CITY OF MONTEBELLO

Review Report

STATE AND FEDERAL EXPENDITURES

July 1, 2009, through June 30, 2010

JOHN CHIANG
California State Controller

November 2011

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California State Controller

November 1, 2011

Art Barajas
Mayor of the City of Montebello
1600 West Beverly Boulevard
Montebello, CA 90640

Dear Mayor Barajas:

The State Controller's Office performed a review of the City of Montebello's:

- State and federal funding for the period of July 1, 2009, through June 30, 2010
- Selected transactions relating to the Transit Operations Fund for Fiscal Year (FY) 2008-09
- Financial Transactions report relating to state and federal funds for FY 2009-10

The city reported $23,065,067 in state and federal expenditures (excluding gas tax funds) in FY 2009-10; we questioned $1,983,191, or 8.6% of the total reported expenditures. Additionally, we reviewed selected transactions of the Transit Department for FY 2008-09 and questioned $1,984,170. Specifically, our review identified the following issues:

- The city charged the Transit Department with unsupported administrative expenditures from July 1, 2008, through June 30, 2010, totaling $3,967,361 ($1,983,191 in FY 2009-10 and $1,984,170 in FY 2008-09). This practice, which affects all funds and agencies that are charged for administrative costs, has been in place since 1992. In addition, the Transit Fund incurred expenditures that should have been paid from the General Fund.

- Cash in the Transit Fund and other restricted funds may have been impaired because of the city's use of such funds to pay for expenditures that should be paid from the General Fund.

- The current and prior contracts and the award and oversight of engineering services for capital improvement projects do not comply with the city's own ordinance requiring competitive bidding and creates the appearance of conflict of interest and lack of independence. It also does not assure that the city receives the best competitive price for its engineering services for capital improvement projects.

- The report includes a detailed explanation of all findings and recommendations. In addition, it includes, as an attachment, the response from the city—signed by Mr. Larry Kosmont, the Interim City Administrator—to a draft of this report. We have responded to the city's input in the report. Generally, our findings and recommendations remain unchanged. It should be noted that the city's response generally indicates agreement with the findings, if not the recommendations.

In the city's response, Mr. Kosmont argued that the SCO issued its final report on Montebello's redevelopment agency earlier this month without considering the city's comments. In reality, each of the responses provided by the interim city manager was closely reviewed by staff from the Controller's auditing, accounting, and/or legal units. If there had been previously undisclosed information or a legal argument that proved compelling, we would not have hesitated to revise or correct our findings. The SCO is steadfast in conducting and issuing audit reports in compliance with government auditing standards issued by the Comptroller General of the United States governing independence, objectivity, and due professional care. However, Mr. Kosmont's responses were largely flawed, non-salient, or—in some cases—only served to reinforce our conclusions.

Mr. Kosmont also called the SCO's report "highly detrimental" to the city's effort to secure outside financing. This is a specious statement. If investors do, indeed, walk away from the city's debt offering, it will not be the result of the disclosure efforts made by this office or any of the law enforcement, regulatory, or news agencies that are currently investigating Montebello's handling of public funds. Rather, it will be because of *what* has been disclosed. Regrettably, both recently completed audits have exposed extensive fiscal mismanagement and substandard fiduciary oversight that, in part, explains Montebello's current state of fiscal distress.

This office cannot whitewash, diminish, or delay the release of these findings simply because they are inconvenient truths. Not only do taxpayers have a right to know how their money is being spent, but—by law—potential investors are to be provided with *all* material facts and disclosures that can aid them in making an informed decision about the city's ability to service the proposed loan in a timely manner.

Our office hopes that the City of Montebello will embrace the findings and recommendations found in this series of audits. Many months and audit hours were invested in pursuit of diagnosing the causes of the city's current problems and, more importantly, offering a roadmap to recovery.

As always, my staff and I are available to address your questions or aid in your efforts to restore the city's fiscal health. Please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

cc: Larry Kosmont, Interim City Administrator
City of Montebello
Keith Breskin, Interim Assistant City Administrator
City of Montebello
Francesca Schuyler, Director of Finance
City of Montebello

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Review Report

Introduction

The State Controller's Office (SCO) performed a review of the City of Montebello's:

- State and federal funding for the period of July 1, 2009, through June 30, 2010
- Selected transactions relating to the Transit Operations Fund for Fiscal Year (FY) 2008-09
- City Annual Report of Financial Transactions (Financial Transactions Report) report relating to state and federal funds for FY 2009-10

This report presents the results of findings and conclusions reached in the SCO review of the city's expenditures of state and federal funds (excluding Fund 04–Gas Tax Fund) and the Financial Transactions Report with respect to state and federal funds.

On April 21, 2011, the SCO notified Interim City Administrator Peter Cosentini that the City of Montebello had not complied with state law regarding the submittal of required annual reports and independent audits, as follows:

- The Financial Transactions Report of Cities for FY 2009-10, which is required by Government Code section 53891 and due to the SCO within 110 days after fiscal year-end, was not filed until June 16, 2011, approximately seven months late.
- The Single Audit Report, which is required of any city having more than $500,000 in federal expenditures and was due to the SCO on March 31, 2011, was not filed until April 7, 2011.

The city has been delinquent in providing these reports in past years. These delays in compliance have raised concerns about the reliability and accuracy of the information in the reports. This was of particular concern in light other information about the city's financial practices, including:

- The 2008-09 single audit of the City of Montebello identified several material or significant deficiencies in the city's internal controls over financial reporting and compliance. Several of the deficiencies had been noted in previous audits and still had not been resolved.
- Recent presentations to the Montebello City Council contained the following information:
  - ✓ Restricted funds under the control of the city have been used to pay for the city's general purpose administrative costs.
  - ✓ Reimbursement of the restricted fund loans have been made possible only by loans of $14.8 million from funds that are supposed to be used for redevelopment programs.

- ✓ The use of restricted funds and redevelopment loans are the only reason the city has avoided deficit spending in its general fund.

- ✓ Without actions to reduce expenditures or increase revenue, the city was projected to run out of cash by October 2011. Among other things, this would have meant that city would not meet financial obligations, including paying employees.

- The city recently was made aware that two "off-the-books" bank accounts had been in existence for more than ten years without the knowledge of the city. It is not clear whether these accounts were reflected in the prior Annual Report of Financial Transactions for Cities submitted by the city.

