funds. The city has issued \$50 million of the possible \$70 million in these bonds without any documented plan and timeframe to utilize the proceeds. The former CAO acted as the fiscal agent and issuer for the last \$35 million of the bonds, and the majority of those funds were deposited in a non-interest bearing account. More than \$23.5 million sat unused in that account on August 31, 2010, and the city's taxpayers have already lost out on approximately \$1.7 million in interest.

It also was unclear whether any progress was made on Measure A's major project, the Bell Sports Complex. After six years, the city has a dirt lot with a masonry wall. An existing water pumping station covers a major portion of the lot. No plans for completing or developing the Complex were found during the course of the audit.

Auditors did find that the property taxes approved by voters to pay back those bonds were inappropriately deposited in the city's General Fund, rather than a Debt Service Fund. Because the former CAO's annual salary raises were contingent upon a positive cash balance in the General Fund, Rizzo benefited directly from this accounting maneuver.

Other questionable expenses found by the audit include:

- 1 A \$300,000 loan to a local business, which is now in default.
- 1 \$10.4 million paid to two development firms owned by a contractor who also was the city's Director of Planning Services. Payments to the firms continued even after the contract ended in June 1997.
- 1 A \$4.8 million land purchase from the city's former mayor, who purchased it for \$480,000 in 1981. The city purchased the land without documentation showing how the property would be used, or why it was selected, and with only one appraisal report. The property contains a vacant store and there has been no activity on the site.

The audit also confirms the Controller's earlier findings that three separate taxes were raised inappropriately on the City of Bell residents and business owners. Those include:

- 1 \$2.9 million in property tax assessments for pension obligations.
- 1 \$621,000 in sewer standby charges.
- 1 \$2.1 million in business license taxes.

The [Controller's letter to the city](#), the [complete audit report](#) and the [attachments to the report](#) can be found on the Controller's website at [www.sco.ca.gov](http://www.sco.ca.gov).

Since taking office in January 2007, Controller Chiang has identified \$2.3 billion in waste, abuse, and misspending of taxpayer dollars.

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