- The Interim City Administrator resigned effective May 13, 2011, because the Montebello City Council would not consider timely action to address the financial issues raised by the Interim City Administrator.

After considering the above information, the SCO concluded that there was reason to believe that the FY 2009-10 Financial Transactions Report submitted by the city was false, incomplete, or incorrect. Therefore, under Government Code section 12464, subsection (a), our office conducted an investigation to gather the information needed to validate the information provided by that report.

In addition, the SCO reviewed programs receiving State general or special funding and/or any federal funding passed through the State to the city. These additional activities were conducted under Government Code section 12468 which authorizes the State Controller to ". . . regularly audit the apportionment and allocation by counties of property tax revenue . . . ," and under Government Code section 12410 which authorizes the Controller to ". . . superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

The focus of our review was on FY 2009-10; however, issues came to our attention that necessitated reviewing financial transactions in FY 2008-09.

Background

The City of Montebello is located in Los Angeles County, California. The population was 64,695 as of 2007, living in an area of 8.2 square miles. On October 16, 1920, Montebello was incorporated as the 35th of the present cities in Los Angeles County. The city conducts its operations as a general law, Council/Administrator City.

Objective, Scope, and Methodology

The objective of this review was to evaluate the expenditures of the City of Montebello's state and federal funding for compliance by:

- Reviewing the city's accounting system to verify whether it has sufficient controls to accumulate, account for, and segregate costs.
- Reviewing the city's accounting records and supporting documentation to determine if costs claimed are reasonable, allowable, and allocable, and are adequately supported.
- Determining if payments by the city are legal and proper.
- Reviewing bidding process/procedures to verify compliance with state, federal, and/or city procedures.
- Verifying that the city complied with contract provisions.
- Verify the accuracy of the Annual Report of Financial Transactions.

To accomplish our review objective, we performed the following procedures:

- Evaluated the city's formal written internal policies and procedures necessary to perform the stated objective.
- Conducted interviews with city employees and observed the city's business operations for the purpose of evaluating administrative and internal accounting controls necessary to accomplish the stated objective.
- Reviewed the city's documentation and supporting financial records.
- Performed tests of selected transactions on a risk-based approach to ensure adherence with prescribed policies and procedures and to validate and test the effectiveness of controls.

We also reviewed and inquired about other audits/reviews of state and federally funded programs. These audits/reviews disclosed significant findings and an allegation of possible criminal activity as noted:

U.S Department of Housing and Urban Development—Audit of Affordable Housing and Community Development Block Grant Funds

We did not review the U.S Department of Housing and Urban Development's (HUD) affordable housing and community development block grants because it is our understanding that HUD has audited the program and is performing an investigation into possible occurrences of criminal activities related to these funds.

In an audit report issued by the U.S Department of Housing and Urban Development's Los Angeles Office of Community Planning and Development on July 8, 2010, HUD required the city to repay $1.3 million in HOME project funds, plus interest, and place the funds into the HOME U.S. Treasury account. They found that the city's Whittier and 6th Street project was not timely, and the city committed and disbursed $1.3 million in HOME funds without the required written agreement, and that the city also recorded the project as completed in the Integrated Disbursement and Information System (IDIS) although no project construction had begun.

HUD previously sent a letter to the city dated June 16, 2011 that included 32 findings and two areas of concern. First, this letter disclosed that HUD was questioning an additional $3.1 million in HOME funds expended by the city. HUD also notified the city that the city's access to affordable housing and community development block grant funds was restricted, specifically in the HOME program, because of multiple violations disclosed in previous audits and reviews.

Conclusion

Our review disclosed that the City of Montebello accounted for and expended state and federal awards described in Schedule 1 of this report in compliance with state and federal program guidelines for the period July 1, 2009, through June 30, 2010, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report.

Our review disclosed that the City of Montebello charged Transit Fund with unallowable expenditures that resulted in incorrect revenues and expenditures reported in the FY 2008-09 and FY 2009-10 Financial Transaction Reports. Also, Transit Fund and other restricted funds may have been impaired to address General Fund expenditures. In addition, the current and prior contracts and the award and oversight of engineering services for capital improvement projects do not comply with the city's own Ordinance 2304, and creates the appearance of conflict of interest and lack of independence and does not ensure that the city is getting the most competitive price for its capital improvement projects.

The specific findings and recommendations in this report should be taken into consideration when preparing the city's Financial Transactions Report for FY 2010-11.

Views of Responsible Official

We issued a draft report on October 10, 2011. Larry Kosmont, Interim City Administrator, responded by letter dated October 20, 2011, disagreeing with the audit results. The city's response is included in this final report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Montebello and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report which will be a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

November 1, 2011

Schedule 1—
Schedule of State and Federal Expenditures
July 1, 2009, through June 30, 2010

	Reported Expenditures	Tested Expenditures	Amount Questioned	Reference[1]
STATE AWARDS				
Peace Officer Standards and Training (POST)				
Fiscal Year (FY) 2009-10	$ 53,053	$ 53,053	$ —	
Transportation–State				
Prop 1B–Public Transportation Modernization, Improvement, and Service Enhancement (PTMISA)	1,460,437	1,460,437	—	
Transportation Development Act				
Article 4–Capital Outlay	238,629	238,629	—	
Article 4–Transit Operation (FY 2009-10)	5,270,811	5,270,811	1,983,191	Finding 1
State Transit Assistance Fund	872,187	872,187	—	
	7,895,117	7,895,117	1,983,191	
FEDERAL AWARDS				
Fines and Forfeitures	89,183	89,183	—	
Transportation				
ARRA–Energy Efficiency and Conservation Block Grant	534,108	534,108	—	
Federal Grant (Section 3)	273,698	273,698	—	
Federal Grant (Section 9)	13,195,980	13,195,980	—	
Congestion Mitigation & Air Quality	1,076,981	1,076,981	—	
Total Expenditure of Federal Awards	15,169,950	15,169,950	—	
Total Expenditure of State and Federal Awards	$ 23,065,067	$ 23,065,067	$ 1,983,191	

[1] See Findings and Recommendations section.

Findings and Recommendations

Noncompliance With Government Code Section 12464

We reviewed the City of Montebello's Annual Report of Financial Transactions (Financial Transaction Report) for Fiscal Year (FY) 2009-10 and FY 2008-09 relating to reported state and federal funds.

With respect to Government Code sections 12463.3 and 12464, our review determined that the state and federal funding transactions for FY 2009-10 reported by the city were incomplete and/or incorrect as follows:

- FINDING 1—The city overstated reported expenditures in the Transit Fund (Fund No. 614) by $1,983,191 in FY 2009-10 and $1,984,170 in FY 2008-09, by billing the Transit Fund for unsupported administrative costs.

- FINDING 2—The city overstated reported expenditures in the Transit Fund (Fund No. 614) by charging unallowable costs associated with charter services (Employee Appreciation Day).

- FINDING 3—Cash in the Transit Fund and other restricted funds may have been impaired.

- FINDING 4—The current contract for engineering services and the award and oversight of capital improvement projects does not comply with the city's own Ordinance 2304 requiring competitive bidding and creates the appearance of conflict of interest and lack of independence. It also does not assure that the city receives the best competitive price for its capital improvement projects.

The above findings should be taken into consideration when preparing the city's Financial Transactions Report for FY 2010-11.

FINDING 1—Unsupported administrative costs were charged to the Transit Fund.

For FY 2008-09 and FY 2009-10, the city charged administrative costs to the Transit Fund (Fund No. 614) in the amounts of $1,984,170 and $1,983,191, respectively. Each transaction was made through a single journal entry that transferred funds from the Transit Fund to the General Fund without any supporting documentation as to what these charges were for and how they were determined. When questioned, the city accounting staff responsible for making the journal entries could not provide any explanation as to the methodology for calculating the charges. We were also told that no further documentation was available related to those journal entries during the period of the audit.

However, in response to a State Controller's audit report issued in September 2011, on a similar issue regarding the city's Redevelopment Agency, the city asserted that its " . . . level of administrative charges to its various funds, including Redevelopment is supported and well within an acceptable range based on any number of recovery methods. While no evidence was provided for this conclusion, the city also admitted that its current allocation program has not been updated since 1992 and noted that it was engaged in an effort to update the plan for allocation of administrative support costs for all funds and agencies for use in 2011-12.

Even if the 1992 cost plan had been properly prepared, it would not constitute sufficient and competent evidence for the period of the audit because the city's administrative structure and expenditure pattern undoubtedly changed significantly in the more than 18 years since it was prepared. Our office has issued a handbook to assist local governments (counties) in developing cost allocation plans in accordance with Budget Rules and Regulations; Title 2, *Code of Federal Regulations*, Part 225, Appendix C (also referred to as OMB Circular A-87). The regulations and handbook establish principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the federal government. Sections D3 and D4 of the regulations state:

> 3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this Circular and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub recipient's plan.
> 4. <u>All central service cost allocation plans will be prepared</u> and, when required, submitted within six months <u>prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs</u>. Extensions may be granted by the cognizant agency on a case by case basis. [*emphasis added*]

Recommendation

The city's General Fund should reimburse the Transit Fund for $1,983,191 in unsupported administrative costs charged in FY 2009-10 and $1,984,170 for unsupported administrative costs charged in FY 2008-09. Additionally, the city should review prior period charges to the Transit Fund and reimburse the fund for unsupported administrative charges.

The city should ensure that its efforts to develop and implement an equitable method to distribute administrative costs to the Transit Fund as well as all benefiting departments is in accordance with the OMB regulation cited above.

City's Response

As noted in the City's response to the State Controller's Office ("SCO") audit regarding the Montebello Redevelopment Agency (issued in September 2011), the City acknowledges that its current cost allocation study, last updated in 1992, is outdated. In an effort to respond directly to the SCO's concerns stated in the prior audit, the City provided an analysis based on an adjusted cost allocation model, which demonstrated that the administrative costs allocated to the Redevelopment Agency were supportable notwithstanding the lack of a regularly updated cost allocation model. Despite the City's efforts, the SCO rejected entirely the City's response.

The City began the process of updating its cost allocation model in 2010 by retaining the firm of Willdan Financial Services ("Willdan") to undertake this effort. Willdan, a recognized leader in this area, completed a Cost Allocation Plan for the City in October 2010, and the City intended to review and implement the model for its administration allocations for Fiscal Year 2011/12. However, due to the City's burgeoning financial crisis, coupled with staff turnover, the prior City management team made a decision to delay the allocation effort. The new management team does not agree with that determination and has restarted and accelerated the completion of the updated model. Accordingly, the City's new management team intends to review and make adjustments as may be necessary to the pending cost allocation methodology by Willdan, and is on track to have an updated model in place for Fiscal Year 2012/13. An updated cost allocation model will address all of the SCO's concerns regarding unsupported administrative costs.

The SCO should suspend this finding, pending the completion of the Willdan cost allocation model and the application of its conclusions by the City.

SCO's Response

The city's request that the SCO suspend this finding is denied, particularly because, in its response, the city, in essence, acknowledges and supports the SCO finding that it had no basis or support for its administrative charges to the Transit Fund and has initiated actions to address the finding through its work with the Willdan Cost Allocation Plan.

If the Wildan Cost Allocation Plan is properly prepared and updated on time, it should provide sufficient basis for future allocations and support administrative costs to the Transit Fund and other funds and agencies, such as the Redevelopment Agency mentioned in the city's response.

However, the city should be aware that this plan may not provide adequate support for the administrative cost allocations for the prior years as numerous factors, such as expenditure fluctuations among different departments and programs, could render the cost allocation plan inapplicable for those years. We continue to recommend that the city review past periods for unallowable levels of charges.

FINDING 2—Ineligible costs were incurred by the Transit Fund.

In June 2009, the city held an Employee Appreciation Day at Dodger Stadium. The city used its transit buses for the event (charter services) and did not reimburse the Transit Fund for costs associated with the use of these buses. Non-transit uses such as charter services are not eligible costs and must be reimbursed.

Public Utilities Code section 99247 states:

> For purposes of Section 99246, and as used elsewhere in this article:
>
> (a) "Operating cost" means all costs in the operating expense object classes exclusive of the costs in the depreciation and amortization expense object class of the uniform system of accounts and records adopted by the Controller pursuant to Section 99243, and exclusive of all subsidies for commuter rail services operated under the jurisdiction of the Interstate Commerce Commission and of all direct costs for providing charter services, and exclusive of all vehicle lease costs.

Recommendation

The city should calculate all costs associated with the use of transit buses for Employee Appreciation Day and reimburse the Transit Fund for those costs. The city should develop, implement, and monitor policies and procedures regarding the use of transit buses to avoid ineligible charges in the future.

City's Response

> The City has calculated all costs associated with the use of the transit buses for Employee Appreciation Day, and has fully reimbursed the Transit Fund for such costs. On October 5, 2011, the City reimbursed the Transit Fund $1,704.60 for the use of 3 buses for the Dodger Game Trip on June 4, 2009. A copy of the Request to Issue a Warrant, and the warrant check No. 532710, is attached as Exhibit A for further reference. These funds will be used towards the purchase of a federally-funded capital project. City staff will also undertake the formation of policies and procedures for the future use of transit buses.
>
> The SCO should acknowledge that the City fully reimbursed the Transit Fund prior to the SCO's issuance of its draft report, and eliminate this finding.

SCO's Response

The city's response validated that this finding was correct and it will remain. The SCO acknowledges that the city has reimbursed the Transit Fund. However, reimbursement was made more than two years after the unallowable charge was made and then only because the matter was brought to the city's attention by the SCO during its review.

FINDING 3—
Cash in the Transit Fund and other restricted funds may have been impaired.

The General Fund is the main operating fund for the city and its cash is maintained in an investment pool with cash from other funds, including restricted funds (such as the Transit Fund). During our review, we noted that the city operating costs of the General Fund was paid for by funds from the city's investment pool, which includes the Transit Fund and other restricted funds.

The General Fund cash balances were negative the entire 2009-10 fiscal year with the exception of June 2010 (see Column A in the table below). At year end, the city made journal entries and transferred cash between General Fund and other funds to eliminate the negative cash balance for financial statement purposes. The city employed this practice in past years. The General Fund continued to have negative cash balances, for all months in FY 2010-11 and has continued into FY 2011-12. When the General Fund cash balances are negative, it means that the cash from other funds in the investment pool, including restricted funds such as cash in the Transit Fund, is being used to pay for General Fund-related expenditures. Thus, any of these other funds that have a positive cash balance are potentially impaired and may not be able to make timely payments of required expenditures that should be made from those funds.

Most of the administrators of these other funds do not know how their funds are being affected because the City of Montebello's finance department does not provide timely financial information to them. However, staff of the city's transit department does prepare its own cash flow analysis. (The Transit Fund cash flow analysis for FY 2009-10 is shown in Column B in the table below.) The calculated cash balances, as reported for transit purposes, shows the Montebello Transit Fund having positive cash balances for ten months in FY 2009-10. The two months of cash deficits (February 2010 and April 2010) were attributed to the delay by Montebello Transit to draw down discretionary funds because timely financial information was not available from city's finance department. If timely information was available, the Transit Fund would have received 1/12 of $5,042,576 (TDA discretionary funds), or $420,215 per month. This would have eliminated any cash deficiencies for both February and April 2010.

	Column A Fund 1 General Fund	Column B Fund 614[1] Transit Fund	Column C Transit Fund Cash Impaired
July 2009	$ (2,298,725)	$ 6,423,876	Yes
August 2009	(3,896,375)	4,995,632	Yes
September 2009	(8,031,223)	2,817,122	Yes
October 2009	(11,545,496)	4,044,436	Yes
November 2009	(13,549,969)	4,447,632	Yes
December 2009	(13,520,144)	3,865,733	Yes
January 2010	(11,085,658)	2,500,231	Yes
February 2010	(11,846,667)	(219,843)	No
March 2010	(14,791,374)	3,530,720	Yes
April 2010	(16,286,313)	(453,997)	No
May 2010	(14,665,733)	1,253,864	Yes
June 2010	99,414	7,111,892	Yes

[1] The amounts reported under Fund No. 614 consist of revenues and expenses, a $2 million loan from the Redevelopment Agency (July 2009) and cash balances of the Prop A Local Return Fund, Prop C Local Return Fund, and the Measure R Fund.

It is clear that General Fund expenditures were charged to other funds in the investment pool which included the Transit Fund and other restricted and non-restricted funds. However, we could not determine the specific impact to the Transit Fund or any other funds because the city's investment pool does not provide information on the balances on each fund or document specific loans to the General Fund from these other funds. As a result, restricted funds may be used for unallowable expenditures or may be impaired.

Recommendation

The city should develop and implement policies and procedures to ensure that it does not impair other funds' cash, especially the restricted funds, by using them to pay for general operating costs that should be paid from the General Fund. Additionally, the finance department should determine each fund's balance in the investment pool and ensure that withdrawals from that pool are only used to address costs that can be paid from each fund. In addition, to the extent that it is allowable to use cash from one fund to pay for expenditures that should be paid from another, such loans should be documented and ensure that the loan is repaid as soon as required, with interest.

Also, the city should establish and maintain a separate bank account for the Transit Fund. This account should only be used to record Transit Fund transactions and ensure that such transactions are made in a timely manner.

City's Response

> Past practices by the City, as noted in prior years' Comprehensive Annual Financial Reports (CAFRs), was to maintain minimum fund balances within the City's General Fund and maintain multiple funds of cash which can be pooled as part of the General Fund. A schedule of funds which are pooled as part of the City's operating cash is attached as Exhibit B. The cash reflected in these funds are considered as "Alternative Liquidity" and can be applied and negated against any cash balances in the General Fund. This alternative liquidity practice is supported by a legal opinion from the City Attorney as well as the City's Bond Counsel. (Please see Table 8 of the City's Financial Disclosure as it relates to TRAN Borrowing, attached as Exhibit C).
>
> By including these other fund balances, cash in the Transit Fund, as well as the Gas Tax Fund, could not have been impaired as the General Fund can include these other Funds' cash balances in its overall cash position. It is unclear as to whether SCO staff included the City's alternative liquidity in determining a cash position that would cause the Transit Fund and/or Gas Tax Fund to be impaired. As indicated in the schedule provided in Exhibit B, the City's Self Insurance Fund provides the most amount of cash for the City's alternative liquidity position. Although the City is not aware of any *statutory* requirement for the City to maintain a minimum cash balance to offset its claims payable, the City maintains sufficient reserves to cover the present value of expected losses and a reasonable margin for contingencies. The SCO recommends that the City establish a separate bank account for the Transit Fund; the City's position, however, is that a separate account is

not necessary and will result in a doubling of transactions for which the City and State will have to account, leading to increased possible problems in the future.

Ongoing solution: Recent actions taken by the City Council include a balanced budget for Fiscal Year 2011/12, approval of financial principles, approval of a General Fund Financial Recovery Plan, approval of a 2011/12 Tax Revenue Anticipation Note / Short Term Borrowing, have addressed all underlying issues which were present in the prior fiscal year. The City will ensure monthly transfer of Transit Fund-eligible expenditures to the Transit Fund reflect actual activity. Transfers to the General Fund from other funds for overhead costs will be reviewed annually and will conform to the Office of Management and Budget A-97 Guidelines. The City will correct these past practices, and is in the process of identifying and implementing new procedures.

The SCO should eliminate this finding.

SCO's Response

While the finding will not be eliminated, the SCO has made some adjustments to clarify our finding that the city is unable to document which fund, restricted or not, has been used to pay for General Fund expenditures. Therefore, the city cannot provide any assurance that restricted funds were not used to pay for General Fund expenditures.

Also, while we agree and acknowledged in the finding that the city can make temporary loans from non-restricted funds, such as the Self-Insurance Fund (the source of funding of which appears to be General Funds), to address General Fund expenditures, there is no documentation that only these funds were used for this purpose.

Therefore, the SCO continues to recommend that the city establish procedures to document inter-fund loans, pay them back on time and with interest when applicable, and ensure that restricted funds are not used for this purpose.

Finally, it should be noted that the actions the city listed under "Ongoing solutions" do not appear to address the SCO finding, except for the city's assurance that it will make timely transactions involving the Transit Fund.

FINDING 4—
The city has failed to comply with its own procurement ordinances which raise concerns about possible conflict of interest and lack of independence in its award and oversight of capital improvement projects. In addition, it does not assure that the city will receive the best competitive price for its capital improvement projects.

Advanced Applied Engineering (AAE) has been the city's contracted city engineer for more than ten years. Under its contract with the city, AAE also is allowed to perform capital improvement project services for the city. Under the contract, AAE is to submit a Request for Service (RFS) to the City Administrator for approval prior to the start of any capital improvement project. However, during the audit year, all RFS requests have only been for awards made to AAE. An AAE employee asserted that the engineering retainer of $500,000 per year is not very profitable and that capital improvement projects are where the firm makes its profits.

The city paid AAE a total of $2,544,503 in FY 2009-10, of which approximately $500,000 was for services as the city engineer. The other $2 million was paid for engineering services for capital improvement projects. During this period there were no awards for capital improvement projects to any firm other than AAE for engineering services. Under the contract, AAE is responsible for providing oversight of all capital improvement projects awarded to itself including approval of invoices and assurance of compliance with the project requirements.

The city provided a copy of a contract with AAE awarded in 2002 and a second one that was awarded in 2005. The 2005 contract contains a provision stating that the contract will be "automatically renewed" in one-year increments for succeeding years, unless either party terminates the contract. The contact has been extended each year and is currently still in place.

In 2008, the City Council passed City Ordinance 2315 which contains a provision (3.21.060) that specifies contracts in excess of $50,000 are to be competitively bid.

Based on the above information, we identified the following concerns with respect to the city contract with AAE:

- The automatic extension provision in the 2005 contract with AAE has no end date which means that the competitive bid requirement can be circumvented indefinitely for this contract.

- The provision that allows AAE to utilize the Request for Service (RFS) process for capital improvement projects to the extent that they exceed $50,000 also circumvented the city's competitive bid requirement as many of such projects were more than $50,000. The city engineer is responsible for, among other duties, ensuring that work on all capital improvement projects conform to plans and specifications or the city standards. However, under the current contract, AAE is in the position of performing oversight on projects awarded to itself. As noted above, more that $2 million was paid to AAE for such projects during the audit period. Under this arrangement AAE has a potential conflict of interest because its independence is compromised.

Recommendation

The city should comply with its own ordinance by taking the following actions:

- Set an end date for the current engineering contract and develop and implement a competitive bid process to award a new contract.
- Require that all future engineering services for capital improvement projects over $50,000 be competitively bid.
- When engineering services for capital improvement projects are awarded to AAE, or any subsequent contractor, establish an independent review of the work performed and payment of invoices.

Besides complying with its own ordinances, the city will remove any appearance of conflict of interest or lack of independence in its award and oversight of capital improvement projects and its engineering program. In addition, it will ensure that the city is getting the most competitive price for such services.

City's Response

> The SCO is correct that the City awarded a contract to Advanced Applied Engineering, Inc. ("AAE") in January 2005, and that pursuant to the terms, the agreement is automatically renewed for additional one-year periods unless the City terminates the agreement.
>
> The SCO is mistaken, however, by applying a City ordinance that did not exist at the time the contract was awarded. Chapter 3.21 ("Contracts for Professional and Special Services") of the Montebello Municipal Code ("MMC") was adopted in June 2007 by Ordinance No. 2304 -- *two years after* the City Council awarded the contract to AAE in January 2005. The Chapter was later amended in 2008 by Ordinance No. 2315. Thus, at the time the City Council approved the agreement with AAE in January 2005, Chapter 3.21 in its present form did not exist.
>
> Under California law, "[Laws] enacted subsequent to the execution of an agreement ... are not ordinarily deemed to become part of the agreement unless [the agreement's] language clearly indicates this to have been the intention of the parties." *Torrance v. Worker's Comp. Appeals Bd.* (1982) 32 Cal.3d 371, 378. In the present matter, although the agreement between the City and AAE is subject to state law [Article 15, subd. (b)], the agreement is not expressly subject to *prospective* laws.
>
> Indeed, changes in substantive law generally have no impact on existing contracts. *Expansion Pointe Properties Ltd. Partnership v. Procopio, Cory, Hargreaves & Savitch, LLP* (2007) 152 Cal.AppAth 42, 56. "[S]tatutes, ordinances or by-laws operate *in the future only*, and are never given a retroactive effect if susceptible of any other construction." *London v. Robinson et al.* (1928) 94 Cal.App. 774, 776 (emphasis added). When adopted in 2007 and amended in 2008, MMC Chapter 3.21 did not expressly apply retroactively, and there is no evidence of any intention by the City Council that the ordinance was to apply to any existing agreements. Thus, the SCO is incorrect under California law to demand the City apply an ordinance adopted in 2007 and amended in 2008 to an agreement approved in 2005.

> In fact, if the City were to adopt the SCO's position, the City may be exposed to potential litigation. As noted above, Chapter 3.21 does not expressly apply retroactively. If the City took the position that Chapter 3.21 does apply retroactively (without any express intent in the ordinance itself), it is possible the City may be subject to a claim that it breached the agreement, or that the law itself impaired the obligations of a contract. *See, e.g., Assn of Blue Collar Workers v. Wills* (1986) 187 Cal.App.3d 780, 793-94 (relating to employee pension funds).
>
> In sum, the SCO's position is in conflict with general legal principles, and *ipso facto*, as applied to specific circumstances the City could be exposed to litigation if it were to adopt the SCO's position. Notwithstanding the foregoing, the City is committed to receiving the best competitive prices for its capital improvement projects, is evaluating the current agreement with AAE, and will consider going out to bid for its engineering services in the future.
>
> Based on the above, the SCO should eliminate this finding.

SCO's Response

The city appears to have misunderstood the finding and recommendation. We recognized that the agreement, signed in 2005, was before Ordinance 2304 was enacted in 2007, and acknowledged that in this finding. In addition, we did not recommend that the city apply the new ordinance retroactive to the selection of AAE for the current contract. The issue we raised was that the contract allows for indefinite annual extensions.

Extensions allowed after Ordinance 2304 was enacted appear to violate the intent of the City Council when it took action to adopt it. We have recommended that, rather than extending the contract at the end of the current year, the city comply with its own ordinance by re-bidding it to ensure best value and proper accountability in the use of public funds. The city appears to acknowledge the appropriateness of the recommendation as it indicates in its response that it will consider this in the future.

Finally, we note that the city has not addressed the finding and recommendation regarding the Request for Services process whereby AAE can award engineering services for capital improvement projects to itself. Awarding contracts in this manner creates a potential conflict of interest and lacks accountability and transparency. It also appears that any such contracts awarded after Ordinance 2304 was enacted should comply with the provisions of that ordinance.

Attachment—
City's Response to Draft Report

City of Montebello

October 20, 2011

Mr. Jeffrey V. Brownfield
Chief, Audit Division
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Brownfield:

The City of Montebello ("City") received the draft State Controller Review Report for its State and Federal Expenditures dated October 10, 2011, via certified mail on Tuesday, October 11, 2011 ("Draft Review Report"). Per our discussion, the City's response is due on Thursday, October 20, 2011, and is transmitted herewith.

While the City appreciates the opportunity to respond to the findings of the Draft Review Report, the City respectfully requests the State Controller consider the City's responses before issuing the final Review Report. The City notes that when it responded to the State Controller's previous draft audits (for the Redevelopment Agency and the Special Gas Tax Fund, respectively), the City challenged six (6) of the State Controller's fifteen (15) findings and three (3) observations. The City spent countless hours of staff time preparing highly-detailed and substantive responses to the findings and observations. Despite the City's efforts, the State Controller's office flatly rejected all of the City's well-reasoned responses, and issued the final Review Reports "as is," and without meaningful responses ("Prior Review Reports").

Moreover, when the State Controller's office released the Prior Review Reports, the accompanying press release included inaccurate information. In the second sentence of the introductory paragraph, the press release stated that "the audits found $31 million in questionable spending, loans, and fund transfers." The "$31 million" figure was later cited by the *Los Angeles Times* in a sensationalized headline, "Montebello misspent over $31 million, state audits find."[1] But this $31 million dollar amount is ***inflated and grossly misleading***, since it includes $24.35 million that your office determined has either not been spent by the Montebello Redevelopment Agency or is subject to specific accounting corrections.

As you are aware, the City is under new administration that the City Council specifically selected to guide the City through its current financial difficulties. Since the new administration took office in May 2011, the City has taken numerous steps to address the City's financial difficulties. One of these steps was the sale of a Tax and Revenue Anticipation Note ("TRAN") to ensure the City's continued financial solvency. The sale of the TRAN was slated to be completed by the end of September. Unfortunately, the State Controller's release of the Prior Review Reports and press release, and the resulting and entirely predictable negative media coverage, completely undermined the City's efforts to secure a TRAN.

[1]Article by Jessica Garrison (Sept. 22, 2011). *See* http://latimesblogs.latimes.com/lanow/2011/09/montebello-misspent-31-million-audit-finds.html.

Indeed, the seemingly careless release of the Prior Review Reports and accompanying press release were ***highly detrimental*** to our shared goals of stabilizing the City's operations and allowing the City to move forward in a responsible and financially prudent manner.

The City's concise responses to the findings in the Draft Review Report are attached. In light of the foregoing, the City requests that the State Controller carefully review and consider them prior to release of the final Review Report. In summary, the City specifically requests that:

- **Finding 1 be suspended,** since the City's cost allocation study is in the process of being finalized and implemented;
- **Finding 2 be eliminated,** since the City fully repaid the Transit Fund the "unallowable costs" prior to the issuance of the draft Review Report;
- **Finding 3 be eliminated,** since the finding overlooks the City's past practices of pooling multiple funds of case as part of the City's General Fund, and the City is committed to correcting these past practices; and
- **Finding 4 be eliminated,** since the finding erroneously applies a 2007 City ordinance to a contract awarded in 2005.

The City has also included documentation in support of its position for Findings 2 and 3.

As we have discussed in the past, the City and its Redevelopment Agency are fully committed to meeting all existing statutory and regulatory requirements. The City appreciates the efforts of the State Controller's office in helping the City and Agency identify issues that need to be addressed, so that we can meet our common goals of ensuring a successful financial future for the City and Agency.

The City looks forward to the receipt of your final report reflecting the information provided in our responses.

Sincerely yours,

Larry Kosmont (KB)

Larry Kosmont
Interim City Administrator

Exhibits:

A. Request to Issue a Warrant, Warrant No. 532710 *(In Support of Response to Finding 2)*
B. Cash Balances of General Fund and Alternative Liquidity Funds *(In Support of Response to Finding 3)*
C. Table 8 City of Montebello General Fund Reserves *(In Support of Response to Finding 3)*

cc: Keith Breskin, Interim Assistant City Administrator
Arnold M. Alvarez-Glasman, City Attorney
Michael Huntley, Director of Planning & Community Development
Norma Salinas, Director of Municipal Services
Francesca Tucker-Schuyler, Director of Finance
Aurora Jackson, Director of Transportation

CITY OF MONTEBELLO

RESPONSE TO DRAFT REVIEW REPORT, STATE AND FEDERAL EXPENDITURES

(July 1, 2009 through June 30, 2010)

Finding 1: **Unsupported administrative costs.**

City response: As noted in the City's response to the State Controller's Office ("SCO") audit regarding the Montebello Redevelopment Agency (issued in September 2011), the City acknowledges that its current cost allocation study, last updated in 1992, is outdated. In an effort to respond directly to the SCO's concerns stated in the prior audit, the City provided an analysis based on an adjusted cost allocation model, which demonstrated that the administrative costs allocated to the Redevelopment Agency were supportable notwithstanding the lack of a regularly updated cost allocation model. Despite the City's efforts, the SCO rejected entirely the City's response.

The City began the process of updating its cost allocation model in 2010 by retaining the firm of Willdan Financial Services ("Willdan") to undertake this effort. Willdan, a recognized leader in this area, completed a Cost Allocation Plan for the City in October 2010, and the City intended to review and implement the model for its administration allocations for Fiscal Year 2011/12. However, due to the City's burgeoning financial crisis, coupled with staff turnover, the prior City management team made a decision to delay the allocation effort. The new management team does not agree with that determination and has restarted and accelerated the completion of the updated model. Accordingly, the City's new management team intends to review and make adjustments as may be necessary to the pending cost allocation methodology by Willdan, and is on track to have an updated model in place for Fiscal Year 2012/13. An updated cost allocation model will address all of the SCO's concerns regarding unsupported administrative costs.

The SCO should suspend this finding, pending the completion of the Willdan cost allocation model and the application of its conclusions by the City.

Finding 2: **Unallowable costs associated with charter services (Employee Appreciation Day).**

City response: The City has calculated all costs associated with the use of the transit buses for Employee Appreciation Day, and has fully reimbursed the Transit Fund for such costs. On October 5, 2011, the City reimbursed the Transit Fund $1,704.60 for the use of 3 buses for the Dodger Game Trip on June 4, 2009. A copy of the Request to Issue a Warrant, and the warrant check No. 532710, is attached as Exhibit A for further reference. These funds will be used

towards the purchase of a federally-funded capital project. City staff will also undertake the formation of policies and procedures for the future use of transit buses.

The SCO should acknowledge that the City fully reimbursed the Transit Fund prior to the SCO's issuance of its draft report, and eliminate this finding.

Finding 3: **Cash in the Transit Fund and other restricted funds was impaired.**

City response: Past practices by the City, as noted in prior years' Comprehensive Annual Financial Reports (CAFRs), was to maintain minimum fund balances within the City's General Fund and maintain multiple funds of cash which can be pooled as part of the General Fund. A schedule of funds which are pooled as part of the City's operating cash is attached as Exhibit B. The cash reflected in these funds are considered as "Alternative Liquidity" and can be applied and negated against any cash balances in the General Fund. This alternative liquidity practice is supported by a legal opinion from the City Attorney as well as the City's Bond Counsel. (Please see Table 8 of the City's Financial Disclosure as it relates to TRAN Borrowing, attached as Exhibit C).

By including these other fund balances, cash in the Transit Fund, as well as the Gas Tax Fund, could not have been impaired as the General Fund can include these other Funds' cash balances in its overall cash position. It is unclear as to whether SCO staff included the City's alternative liquidity in determining a cash position that would cause the Transit Fund and/or Gas Tax Fund to be impaired. As indicated in the schedule provided in Exhibit B, the City's Self Insurance Fund provides the most amount of cash for the City's alternative liquidity position. Although the City is not aware of any *statutory* requirement for the City to maintain a minimum cash balance to offset its claims payable, the City maintains sufficient reserves to cover the present value of expected losses and a reasonable margin for contingencies. The SCO recommends that the City establish a separate bank account for the Transit Fund; the City's position, however, is that a separate account is not necessary and will result in a doubling of transactions for which the City and State will have to account, leading to increased possible problems in the future.

Ongoing solution: Recent actions taken by the City Council include a balanced budget for Fiscal Year 2011/12, approval of financial principles, approval of a General Fund Financial Recovery Plan, approval of a 2011/12 Tax Revenue Anticipation Note / Short Term Borrowing, have addressed all underlying issues which were present in the prior fiscal year. The City will ensure monthly transfer of Transit Fund-eligible expenditures to the Transit Fund reflect actual activity. Transfers to the General Fund from other funds for overhead costs will be reviewed

annually and will conform to the Office of Management and Budget A-97 Guidelines. The City will correct these past practices, and is in the process of identifying and implementing new procedures.

The SCO should eliminate this finding.

Finding 4: **Contract for engineering services.**

City response: The SCO is correct that the City awarded a contract to Advanced Applied Engineering, Inc. ("AAE") in January 2005, and that pursuant to the terms, the agreement is automatically renewed for additional one-year periods unless the City terminates the agreement.

The SCO is mistaken, however, by applying a City ordinance that did not exist at the time the contract was awarded. Chapter 3.21 ("Contracts for Professional and Special Services") of the Montebello Municipal Code ("MMC") was adopted in June 2007 by Ordinance No. 2304 -- *two years after* the City Council awarded the contract to AAE in January 2005. The Chapter was later amended in 2008 by Ordinance No. 2315. Thus, at the time the City Council approved the agreement with AAE in January 2005, Chapter 3.21 in its present form did not exist.

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Indeed, changes in substantive law generally have no impact on existing contracts. *Expansion Pointe Properties Ltd. Partnership v. Procopio, Cory, Hargreaves & Savitch, LLP* (2007) 152 Cal.App.4th 42, 56. "[S]tatutes, ordinances or by-laws operate *in the future only*, and are never given a retroactive effect if susceptible of any other construction." *London v. Robinson et al.* (1928) 94 Cal.App. 774, 776 (emphasis added). When adopted in 2007 and amended in 2008, MMC Chapter 3.21 did not expressly apply retroactively, and there is no evidence of any intention by the City Council that the ordinance was to apply to any existing agreements. Thus, the SCO is incorrect under California law to demand the City apply an ordinance adopted in 2007 and amended in 2008 to an agreement approved in 2005.

In fact, if the City were to adopt the SCO's position, the City may be exposed to potential litigation. As noted above, Chapter 3.21 does not expressly apply retroactively. If the City took the position that Chapter 3.21 does apply retroactively (without any express intent in the ordinance itself), it is possible the City may be subject to a claim that it breached the agreement, or that the law itself impaired the obligations of a contract. *See, e.g., Ass'n of Blue Collar Workers v. Wills* (1986) 187 Cal.App.3d 780, 793-94 (relating to employee pension funds).

In sum, the SCO's position is in conflict with general legal principles, and *ipso facto*, as applied to specific circumstances the City could be exposed to litigation if it were to adopt the SCO's position. Notwithstanding the foregoing, the City is committed to receiving the best competitive prices for its capital improvement projects, is evaluating the current agreement with AAE, and will consider going out to bid for its engineering services in the future.

Based on the above, the SCO should eliminate this finding.

EXHIBIT "A"

VENDOR NO. 01635 CHECK DATE 10/05/2011 CK. NO. 532710

INVOICE NO	INVOICE DATE	DESCRIPTION	INVOICE AMOUNT	DISCOUNT	NET AMOUNT
6/04/09 FY08/09	10/05/11	REIMB. FOR USE OF	1704.60	0.00	1704.60
CITY OF MONTEBELLO			1704.60	0.00	1704.60

CITY OF MONTEBELLO
1600 WEST BEVERLY BLVD.
MONTEBELLO, CALIFORNIA 90640

BANK OF THE WEST
9001 E. Whitter Blvd.
Pico Rivera, CA 90660
(562) 692-6931

90-4284
1222

CHECK DATE	CHECK NO.	AMOUNT
10/05/2011	532710	******1,704.60

VOID AFTER 180 DAYS

COPY

PAY ONE THOUSAND SEVEN HUNDRED FOUR DOLLARS AND 60 CENTS

AUTHORIZED SIGNATURE(S)

TO THE ORDER OF
CITY OF MONTEBELLO
ATTN: TRANSPORTATION DEPT.
1600 WEST BEVERLY BLVD.
MONTEBELLO, CA 90640

AUTHORIZED SIGNATURE

AUTHORIZED SIGNATURE

NON-NEGOTIABLE NON-NEGOTIABLE NON-NEGOTIABLE

TO THE DIRECTOR OF FINANCE
CITY OF MONTEBELLO

REQUEST TO ISSUE A WARRANT

DATE 10/5/11 **vn# 01635**

DATE REQUIRED

VENDOR CITY OF MONTEBELLO

ADDRESS ATTN: TRANSPORTATION DEPARTMENT
1600 WEST BEVERLY BLVD.
MONTEBELLO, CA 90640

GIVE CHECK TO FRANCESCA
614-000-70000-0000-00000

QUANTITY	COMPLETE DESCRIPTION	PRICE	UNIT	AMOUNT
	REIMBURSEMENT FOR USE OF 3 CITY BUSES FOR			1,704.60
	DODGER GAME TRIP ON 6/4/09 FOR FY 08/09.			
	COST PER HOUR WAS $94.70 FOR APPROXIMATELY			
	6 HOURS PER BUS.			

ACCOUNT NUMBER 001-200-1050-0001-000000

DEPARTMENT ADMINISTRATION

SUBTOTAL	
SALES TAX	
TOTAL	1,704.60

APPROVED _____ FINANCE DEPT.

REQUESTED BY WILLIAM QUAN

APPROVED BY _____ DEPT. HEAD SIGNATURE

WarantNEW.xls 10/5/2011 11:30 AM

EXHIBIT "B"

Cash Balances of General Fund and Alternative Liquidity Funds
Jul-09 thru Jun-10

MONTH	General Fund 1	Retirement Fund 102	State Gas Tax Fund 103	Citywide Financing Entity Fund 106	Corporate Shop Fund 720	Self- Insurance Fund 721	Equipment Reserve Fund 722	TOTAL
Jul-09	(3,896,375)	778,754	460,789	5,360,232	737,886	(10,423)	304,696	3,735,559
Aug-09	(3,896,375)	778,754	460,789	5,360,232	737,886	(10,423)	304,696	3,735,559
Sep-09	(8,031,224)	778,754	460,664	13,312,237	777,395	(109,748)	342,095	7,530,173
Oct-09	(11,545,496)	778,754	460,664	14,371,375	792,237	(30,963)	297,427	5,123,998
Nov-09	(13,549,969)	1,032,367	536,608	16,310,143	1,258,994	38,356	122,952	5,749,451
Dec-09	(13,520,144)	3,531,290	536,608	13,429,635	1,414,041	(21,002)	122,952	5,493,380
Jan-10	(11,085,658)	4,178,435	536,499	11,830,136	1,592,758	116,654	122,952	7,291,776
Feb-10	(11,846,668)	4,470,253	536,499	15,644,013	1,783,012	218,803	122,952	10,928,864
Mar-10	(14,791,375)	4,482,556	536,390	16,243,539	1,951,443	187,765	122,952	8,733,270
Apr-10	(16,286,313)	6,430,624	714,002	18,020,306	2,087,917	(754,765)	122,952	10,334,723
May-10	(14,665,735)	6,976,679	2,187,772	13,853,351	2,322,257	(731,293)	122,952	10,065,983
Jun-10	99,415	44,559	58,703	8,623	56,808	46,504	22,952	337,564

EXHIBIT "C"

TABLE 8
CITY OF MONTEBELLO
GENERAL FUND RESERVES
(As of June 30)

Fiscal Year	Ending Fund Balance
2005[3]	$3,201,862
2006[3]	4,685,710
2007[3]	7,034,259
2008[3]	4,128,463
2009[3]	(765,485)
2010	(7,379,281)
2011[1]	5,309,116
2012[2]	7,090,671

Source: City of Montebello Administrative Services Department.
(1) Estimated
(2) Budgeted.
(3) Reflected in Capital Projects fund per City Policy.

Alternative Liquidity

The City has established an internal service set-aside reserve fund for insurance and operation purposes, which is legally part of the General Fund (the "Self Insurance Fund"). Amounts to be deposited in the Self Insurance Fund total approximately $8.4 million, and generally is intended to be used to cover costs, claims and expenses related to insurance claims. Amounts in the Self Insurance Fund may be utilized by the City for payments of General Fund expenses, although there can be no guaranty that such Self Insurance Fund will continue to be maintained at the current levels, or will be available for lending to the General Fund. The City Attorney has determined that amounts utilized from the Self Insurance Fund are not required to be repaid by the end of the fiscal year in which they were borrowed because they constitute General Fund moneys.

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

http://www.sco.ca.gov

S12-SPA-902